U.S. Housing

2020 Year in Review / 2021 Outlook

FALCONBRIDGE Capital

December 30th, 2020

Single-Family U.S. Housing Overview

2020 in Review

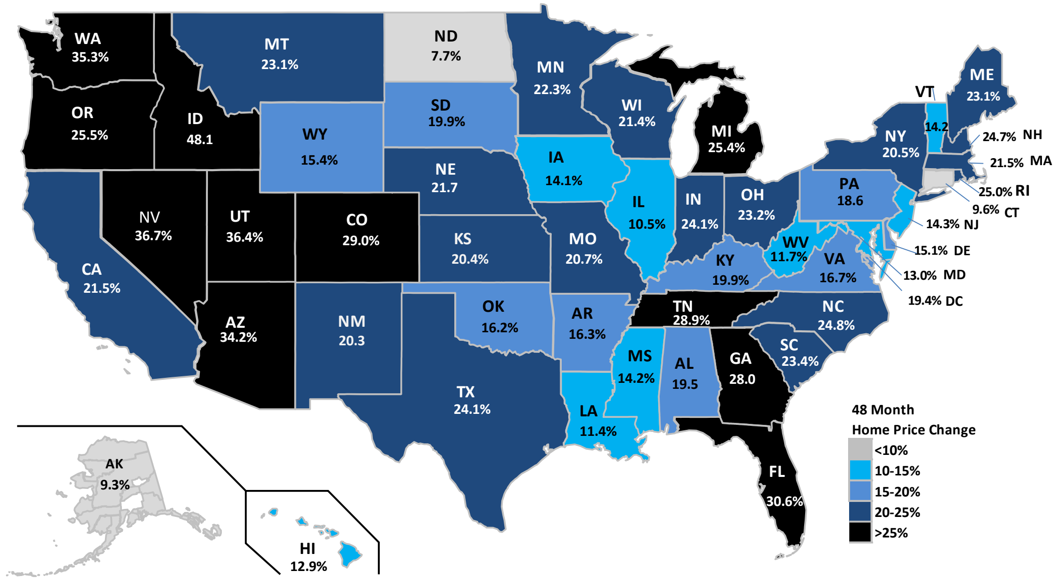
- COVID – 19 Pandemic impacted many housing supply and demand metrics; **low interest rates and lack of available supply provided strong support for the housing market.**
- Federal Housing Finance Authority ("FHFA") implemented several programs to directly assist borrowers facing hardship. So far, these programs have benefitted borrowers and kept additional housing supply muted.
- A repeat of the Great Financial Crisis ("GFC") in 2008 was attributed to excessive leverage through exotic products, loose underwriting, persistent supply – demand imbalances that lasted for years. **NONE OF THESE FACTORS EXIST IN THE CURRENT ENVIRONEMENT AND ARE NOT EXPECTED TO DEVELOP.**
- Although some homeowners were impacted by the economic hardships due to the pandemic, the likelihood of foreclosures remains low due to positive homeowner equity and modification options for delinquent borrowers.

2021 Outlook

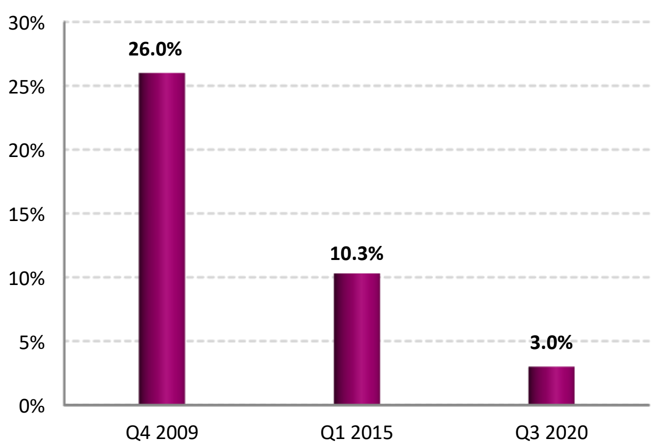
- Continued support by the Federal Reserve in the housing market through their purchases of Mortgage Backed Securities has kept mortgage rates low; **enabling borrowers to benefit from refinancing in 2021 again.**
- The new Administration and the Federal Housing Finance Authority ("FHFA") are expected to extend forbearance and modification options to borrowers facing economic hardship; thereby avoiding foreclosures.
- Tight inventory of available for sale homes and continued strong demand will continue to support home prices for single-family homes.
- Additional fiscal stimulus and direct payments to households may increase savings rates, de-lever household balance sheets, and assist borrowers who are currently delinquent.
- Work-from-home options will permanently shift demand for multifamily units in large cities and urban areas. Many large MSAs have already faced rent reductions. Further rent reductions could be observed if eviction moratoria are lifted.

Home price performance 2020 outperforms expectations

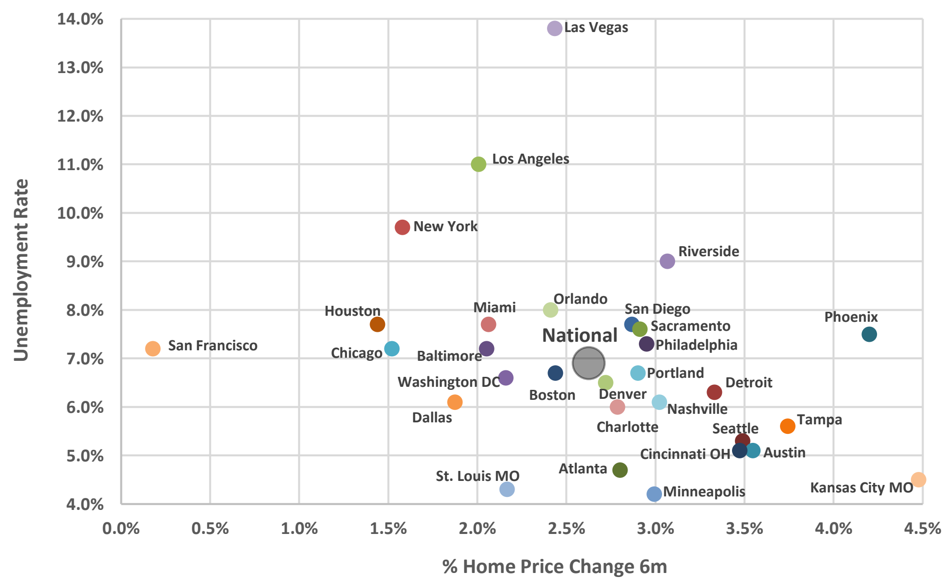
- Full year 2020 national home price increases are expected to be between +6.5% and +7.5%, with moderate price increases forecasted for 2021 ranging between +2.5% and +3.0%.
- Growth in home prices over the past 48 months has contributed to the increase in home equity across the country.
- Positive equity enabled homeowners to cushion the adverse impact of the COVID – 19 Pandemic.
- Level of unemployment has not negatively impacted home prices in this business cycle. ***See other factors in accompanying discussion.***



U.S. Share of Negative Equity ("Homes Underwater")



6M Home Price Change and Unemployment Rate of Top 30 CBSAs



Sources: Federal Housing Finance Agency HPI as of Q3 2020, CoreLogic, Bureau of Labor Statistics, FBC.
Metro Level Unemployment as of Oct 2020.

