

# NRZ.PD: Reviewed And Compared To New Residential Investment's Other Preferreds

Jan. 19, 2022 8:00 AM ET | **New Residential Investment Corp. 7% RT REST PFD D (NRZ.PD)** | NRZ, NRZ.PA, NRZ.PB... | 16 Comments | 13 Likes

## Summary

- New Residential Investment issued a new preferred last fall and now has four fixed-to-floating issues to pick from. This article reviews "D" and compares its features to the others.
- To help evaluate how much default risk there is, a brief review of the New Residential Investment Corporation is also provided.
- Which one to own now varies depending on what variable (Yield, YTC, Call Date) is most important. I render an analysis on each.
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*(This article was co-produced with [Hoya Capital Real Estate](#))*

## Introduction

I am always on the lookout for baby bonds and Preferreds, with a preference for those with a maturity date, to either replace a called or matured asset or to expand the date range or size of my bond ladder. I covered why I constructed a ladder and its current makeup in a recent article: [2021 Was A Tough Year For Investors Who Built A Bond Ladder](#).

I recently was able to add the **PennyMac Mortgage Investment Trust 6.75% RED PFD C (PMT.PC)** at Par, with its Call date in August of 2026. Its YTC is far above most of what I own currently provide and also above the baby bonds I have reviewed recently. Many Preferreds without a maturity date have 6+% YTCs but with no maturity date would have more interest-rate risk. Believing interest rates will be climbing over the next several years, having known maturity dates reduces the interest-rate risk of a ladder built using those assets.



# NEW RESIDENTIAL INVESTMENT CORP.

New Residential Investments

[NRZ website](#)

This how New Residential Investment ([NRZ](#)) describes itself:

New Residential Investment Corp. is a leading provider of capital and services to the mortgage and financial services industries. Our objective is to leverage our proven investment expertise and identity and invest in assets that offer attractive risk-adjusted returns while also protecting our existing portfolio and generating long-term value for our investors. We target assets that generate stable long term cash flows and employ conservative capital structures to provide returns throughout different interest rate environments.

Source: [newresi.com](#)

NRZ believes its portfolio and strong track record of performance sets it apart. Here are six reasons it lists on its website:

## **Diversified Portfolio**

NRZ's portfolio includes MSR's, call rights, residential securities and loans, consumer loans, complementary operating businesses and ancillary services.

## **Hard-to-Replicate Portfolio**

We have achieved scale across our differentiated and hard-to-replicate portfolio of value-creating strategies.

## **Opportunistic Growth Strategy**

We are disciplined and opportunistic where it aligns with our long-term strategy; our size, liquidity and positioning allow us to be nimble when opportunities arise.

## **Proven Track Record**

Throughout our history, we have created substantial long-term value and proven the strength of our strategy through execution and performance.

## **Focus on Capturing Full Value of the Mortgage Asset**

We are well-positioned to capture incremental long-term value of the full mortgage asset through our operating companies and partnerships.

## **Shareholder Focus**

Our ultimate goal continues to be protecting book value and generating stable earnings and risk-adjusted returns for our shareholders.

According to their website, NRZ operates in five segments of the mortgage market:

## **Mortgage Servicing Rights & Servicer Advances**

A mortgage servicing right (MSR) provides a mortgage servicer with the right to service a pool of residential mortgage loans in exchange for a portion of the interest payments made on the underlying residential mortgage loans. The servicer has limited risk of not being reimbursed for advances, because advances are almost always "top of the waterfall" in the event of a property sale.

## **Non-Agency Securities & Associated Call Rights**

Residential mortgage-backed securities are created through the securitization of a pool of residential mortgage loans. We hold call rights on Non-Agency residential mortgage securitizations, which become exercisable once the current collateral balance reduces below a certain threshold of the original balance.

## **Residential Loans**

New Residential's Residential Loan portfolio consists of seasoned performing, non-performing, REO, Non-QM, and FHA insured loans.

## **Consumer Loans**

New Residential's consumer loan portfolios have provided differentiated and compelling revenue streams over time.

