National Mortgage News

SERVICING

5 trends in mortgage servicing to watch

By Bonnie Sinnock March 26, 2024 8:04 AM

Prices in the mortgage servicing rights market are still strong historically, but as recent negative valuation adjustments in public earnings show, there've been some shifts.

Relative differences in interest rates have led to prepayment variability in high coupons, and while home equity overall remains robust, some areas have high underwater loan rates. Also, foreclosure volumes are higher in certain markets and some delinquencies are drifting higher.

What follows are some of the datasets that illustrate trends in these numbers. They are important for servicing buyers and lenders who are looking to sell MSRs, because they drive trends that could affect the value of their assets and the risk management profiles.

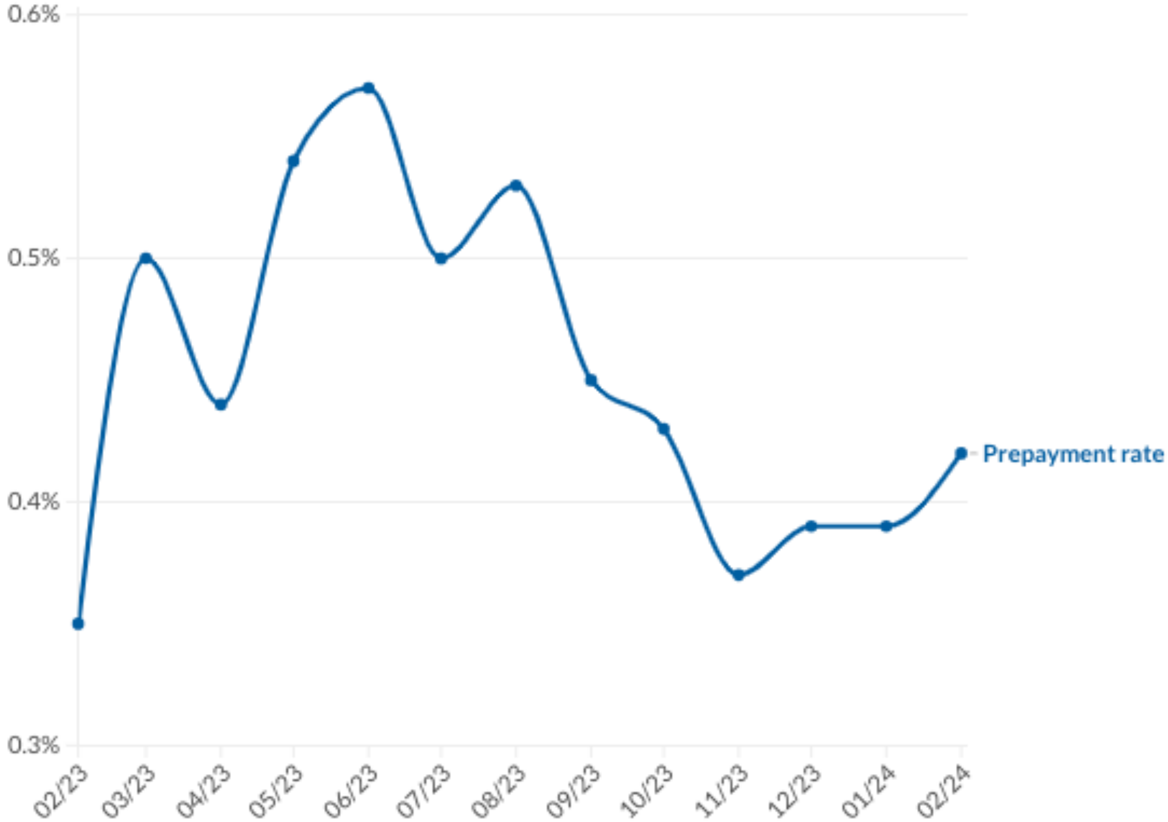
There's been a little more variability in servicing prices as the market has come down slightly from its peak, and the need sell them, for many, has grown as the crunch in origination volume has persisted.