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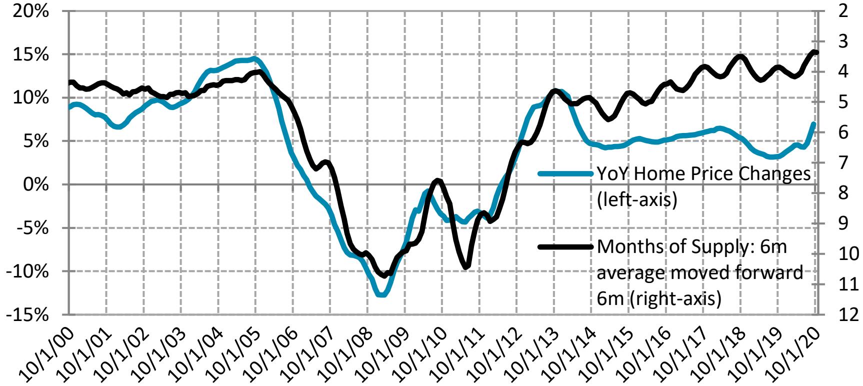
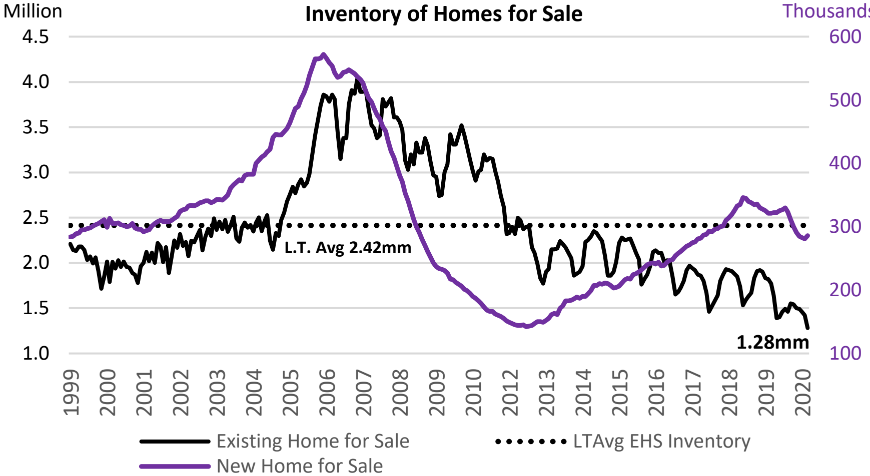
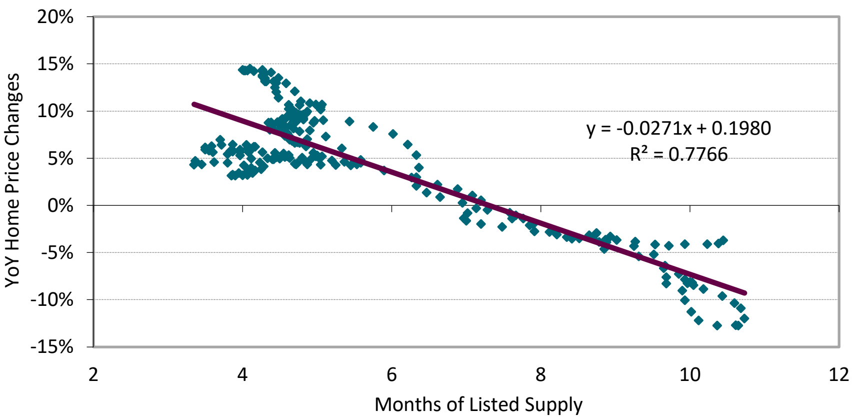
Housing supply-demand in equilibrium with continued support from fundamentals

- Home prices are impacted by prevailing supply-demand dynamics. **NO INDICATIONS OF EXCESS SUPPLY COMING TO MARKET BEING REPORTED**



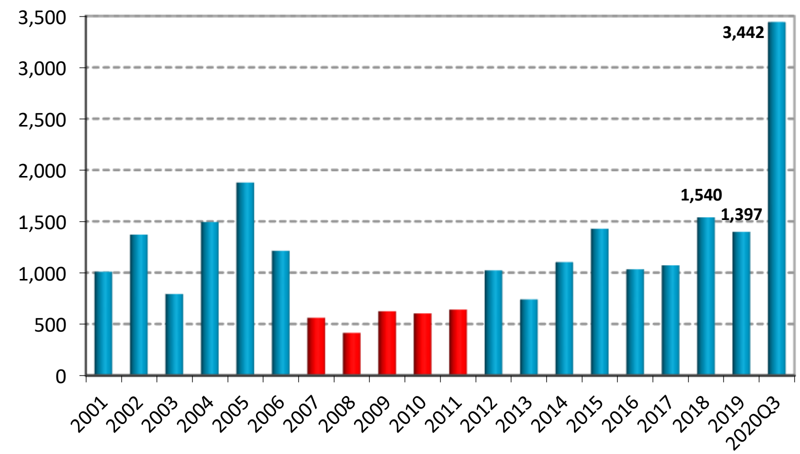
*Months of Supply is 6m average moved forward 6m (inverted RHS Axis)





Months of Supply is 6m average moved forward 6m

Household formations collapsed during GFC for many years, resulting in excess supply. Current conditions do not support a similar scenario. Household Formations reached record high in Q2 2020* with Q3 2020 formations continuing at very high rates.



Source: U.S. Census, National Association of Realtors, Case-Shiller, FBC

The months of supply represents the number of months it would take to sell the existing inventory of homes for sale given the current demand (represented by the number of homes sold during the recent period).

*** In its announcement, the U.S. Census Bureau has acknowledged that the sample size was ~12% lower than previous samples due to inability to reach survey participants during the shelter-in-place, which could lead to revisions in the estimate.**

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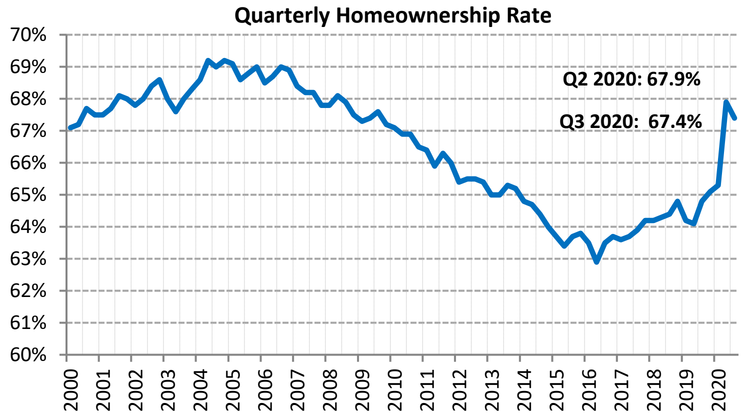
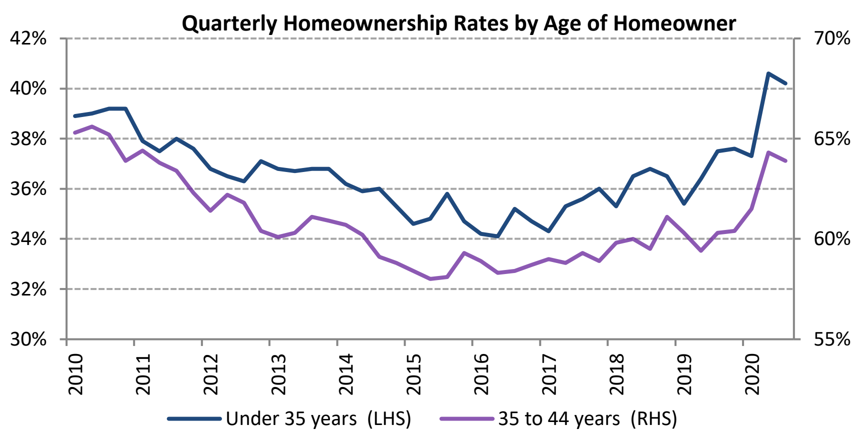
Homeownership rates increase in response to demand for independent living

U.S. Homeownership rate increased to 67.9% in Q2 2020 and remained at 67.4% in Q3; positive consumer sentiment for housing and low interest rates are fueling demand for homeownership.

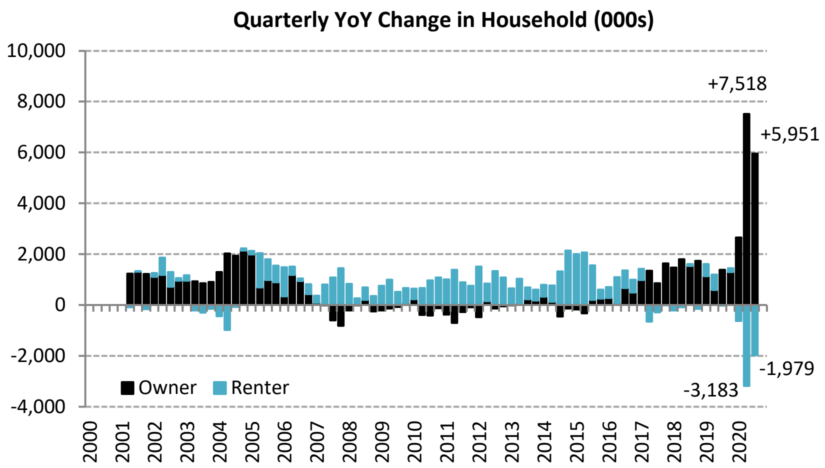


Lower interest rates and changes in work-from-home patterns are pulling forward Millennial demand for homeownership. Younger age groups, including Millennials (under 35 and 35-44 age groups), show an increase in homeownership rate since 2015.