## **NRZ Subsidiaries and Partners**

New Residential has made a number of opportunistic acquisitions, investments, and partnerships to date. These acquisitions, investments and partnerships have demonstrated New Residential's disciplined and strategic approach to growth as markets have evolved. - Source: newresi.com

## **Exploring the new "D" Preferred**

## New Residential Investment Corp Reset Rate Series D Cumulative Preferred Stock

Ticker Symbol: NRZ-D CUSIP: 64828T706 Exchange: NYSE

Security Type: [Traditional Preferred Stock](#)

QUANTUMONLINE.COM SECURITY DESCRIPTION: New Residential Investment Corp Fixed-Rate Reset Series D Cumulative Redeemable Preferred Stock, liquidation preference \$25 per share, redeemable at the issuer's option on or after 11/15/2026 at \$25 per share plus accrued and unpaid dividends, and with no stated maturity.

Cumulative distributions of the Annual Fixed Dividend Rate will be paid quarterly on 2/15, 5/15, 8/15 & 11/15 to holders of record on the record date fixed by the board, not more than 60 days or less than 30 days prior to the payment date (NOTE: the ex-dividend date is one business day prior to the record date). The Annual Fixed Dividend Rate will be 7.00% until the first redemption date, then it will be equal to the sum of the U.S. five-year treasury rate on the applicable fixed rate calculation date plus 6.223%, resetting every 5 years thereafter on applicable fixed rate calculation date (see prospectus for more details).

Dividends paid by preferreds issued by REITs are NOT eligible for the preferential 15% to 20% tax rate on dividends and are also NOT eligible for the dividend received deduction for corporate holders.

Upon the occurrence of a change of control the company will have the option within 120 days to redeem the preferred shares at \$25 per share plus accrued and unpaid dividends. If the company has exercised their redemption right, the holders will NOT have the following conversion right. Upon the occurrence of a change of control, and the company has NOT provided notice that they intend to redeem the preferred shares, the holder will have the right to convert the preferred shares into common shares under certain circumstances (see the prospectus for details).

This security was not rated by Moody's or S&P at the time of its IPO. In regard to the payment of distributions and upon liquidation, the preferred shares rank junior to the company's senior debt, equally with other preferreds of the company, and senior to the common shares of the company. See the IPO prospectus for further information on the preferred stock by clicking on the 'Link to IPO Prospectus' provided below.

Stock Exchange	Cpn Rate Ann Amt	LiqPref CallPrice	Call Date Matur Date	Moody's/S&P Dated	Distribution Dates	15% Tax Rate
<a href="#">NYSE Chart</a>	Reset Rate \$1.75	\$25.00 \$25.00	11/15/2026 None	NF NF 9/14/2021	2/15, 5/15, 8/15 & 11/15 <a href="#">Click for MW ExDiv Date</a> <a href="#">Click for Yahoo ExDiv Date</a>	No

NRZ Pfd D 6.75%

[quatumonline.com](http://quatumonline.com)

Pulling out the important facts about **New Residential Investment Corp. 7% RT REST PFD D (NRZ.PD)**, we see that

- The fixed coupon of 7.00% is good until the first call date: 11/15/26. Payments are made quarterly using the F/M/A/N cycle.
- The floating rate is then reset every 5 years using the following formula: UST 5-Yr rate + 6.223%. The current 5Y rate is near 1.5%, meaning the floating rate is above the current fixed rate. Since the summer, the 5Y UST rate is up 80bps.
- Since NRZ is classified as a REIT, any payments do not qualify for the special dividend tax rates.
- As with most issues, there is a special redemption feature if the company experiences a change-in-control.

For more detailed information the [Prospectus](#) is available.

