

U.S. Housing and MBS Market

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

HFA voluntary prepayment ratios to generic counterparts continued to move up on 2.5s and 3s, and eased on higher coupons in the September. Tier3 ratios continued to be pushed up more notably by UT speeds. These ratios for new production Tier 1 remain in the single digits to teens percent, and Tier 2 in the 20s to 30s percent. Tier 3 ratios are in the 60s to 80s percent in aggregate. In the Ginnie sector, buyouts in HFA MBS were mixed – higher than August on bank serviced pools, lower on Lakeview serviced pools, and continued near zero prints on mission focused HFA serviced pools. This is notable, suggesting an apparent lack of early responders to FHA's simplified modification program that servicers were required to offer to seriously delinquent borrowers by late August.

Ginnie 30-day delinquencies at the coupon level were narrowly mixed with month-over-month declines in 2.5s and 3s, and increases in higher coupons for most programs. Aggregate figures across 2.5s through 5.5s ticked up modestly across servicers.

60-day delinquencies were roughly flat compared to August in aggregate, remaining at or below pre-Covid levels. Buyout rates (SMMs) ticked up for USBank and down for Lakeview month-over-month. These are modestly above their pre-Covid levels, but do not appear to reflect large scale modifications.

The cure pattern in 120+ delinquencies we have noted in recent months continued in September. 120+ delinquencies continue to decline, including at mission focused HFA entities as forbearance terms have drawn to a close. We continue to monitor this trend closely. To the extent that a higher percentage of deeply delinquent borrowers become current with partial claims without a modification, it would bode well for investors in seasoned higher coupons and related derivatives.

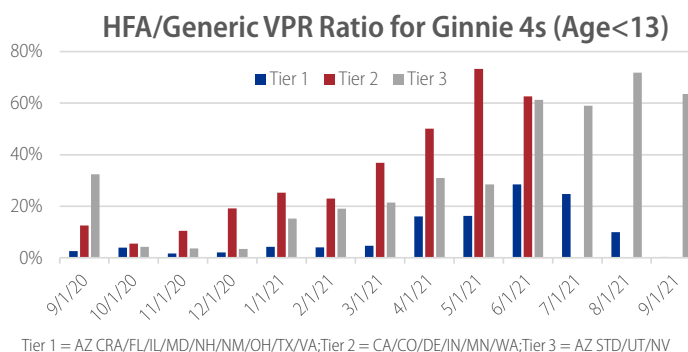
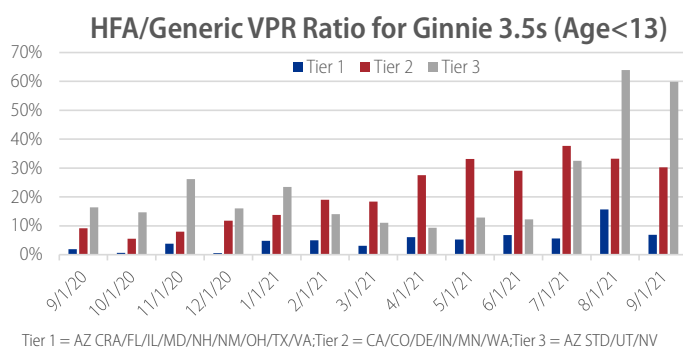
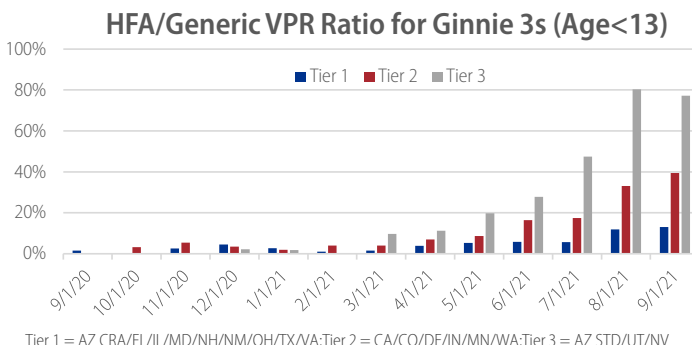
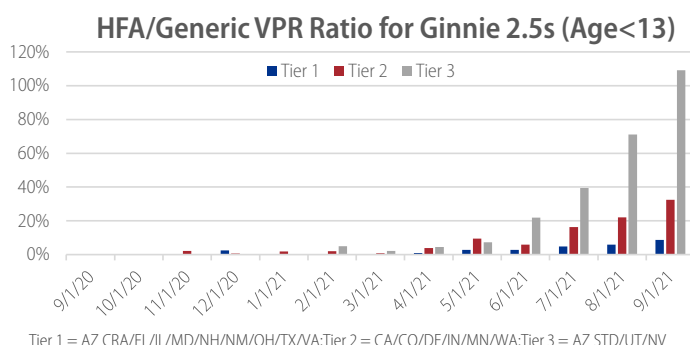
FHA's July announcement requiring servicers to offer simplified modifications with payment deferral to borrowers by August has not yet resulted in a tangible increase in buyouts. However, we continue to expect a strong borrower response in the coming months, resulting in increased buyouts out of the deeply delinquent pipeline in HFA serviced books. That said, an absence of a response in the October report could point to additional frictions limiting traction for such modifications. Combined with the continued transitions from deeply delinquent status to current, this could translate to improved valuations for seasoned TX HFA derivatives with high delinquency pipelines.

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Ginnie 30-day delinquencies at the coupon level were narrowly mixed with month-over-month declines in 2.5s and 3s, and increases in higher coupons for most programs.

VPR ratios to Generic counterparts illustrate solid call protection across the HFA sector.
High Tier 3 ratios are driven by the UT program which has a refi option.



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

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

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