

U.S. Housing and MBS Market

## November HFA Prepay Report, Delinquency Trends, and Outlook

Across the coupon stack, November HFA prepayment ratios to generic counterparts were similar to levels in recent months. These ratios were somewhat higher than earlier in the year consistent due to slowing refs as the increase in mortgage rates that have placed most of the MBS universe out-of-the-money. The ratios on new production Tier 1 HFA MBS in both Conventional and Ginnie sectors were in the 20s to 40s percent on most coupons. The ratios for seasoned Tier 1 HFA MBS were mostly in the 60s to 80s percent range, with some ratios in conventionals around 100 percent. Tier 2 ratios in Ginnies were mostly similar to Tier 1. In conventional space the ratios for seasoned pools ranged from the 80s to 120s percent, reflecting some potential extension protection characteristics in addition to the core call protection features in HFA MBS.

Buyouts have dropped to minimal levels in the Ginnie sector given discount pricing of most coupons. Additionally, the 90+ delinquency bucket for IdahoHFA and AlabamaHFA books have now dropped below GinnieMae's 5% cap eliminating a possible reason for large buyouts down the line. That said, we expect these entities to continue to work down their serious delinquency bucket over time. Notably, except for a smattering of buyouts on seasoned 4.5s and higher by HFA servicers, much of this reduction in serious delinquencies appears to be occurring through borrowers self-curing or partial claims.

Aggregate delinquencies across 30-, 60-, and 90+ days appear to be stabilizing across key HFA servicers with little change in November from last month's levels.

The cure pattern in 120+ delinquencies for HFA servicers continued, albeit by small margins. The 120+ bucket remains at minimal levels, but has ticked up for servicers that actively buyout, such as bank affiliated entities and Lakeview, much of it concentrated in deep discount low coupons.

The upcoming report in December is likely to show prepayment declines in the low- to mid-teens percent MoM. Contributors are a lower monthly seasonality and a roughly 30bp increase in average driving mortgage rates. The impact of the recent roughly 50bp rally in rates is only likely to be reflected in the subsequent (January factor) report if these lower rates hold, with impact primarily in the higher coupons issued earlier this year. The broader normalization of the S-curve from elevated levels between mid-2020 to late 2021 has largely played out, limiting the potential impact of any near-term rallies.

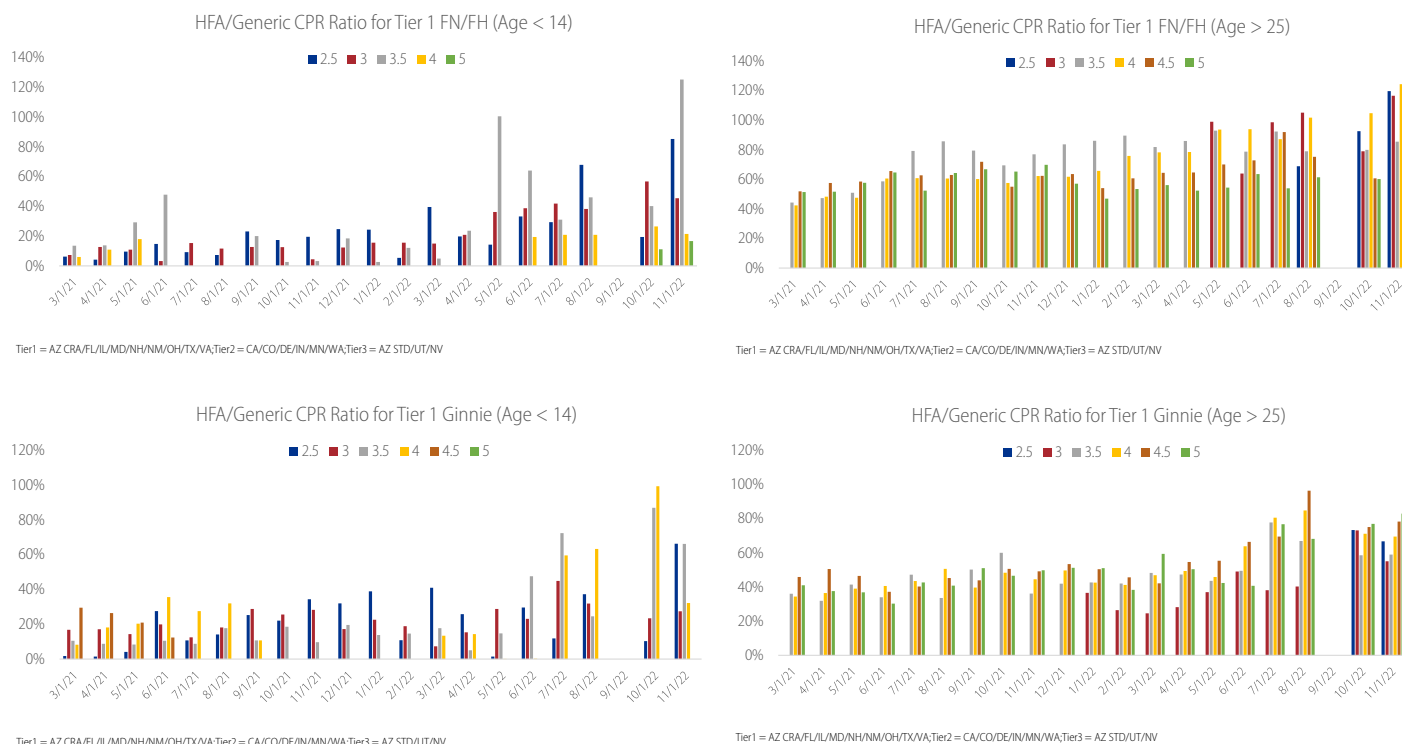
On November 15, FHA released its annual report to Congress, which highlighted a strong capital ratio for its forward mortgage insurance fund at 10.47%, which reflects a 2.48% increase during FY 2022. This data makes it likely that FHA will cut its annual mortgage insurance premium (MIP) from 85bp to 50bp over the coming

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months. This incremental refi incentive of effectively 45bp is unlikely to generate a broad based prepay event because an overwhelming majority of outstanding mortgages is far out-of-the money. At the margin, a MIP cut would make an FHA mortgage more competitive for a small fraction of borrowers who might otherwise favor conventional mortgages.

## CPR ratios to Generic counterparts illustrate the call protection in Tier 1 HFA, even OTM – New Prod generally sub 20% and seasoned around 40%-60%



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

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

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