

U.S. Housing and MBS Market

January 2023 HFA Prepay Report, Delinquency Trends, and Outlook

Across the coupon stack, January HFA prepayment ratios to generic counterparts were similar to levels in recent months. Refi activity remains minimal despite the recent rally in mortgage rates since most of the MBS universe is significantly out-of-the-money, and closer-to/in-the-money coupons are largely low WALA. The ratios on new production Tier 1 HFA MBS in both Conventional and Ginnie sectors were in the 10s to 20s percent on most coupons with a few in the 40s to 60s percent range. The ratios for seasoned Tier 1 HFA MBS were mostly in the 60s to 80s percent range, with some ratios in conventionals in the 80 to 100 percent range. 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. One notable exception was a large-scale buyout across the stack by Colorado HFA, potentially reflecting a partial clean-up of accumulated delinquencies. The 90+ delinquency bucket for IdahoHFA has now dropped below Ginnie Mae's 5% cap and AlabamaHFA's figure appears to be right around the limit. Ginnie Mae has extended its exemption of loans in forbearance from counting toward this cap through July 2023, offering servicers additional flexibility. 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 60-, and 90+ days appear to be stable across the HFA sector, but the 30-day figure has ticked up somewhat over the past two months for IdahoHFA and AlabamaHFA. We will continue to monitor these for any signs of increases in more serious delinquencies.

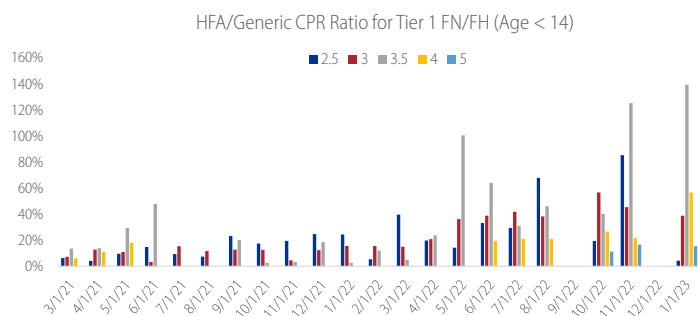
The cure pattern in 120+ delinquencies for HFA servicers continued, albeit by small margins. The 120+ bucket remains at minimal levels, but has ticked up for servicers that actively buyout, such as bank affiliated entities and Lakeview, much of it concentrated in deep discount low coupons.

The upcoming report next week is expected to show prepayment declines in the mid- to high-teens percent MoM. Contributors are a lower monthly seasonality and one less day in the collection period despite a roughly 40bp-60bp decline in mortgage rates depending on the lag used. The recently issued high coupons could in aggregate could show some refi sensitivity, but HFA borrowers are unlikely to respond pending sufficient HPA

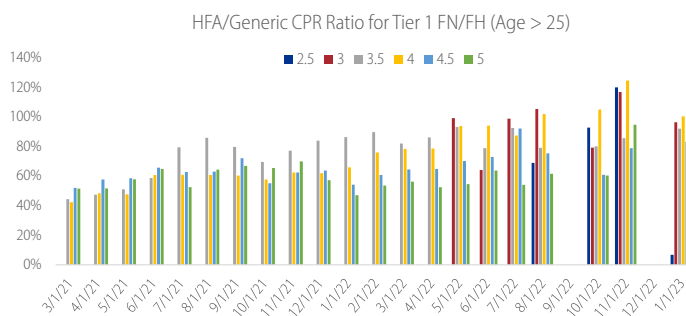
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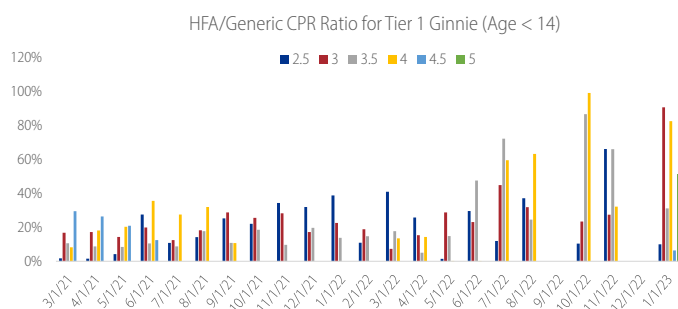
CPR ratios to Generic counterparts illustrate the call protection in Tier 1 HFA, even OTM – New Prod generally sub 40% and seasoned around 40%-100%



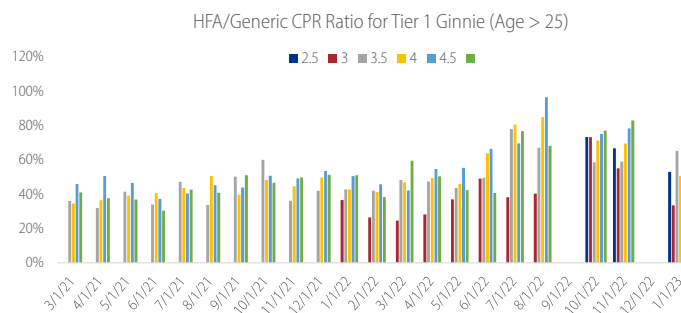
Tier1 = AZ CRA/FL/LI/MD/NH/NM/OH/TX/VA; Tier2 = CA/CO/DE/IN/MN/WA; Tier3 = AZ STD/UT/NV



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

This excerpt is a summary of our HilltopSecurities January 2023 HFA prepay report released earlier today. For more details, please contact us at the MBS Strategy desk or your HilltopSecurities salesperson.

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