"Renters Becoming Owners"

- Households are shifting from renters to owner as a result of historically low mortgage rates and the ability of former renters to move to more affordable geographies due to work from home options.
- The trend supports recently observed shifts in demand for housing in suburban areas versus urban/city living (densely-packed living arrangements).



Strong single-family housing demand coupled with the limited supply in most CBSAs across the country should continue to support home prices through the pandemic and beyond.

Unprecedented government stimulus and improved loss-mitigation and servicing processes will also avert forced selling and contribute to the strength of the overall market.

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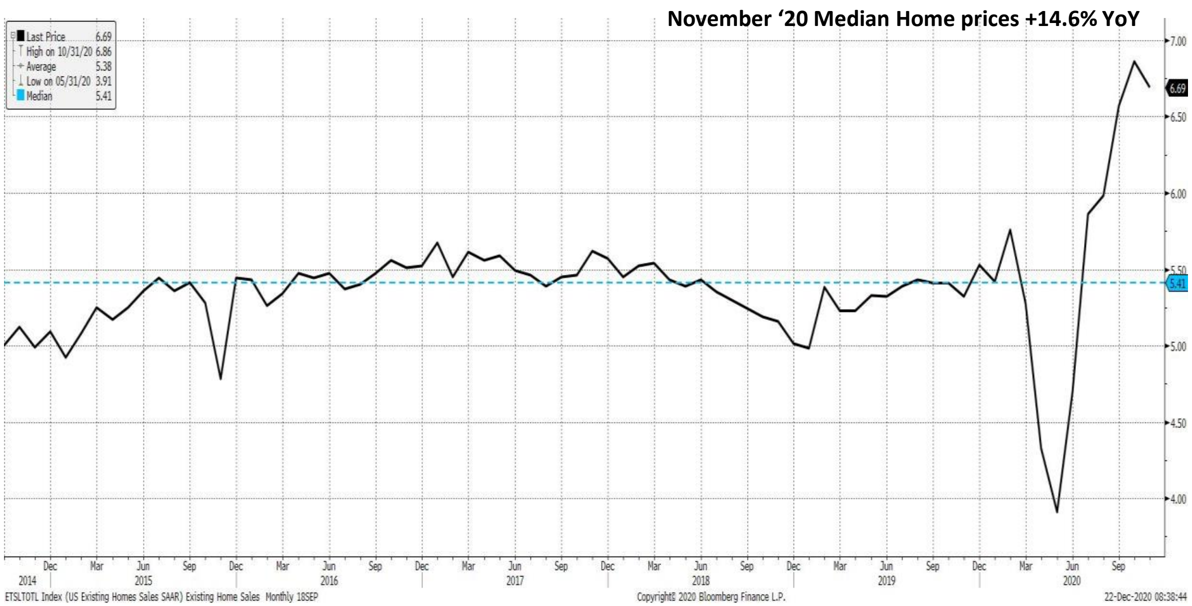
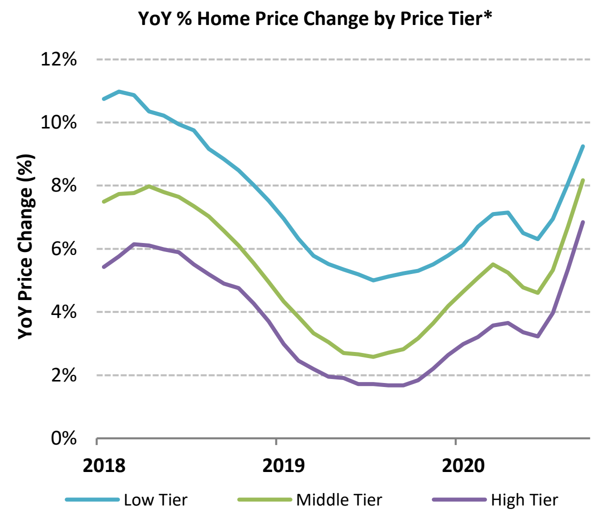
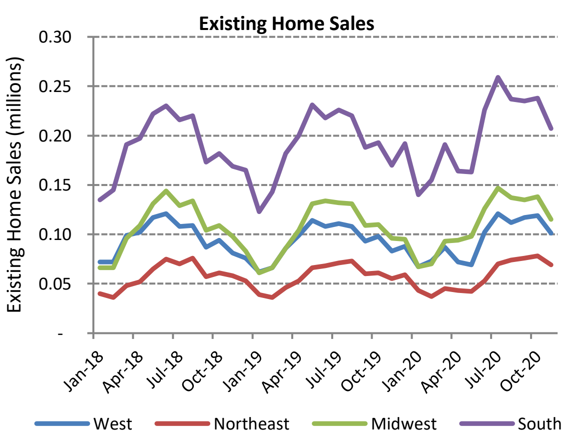
Source: U.S. Census, FBC

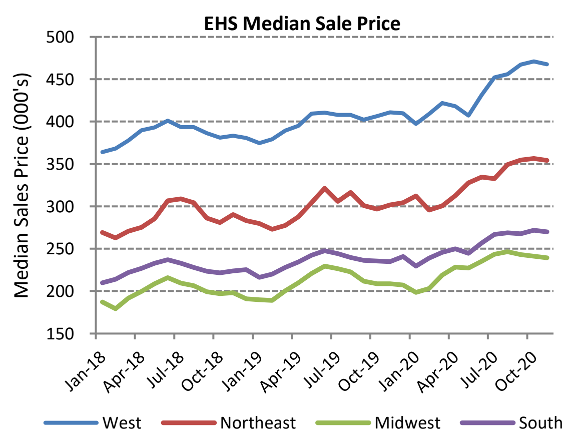
Housing demand rebounding across all regions and price tiers

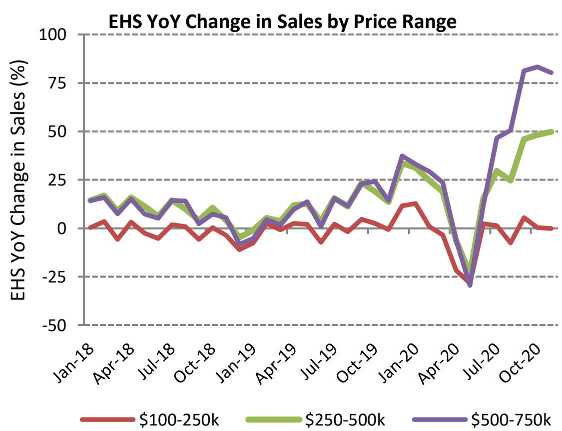
- U.S. Existing Home Sales across regions have rebounded in response to low interest rates and lifting of shelter-in-place orders.











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Sources: Bloomberg, National Association of Realtors, S&P CoreLogic Case-Shiller, FBC.

* Note: Home Price by price tier are averaged across 16 metro areas. Price-tier breakpoints are computed using all sales for each period so that there are the same number of sales in each of the three tiers. For example, tier price breakpoints for Atlanta are $241,085 and $358,601 vs. $796,626 and $1,314,699 for San Francisco.

U.S. consumer reaction to the crisis positive for housing performance

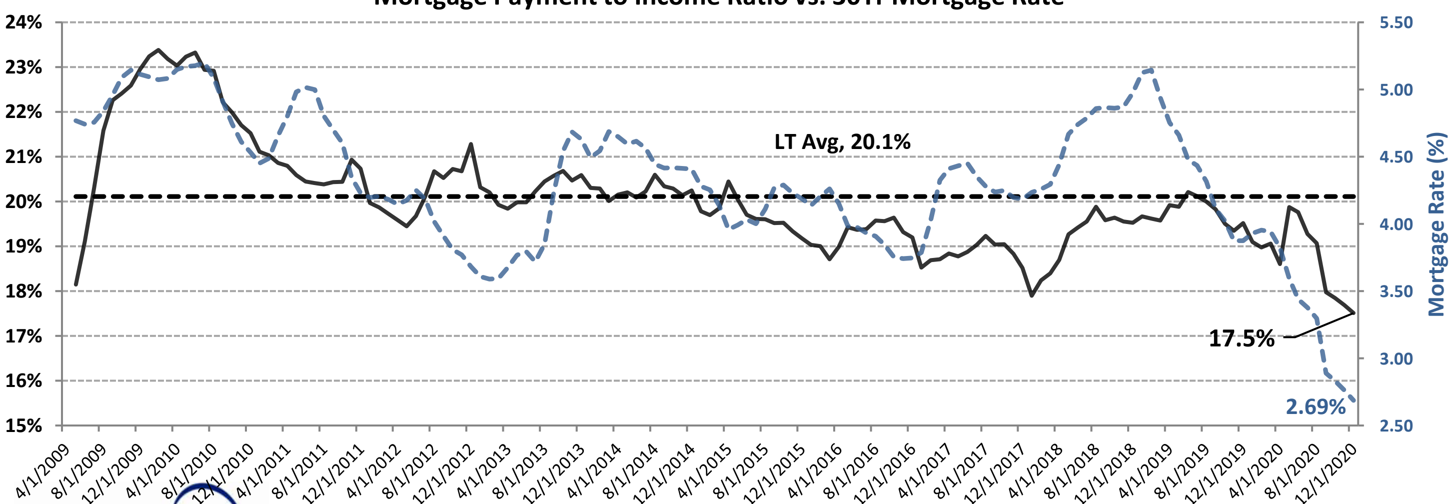
- U.S. household savings rates have reached unprecedented levels as consumers shore up personal balance sheets in response to the crisis. Direct payments to U.S. households in April and another round recently passed into law are many times more than lost salaries and wages due to the economic crisis.

