2021 Profits Plummet; Lenders Still Had a Very Good Year

By: Jann Swanson | Tue, Apr 12 2022, 2:37 PM

While still healthy, mortgage lenders' 2021 profits took a deep dive from the record returns recorded in 2020. The Mortgage Bankers Association's (MBA's) Annual Mortgage Bankers Performance Report says independent mortgage banks and mortgage subsidiaries of chartered banks made an average profit of $2,339 on each loan they originated in 2021, down from $4,202 per loan the prior year.

The average production profit (net production income) was 82 bps (bps) last year, compared to 157 bps in 2020. Since the inception of MBA's report in 2008, net production income by year has averaged 60 bps ($1,456 per loan).

Total loan production expenses – commissions, compensation, occupancy, equipment, and other production expenses and corporate allocations – increased to $8,664 per loan in 2021, up from $7,578 in 2020. Personnel expenses increased to an average of $5,971 from $5,272 in 2020.

"2021 was another stellar year for independent mortgage bankers, with production profits well above average but down 75 bps from the record-setting 2020," said Marina Walsh, MBA's Vice President of Industry Analysis. "Performance in the second half of 2021 declined relative to the first half of the year, which is an indication of where market conditions are heading in 2022 in an environment of high expenses, rising mortgage rates, and lower refinance originations." The report notes that, among companies that submitted data in both the first and second half of the year, the average production profit was 100 bps in the first half, compared to 62 bps in the second half.

Walsh said production expenses in 2021 were the highest in the in the 13-year history of the report, despite increasing average production volume per company. Personnel expenses for sales, fulfillment and production support functions all increased, while production revenues took a hit – especially in the last few months of the year.

Those production revenues (fee income, net secondary marking income and warehouse spread) totaled 382 bps in 2021, down from 434 bps in 2020. On a per-loan basis, production revenues were $11,003 per loan compared to $11,780 in 2020.

"After a truly phenomenal ride for mortgage companies, more difficult times are expected in 2022 and possibly beyond. The widespread upward pressure on rates will diminish rate-term refinance volume, and housing inventory shortages pose challenges for purchase originations," added Wash. "Staying profitable will require prudent cost management, as well as more reliance on servicing operations to serve as a hedge against production declines."

Average per company production volume was $4.9 billion from 16,590 loans, up from $4.5 billion and 16,198 loans in 2020. For companies that reported both years, the volume was $5.1 billion (17,238 loans) in 2021 compared to $4.9 billion and 17,592 loans the prior year. Production employees averaged 2.5 loans per month during the year down from 3.3 in 2020. Production employees include sales, fulfillment, and production support functions.

On the servicing side of the business, valuation mark-ups on mortgage servicing rights helped the overall bottom line. Companies moved from servicing financial losses in 2020 to servicing financial gains in 2021. Including both servicing and production operations combined, 96 percent of companies remained profitable in 2022.

Refinancing accounted for 46 percent of the dollar volume of originations in 2021; the share was 55 percent in 2020. MBA estimates that, for the entire industry, refinancing declined to a 57 percent share from 63 percent in 2020. The average loan balance for first mortgages reached a study-high of $298,324 in 2021, up from $278,725 in 2020, the largest single-year increase in the history of this report.

Net servicing financial income, which includes net servicing operational income, as well as mortgage servicing right (MSR) amortization and gains and losses on MSR valuations, rose to $261 per loan in 2021, up from a $176 loss in 2020.

Including all business lines, 96 percent of the firms in the study posted pre-tax net financial profits in 2021, down from 99 percent in 2020. In the first half of 2021, 96 percent of reporting repeater firms posted pre-tax financial profits, compared to 91 percent in the second half of 2021.

Of the 273 firms that reported production, 84 percent were independent mortgage companies, and the remaining 16 percent were subsidiaries and other non-depository institutions.

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