

U.S. Housing and MBS Market

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

HFA voluntary prepayment ratios to generic counterparts were flat to slightly higher except for a slight decline in 3s in November. 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 – lower than October on Lakeview serviced pools, flat on bank serviced pools, and continued minimal prints on mission focused HFA serviced pools. This continued absence of a pick-up in buyouts in the delinquency pipelines of HFA servicers reinforces the idea that there are frictions limiting traction for FHA's simplified modification program that servicers are required to offer to seriously delinquent borrowers. We continue to monitor if the availability of Ginnie's "ET" pools in December for terms modified to longer than 30-years creates traction.

FHA's Annual Report to Congress noted a sharp increase in the capital ratio of its Mutual mortgage insurance fund (MMIF), to 8.03%. Although this is well above the 2.00% statutory minimum, and at first blush opens the door for a potential MIP cut, such action appears unlikely until at least the middle of 2022 when FHA would have a better picture of the realized cost of Covid-related delinquencies. At that point a 35bp MIP cut is a possibility absent an unexpected shock to the housing market. Any MIP cut should have an incrementally smaller effect on newer production HFA loans with DPA compared to the broader Ginnie sector because of the need to overcome an equity hurdle through HPA.

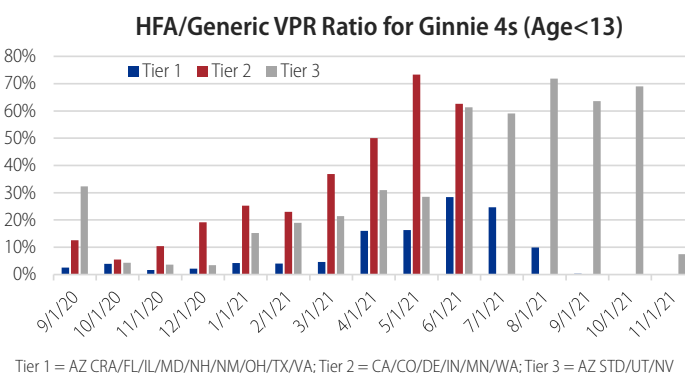
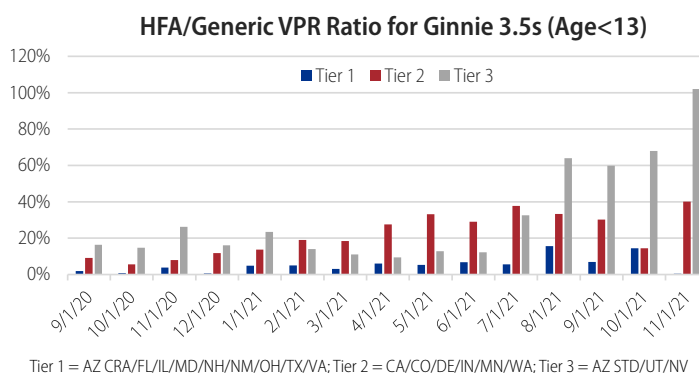
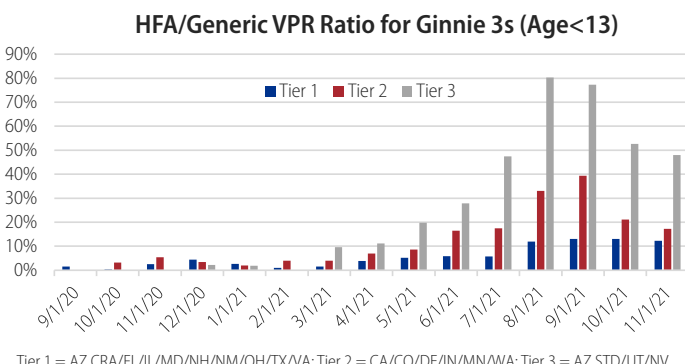
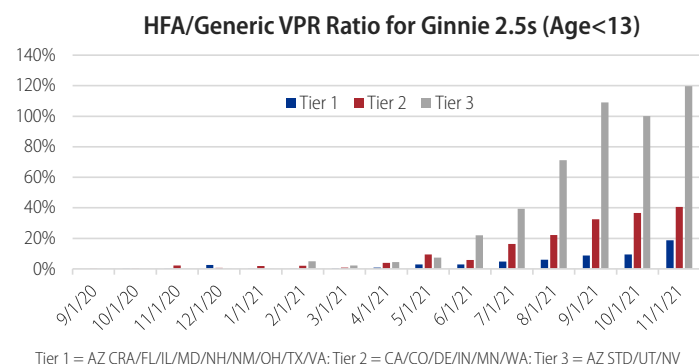
Ginnie 30-day delinquencies continued to increase across the coupon stack and servicers in the November report. Similarly, 60-day delinquencies picked up slightly. We will monitor these trends to see if they are sustained and identify whether these are new delinquencies or redefaults from cures from 120+-delinquencies at the end of their forbearance terms.

The cure pattern in 120+ delinquencies we have noted in recent months continued in November. 120+ delinquencies continue to decline, including at mission focused HFA entities as forbearance terms have drawn to a close. The absolute magnitude of the improvements from 120+ declined slightly. The absence of a corresponding increase in buyouts/modifications to date suggests that these improvements are likely occurring with partial claims. If these borrowers remain current, it bodes well for investors in seasoned higher coupons and related derivatives. In November, the percentage of borrowers who are current continued to tick up for Lakeview serviced loans and dipped slightly for IdahoHFA the serviced population after steady increases for several months.

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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 November 2021 HFA prepay report released earlier today.
For more details please contact us at the MBS Strategy desk or your HTS salesperson.

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