

U.S. Housing and MBS Market

## January Housing Finance Agency Prepayment Report, Delinquency Trends, and Outlook

HFA voluntary prepayment ratios to generic counterparts were mostly flat to slightly lower in January. New prod Tier3 ratio in 2.5s remains above 100 for the UT program, but AZ program ratios have declined across the coupon stack. These ratios for new production Tier 1 remain in the single digits to teens percent, and Tier 2 in the single digits to 40 percent. Tier 3 ratios range from 55 to 130 percent in aggregate depending on the coupon. The dip in the ratios for G2 AZ and WA 3.5s is interesting and we will monitor it to see if this is the beginning of an improving trend for Tier 2/3 performance.

In the Ginnie sector, buyouts in HFA MBS were mixed – slightly lower than December on Lakeview serviced pools representing a third month of declines, flat on bank serviced pools, and continued minimal prints on mission focused HFA serviced pools although showing a slight uptick. This continued absence of meaningful buyouts in HFA serviced programs has incrementally improved the carry profile of this sector. That said, a substantial volume of serious delinquencies remains in the higher coupons, where the borrower is likely to require greater assistance.

Aggregate Ginnie 30-day delinquencies continued to increase slightly across the coupon stack and servicers in the January report. Sixty-day delinquencies were roughly flat compared to December.

The cure pattern in 120+ delinquencies we have noted in recent months continued in January, but the absolute magnitude of the improvements from 120+ continued to decline potentially reflecting a remaining population that is more challenging to cure. Notably, the 120+ bucket has dropped to minimal levels for servicers that actively buyout, such as bank affiliated entities and Lakeview. Buyouts/modifications to date remain minimal for the HFA servicers supporting the idea that these improvements are likely occurring with partial claims. However, eventually significant modifications will likely be needed on the deeply delinquent population remaining in higher coupons.

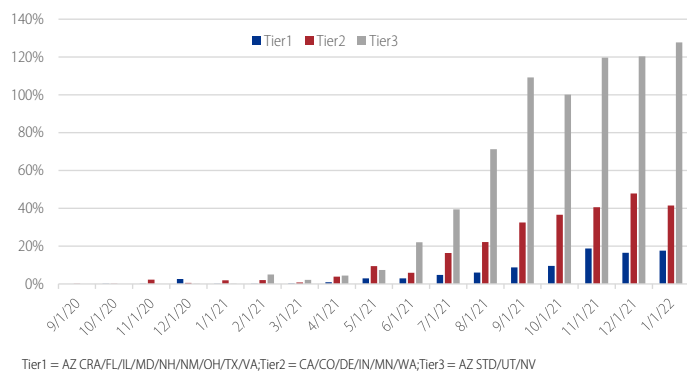
The upcoming report in February is likely to show a roughly 10% slowdown with a much larger slowdown in the March factor report reflecting the ~50bp mortgage rate change in recent weeks. In the coming months, speed declines should reflect both higher rates and incremental flattening of the S-curve from the elevated levels of the past 18 months. Taken together, this has the potential to significantly improve relative value in Tier 2/3 HFA MBS.

*Mahesh Swaminathan, CFA*  
*Managing Director, MBS/ABS Strategist*  
917.206.3676  
[mahesh.swaminathan@hilltopsecurities.com](mailto:mahesh.swaminathan@hilltopsecurities.com)

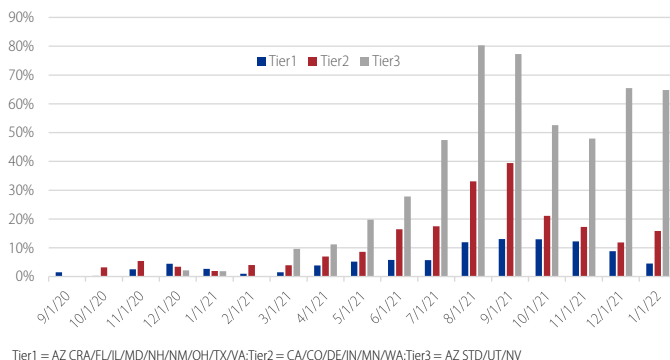
*In the Ginnie sector, buyouts in HFA MBS were mixed – slightly lower than December on Lakeview serviced pools representing a third month of declines, flat on bank serviced pools, and continued minimal prints on mission focused HFA serviced pools although showing a slight uptick.*