Seasoned MSRs can still sell for historically high 5 multiples as they did during the peak of rate-hike era, but others have fallen a little into the 4-4.5 range or around 3 for Ginnie Mae portfolios, according to David Lykken, an industry veteran and executive leadership coach.

"Because of the back-to-back quarterly losses that are being suffered and the fact that volume, while improved, is still relatively low, people that did hold onto their servicing are finding that they need, for liquidity reasons, to sell," Lykken said.

Rising prepayments

Prepayments over the past year



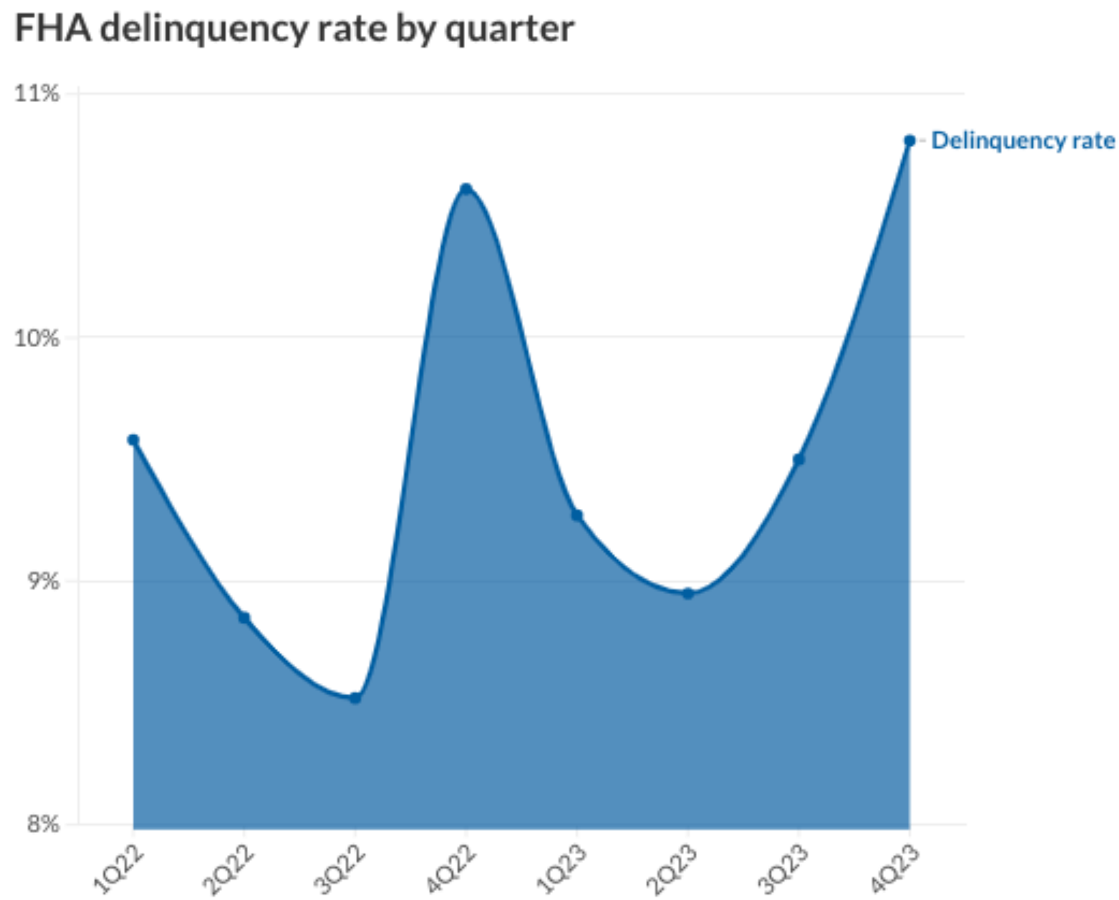
Source: ICE First Look report

The average, weekly mortgage rate tracked by Freddie Mac peaked at 7.76% in November and it's been a little below 7% recently. While that hasn't spurred enough refinancing or home sales to boost lender volume, it has introduced limited prepayment risk to some servicing.

