FINASTRA

Market Commentary

Factors shaping the Mortgage Industry Outlook for early 2021

Streamlining the lending lifecycle will continue to be a priority as lenders seek to keep up with record demand

"The Fed funds rate is pinned to the floor of 0 to 0.25 percent until 2023 or so, but an equal part of the Fed's strategy is keeping longer-term interest rates low."

Greg McBride
CFA, Bankrate chief financial analyst

While 2020 was certainly a year for the record books, 2021 is likely to become the year when the mortgage industry begins to feel the full effects of the COVID-19 crisis. Currently home sales and refinancing activity remain high, but there are specters on the horizon indicating that a moderated trend could take hold by mid-year.

As mortgage leaders set plans for 2021, here are the driving forces that will shape the first part of the year.

Low interest rate environment persists through early 2021, compressing margins

On December 16 of 2020, the Federal Reserve indicated that it would keep the short-term interest rate near zero and would likely do so for the next couple of years in an effort to help the economy rebound.

About the Author

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Dan manages the sales strategy for Finastra's mortgage solutions in the U.S. and has been with Finastra since 2011. He has more than two decades of hands-on mortgage-related industry expertise with banks, mortgage insurance and in sales leadership roles with global software providers. Dan earned his Bachelor of Science degree from Saint Bonaventure University where he also played basketball. He is an active member of his church and community.

"The Fed funds rate is pinned to the floor of 0 to 0.25 percent until 2023 or so, but an equal part of the Fed's strategy is keeping longer-term interest rates low," says Greg McBride, CFA, Bankrate chief financial analyst. "Expect the Fed to shift to more purchases of long-term bonds in an effort to keep a lid on mortgage rates in particular and facilitate more mortgage refinancing."

McBride anticipates a continued slide in mortgage rates for the first half of 2021, spurring more buyers to action, a prediction borne out by mortgage application activity in early January. According to the MBA's Weekly Mortgage Applications Survey for the week ending January 8, borrowers took advantage of the low rates in a flurry of home buying and refinancing, spurring a 16.7 percent increase in the number of mortgage applications submitted.[1]

The Market Composite index increased by 16.7 percent on a seasonally adjusted basis from the previous week, while the unadjusted Refinance Index increased by 20 percent.[2]

Likewise, the seasonally adjusted Purchase Index rose by 8 percent from one week earlier, according to the MBA report.[3] Spurred by booming demand for refinancing, mortgage applications hit their highest level since March of 2020 early this year.

However, only a few weeks later, interest rates had risen and the MBA Weekly Mortgage Application Survey for the week ending January 15 reported a decline in the number of applications for new home sales as well as refinancing.[4] This trend is expected to be temporary, given the Fed's overall stance on interest rates, creating complexity for the mortgage industry in early 2021.

While low interest rates will continue to bring borrowers to lender doorsteps throughout the early part of the year, the low interest rate environment will continue to depress profit margins for lenders. According to the Mortgage Lender Sentiment Survey from the fourth quarter of 2020, only 19 percent of lenders expected their profit margins to increase in 2021.[5]

Despite tightening margins, most lenders expect credit standards to remain the same throughout the first quarter of the year, as they find ways to cut costs and streamline mortgage processing. This will be the theme for early 2021, as lenders continue to take advantage of efficiencies gained through digital technology acquisitions.

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Opening a new era of regulation

With a new president in office and change in control for the senate, the outlook for regulatory policy is uncertain, particularly as the nation emerges from the grip of the COVID-19 pandemic. At a minimum, some experts predict a continuation of the foreclosure moratorium at least through the first half of the year, while others expect an increasingly punitive regulatory landscape to emerge.

On January 7, President Trump's Treasury Department announced changes that would release Fannie Mae and Freddie Mac from government control. However, with Trump's departure, it will be up to President Biden to determine the fate of the GSEs.

While the impact of any new or proposed regulations isn't likely to affect lenders in early 2021, the new Uniform Residential Loan Application (URLA) will roll out on March 1. The new URLA better integrates with digital workflows, allowing mortgage lenders to take advantage of critical advancements in technology designed to reduce both costs and risk. However, financial institutions will need to ready their systems and processes ahead of the deadline. This includes finalizing any necessary changes to current systems, testing technology integrations, and getting ready to implement.

Delinquency rates move upward
2020 saw a record number of delinquencies, according to CoreLogic's Loan Performance Insights report issued late last year.

A new record 3.4 percent of borrowers became delinquent in April of 2020 as the impact of pandemic-related business closures was felt across the country.[6] The number leveled off over the ensuing months, as economies reopened, and jobless claims began to subside, but not enough to forestall a rising trend.

By October, 6.1 percent of mortgages were delinquent by at least 30 days or more, according to the report, including those in foreclosure.[7] The number represents a 2.4 percent year-over-year increase in the delinquency rates.[8] Additionally, 5.46 percent of servicer's portfolio volume was in forbearance as of January 3 of this year,[9] highlighting a major concern for the first half of 2021 as the economy stagnates.

Starting the new year, the Bureau of Labor Statistics reported that jobless claims were holding steady at 6.7 percent, fueled by losses in the leisure and hospitality industry as well as private education.[10]

However, for the lowest quartile earners, federal economists estimate that unemployment is above 20 percent.[11]

Current jobless rates are not the only factor to consider when evaluating the delinquency landscape, however. Even as workers are returning to employment, many face reduced hours or salaries due to lack of demand for business services.

A continued weak economy could push more borrowers over the edge in the months to come.

A federal stimulus package in the first part of the year may help some homeowners to stretch income enough to cover mortgage payments for a few months, but unless a swift turnaround in unemployment rates is seen in the first half of 2021, the number of delinquent mortgages is likely to continue its historic rise throughout the early part of the year.

As lenders look to the first half of 2021, acquisitions of digital technologies designed to streamline the lending lifecycle will continue to be a priority as lenders seek to keep up with record demand and realize the benefits of cost reductions realized through enhanced process efficiency.

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About Finastra

Finastra is building an open platform that accelerates collaboration and innovation in financial services, creating better experiences for people, businesses and communities. Supported by the broadest and deepest portfolio of financial services software, Finastra delivers this vitally important technology to financial institutions of all sizes across the globe, including 90 of the world's top100 banks. Our open architecture approach brings together a number of partners and innovators. Together we are leading the way in which applications are written, deployed and consumed in financial services to evolve with the changing needs of customers. Learn more at **finastra.com**

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