

U.S. Housing and MBS Market

October 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 October. New prod Tier 3 ratios continued to be pushed up more notably by UT speeds, potentially driven by an available refi program. 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 September on Lakeview serviced pools, flat on bank serviced pools, and continued near zero prints on mission focused HFA serviced pools. This absence of a pick-up in buyouts in the delinquency pipelines of HFA servicers suggests that there are frictions limiting traction for FHA's simplified modification program that servicers were required to offer to seriously delinquent borrowers by late August. This delay in modifications/buyouts translates into additional carry for investors in MBS backed by these loans.

Ginnie 30-day delinquencies increased broadly across the coupon stack and servicers in the October report. This is a change from a declining trend in lower coupons in past months. Similarly, 60-day delinquencies picked up slightly. We will monitor these trends to see if they are sustained and identify whether these are new delinquencies or redefaults from cures from 120+-delinquencies at the end of their forbearance terms.

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

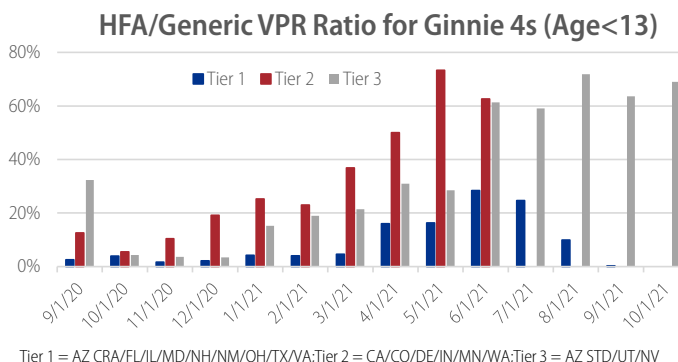
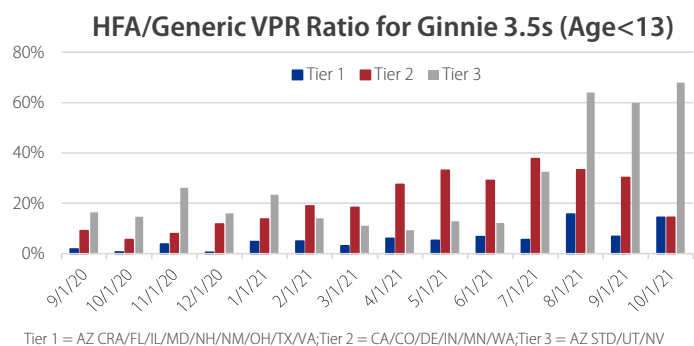
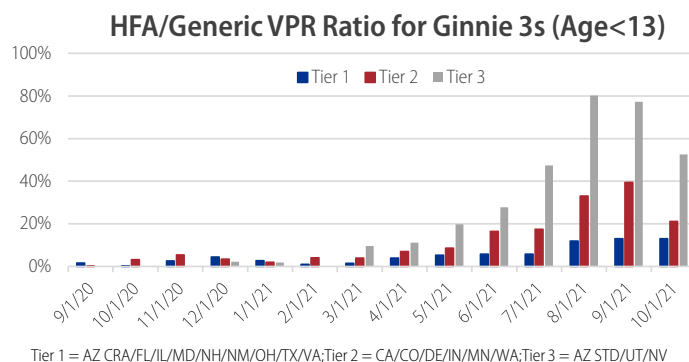
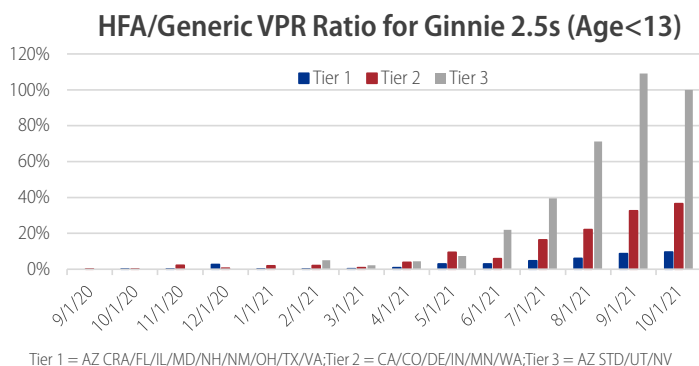
FHA's July announcement requiring servicers to offer simplified modifications with payment deferral to borrowers by August has not yet resulted in a tangible increase in buyouts. We still believe that this program makes logical sense for many delinquent borrowers, but it appears that there are significant frictions that are limiting uptake. This suggests a longer timeline for reducing delinquent pipelines at mission driven HFA servicers.

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VPR ratios to Generic counterparts illustrate solid call protection across the HFA sector.
The 100% Tier 3 ratio is due to UT which has a refi program.



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

This excerpt is a summary of our HTS October 2021 HFA prepay report released last Friday.
For more details please contact us at the MBS Strategy desk or your HTS salesperson.

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