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ORIGINATIONS

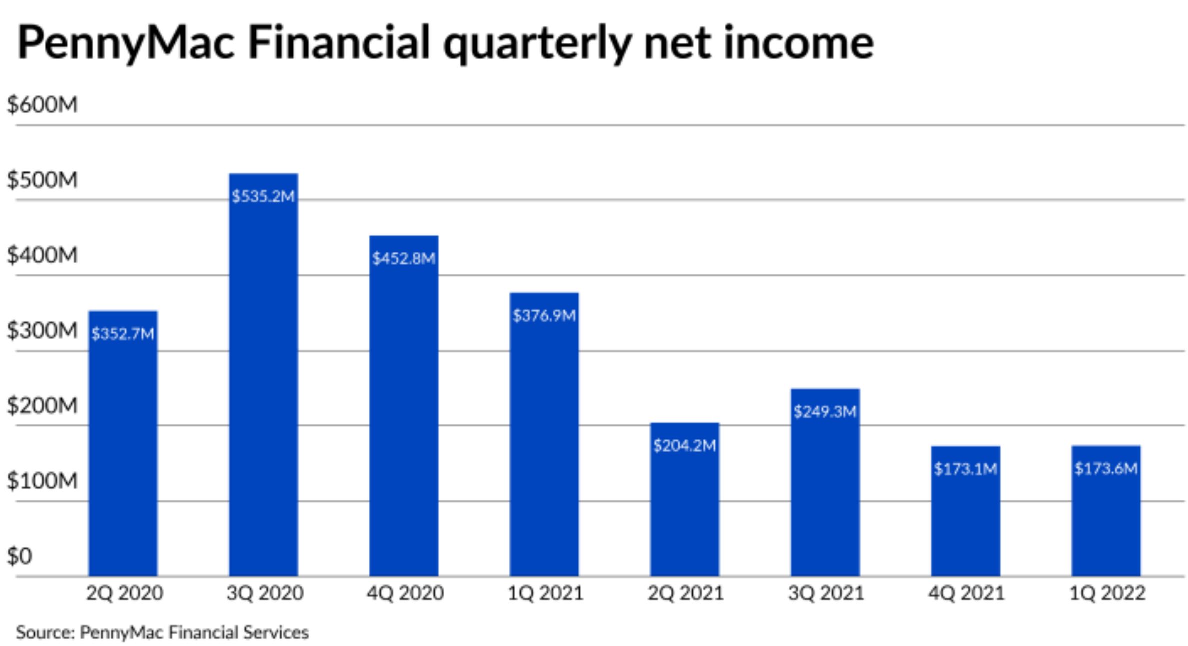
PennyMac Financial's 1Q profits driven by servicing

By Brad Finkelstein   May 06, 2022, 12:49 p.m. EDT   2 Min Read

PennyMac Financial Services' first quarter net income was flat compared with the prior three month period, but on an earnings per share basis beat consensus estimates because of its servicing business.

For the first quarter, the Pennymac subsidiary reported net income of $173.6 million, compared with $176.1 million in the fourth quarter but less than half of the $376.9 million during the first quarter of 2021.

"We saw few surprises in light of the market backdrop, and consider it a good quarter," BTIG analyst Eric Hagen said in a report on the financial services company.



PennyMac Financial Services hedges its mortgage servicing rights, and as a result it didn't catch as much of the mark-to-market upside in response to rising mortgage rates, Hagen noted.

The company reported a $324.1 million MSR fair value gain, which was partially offset by a $217.9 million decrease from its hedging activity.

The servicing segment ended the quarter with pretax income of $225.2 million, well above the $126.1 million recorded in the fourth quarter and $141.7 million one year ago. The quarter-over-quarter increase was primarily driven by a $191.6 million increase in net loan servicing fees, which was partially offset by a $109 million reduction in gains on loans held for sale related to Ginnie Mae early buyout activity, the company said.

Even when taking out the net $106.2 million fair value mark, "servicing income came in much stronger than expected driven by lower expenses," Bose George, an analyst at Keefe, Bruyette & Woods, said in his report. "We believe servicing expenses benefited from the reversal of the provision for estimated servicing advance losses, which were booked in prior periods."

But the originations side of the business suffered from the excess capacity created from lenders chasing fewer loans. "This transitioning mortgage origination market contributed to the reduced financial performance in our production business," David Spector, PennyMac's chairman and CEO, said in a press release. "We remain committed to driving further efficiencies across the platform while actively aligning our expense base with the expected lower levels of activity."

In March, the company filed a Worker Adjustment and Retraining Notification in California for the permanent elimination of 236 positions.

PennyMac Financial originated $33.3 billion during the first quarter, $23.5 billion of which was for its own account, and $9.8 billion of which was fee-based fulfillment activity for its real estate investment trust affiliate. This compared with $41.7 billion for the fourth quarter and $61 billion for the first quarter last year.

Production segment pretax income was $9.3 million, down from $106.5 million in the prior quarter and $362.9 million in the first quarter of 2021. The company attributed lower revenue in the segment to its net gain-on-sale falling to $221.6 million from $314.8 million in the fourth quarter and $516 million in first quarter 2021.

During the earnings call, Spector addressed the Federal Housing Finance Agency's re-proposed eligibility standards for nonbank seller/servicers to Fannie Mae and Freddie Mac.

"PFSI has a long track record of strong financial performance, robust liquidity and capital planning disciplines, and has historically operated with low levels of leverage," Spector said. "If the standards were implemented today, PennyMac Financial is well-positioned to meet each of these requirements given its long-standing commitment to capital and enterprise risk management, with these disciplines fully integrated throughout the organization."