

Impact of Higher Mortgage Rates on U.S. Housing Market

Dampened Growth and Softening in Home Prices on the Horizon.

The extraordinary post-pandemic growth in home prices driven by historic low interest rates, strong labor market, and limited housing inventory is finally showing signs of a slowdown.

Record high home valuations coupled with increasing mortgage rates have caused a sharp drop in affordability and negatively affected housing demand.

- National Association of Realtors' home affordability index, a gauge of a typical family's ability to qualify for a mortgage, fell to a 33-year low in June as mortgage payments increased over 50% in just one year.
- Pending home sales are down 19.9% YoY, while Existing and New home sales dropped 20.2% and 29.6% from last year, respectively.
- Historical data implies that, **if demand drops another 10% due to affordability headwinds, national total housing sales are likely to drop below 4.5mm annually.** Markets identified as "Softening" and "Weak" (Figure 2) are at most risk for price corrections over the next 3 to 4 quarters thus giving back the 2022 run up in valuations. **Broad measures of home price indices in these markets could correct down 5% to 10%.**

Figure 1: YoY Drop in Existing Home Sales

Demand, as measured by the level of Existing Home Sales, has considerably contracted across the country.

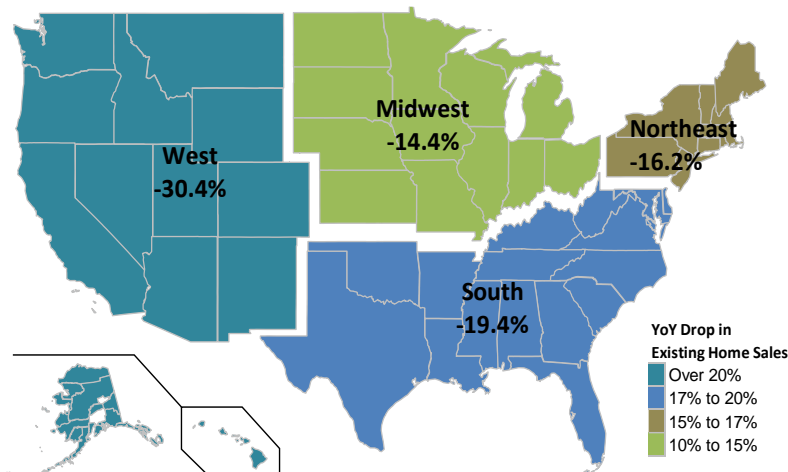


Figure 2: Housing Market Strength across major CBSA's ¹

The decline in sales activity and rising inventories to continue the slowdown in home price appreciation and will ultimately lead to home price corrections in many of the local markets.

Positive	Stable	Softening	Weak
Miami, FL	New York, NY	Los Angeles, CA	Dallas, TX
Minneapolis, MN	Chicago, IL	Houston, TX	Atlanta, GA
Milwaukee, WI	Philadelphia, PA	Washington, DC	Phoenix, AZ
Hartford, CT	Boston, MA	San Francisco, CA	Seattle, WA
	Detroit, MI	St. Louis, MO	Riverside, CA
	Baltimore, MD	Columbus, OH	Tampa, FL
	Pittsburgh, PA	Indianapolis, IN	San Diego, CA
	Cleveland, OH	Nashville, TN	Denver, CO
	Cincinnati, OH	Oklahoma City, OK	Portland, OR
	Kansas City, MO	Louisville, KY	Charlotte, NC
	Virginia Beach, VA	New Orleans, LA	Orlando, FL
	Providence, RI	Buffalo, NY	San Antonio, TX
	Memphis, TN	Birmingham, AL	Sacramento, CA
	Richmond, VA		Las Vegas, NV
	Rochester, NY		Austin, TX
			San Jose, CA
			Jacksonville, FL
			Raleigh, NC
			Boise City, ID

Sources: NAR, FHFA, Falcon Bridge Capital.

¹ Core Base Statistical Area ("CBSA").

