U.S. Housing and MBS Market

February 2023 HFA Prepay Report, Delinquency Trends, and Outlook

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February conventional HFA prepayment ratios to generic counterparts were similar to levels in recent months. Ginnie ratios were mixed, with most ratios lower month-over-month and few increases. Refi activity remains minimal 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 10 to 30 percent range on most coupons with a few in the 40 to 80 percent range. The ratios for seasoned Tier1 HFA MBS were mostly in the 60 to 80 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 the conventional space the ratios for seasoned pools most ratios were around 50 percent, reflecting a decline from the 80 to 120 percent range for most of last year. We will monitor this to see if this is one-off as we think is likely or something more persistent.

Buyouts have dropped to minimal levels in the bank serviced portion of the Ginnie HFA sector given discount pricing of the bulk of the outstanding balance. IdahoHFA did small buyouts in seasoned pools across the coupon stack, generally accounting for 1-4 CBR on most coupons and ~7 CBR on 5.5s. Similarly, UT Housing Corp and VA HDA appear to have bought out the equivalent of 3-4 CBR and 6-7 CBR, respectively, on a few coupons. Following last month's large buyout Colorado HFA had zero buyouts this month. The 90+ delinquency bucket for is now below GinnieMae's 5% cap for large HFA servicers. Moreover, Ginnie Mae's extended exemption on loans in forbearance through July 2023 offers servicers additional flexibility. That said, we expect these entities to continue to work down their serious delinquency bucket over time. FHA's updated mortgagee letter 2023-03 requires servicers to consider all seriously delinquent borrowers for Covid-19 advanced loss mitigation options and increases the partial claim cap to 30% of outstanding principal at the time of default. This should further assist HFA servicers reduce serious delinquencies through standalone partial claims without buyouts.

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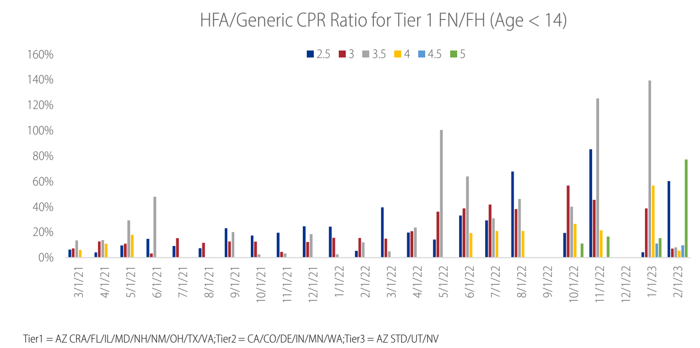
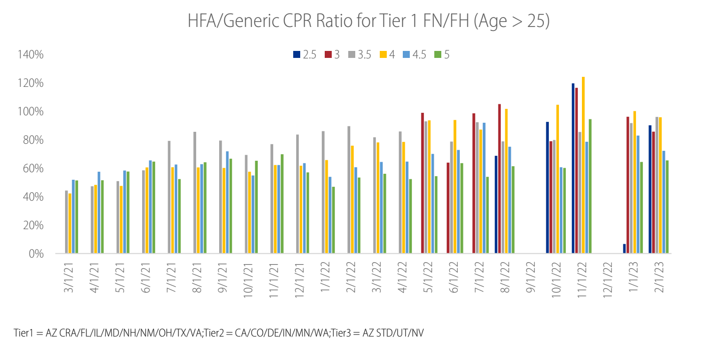
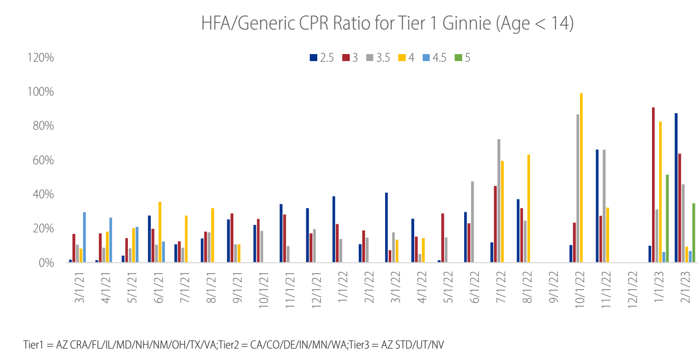
Aggregate delinquencies across 60-, and 90+ days appear to be stable across the HFA sector. The 30-day figure that had ticked up over the prior two months for IdahoHFA and AlabamaHFA appears to have dipped slightly. We will continue to monitor these for any signs of increases in more serious delinquencies. The cure pattern in 120+ delinquencies for HFA servicers continued. 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.

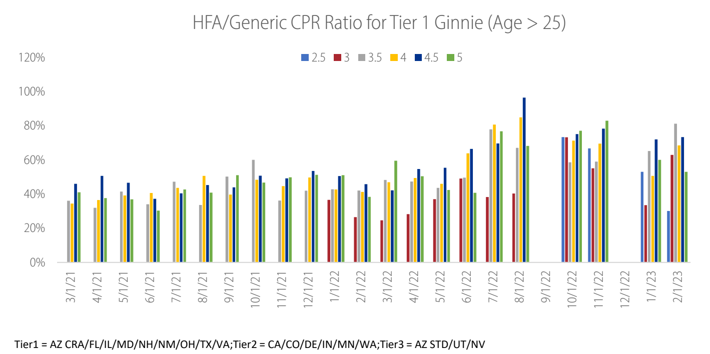
The upcoming report next week is expected to show prepayments that are roughly flat to slightly down MoM. Contributors are one less day in the collection period offset slightly by a roughly 10bp decline in mortgage rates. Recently issued high coupons could in aggregate could show some refi sensitivity, but HFA borrowers are unlikely to respond pending sufficient HPA. As we wrote last week in our commentary on FHA's MIP cut, TBAish pools in cuspy coupon Ginnies are most likely to be affected. New HFA borrowers with in-the-money note rates would probably still have to wait for a build-up of sufficient equity before taking advantage of this opportunity to lower their MIP. In any case, the earliest MIP cut related refis are likely to start showing up only in the April factor report.

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%









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

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