"Rate and term prepays still remain very low by historical standards," said Gunnar Blix, director of housing market research for ICE Mortgage Technology, in a webinar earlier this year. It's only inched up a mere 3 basis points since then to 0.42%.

That said, the initial data in ICE's First look report does show that prepayments were 20% higher in February than they were during the same month in 2023. While there was a seasonal lift in between, the year-over-year figure adjusts for it and points to sensitivity in higher coupons.

Escalating jumps in FHA delinquencies



Source: Mortgage Bankers Association's National Delinquency Survey

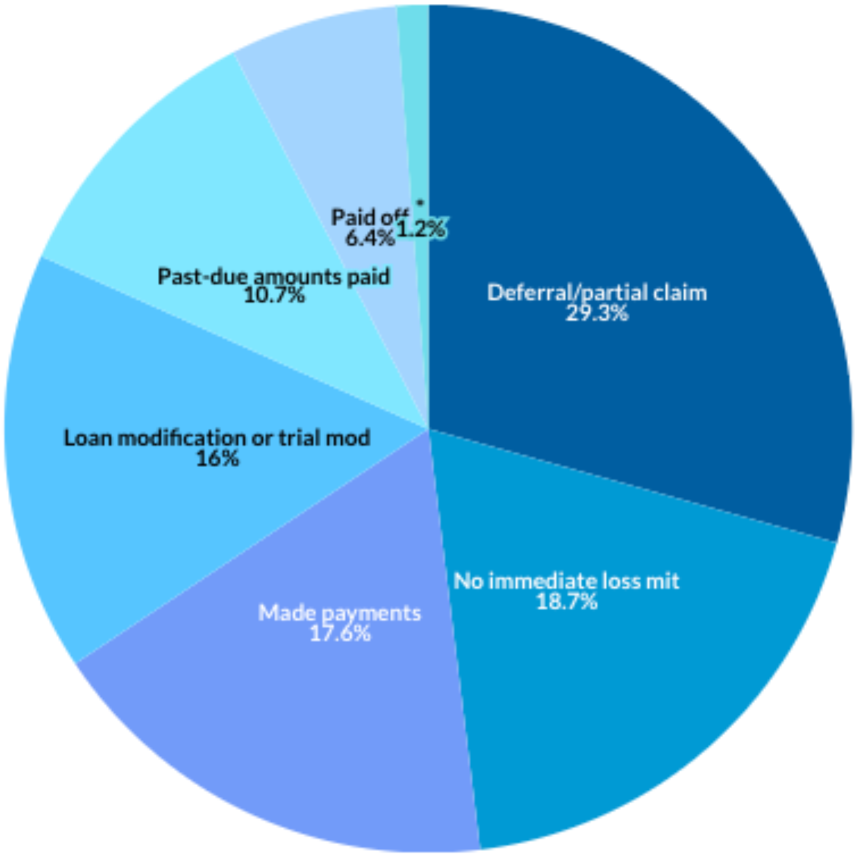
Loans that the Federal Housing Administration insures generally tend to have more late payments than others and go through an uptick in the fourth quarter, but the jumps in the last couple of years have gotten more pronounced, with the most recent one being 131 basis points.

Like prepayments, delinquency rates are still historically low, but it's worth watching because if any credit issues tend to show up in the FHA segment first.

Reperformance rates of FHA loans will also be worth watching, given the new tools now available to address borrower hardships such as the payment-supplement partial claims.

High usage rates for partial claims and deferrals

Forbearance outcomes (7/1/20-2/29/24)