- A combination of lower debt ratios for borrowers will avoid severe recession scenario in the U.S. Housing Sector.

U.S. Personal Savings Rate

Strong savings rates boosted by reduction in mortgage payments through refinancing will continue to support homeowner's ability to manage their mortgage obligations.

Mortgage Payment to Income Ratio vs. 30Yr Mortgage Rate



Lower Mortgage-to-Income ratio with strong savings rate will avoid forced selling by homeowners

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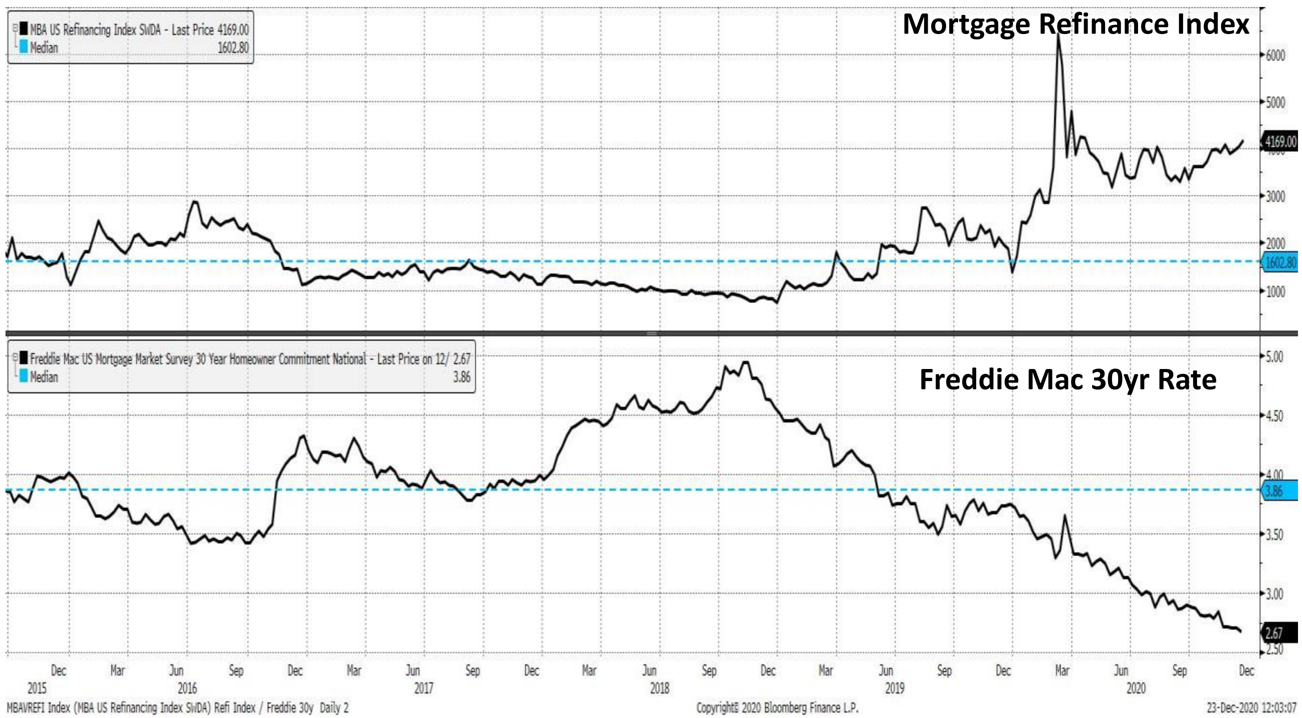
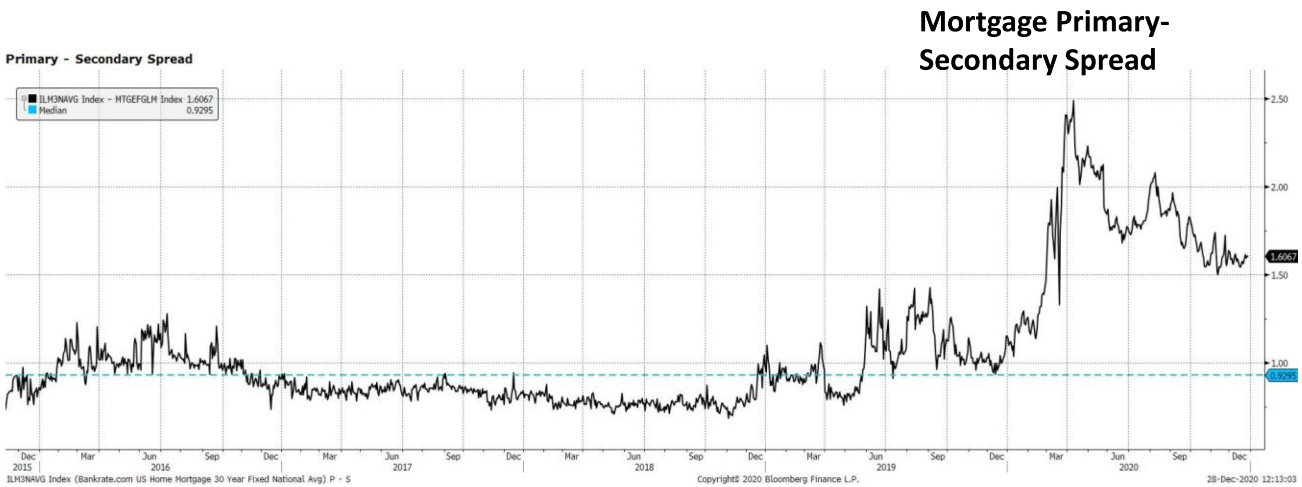
Sources: U.S. Bureau of Economic Analysis, 1010Data (CAS and STACR Loan Pools), Freddie Mac, Bloomberg, FBC

Refinancing levels remain elevated indicating availability and access to credit

- Low mortgage rates are providing strong incentive for refinancing since Q2 2020.
- Low interest rates are contributing to high prepayments speeds for recent originations.
- Potential for further spread tightening to long-term mean could keep mortgage rates at historic lows for several years.





