U.S. Housing and MBS Market

July HFA Prepay Report, Delinquency Trends, and Outlook

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

July HFA voluntary prepayment ratios to generic counterparts continue to drift higher as refi component declines with rising rates. That said, the absolute ratios remain consistently below 100% in most cases. The ratios on new production Tier 1 Ginnies range from the low single digits to 60+ percent. Tier 2 ratios are in the 30% to 75% range, and Tier 3 ratios are mostly in the 40% to 70% range with some sharp outliers. HFA S-curves have normalized significantly and should settle down at these flatter levels in the coming months.

In the Ginnie sector, buyouts by Idaho HFA rose to just over 40 bp of its book, which is over twice the pace of recent months. Lakeview's and U.S. Bank's buyouts remain at minimal levels in aggregate. Buyouts remain concentrated in 4% coupon and higher, with CBRs ranging from 8 to 18 on Idaho HFA serviced pools. In a contrast, Alabama HFA's buyouts remain minimal. The 90+ delinquency bucket is down to roughly 6% and 7%, on Idaho HFA and Alabama HFA books, potentially limiting pressure to do a significant buyout. GinnieMae's exemption of loans in forbearance from counting towards servicer delinquency ceilings is set to expire in July 2022 and we continue to monitor its interplay with serious delinquency levels.

Aggregate Ginnie 30-day delinquencies increased roughly 25bp in Lakeview and U.S. Bank books, flat in Alabama HFA, and 70bp in Idaho HFA. Some of these increase in Idaho HFA servicer books could be related to the cures from 120+ being partial. Sixty-day delinquencies were roughly 10 to 20 bp higher month over month in the latest report.

The upcoming report in August is likely to show prepayment declines in the low- to mid-teen percent MoM. Contributors are the local peak in mortgage rates in mid-June, slowing home sales, and a one-day decrease in daycount.

The cure pattern in 120+ delinquencies for HFA servicers continued, although there wasn't a corresponding increase in the Current percentage. This suggests a partial catch up in payments by a subset of the borrowers. A continuation of this pattern could reduce the need for significant buyouts. The 120+ bucket remains at minimal levels for servicers that actively buyout, such as bank affiliated entities and Lakeview.

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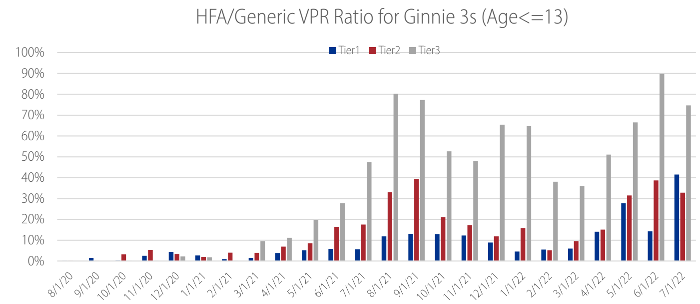
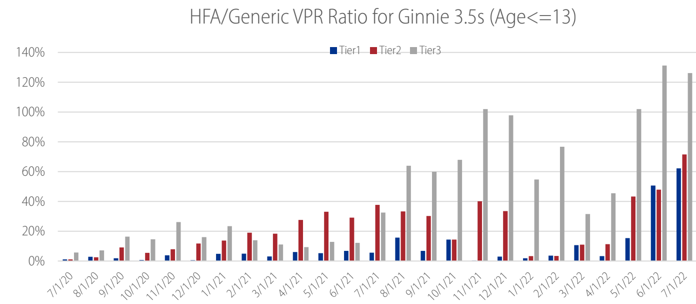
Please see disclosure starting on page 2.

VPR ratios to Generic counterparts illustrate solid call protection in the HFA sector even OTM – Ratios higher MoM, but mostly still well below 100% of generic



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



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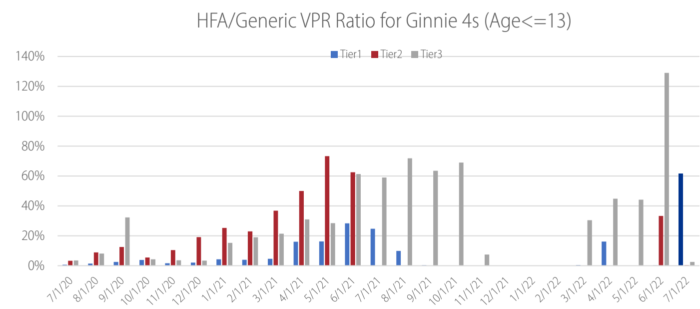

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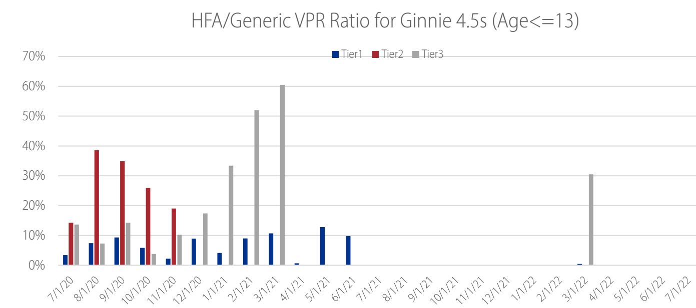

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Source: HilltopSecurities, Bloomberg, RiskSpan, YieldBook, and FHFA.

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