

U.S. Housing and MBS Market

March HFA Prepay Report Delinquency Trends, and Outlook

March HFA voluntary prepayment ratios to generic counterparts broadly ticked up from multi-month lows last month with a notable spike in the Tier1 2.5s ratios across multiple states at the 12-13 WALA mark. Tier2 2.5s ratios are also near their highs of the past several months. Higher up the stack, the new production Tier 1 ratios remain in the single digits to teens percent, and Tier 2 mostly in the teens percent. Tier 3 ratios have dropped off, into the 30s percent. These trends are potentially early signs of a normalization of HFA S-curves in higher coupons.

In the Ginnie sector, buyouts by mission driven servicers ticked up while Lakeview's buyouts declined for a second straight month. Buyouts by Idaho HFA picked up for the first time since the pandemic. Although the aggregate buyout rate is still very modest at ~3 CBR, most of the buyouts were concentrated in seasoned pools with prints ranging from 6 CBR to 11 CBR. Buyouts by Colorado HFA also remained significant after picking up last month. Alabama HFA's buyout activity has not picked up yet, but we anticipate that this could happen in the coming months. Overall, we expect buyouts to continue to increase in HFA serviced pools since 8+ percent of their servicing book is 90+ days delinquent with a sizeable 60-day delinquent volume behind it and GinnieMae's exemption of loans in forbearance from counting towards servicer delinquency ceilings is set to expire in July 2022.

Aggregate Ginnie 30- and 60-day delinquencies were roughly flat month over month in the latest report.

The cure pattern in 120+ delinquencies for HFA servicers appears to have ticked up again after pausing last month. The decline in the 120+ delinquent bucket was additionally helped by the buyouts we noted above. The 120+ bucket remains at minimal levels for servicers that actively buyout, such as bank affiliated entities and Lakeview.

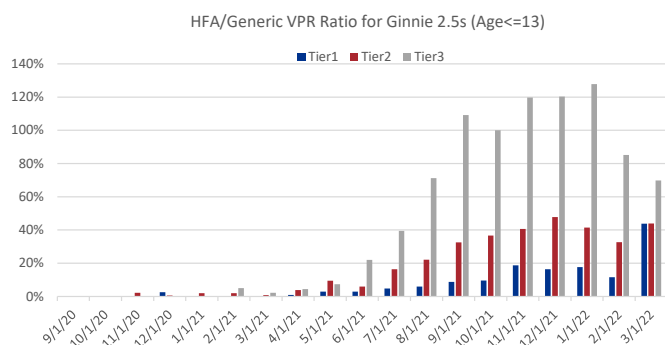
The upcoming report in April is likely to show prints that are roughly flat MoM. A roughly 40bp higher driving mortgage rate is offset by a 25+ percent increase in the number of collection days in March compared to February. In the coming months, speed declines should reflect both higher rates and a continued 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.

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

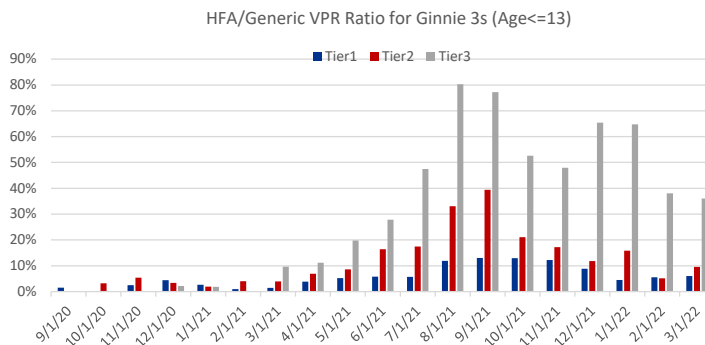
Mahesh Swaminathan, CFA
Managing Director, MBS/ABS Strategist
917.206.3676
mahesh.swaminathan@hilltopsecurities.com

The upcoming report in April is likely to show prints that are roughly flat MoM. A roughly 40bp higher driving mortgage rate is offset by a 25+ percent increase in the number of collection days in March compared to February.

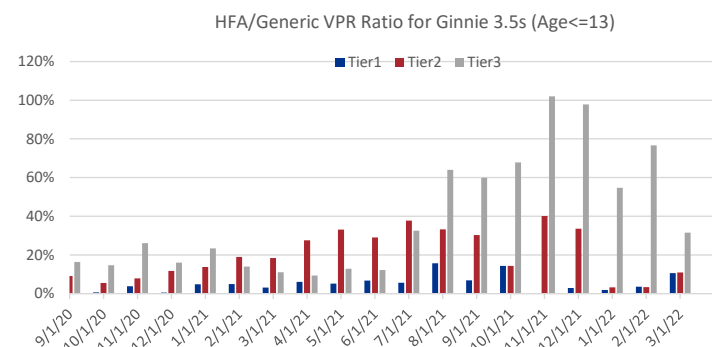
VPR ratios to Generic counterparts illustrate solid call protection across the HFA sector. These ratios are flat to lower month over month.



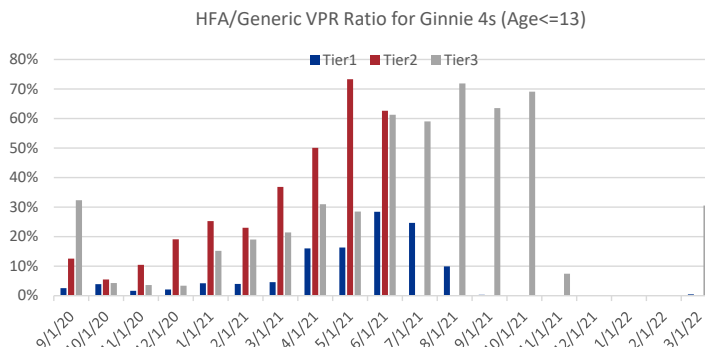
Tier1 = AZ CRA/FL/IL/MD/NH/NM/OH/TX/VA; Tier2 = CA/CO/DE/IN/MN/WA; Tier3 = AZ STD/UT/NV



Tier1 = AZ CRA/FL/IL/MD/NH/NM/OH/TX/VA; Tier2 = CA/CO/DE/IN/MN/WA; Tier3 = AZ STD/UT/NV



Tier1 = AZ CRA/FL/IL/MD/NH/NM/OH/TX/VA; Tier2 = CA/CO/DE/IN/MN/WA; Tier3 = AZ STD/UT/NV



Tier1 = AZ CRA/FL/IL/MD/NH/NM/OH/TX/VA; Tier2 = CA/CO/DE/IN/MN/WA; Tier3 = AZ STD/UT/NV

This excerpt is a summary of our HTS March 2022 HFA prepay report released earlier today. 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