Inside mortgage lenders' strategies for 2023

Now that the refi party is over and total volume is down, lenders are fighting to gain market share

Executives at **Plaza Home Mortgage** expect things to get worse before they get better. During the first three quarters of 2022, the San Diego, California-headquartered mortgage lender's originations declined by about 38% compared to the same period of 2021, ending at $5.5 billion, according to **Inside Mortgage Finance**.

Like many competitors, Plaza is losing money operationally. In turn, it has reduced its workforce and sold mortgage servicing rights (MSRs) to add some extra revenue, top executives said.

"Obviously we had a very negative impact on the business compared to the previous year, which would be expected given the rapid rise in interest rates in 2022," said Kevin Parra, who co-founded the mortgage lender two decades ago with James Cutri.

"I've been in the business since 1985, and mortgage rates are still historically low. It's just a matter of the homebuyer psyche and, of course, an affordability problem," Parra added.

Parra expects the landscape to remain tough for a while.

"Builders aren't building because they are pessimistic about buyers being able to buy homes. Sellers aren't selling because they got a great mortgage rate in 2020 and 2021 and there's less reason to move. So, activity will remain subdued, and home prices will fall in certain markets, but not radically," he said.

What Parra described are a few of the reasons that 2023 will be a challenging year for mortgage lenders — and strategies will have to pivot to accommodate for the rough landscape. Over the last few weeks, HousingWire interviewed analysts and executives to learn their expectations for 2023 and find out how they plan to run their businesses successfully in spite of challenges.

The refi party is over for mortgage lenders

David Battany, executive vice president of capital markets at **Guild Mortgage**, defines 2022 as the year in which the U.S. exited the "largest government stimulus for the mortgage market in history."

That's because the **Federal Reserve,** as part of its inflation-busting strategy, has decided to hike rates and cease new purchases of agency mortgage-backed securities, or MBS, dialing back from a program launched in 2020.

As a result, the mortgage industry "exited the largest refi boom in U.S history," according to Battany.

To illustrate, mortgage originations reached $4.4 trillion in 2021, with a 62% share of refinancing. This year, the volume is expected to decline to $2.2 trillion, with the percentage of refis at 33%, per the **Mortgage Bankers Association** (MBA).

When the refi party ended, the consequences were seen all over the country. Mortgage lenders imposed several rounds of layoffs, cutting thousands of underwriters, processors and loan officers. The cuts at **Better.com** and **loanDepot** are some of the most dramatic examples.

Companies exited production channels to focus on their most profitable avenues. For example, **Finance of America** shut down its forward mortgage business to focus on reverse mortgages and other products.

Mergers and acquisitions have accelerated, with the latest case being Ohio-based **Union Home Mortgage**, which struck a deal to acquire Michigan-based **Amerifirst Home Mortgage**. And, for those companies not rescued by acquisitions, such as **First Guaranty Mortgage Corp.** and **Sprout Mortgage**, executives decided to abruptly close doors.

For those who survived 2022, there's a crossroads to face at the start of 2023, Battany said.

"We will find out, in the next few months, if the Fed strategy is working or not to get inflation under control," he said.

"You can say the markets are betting there's an 80% chance the Fed strategy will work and we will have a recession. But what if the 20% that doesn't work happens? I think there's a lot of hope that the strategy will work, but it's not certain. And that uncertainty will result in volatility," Battany added.

Questions on the efficiency of the monetary policy were raised because, among the causes of inflation, there are many factors that the Fed does not control, such as the war between Russia and Ukraine and supply chain issues. If the monetary policy works, mortgage rates can start a downward trend, bringing relief to the mortgage market in the second half of 2023. If not, the market may become a scary place.

Are we reaching the bottom?

Amid uncertainties, economists and analysts have already started to make their estimates for 2023.

The MBA expects mortgage originations will decline 14% year over year to $1.9 trillion in 2023 – with tighter monetary policy and more restrictive financial conditions causing a recession in the first half of the year. According to the trade group, mortgage rates will be 5.2% in December 2023.

Analysts at **Keefe, Bruyette and Woods** (KBW) believe that volumes will decline 23%, with home prices down by 12.5%.

"Overcapacity was the case this year, and it's going into year-end. So, it seems like that won't get resolved anytime soon," said Bose George, mortgage sector analyst at KBW.

"At the same time, we've seen meaningful competition continue among the larger players, which is set up for a pretty challenging first half of the year," George added.

KBW's baseline scenario doesn't forecast that the Fed will cut rates next year, and anticipates that mortgage rates will be between "5.75% to 6% something," according to George.

"The MBA is assuming mortgage rates are down to the low fives in the next year. Their volume expectations are a little more positive than ours because that leads to an improvement in the back half of next year. But we're not building that in at the moment," he added.