VPR ratios to Generic counterparts illustrate solid call protection across the HFA sector. These ratios are flat to lower month over month.

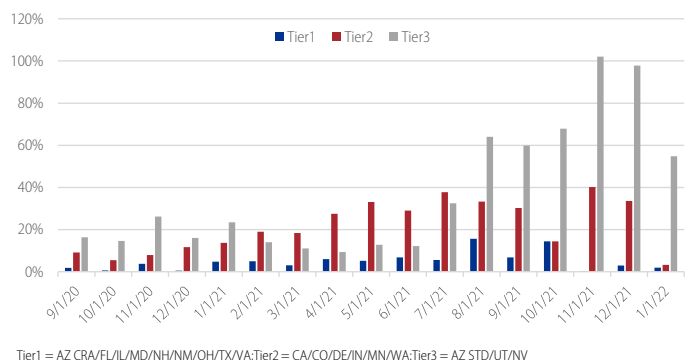
HFA/Generic VPR Ratio for Ginnie 2.5s (Age&lt;13)



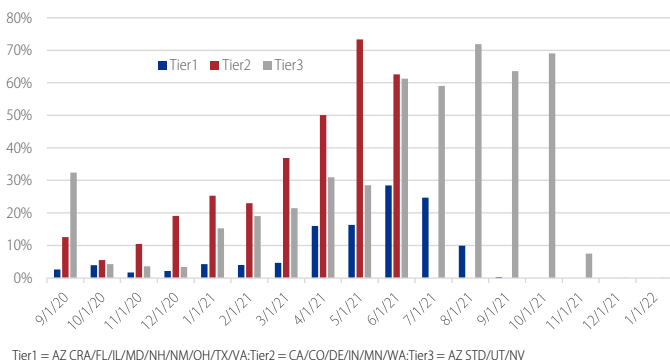
HFA/Generic VPR Ratio for Ginnie 3s (Age&lt;13)



HFA/Generic VPR Ratio for Ginnie 3.5s (Age&lt;13)



HFA/Generic VPR Ratio for Ginnie 4s (Age&lt;13)



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

This excerpt is a summary of our HTS January 2022 HFA prepay report released Jan. 25, 2022. For more details, please contact us at the MBS Strategy desk or your HTS salesperson.

The paper/commentary was prepared by Hilltop Securities (HTS). It is intended for informational purposes only and does not constitute legal or investment advice, nor is it an offer or a solicitation of an offer to buy or sell any investment or other specific product. Information provided in this paper was obtained from sources that are believed to be reliable; however, it is not guaranteed to be correct, complete, or current, and is not intended to imply or establish standards of care applicable to any attorney or advisor in any particular circumstances. The statements within constitute the views of HTS as of the date of the document and may differ from the views of other divisions/departments of affiliate Hilltop Securities Inc. In addition, the views are subject to change without notice. This paper represents historical information only and is not an indication of future performance. This material has not been prepared in accordance with the guidelines or requirements to promote investment research, it is not a research report and is not intended as such. Sources available upon request.

Hilltop Securities Inc. is a registered broker-dealer, registered investment adviser and municipal advisor firm that does not provide tax or legal advice. HTS are wholly owned subsidiaries of Hilltop Holdings, Inc. (NYSE: HTH) located at 717 N. Harwood St., Suite 3400, Dallas, Texas 75201, (214) 859-1800, 833-4HILLTOP