Mortgage Profits Rebound from Q2 Slide

By: Jann Swanson | Tue, Nov 30 2021, 12:55 PM

While the profits were nowhere near 2020 levels, independent mortgage banks and mortgage subsidiaries of chartered banks reported their third quarter 2021 gains did improve on those in Quarter 2. The report from the Mortgage Bankers Association (MBA) on mortgage bankers' performance showed an average **net gain of $2,594** on each loan that was originated during the quarter. This was up from a reported gain of $2,023 per loan in the second quarter of 2021,

Total production revenue (fee income, net secondary marking income and warehouse spread) increased to 396 basis points (bps) in the third quarter, up from 375 bps in the previous period. This equated to $11,734 per loan compared to $10,691 in Q2. Net secondary marketing income **increased to 310 bps** from 297 bps or $9,300 per loan compared to $8,500.

The average **pre-tax production profit was 89 bps** in the third quarter of 2021, up from an average net f 73 bps in the second quarter of 2021, and down from 203 basis points on a year-over-year basis. Over the period stretching from the third quarter of 2008 to the Q3 of 2021 pre-tax production profits averaged 56 basis points.

Marina Walsh, MBA's Vice President of Industry Analysis noted the rebound from declining profits in the second quarter, but said profits were down more than half from the record profit a year earlier. "Production revenue was the difference-maker, increasing more than 20 basis points from the second quarter. However, production revenue was still down almost 80 basis points compared to a year ago," she said.

Total loan production **expenses** - commissions, compensation, occupancy, equipment, and other production expenses and corporate allocations - **increased to $9,140 per loan** from $8,668 in the previous quarter. From the third quarter of 2008 to last quarter, loan production expenses have averaged $6,707 per loan. The average per loan personnel expenses were $6,185, an increase from $5,911 in the second quarter.

Added Walsh, "Per-loan production expenses continued to rise for the fifth consecutive quarter, reaching the second-highest level ever reported. Rising sales costs that are often determined based on a percentage of loan balances was one primary factor for the increase in expenses. The average loan balance for first mortgages reached another study-high in the third quarter, passing the $300,000 threshold for the first time to over $308,000." That new high for first mortgages was $308,237. The average in the second quarter was $297,816.

Servicing net financial income for the third quarter (without annualizing) was at **$37 per loan**, up from $7 per loan in the second quarter. Servicing operating income, which excludes MSR amortization, gains/loss in the valuation of servicing rights net of hedging gains/losses and gains/losses on the bulk sale of MSRs, was $88 per loan compared to $71 per loan in the second quarter.

Combining both production and servicing operations, **92 percent** of firms posted overall profitability for the third quarter of 2021, compared to 84 percent in the second quarter.

Average production volume was **$1.17 billion per company**, a decline of $0.18 billion from the previous quarter. Companies originated an average of 3,889 loans during the quarter, against 4,615 in Q2.

Productivity decreased from **3.7 loans** to 3.6 loans per production employee per month. Production employees include sales, fulfillment, and production support functions.

The **purchase** share of total originations, by dollar volume, rose to 59 percent from 57 percent in the second quarter. For the mortgage industry as a whole, MBA estimates the purchase share for the quarter was 46 percent. The pull-through rate (loan closings to applications) averaged 75 percent in the third quarter, down from 76 percent in the second quarter.

Eighty-four percent of the 365 companies that reported production data for the quarter of 2021 were independent mortgage companies. The remaining 17 percent were subsidiaries and other non-depository institutions.

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