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Mortgage Servicing Assets Fair Value

Improving Transparency via the Mortgage Servicing Asset Index (MSAI™)

June 3, 2019 – Rancho Cucamonga, CA — Participants in the residential mortgage market are often plagued with the lack of clarity in assumptions, dispersion in fair value measurement and period over period valuation changes for mortgage servicing rights (MSRs). In an effort to improve market transparency, MGJ Advisory Solutions is releasing the bank residential mortgage servicing asset index (MSAI™).

“Individual transactions are not sufficient to support overall market liquidity,” says Stenwyn Joseph, CEO of MGJ Advisory Solutions and former executive officer of a top Denver-based consultancy, “holders of mortgage servicing assets are encouraged to develop stringent top-down and bottoms-up governance processes to triangulate fair value measurement. The MSAI™ should be a key consideration in the benchmarking process.”

Measured by MSA fair value, the bank MSAI™ comprises 80% of FDIC insured institutions and the valuation changes for mortgage servicing rights represented by \$2.7 trillion in unpaid principal balance. The change in the index represents the percent change in the weighted

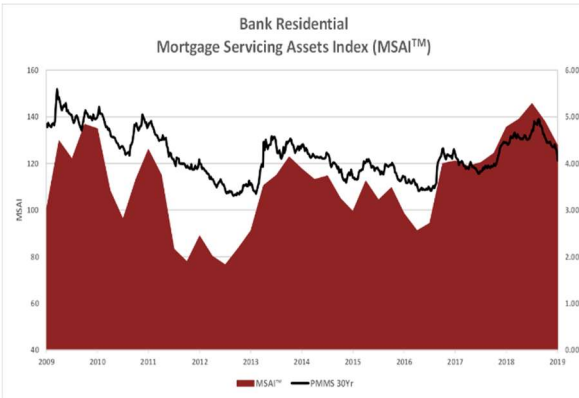


Fig. 1 - Source: PMMS 30Yr represents the FHLMC weekly rate survey for 30-year FRM product.

MSA values decline as rates decline and borrowers' propensity to prepay their loans increases and vice versa.

average aggregated MSA values for the respective period. Effective with the Q1 2019 reporting period, the index of 128 is down 7.4% YTD and down 12.4% off its peak of 146 in Q3 2018 as mortgage rates have declined for the period.

Post his review of the underlying methodology and application, "I think the idea is a unique look. It brings a fresh approach to monitoring MSA price volatility," says Steve Buisson, FRM, an industry veteran and executive leader at one of the largest financial services holding companies.

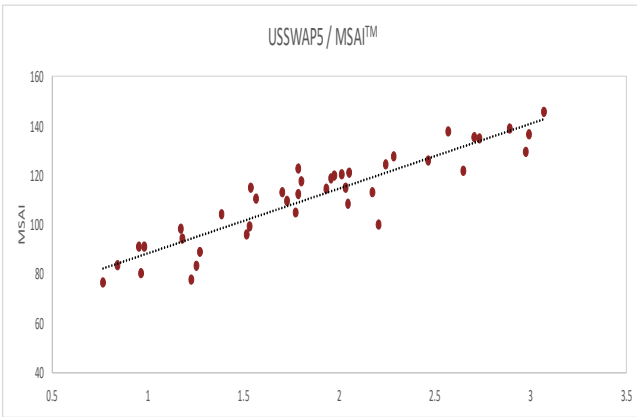


Fig. 2 – Correlation between the MSAI™ and 5Yr SWAP

MSA valuations are influenced by subjective modeling and forecasting of Level III assumptions. As such, the MSAI™ provides meaningful insight into the aggregated market given the implied homogeneity in bank residential MSR portfolios post the financial crisis.

About [MGJ Advisory Solutions](#)

MGJ Advisory Solutions partners with institutions to mitigate risk to their investment strategies in residential mortgage related asset portfolios. The company focuses on the integration of key portfolio management functions including: Pricing & Valuation, IRR & Credit Risk, Trading & Liquidity Risk, FP&A and Model Risk Management. The names MGJ Advisory Solutions, Mortgage Servicing Asset Index (MSAI™) or any related derivative to Mortgage Servicing Rights Index (MSRI™) are pending registered trademarks or trademarks of MGJ Advisory Solutions.