U.S. Housing and MBS Market

August HFA Prepay Report, Delinquency Trends, and Outlook

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

August HFA voluntary prepayment ratios to generic counterparts declined sharply, reversing the increases of the past two months. The ratios on new production Tier 1 Ginnies are at zero on 4s and higher, and in the 20s percent on lower coupons. Tier 2 ratios are similarly split, with 4s and higher at zero and lower coupons averaging high 40s percent on 3.5s and nearly 20 percent on 2.5s and 3s, and Tier 3 ratios are near zero except for nearly 60 percent on 2.5s and a wide range of 14 percent to 115 percent on 4s. HFA S-curves continue to normalize and should settle down at flatter levels in the coming months.

In the Ginnie sector, buyouts by IdahoHFA ticked up further to 47bp of its book, which is nearly 3x the pace in June. Lakeview's and USBank's buyouts remain at minimal levels in aggregate. Buyouts remain concentrated in 4% coupon and higher, with CBRs ranging from 12 to 32 on Idaho HFA serviced pools. In a contrast, AlabamaHFA's buyouts remain minimal. The 90+ delinquency bucket is down to roughly 5.6% and 6.6% on IdahoHFA and AlabamaHFA books, potentially limiting pressure to do a significant one-time buyout. That said, we expect these entities to continue to work down their serious delinquency bucket over time. GinnieMae has extended its exemption of loans in Covid forbearance from counting toward servicer delinquency ceilings that was set to expire in July 2022 to January 2023. This offers these servicers additional time to bring their delinquency levels under compliance.

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Aggregate Ginnie 30-day delinquencies increased roughly 55bp for Lakeview, 30bp for USBank , 60bp for AlabamaHFA, and 45bp for IdahoHFA. These increases appear to be across coupons, although with somewhat higher concentrations in lower coupons. 60-day delinquencies were roughly 15-30bp higher month over month.

The cure pattern in 120+ delinquencies for HFA servicers continued. The magnitude is consistent with that of the buyouts and the Current% actually decreased. This is consistent with the increase in earlier stage delinquencies. Large scale buyouts still appear unlikely. The 120+ bucket remains at minimal levels, but has ticked up for servicers that actively buyout, such as bank affiliated entities and Lakeview.

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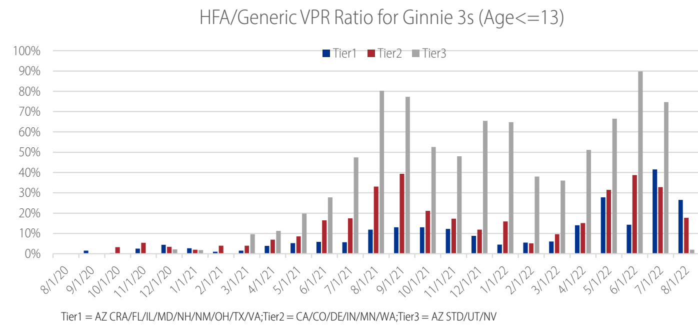
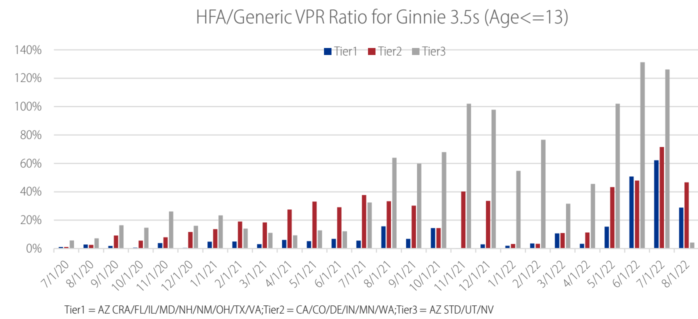
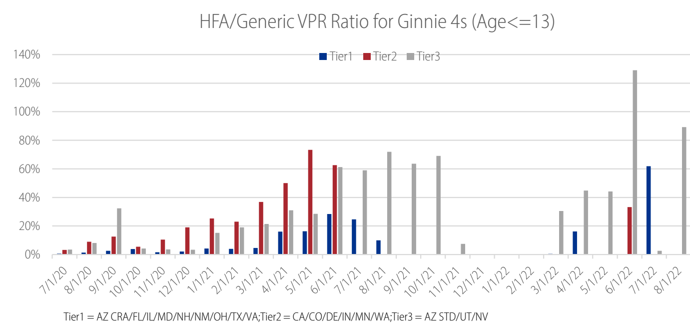
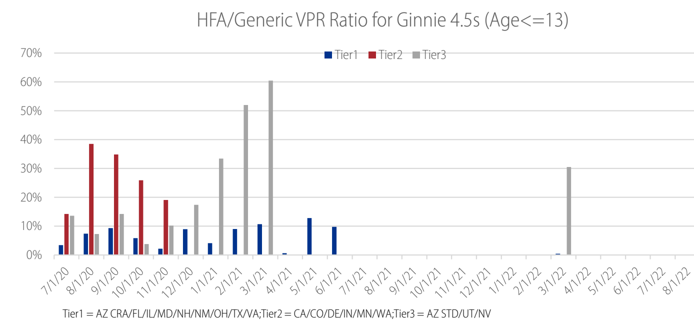
Please see disclosure starting on page 2.

VPR ratios to Generic counterparts illustrate solid call protection in the HFA sector even OTM – Ratios reverse the increases in past two months









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

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