For analysts at the credit analysis agency **Fitch**, the first quarter of 2023 may be the bottom line for the industry, despite volatility and uncertainty.

In terms of volume, “2023 is setting up to be at least lower than 2022 in the first half, but we will need to see what happens in the second half,” Shampa Bhattacharya, director for U.S. non-bank financial institutions, said during a webinar.

“We are going into the seasonally lower winter months, so we should expect lower volumes to continue at least for the next two quarters,” Bhattacharya said.

Bhattacharya added that for mortgage lenders, the main challenge in 2023 is to execute their strategies successfully. But what are these strategies?

Getting a larger slice of a smaller mortgage pie

The strategy for **United Wholesale Mortgage** (UWM), the largest mortgage lender in the country, to win in the purchase market is crystal clear. In June, the company announced an initiative dubbed ‘Game On,’ in which UWM slashed prices across all loans by 50 to 100 basis points, wreaking havoc on competitors with already compressed margins.

The company, which has about $800 million in cash as of the third quarter, intends to keep pushing its rivals in 2023.

“We don’t have any intention right now to stop Game On, which has been a big win for our company,” said UWM’s chief strategy officer, Alex Elezaj. “I don’t think we need to get more aggressive on it because we are very comfortable with where we are.”

UWM says Game On pricing is not the reason competitors exit the market, but their lack of commitment to the brokers’ community is. On the list are rivals such as loanDepot, **Mountain West Financial**, **AmeriSave, Point Mortgage Corporation**, **Stearns Wholesale** (owned by **Guaranteed Rate**) and Finance of America’s forward wholesale business. **American Neighborhood Mortgage Acceptance Company LLC** was also a victim.

However, the company’s executives say cutting prices led to attracting more loan officers to the wholesale channel and gaining market share when the market is down.

“Retail loan officers continue to convert over to wholesale, and this *[Game On]* was an extra incentive,” Elezaj said.

For Elezaj, 2023 will be challenging, but UWM’s executives will focus more on what they can control.

“I think we’ll be hovering around 6% to 8% for a little while. I don’t see any major items that would cause mortgage rates to drop in 2023,” he said. “Nobody has the crystal ball to know, but we are making sure that as the next refi opportunity comes, our wholesale brokers have the tools to execute for their borrowers.”

The growth strategy at the retail lender **Guild Mortgage** is quite different. With Guild, the company has an appetite for acquisitions.

“Whenever you see cycles like this, the value of two companies merging to become more efficient, there’s a lot of benefit to doing that,” Battany said.

He added, “As a company, we are very much committed to the mortgage market. We want to continue to grow and we look at acquisitions with companies of similar values and cultures that are high-quality retail lenders with a high customer service focus.”

The San Diego, California-headquartered retail mortgage lender reported a total in-house origination of $4.4 billion in the third quarter of 2022, compared to $5.7 billion in the previous quarter.

In December, Guild announced it has acquired the Wisconsin-based lender **Inlanta Mortgage** – which said earlier that it would be winding down operations in 2023 – to increase its purchase loans portfolio and market penetration in the Midwest. The financial terms of the acquisition were not disclosed.

Creating opportunities in an unforgiving market

Providence, Rhode Island-based **Citizens Bank**, the 25th largest mortgage lender in the country, originated $18 billion in the first three quarters of the year — a 44% decline compared to the same period in 2021.

“The first half of 2022 was very robust and the second half was challenging. We believe next year is going to be the flip prototype,” Sonu Mittal, head of mortgages, said. “We expect the market to normalize in the second half of 2023.”

According to Mittal, despite the changes in the landscape for 2022 and 2023, the company will stick to its strategy based on taking care of customers, building relationships and right-sizing the business. A challenge is that the execution is among three different channels, as Citizens is one of a few banks that operate in retail, wholesale and correspondent.

Mittal said that the bank continues to believe in all three channels: retail is here to serve customers; the correspondent is continuing to build healthy MSRs; and wholesale, which we know has had some intense competition, is almost 20% of the market.

With the wholesale space in particular, rival Plaza has prepared its operations for the storm in 2023.

Over the last few months, the mortgage lender took the opportunity to recruit former account executives from companies exiting the market, such as Stearns and loanDepot. It's also planning to change its compensation structure, adopting a salary plus commission model rather than a draw against commission.

According to Parra, the new model is safer from a regulatory standpoint and rewards the best producers.

With these changes, Parra hopes for a slow return to profitability in 2023, likely in the first quarter.

"We are using the opportunity of attrition in the industry to grow market share. If the pie is a little bigger or smaller, it doesn't matter. What matters is how much of the pie we can get," he said.

As a final message, Parra said, "There's always amazing opportunities in markets like this, which are very unforgiving markets."