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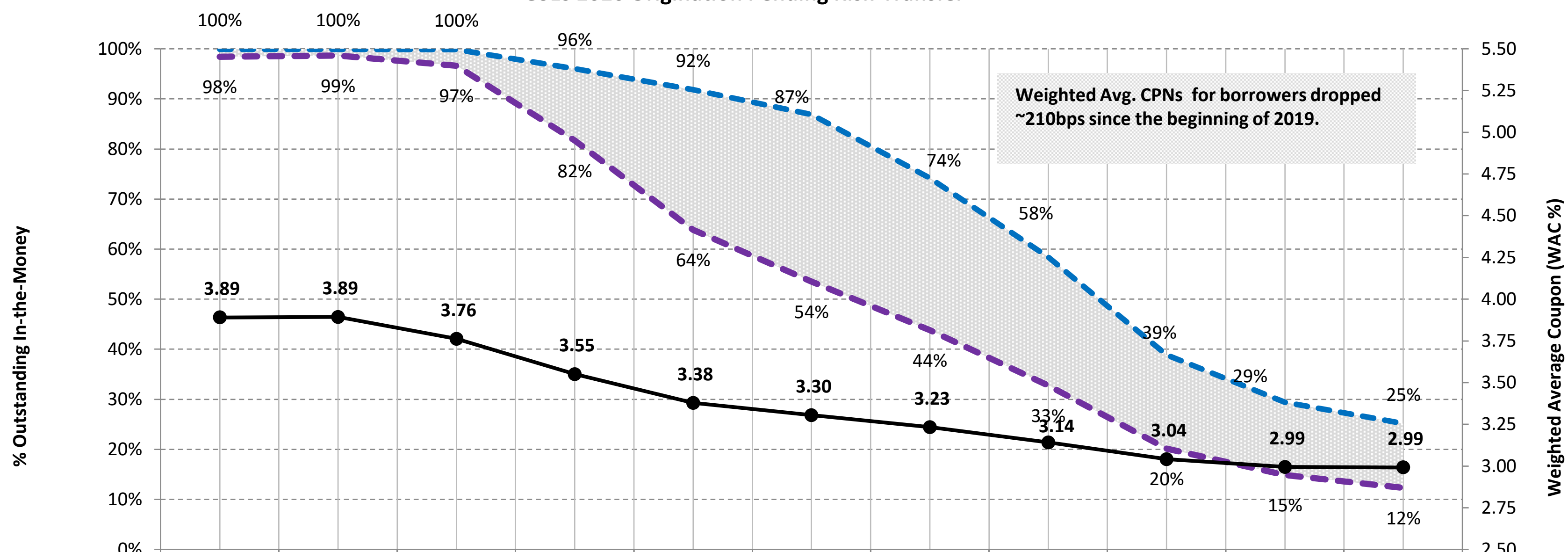
Lower mortgage rates to benefit borrowers in 2021

- Prepayments to continue as many borrowers remain in-the-money.
- Strong prepayments are positive for Credit Risk Transfer (“CRT”) valuation for subordinate tranches.

- 99% of 2019 vintage and a large portion (45%) of 2020 origination have strong refinance incentive, with coupons exceeding 3.25%. (Total balance of ~$1.1 trillion).
- Mortgage rates are projected to remain below 3.0% in 2021.
- Faster mortgage prepay activity results in quicker capital structure de-leveraging, credit enhancement build-up, and shorter weighted average life (WAL) across the coupon stack, **which historically has led to spread tightening and price appreciation for B1 and B2 tranches in CRT deals.**

GSEs 2020 Origination Pending Risk-Transfer



Month	Jan '20	Feb '20	Mar '20	Apr '20	May '20	Jun '20	Jul '20	Aug '20	Sept '20	Oct '20	Nov '20
Cur. Bal ($BN)	$67	$58	$67	$122	$137	$140	$174	$182	$161	$193	$207
Cur. Factor	0.74	0.77	0.80	0.86	0.92	0.95	0.96	0.98	0.99	0.99	1.00
% Risk Transferred*	33%	30%	35%	31%	23%	9%	7%	5%	9%	7%	0%

In-the-money Range — % Outstanding - 25bps In-the-money — % Outstanding - 50bps In-the-money — Weighted Average Coupon (WAC)

Note: The percentage of loans “In-the-money” is estimated based on the current National average mortgage rate of 2.78% without additional costs and fees to the borrower. Sources: Freddie Mac, Fannie Mae, JPMorgan, FBC
Curr. Factor indicates % of original balances still outstanding. Weighted Average Coupon is the GSE origination for that month.

** Assuming 80% of total origination is > 60% LTV*

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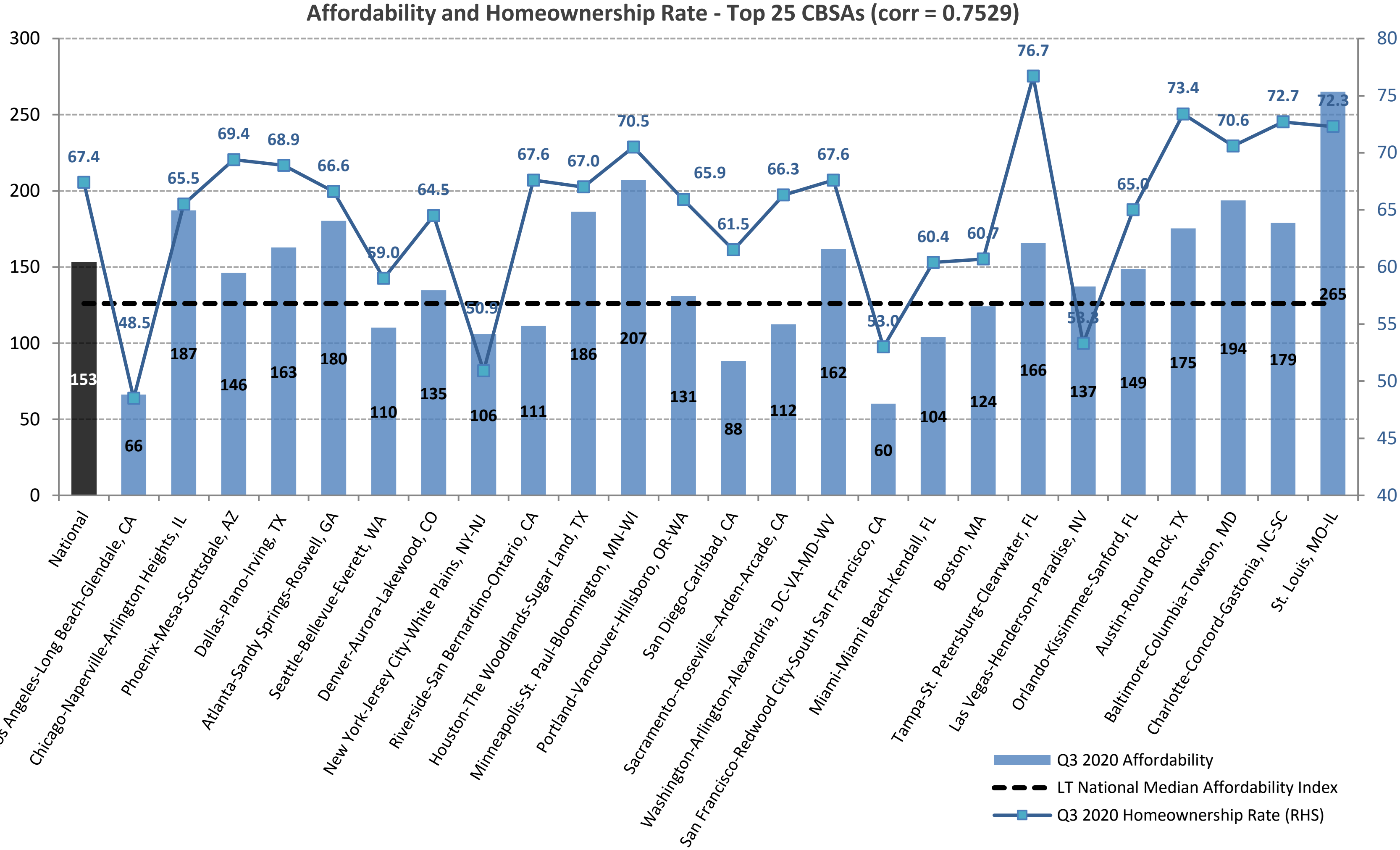
Affordability index improved but rising prices could reverse the trend in 2021

- Affordability levels in many of the top CBSAs has improved due to low interest rates.
- Rising home prices has impacted affordability in some MSAs, which will slow down rate of home price appreciation.



Sources: NAHB, NAR, Census, FBC.

Note: An affordability index value of 100 means that a family with the median income has exactly enough income to qualify for a mortgage on a median-priced home. An index above 100 signifies that family earning the median income has more than enough income to qualify for a mortgage loan on a median-priced home, assuming a 20 percent down payment. For example, a composite HAI of 120.0 means a family earning the median family income has 120% of the income necessary to qualify for a conventional loan covering 80 percent of a median-priced existing single-family home.