## Overview of the other preferreds

NRZ has three other Fixed-to-Floating Preferreds: **New Residential Investment Corp. 7.50% PFD SER A** ([NRZ.PA](#)), **New Residential Investment Corp. 7.125 SR B PFD** ([NRZ.PB](#)), and **New Residential Investment Corp. 6.375 PFD SER C** ([NRZ.PC](#)). Each of these issues can be called before NRZ.PD. Also, in common is their fixed add-on percent is lower and they use the 3-Mo LIBOR (until it migrates) as their floating rate, whereas the "D" uses the UST 5-Yr rate.

New Residential Investment Corp., 7.50% Ser A Fixed/Float Cumul Red Prfrd Stock						
Ticker Symbol: NRZ-A    CUSIP: 64828T300    Exchange: NYSE Security Type: <a href="#">Traditional Preferred Stock</a>						
QUANTUMONLINE.COM SECURITY DESCRIPTION: New Residential Investment Corp., 7.50% Series A Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, liquidation preference \$25 per share, redeemable at the issuer's option on or after 8/15/2024 at \$25 per share plus accrued and unpaid dividends, and with no stated maturity. Cumulative distributions of 7.50% per annum (\$1.875 per annum or \$0.46875 per quarter) will be paid quarterly on 2/15, 5/15, 8/15 & 11/15 to holders of record on the record date that will be the first day of the calendar month prior to the payment date (NOTE: the ex-dividend date is one business day prior to the record date). From and including 8/15/2024, dividends will be paid at a floating rate of the Three-Month LIBOR plus 5.802% per annum. Upon the occurrence of a change of control the company will have the option within 120 days to redeem the preferred shares at \$25 per share plus accrued and unpaid dividends. If the company has exercised their redemption right, the holders will NOT have the following conversion right. Upon the occurrence of a change of control, and the company has NOT provided notice that they intend to redeem the preferred shares, the holder will have the right to convert the preferred shares into common shares under certain circumstances (see the prospectus for details). Dividends paid by preferreds issued by REITs are NOT eligible for the preferential 15% to 20% tax rate on dividends and are also NOT eligible for the dividend received deduction for corporate holders. This security was not rated by Moody's or S&P at the time of its IPO. In regard to the payment of dividends and upon liquidation, the preferred shares rank junior to the company's senior debt, equally with other preferreds of the company, and senior to the common shares of the company. See the IPO prospectus for further information on the preferred stock by clicking on the 'Link to IPO Prospectus' provided below.						
Stock Exchange	Cpn Rate Ann Amt	LiqPref CallPrice	Call Date Matur Date	Moody's/S&P Dated	Distribution Dates	15% Tax Rate
<a href="#">NYSE Chart</a>	FixFloat \$1.88	\$25.00 \$25.00	8/15/2024 None	NR NF 9/14/2021	2/15, 5/15, 08/15 & 11/15 <a href="#">Click for MW ExDiv Date</a> <a href="#">Click for Yahoo ExDiv Date</a>	No

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## New Residential Investment Corp., 7.125% Ser B Fixed/Float Cumul Red Prfrd Stock

Ticker Symbol: NRZ-B CUSIP: 64828T409 Exchange: NYSE

Security Type: [Traditional Preferred Stock](#)

QUANTUMONLINE.COM SECURITY DESCRIPTION: New Residential Investment Corp., 7.125% Series B Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, liquidation preference \$25 per share, redeemable at the issuer's option on or after 8/15/2024 at \$25 per share plus accrued and unpaid dividends, and with no stated maturity. Cumulative distributions of 7.125% per annum (\$1.78125 per annum or \$0.4453125 per quarter) will be paid quarterly on 2/15, 5/15, 8/15 & 11/15 to holders of record on the record date that will be the first day of the calendar month prior to the payment date (NOTE: the ex-dividend date is one business day prior to the record date). From and including 8/15/2024, dividends will be paid at a floating rate of the Three-Month LIBOR plus 5.640% per annum. Upon the occurrence of a change of control the company will have the option within 120 days to redeem the preferred shares at \$25 per share plus accrued and unpaid dividends. If the company has exercised their redemption right, the holders will NOT have the following conversion right. Upon the occurrence of a change of control, and the company has NOT provided notice that they intend to redeem the preferred shares, the holder will have the right to convert the preferred shares into common shares under certain circumstances (see the prospectus for details). Dividends paid by preferreds issued by REITs are NOT eligible for the preferential 15% to 20% tax rate on dividends and are also NOT eligible for the dividend received deduction for corporate holders. This security was not rated by Moody's or S&P at the time of its IPO. In regard to the payment of dividends and upon liquidation, the preferred shares rank junior to the company's senior debt, equally with other preferreds of the company, and senior to the common shares of the company. See the IPO prospectus for further information on the preferred stock by clicking on the 'Link to IPO Prospectus' provided below.