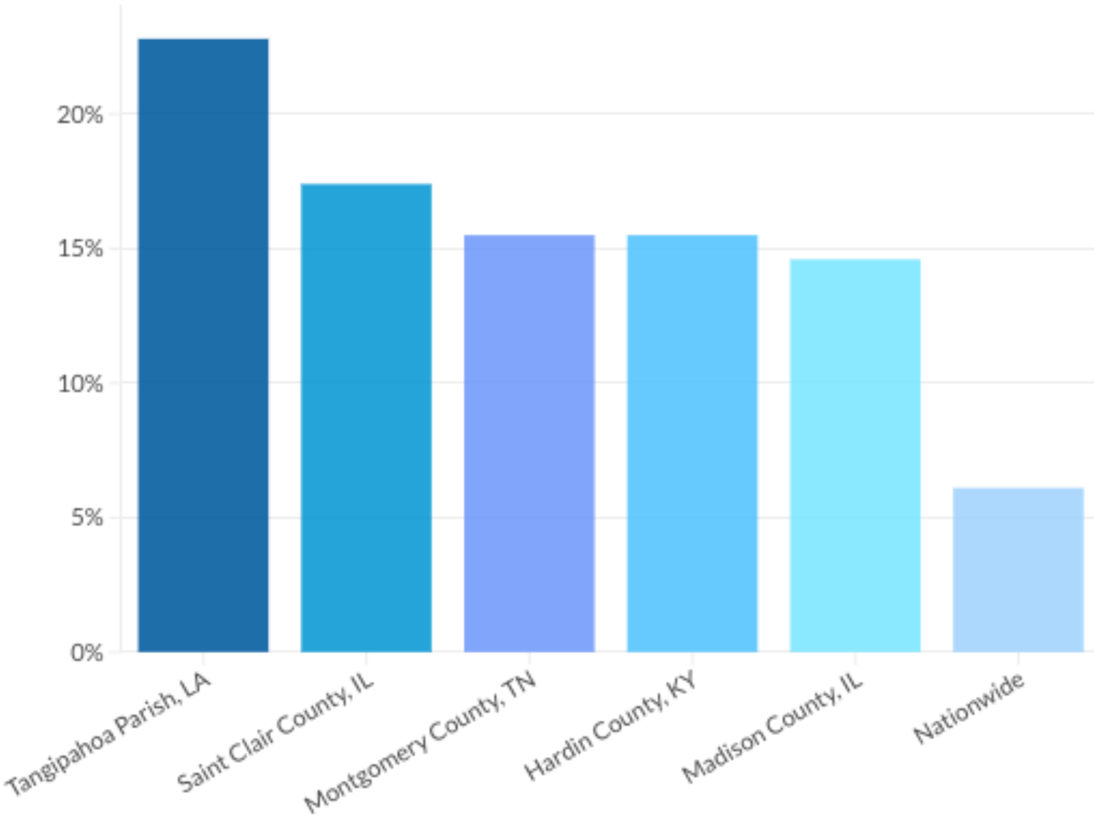
Source: Mortgage Bankers Association's Loan Monitoring Survey (Note: * = short sale, deed-in-lieu, repayment plan or other)

Speaking of reperformance rates and partial claims, around 29% of loans where borrowers had pandemic hardships ended up opting for them or deferrals as their endgame, according to the Mortgage Bankers Association.

It'll be interesting to see what happens to those mortgages long-term, as well as to the 16% that receive modifications or trial versions of them, and the 18.7% that weren't paying and didn't immediately have a loss mitigation option upon exit.

Underwater loans becoming concentrated in certain areas

Highest underwater rates in at-risk counties 4Q23



Source: Attom Housing Impact Report

Like prepayments and overall delinquencies, the share of loans underwater on their current market value isn't high, but there are areas in which they're becoming worrisome.

While the nationwide underwater rate was recently pegged at 6.1%, there are certain counties in the double digits, according to **Attom's Housing Impact Report.**

The report, which aims to identify markets under pressure, highlights jurisdictions like Tangipahoa Parish in Louisiana, which has an underwater loan rate of 22.8%.

Regions where foreclosure starts are higher

Source: Attom U.S. Foreclosure Market Report

Attom also tracks places where larger numbers of mortgages are entering the foreclosure process. In those areas, servicing could be more costly from an operational perspective.

Florida led among states in this category with 2,732 foreclosure starts in February, followed by California, 2,730; Texas, 2,694; New York, 1,289; and Ohio, 1,097.

Metropolitan statistical areas with 200,000 people or more where foreclosures are numerous include New York City, where there were 1,367 starts during the month, according to Attom's U.S. Foreclosure Market Report.

Other cities in this category include Houston, 998; Los Angeles, 808; Chicago, 792; and Miami, 777.