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## Mortgage Servicing Assets Fair Value

*MSAI™ Declines for Three Consecutive Quarters*

**August 19, 2019 – Rancho Cucamonga, CA** — MGJ Advisory Solutions Mortgage Servicing Asset Index (MSAI™) reflects declines in value for three consecutive quarters replicating 2010 and 2011; periods marred with volatility resulting from international economic crises and including the US suffering a downgrade in its AAA credit rating.

The MSAI™, used to monitor the price volatility in MSA values, declined to 119 in the Q2 2019 reporting period representing a 7.1% decline quarter over quarter. The index is currently down from 138 at the beginning of the year, representing a 13.9% decline YTD, and 18.5% from its high of 146 reported for the Q3 2018 reporting period.

Broadly speaking, geopolitical concerns, a slowing of global growth and unresolved trade tensions between the US and China are all contributing to the current lows in mortgage rates and the resulting declines in MSA values given the expectation for increased prepayments and evidenced in the increase in the mortgage applications

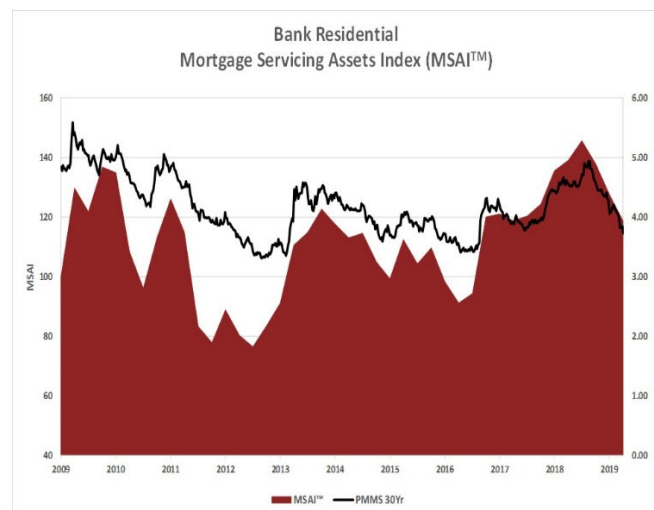
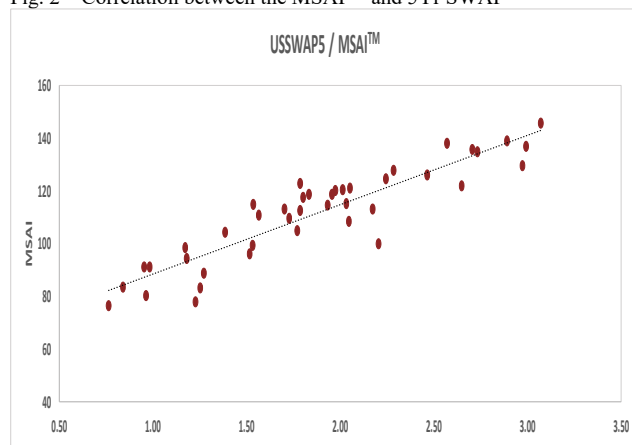


Fig. 1 - Source: PMMS 30Yr represents the FHLMC weekly rate survey for 30-year FRM product.

according to the [MBAs Market Composite Index](#). MSA values decline as rates decline and borrowers' propensity to prepay their loans increases and vice versa.

Since the Q2 2019 reporting, mortgage rates have continued to decline with the FHLMC PMMS rate for US 30yr product declining another 13bps through Aug 15<sup>th</sup>. With 10Yr Treasury closing at a 1.53% on the same day, mortgage holders are clearly contributing to the decline as they manage to their respective hedge ratios and unless there's respite in recessionary indicators prior to the Q3 2019 reporting period, one could see a further decline in the MSAI<sup>TM</sup> and additional pressure on interest rate risk management processes.

Fig. 2 – Correlation between the MSAI<sup>TM</sup> and 5Yr SWAP



MSA valuations are influenced by subjective modeling and forecasting of Level III assumptions. As such, the MSAI<sup>TM</sup> 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<sup>TM</sup>) or any related derivative to Mortgage Servicing Rights Index (MSRI<sup>TM</sup>) are pending registered trademarks or trademarks of MGJ Advisory Solutions.

Measured by MSA fair value, the bank MSAI<sup>TM</sup> 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 average aggregated MSA values for the respective period.