

U.S. Housing and MBS Market

## February HFA Prepay Report Delinquency Trends, and Outlook

HFA voluntary prepayment ratios to generic counterparts were mostly flat to slightly lower in February with ratios on new prod (WALA < 13) at multi-month lows. New prod Tier3 ratio in 2.5s was noisy with the AZ program ratio spiking sharply to well above 100% after last month's drop, whereas the UT program ratio dropped below 100 for the first time in many months. Higher up the stack, the AZ program ratio MoM changes were mixed, but remain below 100%. These ratios for new production Tier 1 remain in the single digits to teens percent, and Tier 2 in the single digits to the low 30s percent. Tier 3 ratios range from single digits to low 80s percent in aggregate depending on the coupon.

In the Ginnie sector, buyouts in HFA MBS were relatively flat MoM – slightly higher than January on Lakeview serviced pools after three months of declines, slightly down on bank serviced pools, and continued minimal prints on mission focused HFA serviced pools. This continued absence of meaningful buyouts in HFA serviced programs remains an ongoing positive for carry in this sector. That said, deeply delinquent borrowers will eventually need to be bought out to provide the magnitude of modifications that are likely to be needed.

Aggregate Ginnie 30-day delinquencies were flat to slightly higher across the coupon stack and servicers in the February report. 60-day delinquencies were roughly flat compared to January.

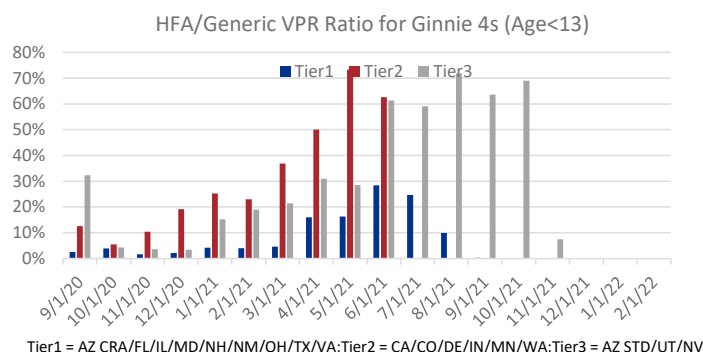
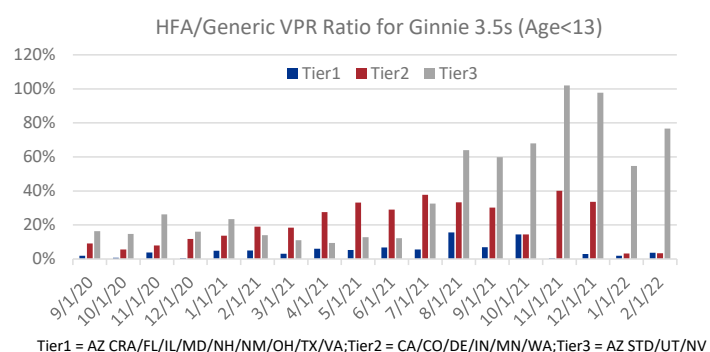
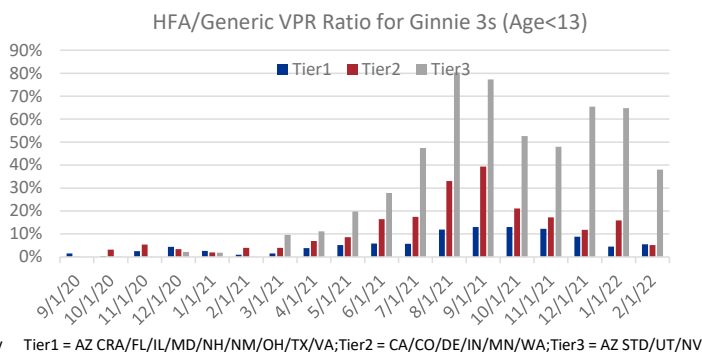
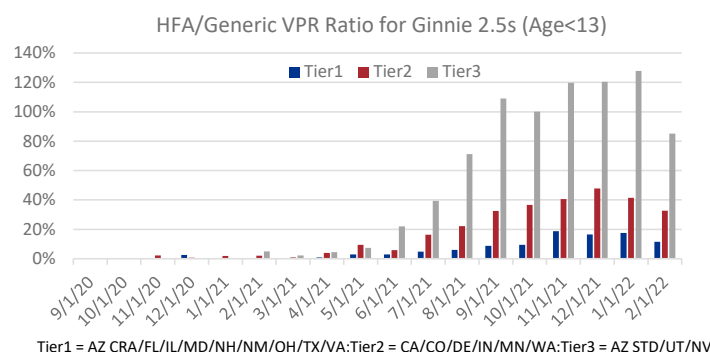
The cure pattern in 120+ delinquencies we have noted for several months stalled in February, following a slowing absolute magnitude of improvements from 120+ in the most recent months. This reflects the potential that the remaining population is challenging to cure. The 120+ bucket is at minimal levels 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 stall this month suggests that these borrowers could be the next focus for the HFA servicers.

The upcoming report in March is likely to show a roughly mid-teens percent MoM slowdown reflecting the ~25bp mortgage rate increase in the driving mortgage rate. In the coming months, speed declines should reflect both higher rates and incremental flattening of the S-curve from the elevated levels between mid-2020 to late 2021. Taken together, this has the potential to significantly improve relative value in Tier 2/3 HFA MBS.

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



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

This excerpt is a summary of our HTS February 2022 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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