CBSA Level Housing Strength Analysis – Diffusion Index Methodology

Falcon Bridge Capital’s CBSA level Housing Strength Analytics aims at identifying local markets undergoing shifts in trends considers multiple factors that affect housing values: (1) Active Listings, (2) Share of Listings with Price Reductions, (3) Affordability, (4) Median listing price vs. Home Price Indices, and (5) Days on Market.

Figure 1: Active Listings Count – National

Number of properties available for sale has increased on a YoY basis.

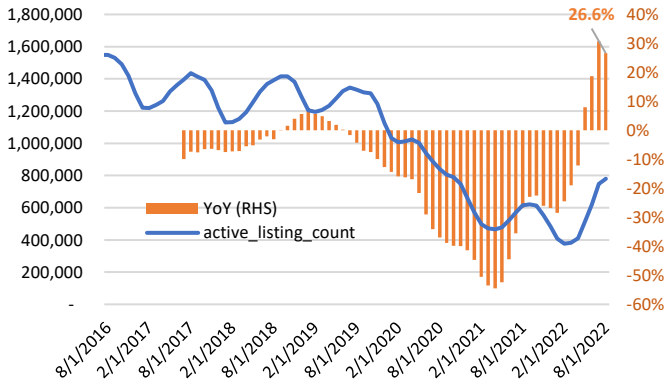


Figure 2: Share of Listings with Price Reductions – National

Proportion of active listings with price cuts is up relative to last year.

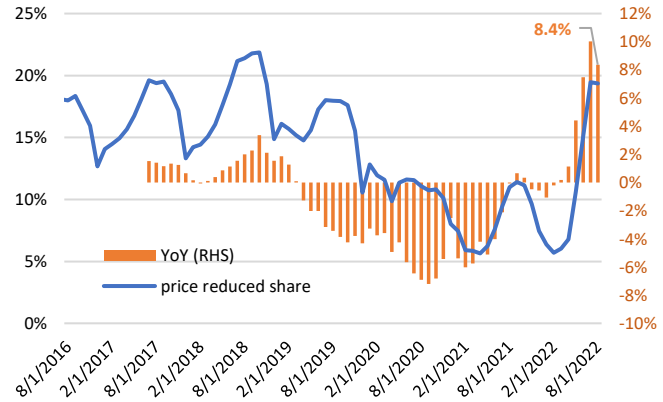


Figure 3: Affordability– National

The share of sold homes deemed affordable to a family earning the local median income based on standard mortgage underwriting criteria is considerably lower.

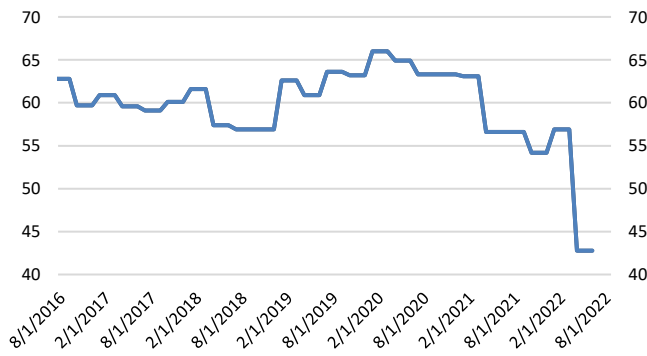
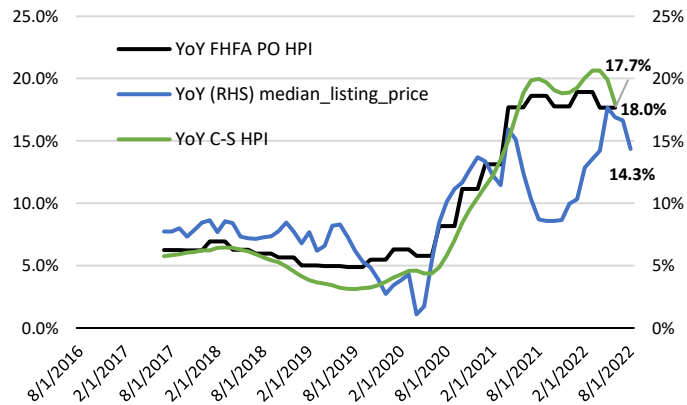


