U.S. Housing and MBS Market

June Housing Finance Agency Prepayment Report, Delinquency Trends, and Outlook

Mahesh Swaminathan, CFA
Managing Director, MBS/ABS Strategist
917.206.3676
mahesh.swaminathan@hilltopsecurities.com

HFA MBS prepayments in June declined less than generic counterparts, continuing to push up CPR and VPR ratios. This is in line with expectations based on the idea that HFA borrowers potentially react with somewhat longer lags compared to generic borrowers. These ratios should flatten or dip slightly next month as aggregate speeds include slightly. As we have noted in the past, these ratios for new production remain mostly in the single digits to teens except for higher coupon Tiers 2 and 3. In the Ginnie sector, Lakeview's buyouts declined as expected, while buyouts by mission focused HFA servicers remain minimal.

Ginnie 30-day delinquencies ticked up somewhat notably in June, but remain below March levels and clearly below pre-Covid levels across various HFA programs and generic counterparts. We will monitor this to see if this is anything more than a blip. 60-day delinquencies were flat compared to May, at or below pre-Covid levels. Buyout rates by bank servicers appear to have returned to their pre-Covid normal and should continue.

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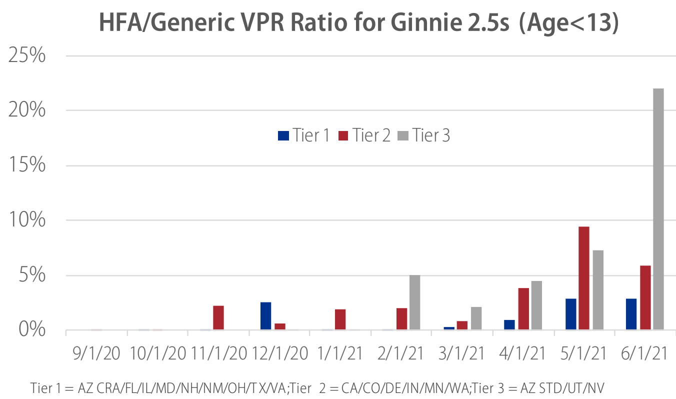
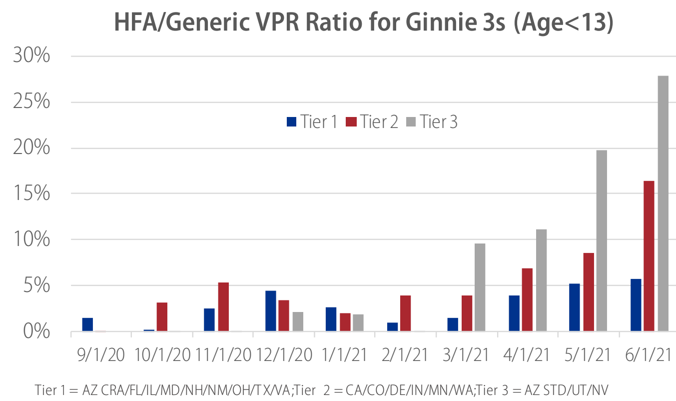
Buyouts by non-bank servicers including mission driven HFA servicers could increase meaningfully in the coming months on the heels of two related announcements by FHA and GinnieMae last Friday:

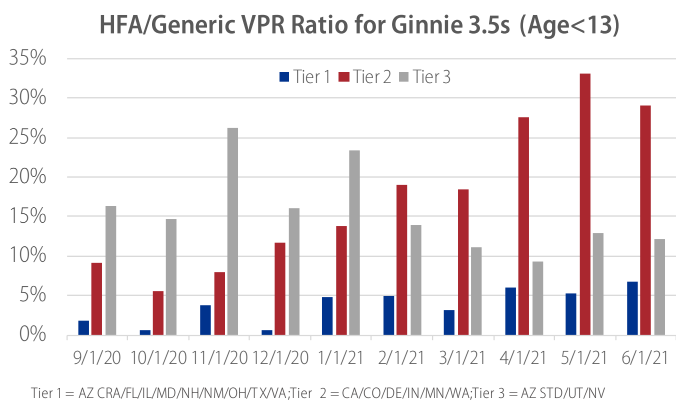
- FHA announced the Covid-19 Advanced Loan Modification program requiring servicers to offer rate/term modifications to borrowers who are delinquent by 90 days or more, or are at the end of Covid forbearance. The new payment under this modification is required to be at least 25% lower than the borrower's existing payment. The servicer is required to conduct this outreach and the borrower can choose to accept by simply returning the signed documents. This 25% payment reduction translates to roughly 200bp in rate reduction for a borrower staying with a 30-year loan, which potentially limits it to borrowers with mortgage rates of roughly 5.00% or higher. Although unclear in the language of the announcement, a potential term extension to 40 years might be possible, offsetting roughly 120bp of this hurdle, thus allowing borrowers with mortgage rates as low as 3.80% mortgage rate to qualify.
- GinnieMae's announcement creates a new pool type (C-ET) starting October 2021 that would contain modified loans with terms between 30 and 40 years. These pools could be the secondary market outlets for loans produced through the CALM program outlined in (1). These pools would likely be highly call protected given the term and the nature of the borrower backing the underlying loans, potentially resulting in strong investor demand. Given the scale of loans in Covid forbearance, issuance volumes could be substantial.

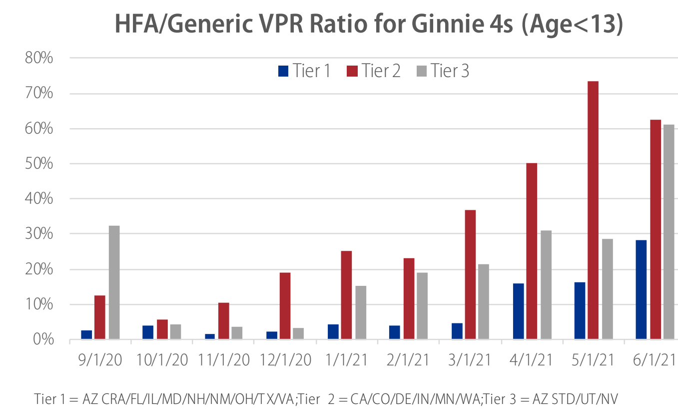
We have noted before that mission driven HFA servicers are likely to do buyouts as forbearance terms come to end. These announcements potentially move up the timeline somewhat.

VPR ratios to Generic counterparts illustrate solid call protection across the HFA coupon stack and Tiers although the ratios have increased recently









Source: Bloomberg, RiskSpan, YieldBook, FHFA, and HilltopSecurities.

This excerpt is a brief summary of our HTS June 2021 HFA prepay report released earlier this week. For more details, please contact us at the MBS Strategy desk or your HTS salesperson.