Stock Exchange	Cpn Rate Ann Amt	LiqPref CallPrice	Call Date Matur Date	Moodys/S&P Dated	Distribution Dates	15% Tax Rate
<a href="#">NYSE Chart</a>	FixFloat \$1.78	\$25.00 \$25.00	8/15/2024 None	NR NF 9/14/2021	2/15, 5/15, 8/15 & 11/15 <a href="#">Click for MW ExDiv Date</a> <a href="#">Click for Yahoo ExDiv Date</a>	No

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## Portfolio strategy



seekingalpha.com

Which Preferred of the New Residential Investment Corp investors want to add to their portfolio at this time requires understanding what they own already and what their goals are in adding another Preferred to their holdings.

Here are some of the variables investors might consider important in selecting which preferred to hold at this time.

NRZ PFD	Price	Coupon	Yield	Call Date	YTC	Floating	Fixed	Current FLT
A	\$25.49	7.500%	7.38%	08/15/24	6.54%	3-mo LIBOR	5.802%	6.04%
B	\$25.10	7.125%	7.09%	08/15/24	7.09%	3-mo LIBOR	5.640%	5.88%
C	\$22.99	6.375%	6.87%	02/15/25	9.64%	3-mo LIBOR	4.969%	5.21%
D	\$25.16	7.000%	6.96%	11/15/26	6.91%	5-yr UST	6.223%	7.72%

#### PFD comparison

[Hoya Capital Income Builder](#)

- **Time to Call:** NRZ.PD has the longest time to its Call Date, over 4.5 years. The shortest is both NRZ.PA & NRZ.PB at 2.5 years.
- **Highest YTC:** By far, NRZ.PC wins here with a YTC of 255bps above any other. More on this in a moment.
- **Highest current yield:** NRZ.PA provides the highest current yield by 24bps, with the other three all within a 19bps ban.
- **Possible Call order:** I will admit this is personal opinion, based on my reading the tea leaves. Between NRZ.PA & NRZ.PB, "A" will be called first as it has both the higher Coupon and higher Fixed component after it floats. I would place "A" on the top overall due to its Call date and having the highest coupon. With the lowest Coupon, NRZ.PC would be called last unless rates in 2025 are less than its new floating rate. If the others haven't been called by the time NRZ.PD can be called, I think they would be before "D" is called.

## Why is NRZ.PC price so low?

With the other three Preferreds all trading above PAR, why is NRZ.PC under \$23? I checked the Prospectus and did not find where this issue ranks below the prior ones in case of liquidation, a fact that could justify a lower price. There are likely other reasons, but here is my take on two.

- Lowest coupon available definitely plays a leading role. Notice its current yield is still the lowest despite the low price.
- While years away, its post-floating calculation produces the lowest new coupon rate. With no maturity date, that provides the least price protection in a rising interest-rate world.

## Final thought

Assuming the investors feel comfortable with New Residential Investment Corp, which variable fits their strategy should drive their decision to own any of these Preferred stocks. Owning issues across firms and industry segments is a smart strategy for reducing default risks.



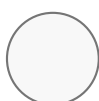
I 'm proud to have asked to be one of the original Seeking Alpha Contributors to the 11/21 launch of the Hoya Capital Income Builder Market Place.

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This article was written by



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**Build sustainable portfolio income with premium dividend yields up to 10%.**

I have both a BS and MBA in Finance. I have been individual investc

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