Mortgage Companies Score Highest Profits in Seven Years

By: Jann Swanson | Fri, Nov 22 2019, 8:06 AM

Lower interest rates translated to higher volume in the third quarter of the year, **giving mortgage companies their highest profits in seven years.** The Mortgage Bankers Association's (MBA's) Mortgage Bankers Performance Report says that independent mortgage banks and mortgage subsidiaries of chartered banks reported a net gain of $1,924 on each loan they originated in the third quarter of 2019, up from a reported gain of $1,675 per loan in the second quarter. The average pre-tax production profit was 74 basis points (bps) in the third quarter, up from an average of 64 bps in the second quarter of this year. **Ninety-one percent of the firms responding to MBA's survey posted pre-tax net financial profits** in the third quarter, up from 85 percent in the prior period.

"A surge in refinance activity and a healthy purchase market led to robust mortgage volume in the third quarter, pushing up production profits to a high not seen since the fourth quarter of 2012 ($2,256 per loan)," said Marina Walsh, MBA's Vice President of Industry Analysis. "The increase in profits was **primarily driven by declining production expenses and higher loan balances**, which mitigated the effects of lower basis-point revenue."

Added Walsh, "With higher prepayment activity seen from borrowers refinancing, net servicing income did take a hit for the second straight quarter. Overall, it was a strong summer for independent mortgage banks, with 91 percent reporting profitability."

As Walsh noted, there was an average loss in servicing net financial income during the quarter of $62 per loan, an improvement over the $74 lost in the second quarter. Excluding MSR amortization, gains/loss in the valuation of servicing rights net of hedging gains/losses and gains/losses on the bulk sale of MSRs, the loss was $43 compared to $42 per loan in the second quarter.

Production expenses including commissions, compensation, occupancy, equipment, and other production expenses and corporate allocations - decreased to $7,217 per loan in the third quarter, down from $7,725 per loan in the second quarter. From the third quarter of 2008 when MBA first started tracking the data to last quarter, loan production expenses have averaged $6,481 per loan. Personnel expenses averaged $4,871 per loan in the third quarter, down from $5,186 per loan in the second quarter.

Total production revenue (net secondary marking income and warehouse spread) **decreased to 349 bps in the third quarter**, from 370 bps in the second quarter. On a per-loan basis, production revenues fell to $9,142 per loan from $9,400 per loan in the second quarter.

Production volume was $781 million in the third quarter, up from $601 million per company in the second quarter and the number of loans increased from an average of 2,312 per company to 2,880. Productivity increased to 3.1 loans originated per production employee per month compared to 2.3 loans in the second quarter. That category of employees includes sales, fulfillment and production support functions.

Net secondary marketing income decreased to 281 bps from 287 bps in the second quarter but rose on a per-loan basis from $7,411 to $7,424.

Purchase mortgages dropped from a 74 percent share of the dollar volume of all loans in the second quarter to 60 percent in the third. For the mortgage industry as a whole, MBA estimates the purchase share was at 62 percent last quarter.

The share of **applications that successfully closed rose from 70 percent to 73 percent** quarter over quarter and the average loan balance for first mortgages reached a study high of $276,053, increasing from $268,520 in the second quarter.

Eighty percent of the 338 companies that reported data for MBA's third quarter report were independent mortgage companies, and the remaining 20 percent were subsidiaries and other non-depository institutions.

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