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SERVICING

Servicing prices are likely to be flatter in 2023

By Bonnie Sinnock January 09, 2023, 6:10 p.m. EST 2 Min Read

Prices for mortgage servicing rights may have picked up compared to where they were during the typical December slowdown, but investors may find them more favorable than they did during the earlier in 2022.

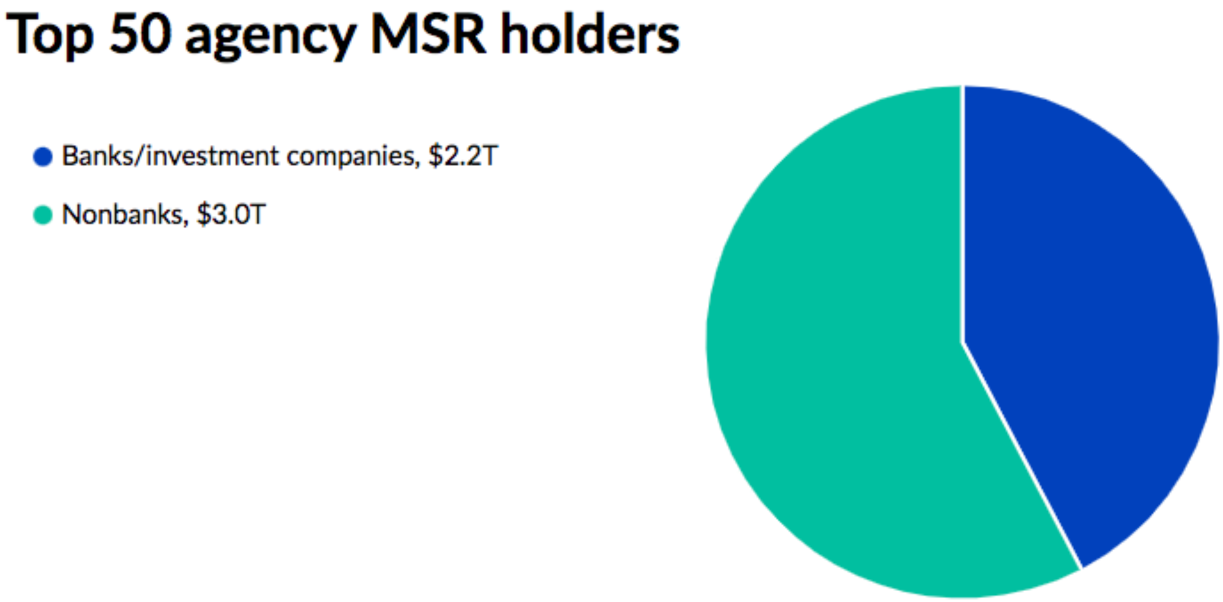
"The market has shifted to be more of a buyer's market," said Nick Smith, managing partner and CEO of servicing investor Rice Park Capital.

Not everyone agrees that the buy-side has the upper hand in today's market, but generally experts acknowledge that 2023 has kicked off with prices below the historic highs seen at the start of last year.

"I wouldn't necessarily say it's a buyer's market, but rather the year-over-year — at least in the first quarter — will show that pricing has settled and buyers are able to be a little more selective," said Tom Piercy, president of national enterprise development at Incenter.

Views also are mixed on whether the flatter pricing reflects a change in demand relative to supply or if buyers are asking for pricing concessions related to risks such as mortgage repurchases by Fannie Mae and Freddie Mac, a possible recession in 2023 or how a change in interest rates could affect what have been historically low prepayments.

Non-depositories may be more likely to be sellers or less likely to be investors this year, according to Smith, noting that of the top 50 holders of agency mortgage-servicing rights, roughly $3 trillion are nonbanks, and $2.5 billion are depositories.



Source: Rice Park Capital Management estimates based on data from Inside Mortgage Finance and Fannie Mae/Freddie Mac

"A much larger percentage of the nonbank independent mortgage-company market was an active buyer of MSRs or retainer of MSRs. That has changed materially in the last year, as rates have gone up and have put pressure on their margins and their liquidity," said Smith.

At the same time, other experts say that the market's relatively more favorable pricing is bringing new entrants into the market.

"The softening has brought a few more buyers into the mix, largely because they can now hit their return hurdles at the levels the deals are executing at today," said Mike Carnes, managing director of Mortgage Industry Advisory Corp.'s MSR Valuation Group.

Also, some developments associated with higher rates do increase the attractiveness of MSRs.

"Escrows are now becoming more valuable," noted Piercy, who also is a managing director of Incenter Mortgage Advisors, the company's capital markets and trading subsidiary.

Nuances related to the degree of softening or possible improvement in different parts of the market will persist as the year wears on.

For example, vintages originated during the record-low rates seen in 2020 and 2021 following the pandemic will be more insulated from prepayment risk than more recent mortgages.

The government-insured loans that get included in Ginnie Mae securitizations tend to have higher delinquency rates than Fannie and Freddie loans, which have relatively low ones. Differences in structure and governance also affect these two markets.

The Ginnie Mae MSR market typically has a smaller pool of investors who tend to be mostly large companies, and it's been under a little bit of additional pressure from a pending capital rule that's affected at least one minor buyer's appetite. It's also been impacted by the recent need to seize and transfer servicing in the niche reverse-mortgage market due to a bankruptcy.

"Any time you have big rulemaking changes, it's going to leave a mark and this one is certain to have that same impact and potentially, it could be meaningful," Smith said.