



*Delivering Excellence in Execution*

## Mortgage Servicing Assets Fair Value

*MSAI™ Declines for 4<sup>th</sup> Consecutive Period*

**November 22, 2019 – Rancho Cucamonga, CA** — MGJ Advisory Solutions Mortgage Servicing Asset Index (MSAI™) suffered its fourth consecutive period of declines consistent with the continued decline in primary and secondary mortgage rates coupled with the flattening yield curve for the period.

The MSAI™, used to monitor the price volatility in MSA values, declined 10 points to 109 in the Q3 2019 reporting period representing an 8.2% decline quarter over quarter. The index is currently down from 138 at the beginning of the year, representing a 21% decline YTD, and 25.2% from its high of 146 reported for the Q3 2018 (YOY) reporting period.

The Fed's rate cut at the end of October confirmed the ongoing narrative of geopolitical concerns, weakness in global growth and unresolved trade tensions between the US and China. However, we seem to have found some respite from the excitement of Q3 2019 and the Fed

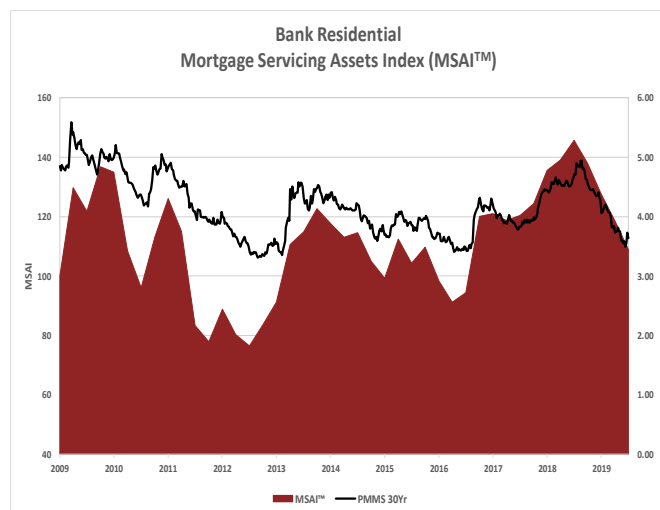
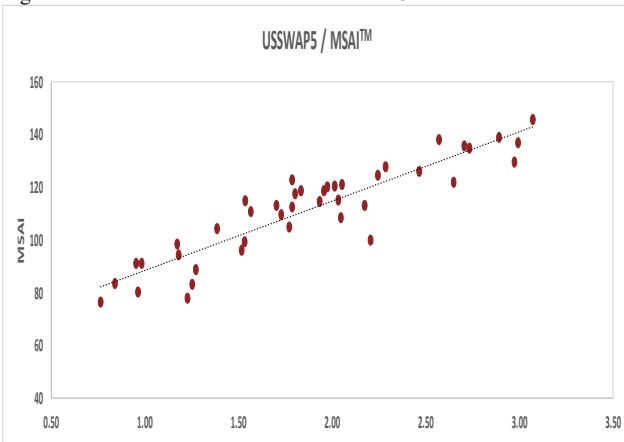


Fig. 1 - Source: PMMS 30Yr represents the FHLMC weekly rate survey for 30-year FRM product.

announcement as bond and mortgage rates remain range bound in anticipation of year-end the sound of any one, of the many economic shoes to fall.

Since the Q3 2019 reporting, mortgage rates have maintained their levels with the FHLMC PMMS rate for US 30yr product being surveyed at 3.66 through Nov 21<sup>st</sup>. With 10Yr Treasury closing at a 1.77% on the same day (up from 1.68% as of Sep 30<sup>th</sup>), mortgage holders will be paying close attention to the basis exposure as part of their interest rate risk management processes.

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.

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 average aggregated MSA values for the respective period.