Figure 4: Home Price Performance– National

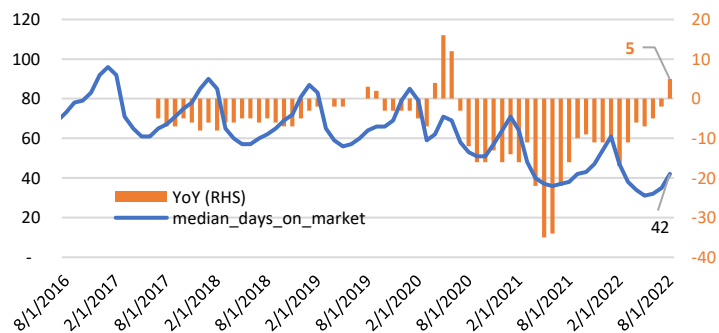
Listing prices are declining.



- Each of the factors is assessed individually across all CBSAs based on the recent and historical performance and subsequently combined into an overall market strength Diffusion Index for classification.
- Please reference Appendices A and B for more information related to the methodology, as well as the summary of major factor statistics.

Figure 5: Days on Market– National

The number of days that a property has been listed until a seller has accepted an offer and signed a contract.



Appendix A - Contributors to Housing Diffusion Index

Factor	Description/Commentary
Active Listings	<ul style="list-style-type: none"> • Number of properties available for sale indicates the current level of available inventory. • Nationwide, active listings are up 26.6% from the year prior, indicating a turn in market dynamics. • Approximately half on the major CBSAs can be identified as “Weak” in this category, with the following areas observing more than twice the number of Active Listings relative to the year prior: a) Phoenix, AZ b) Austin, TX c) Nashville, TN d) Raleigh, NC e) Boise City, ID.
Share of Listings with Price Reductions	<ul style="list-style-type: none"> • Proportion of active listings with price cuts increased to 19.4% and is now in-line with pre-pandemic levels. • Significant changes in the share of price reductions are strong indicators of shifting market conditions. • Phoenix, AZ and Austin, TX have experienced that largest uptick, with over 40% of all listings having price reductions.
Affordability	<ul style="list-style-type: none"> • The NAHB/Wells Fargo Index tracks home affordability based on median home prices, median income, and mortgage interest rates and indicates the percentage of homes sold in the area deemed affordable based on the median family income. The latest reading of 42.8% is the lowest in at least a decade. • Sharp declines in this metric are indicative of a potential market instability. • Phoenix, AZ and Las Vegas, NV are showing the largest declines in affordability, while CA CBSAs, Los Angeles, San Francisco, and San Diego, are the least affordable in the nation.
Home Price Performance	<ul style="list-style-type: none"> • Recent rate of change in the median list price relative to the same metric the year prior measures the acceleration/deceleration of the prevailing trend. • Changes in the median list price relative to the performance of FHFA’s Purchase Only Index identify areas with the largest disparity between the two and potentially detect changes in price momentum. • Las Vegas, NV, Austin, TX, and Boise, ID show the most weakness in this category.
Days on Market	<ul style="list-style-type: none"> • Number of days a listing has been active until it is sold. • Recently reported time on market of 42 days is up YoY, but still low relative to pre-pandemic norms. • Increasing time on the market is indicative of a weaker demand and potentially point to price reductions in the future. • Days on the market in Boise City, ID and Austin, TX have increased by 17 and 16 days, respectively over that last year.

- Declining affordability and increasing inventories are significantly contributing to the cooling of the housing market across the U.S. The disparity in home price performance will grow wider across regions as local population migration patterns, employment situation, as well as consumer confidence will play more of an active role.