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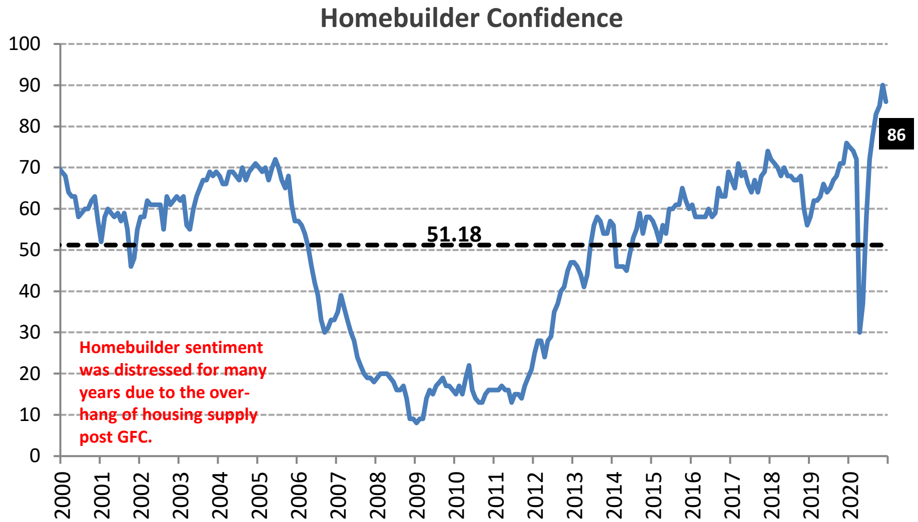
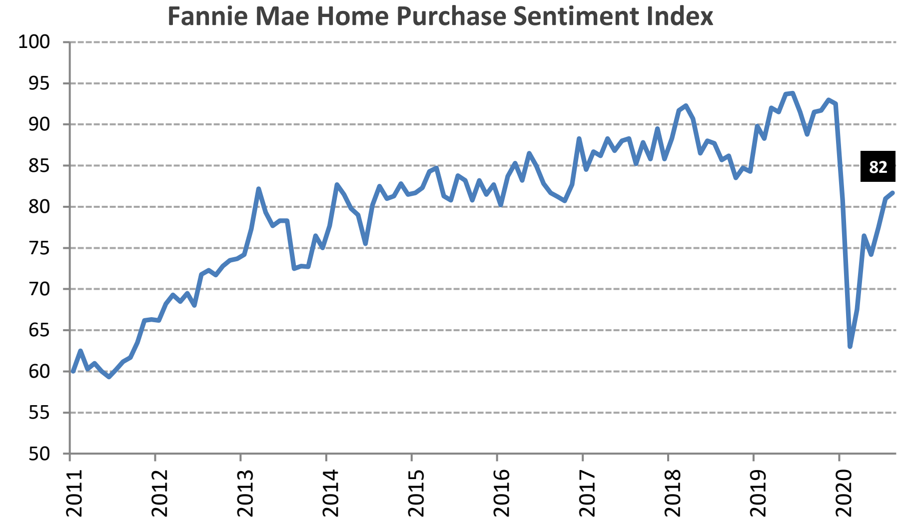
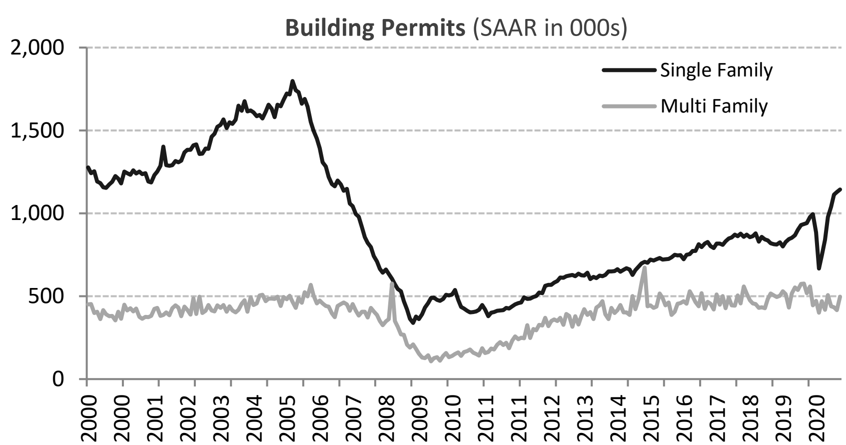
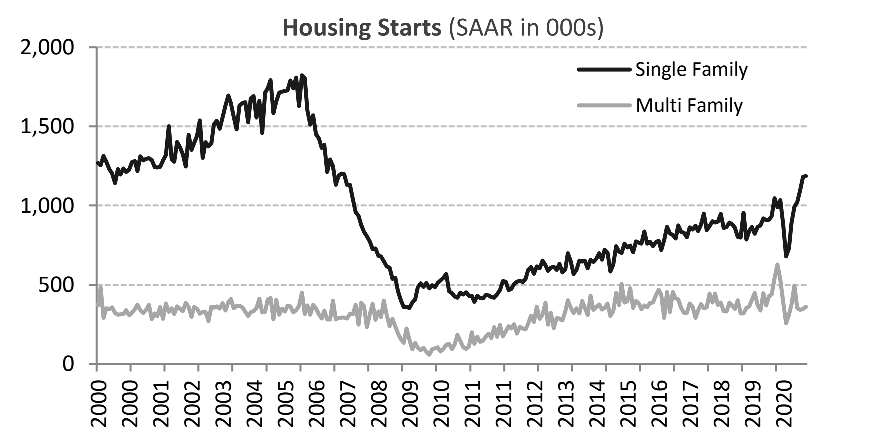
Homebuilder sentiment and housing construction trends positive

- Homebuilder sentiment has already rebounded in response to low mortgage rates and shifts in housing demand due to work-from–home options.
- Housing Starts and Building Permits are also experiencing V-shaped recoveries with single-family homes up 20+% YoY as demand for single-family units accelerate.









Sources: NAHB housing market index , U.S. Census Bureau, Fannie Mae, FBC.

Note: Home Purchase Sentiment Index is based on the average of the net percent positive responses to each of its six questions, with 63.5 being added so that the initial value in March 2011 equaled 60.

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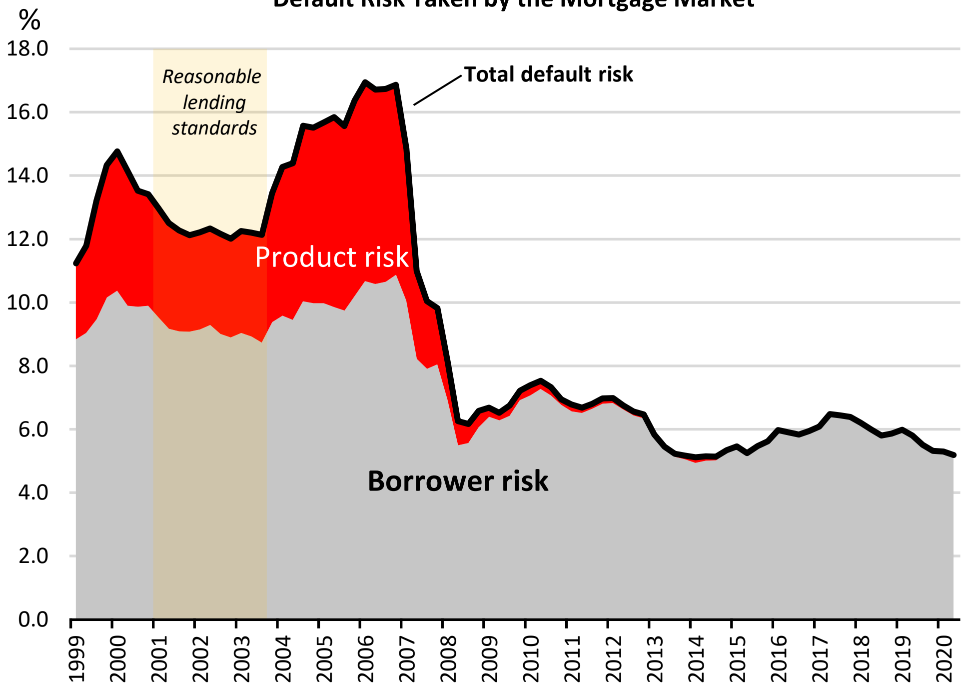
Conservative credit standards have continued Post-GFC

- The Housing Finance Policy Center's credit availability index (HCAI) suggests that today's borrowers are subject to stringent underwriting standards resulting in stronger borrower profile and low risk mortgage products.

- Tight lending standards prevented many from owning their own homes post-GFC.

