

MorVest Capital Says Recent Changes on FHA Loans Will Impact Mortgage Servicing Rights Fair Value

DALLAS, Texas, Feb. 18, 2015 (SEND2PRESS NEWSWIRE) – MorVest Capital (www.MorVestCap.com), a specialized investment firm focused on providing strategic capital and analytics solutions to the mortgage banking and residential finance industry, is drawing mortgage servicers' attention to the impact two recent changes will have on mortgage servicing rights fair value for FHA loans.

"We prefer not to lead with the negative, but it is important for mortgage servicers to understand and respond to the changes recently implemented on FHA loans," said John Sullivan, head of the firm's Analytics Division. "Although the impacts are certain to be negative, steps can be taken to ameliorate them."

According to Sullivan, one change is the reduced FHA annual Mortgage Insurance premium (MIP) of 50 bps, which will likely lead to increased prepayment speeds in certain vintages. In addition, Sullivan points out a "prospective" change to the treatment of Paid in Full (PIF) interest.

Historically, with exception of loans paid off on first business day of the month, servicers could charge borrowers for the entire month and pass that through to security holders (resulting in no shortfall exposure). Sullivan said the new rules work like a conventional mortgage, for which the servicer can only charge the borrower up through the date of payoff. Loans in Ginnie Mae pools are required to pass through a full month of interest to security holders.

"This will increase the interest shortfall exposure to servicers and will need to be baked into valuations," Sullivan said. "The good news on this is that it is for loans closed after January 20, 2015, so it does not appear to have an impact on existing servicing rights."

In order to maximize profitability and preserve expected MSR returns, Sullivan suggests servicers take actions to counterbalance potential negative fair value impacts, including, but not limited to:

- * Analyze the impact of the MIP reduction to your existing portfolio and rank the borrowers from most-to-least likely to be incentivized by the MIP reduction. This will serve to prioritize refinance solicitations and better position preservation of that borrower through effective runoff recapture as opposed to exposing that income stream to competitive sniping; and

- * Price the affect of the new PIF rules into pricing matrices and best execution models to help ensure achievement of desired returns.

Striving to address a funding gap for its clients' MSR strategies, MorVest has collaborated with Customers Bank to create a long-term credit facility that allows mortgage companies not affiliated with a depository institution to aggressively retain MSRs. MorVest is the exclusive advisor to Customers Bank's \$200+ million mortgage servicing rights (MSR) term lending program, and also invests as a principal, buying a participation in each MSR loan.

In concert with securing MSR financing, MorVest utilizes proprietary analytics models to project the impact of MSR retention for each client on future operating results and balance sheets, a unique benefit to these companies not available from competing lenders. The MorVest Capital analytics division provides independent MSR valuations, servicing brokerage and other risk management services to a growing stable of clients.

For further information about the impact of FHA changes on MSR strategies, call or write John Sullivan at 972-315-0126 or JSullivan@MorVestCap.com.

About MorVest Capital:

MorVest Capital, LLC is a Texas-based investment firm focused on providing capital and strategic solutions to the mortgage banking and residential finance industry.

The firm provides strategic advisory, debt and equity placement, and MSR valuation and brokerage services both for investors and operating mortgage companies. MorVest is exclusive advisor to Customers Bank (Nasdaq: CUBI) on its \$200+ million mortgage servicing rights (MSR) term lending program. Its MorVest Analytics operation is a full service MSR advisor, providing its clients with portfolio valuation, hold/sell analyses and brokerage services.

Led by David Fleig: President/CEO, Stephen Hinckley: Chairman and John Sullivan: EVP/CFO, MorVest delivers investment advisory and capital management services pursuant to highly targeted mortgage banking and housing investments. Seasoned industry veterans Fleig and Sullivan have worked together as founding principals and operators in firms that employed successful niche industry investment strategies focused on warehouse lending and direct investment in MSR, generating excellent returns for their institutional and high net worth individual investors. Steve Hinckley is a former mortgage banking executive who has been in the private equity business for the past 15 years.

More information: <http://www.MorVestCap.com/>.

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