Default Risk Taken by the Mortgage Market



- Standards for Mortgage originations have significantly tightened since the housing crisis. As a result, **Default risk of newly originated mortgages is lowest in history.**
  - No documentation and low documentation loans that were prevalent during the housing bubble are no longer being originated. **All loans have full income documentation.**
  - Risk Layering that occurred prior to the crisis has been significantly curtailed in Agency eligible loans. **Current origination of low FICO/high LTV loans is virtually nonexistent.**
  - **Several Banks have announced further credit constraints and limitations on cash-out refinance options since the pandemic began.**

Notes: The HCAI indicates the level of purchase mortgages expected to become severely delinquent and is likely to ultimately default. A lower HCAI reading suggests low risk tolerance and overall low credit availability. Examples of product risk include but is not limited to negatively-amortizing or interest-only mortgages.

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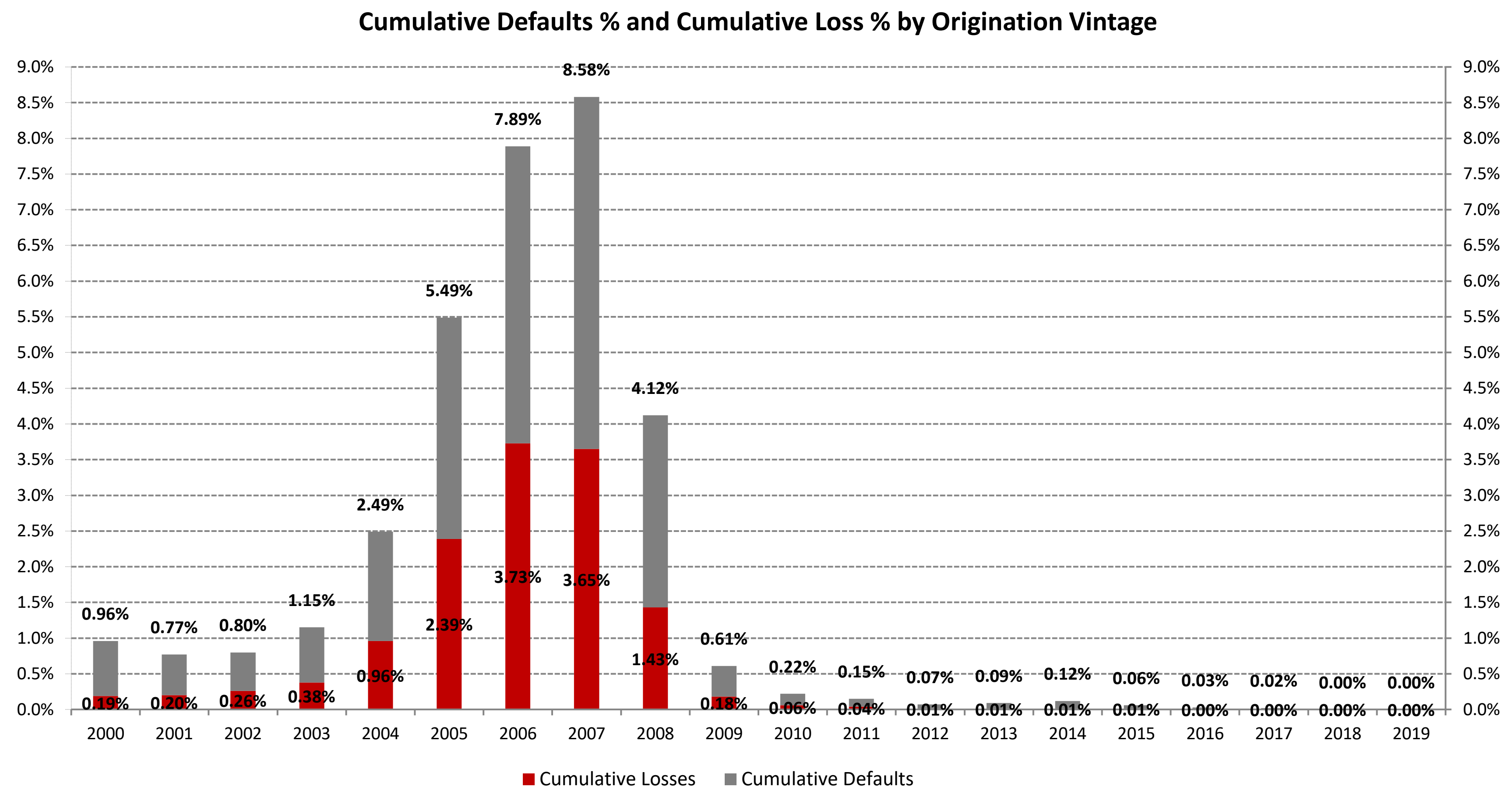
Sources: eMBS, CoreLogic, HMDA, IMF, Urban Institute, FBC

Historical Performance of Conforming Agency Mortgages

Post the Great Financial Crisis ("GFC") underwriting changes resulted in lowest defaults and losses in the past 20 years. Tight underwriting standards at and new government programs to assist borrowers facing hardships due to the Pandemic are expected to avoid a repeat of the GFC.



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Sources: Fannie Mae, FBC. As of Q1, 2020. [1] The estimates assume liquidations and losses that occurred between 2009 and 2013 are attributable to employment losses and other factors related to the Great Financial Recession.

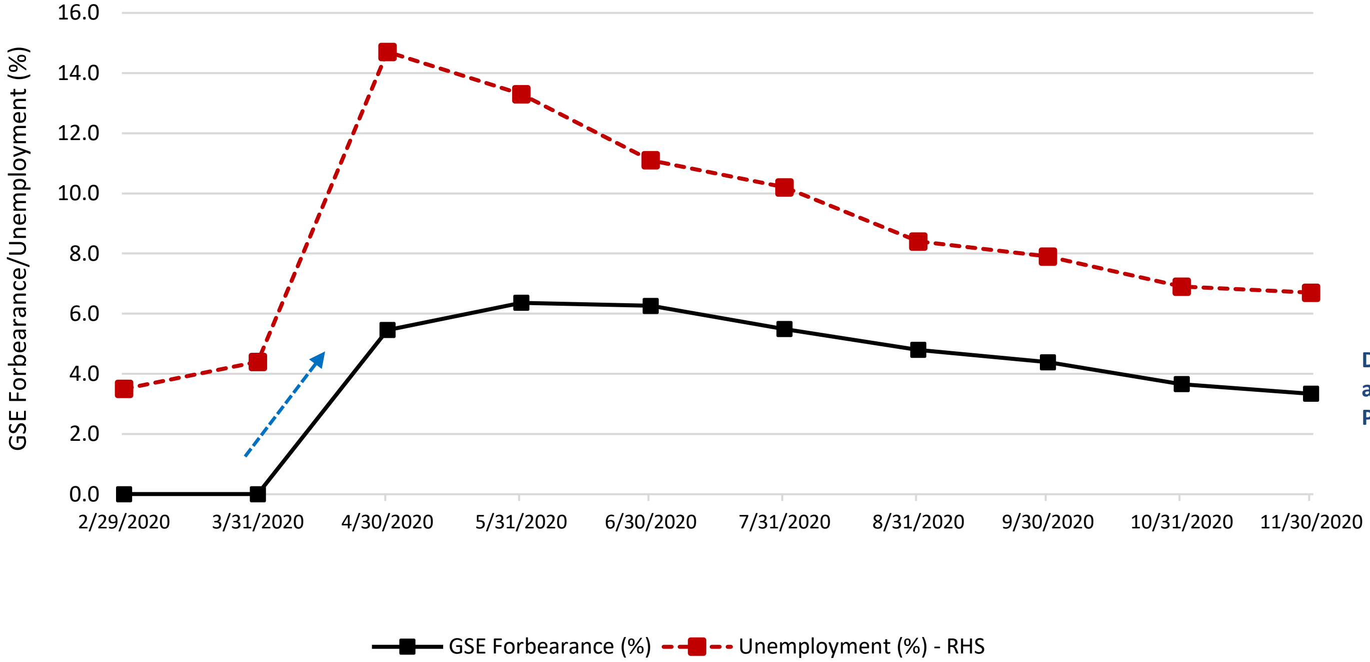
Government Intervention in Housing

- **In order to prevent a repeat of the GFC housing crisis, housing authorities reacted in March 2020 and announced several programs to assist homeowners facing hardships**.

Borrower delinquencies spike in Q2 due to stay at home orders

- As unemployment rose in response to the widespread stay-at-home orders and business shutdowns during the 2nd quarter of this year, the share of Fannie Mae and Freddie Mac loans (Government Sponsored Agency or "GSE" Loans) in forbearance increased sharply to 6.25% before gradually decreasing to the current level of 3.25%.

The share of loans in Forbearance increased in conjunction with the spike in Unemployment.



Delinquencies were at historic lows pre-Pandemic.

Sources: Bloomberg, Fannie Mae's Data Dynamics, MBA, FBC
*Represents forbearance requests from one week prior

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Housing Agencies implemented programs to mitigate the economic hardship from the pandemic and its implications.

Borrower Options and their Impact on CRT Performance

Steps	Description	Credit Event (Y/N/Other)	Other Comments
1. Initial Temporary Forbearance	Borrowers are allowed to stop making their mortgage payments for up to 12 months (or longer with a written approval from the GSEs) and are not being charged late fees, penalties, or reported to credit bureaus. • Initially, borrowers will be offered a 3 month deferral, at which point their situation will be reassessed. • Borrowers must contact their Servicer for a temporary forbearance. However, no documentation is required to implement it.	N	Increased delinquencies may result in failed delinquency triggers and cause principal to be diverted to senior bonds. • Under the STACR program, the trigger will fail if the 6-month average of stressed loans (60 days past due, in bankruptcy, foreclosure or REO, or modified in the 12 months prior to the reporting period) exceeds 50% of the amount of credit enhancement provided by the entire structure to the reference pool. • Triggers in CAS deals use a 40% threshold and calculate the balance using loans greater than 90 days past due and do not include modified loans.
If the temporary hardship **has been resolved, the borrower has the option to reinstate the mortgage loan**.			
If the temporary hardship has been resolved and the borrower **<u>does not have the ability to reinstate the mortgage loan</u>,** servicers should offer the following, and in order:			
2. Repayment Plan	Total monthly repayment plan payment is offered to borrowers who have the financial capacity to bring the mortgage loan current during a specified repayment period (typically less than 12 months).	N	
3. Payment Deferral	If the borrower does not have the ability to afford a repayment plan, the servicer should defer the past-due principal and interest payments as a non-interest bearing balance, due and payable at maturity of the mortgage loan, or earlier upon the sale or transfer of the property, refinance of the mortgage loan, or payoff of the interest-bearing UPB.	N	
4. Permanent Loan Modification	If it's determined that the borrower is not capable of maintaining the current contractual monthly PITI payment or if the borrower doesn't qualify for a Payment Deferral due to the maximum delinquency constraint, Servicer will offer a modification: 1. Capitalize arrearages. 2. Extend the term in monthly increments up to a maximum of 480 months. 3. Provide or increase forbearance amount. 4. Lower interest rate.	Depends *(See: "Other Comments")*	Only modifications that result in a permanent interest rate reduction or permanent principal forbearance may result in bond losses (amounts to interest short-fall passed to investors on a monthly basis). Term extension and/or delinquent amount capitalization do not result in losses.

Sources: Fannie Mae, Freddie Mac, FBC

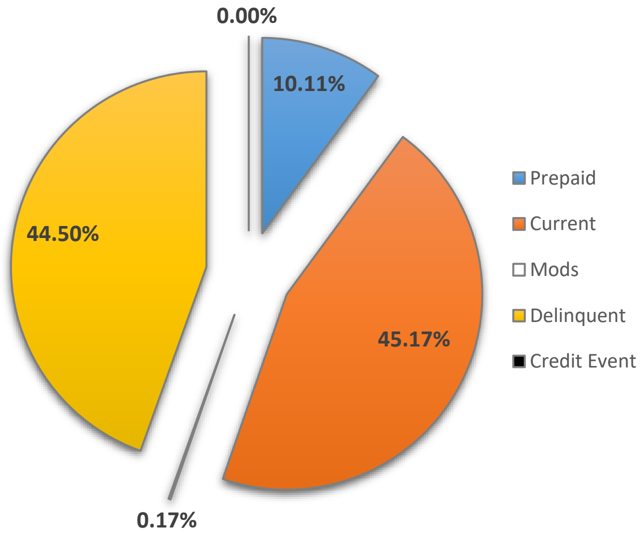
Borrowers in forbearance plans due to Pandemic now beginning to exit

- CARES Act mandated mortgage payment forbearance.

Payment Deferral option is a game changer.

- Beginning July 2020, servicers are required to offer Covid-19 payment deferral option to borrowers exiting forbearance.
- **<u>Delinquent borrowers who became current, almost 40% obtained payment deferral</u>** that allows them to simply return to making their scheduled monthly payment without the need to pay back the delinquent amount immediately. Any missed payments are added to the end of their mortgage and are repaid at the time of refinance, sale of the house, or maturity.

About 55% of loans that requested COVID-19 related forbearances six months ago are already current or paid off.



Sources: Bloomberg, Fannie Mae's Data Dynamics, MBA, FBC
*Represents forbearance requests from one week prior

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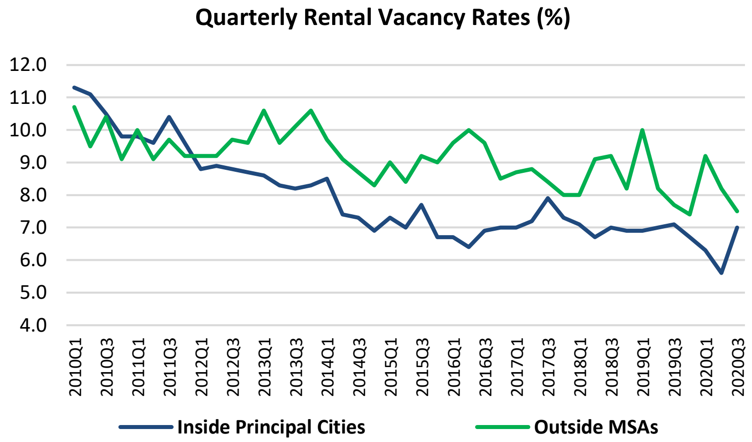
2021 Outlook

A **Delinquencies will be well-managed and pose minimal default risk.**

- Going forward, we expect remaining pandemic related delinquencies to continue to move in a downward trajectory as borrowers take advantage of the payment deferral option and U.S. economy continues to recover, especially amid the vaccine rollout.
- We also expect an increase in modification activity as those under greater economic stress may require additional assistance in the form of a payment reduction.
- Delinquent amount capitalization and term extensions are likely to dominate given their impact on borrower affordability. These specific modification options do not result in a credit event and therefore have no negative performance impact on CRT bonds.
- Short sales and foreclosures may marginally increase in volume in second half of 2021 (we expect the majority of delinquent borrowers will likely be given modifications to avoid short sales and foreclosures); however, we believe that the prevailing supply-demand dynamics and persistent inventory shortages should ensure adequate absorption rates and minimal impact on home prices.

B **Sparce Urban and Suburban Areas may continue to gain in popularity.**

- The unprecedented Covid-19 pandemic and the resulting shift to remote working arrangements have changed the landscape of commercial and residential real estate.
- Many employees are no longer required to work out of the office and the once allure of the exciting city life is a distant memory. Families and individuals are moving out of the major urban areas and heading to less populated cities and towns. **This exodus is already observable in rental numbers. As shown in the chart, rental vacancies in Principal Cities have increased, while areas outside of large MSAs enjoyed increased demand.**



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Sources: U.S. Census Bureau, FBC

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- THE INFORMATION INCLUDED HEREIN IS PRELIMINARY, AND WILL BE SUPERSEDED BY A DEFINITIVE PRIVATE PLACEMENT MEMORANDUM.
- WE WILL NOT ACCEPT ANY OFFER BY YOU TO PURCHASE SECURITIES AND YOU WILL NOT HAVE ANY CONTRACTUAL COMMITMENT TO PURCHASE SECURITIES UNTIL AFTER YOU HAVE RECEIVED THE DEFINITIVE PRIVATE PLACEMENT MEMORANDUM.
- DISCUSSIONS OF FEDERAL TAX ISSUES IN THIS PRESENTATION ARE NOT INTENDED TO BE RELIED UPON BY INDIVIDUAL INVESTORS. EACH INVESTOR SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.
- THERE CAN BE NO ASSURANCE THAT PROJECTED RETURNS WILL BE ACHIEVED OR THAT THE FUND WILL BE ABLE TO IMPLEMENT ITS INVESTMENT STRATEGY OR ACHIEVE ITS INVESTMENT OBJECTIVES.
- GROSS IRRs DO NOT REFLECT MANAGEMENT FEES, CARRIED INTEREST, TAXES, TRANSACTION COSTS AND OTHER EXPENSES TO BE BORNE BY INVESTORS IN THE FUNDS, WHICH WILL REDUCE RETURNS.

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