Appendix B - CBSA Level Statistics

CBSA Short Name	Active_Listing_Count		Price_Reduced Share		Median_Days_On_Market		HOI*/Affordability		Median_Listing_Price		Market Outlook
	2022.08	YoY % Chg	2022.08	YoY Diff	2022.08	YoY Diff	Q2_22	YoY Diff	2022.08	Diff of YoY % Chg from Index**	
USA	779,412	+ 26.6%	19.37%	+ 8.4%	42	+ 4	42.8	- 14	\$435,050	- 3.3%	Softening
Miami, FL	22,800	+ 8.6%	14.74%	+ 7.2%	50	- 8	32.3	+ 3	\$617,000	+ 7.3%	Positive
Minneapolis, MN	7,021	- 5.1%	16.82%	+ 6.0%	37	+ 8	66.7	- 13	\$419,900	+ 8.1%	Positive
Milwaukee, WI	1,704	- 11.8%	13.79%	- 1.1%	36	+ 1	66.9	- 9	\$362,450	+ 12.4%	Positive
Hartford, CT	1,457	- 24.4%	9.37%	+ 0.5%	37	+ 4	68.9	- 13	\$377,000	- 1.0%	Positive
New York, NY	29,805	- 7.0%	10.32%	+ 1.4%	62	- 2	15.2	- 14	\$699,000	- 11.2%	Stable
Chicago, IL	19,568	- 11.7%	15.42%	+ 2.1%	36	+ 0	51.4	- 10	\$349,950	- 9.3%	Stable
Philadelphia, PA	10,718	- 1.8%	14.54%	+ 2.9%	46	+ 3	54.1	- 15	\$339,450	- 3.4%	Stable
Boston, MA	6,058	+ 4.5%	17.08%	+ 4.7%	35	+ 4	26.3	- 13	\$729,450	+ 0.4%	Stable
Detroit, MI	9,897	+ 25.5%	24.10%	+ 7.0%	33	+ 8	72.6	- 4	\$274,500	- 11.2%	Stable
Baltimore, MD	4,593	- 3.2%	16.87%	+ 4.0%	37	+ 3	68.7	- 11	\$352,495	- 6.5%	Stable
Pittsburgh, PA	4,173	+ 1.5%	18.97%	+ 4.6%	44	+ 2	74.8	- 16	\$235,750	- 8.9%	Stable
Cleveland, OH	3,373	+ 4.9%	16.55%	+ 3.6%	41	+ 2	73.9	- 8	\$224,950	- 1.4%	Stable
Cincinnati, OH	2,720	- 7.0%	13.63%	+ 3.1%	34	+ 3	73.7	- 11	\$324,950	- 13.6%	Stable
Kansas City, MO	4,157	+ 29.5%	14.50%	+ 4.4%	46	+ 7	57.5	- 13	\$387,450	+ 5.3%	Stable
Virginia Beach, VA	3,999	- 10.3%	17.64%	+ 4.0%	29	+ 3	65.6	- 11	\$358,500	+ 0.3%	Stable
Providence, RI	2,118	+ 0.3%	11.99%	+ 3.9%	33	+ 2	39.8	- 17	\$474,950	- 5.2%	Stable
Memphis, TN	2,207	+ 55.5%	16.60%	+ 9.4%	39	+ 2	55.5	- 13	\$313,454	+ 9.2%	Stable
Richmond, VA	1,999	+ 2.7%	10.97%	+ 3.0%	37	- 1	57.5	- 18	\$385,000	- 4.3%	Stable
Rochester, NY	1,022	- 4.6%	11.43%	- 0.0%	23	+ 5	77.2	- 7	\$225,450	- 16.3%	Stable
Los Angeles, CA	15,488	+ 37.9%	19.18%	+ 10.7%	37	+ 4	3.6	- 5	\$938,492	- 11.4%	Softening
Houston, TX	20,141	+ 23.2%	21.44%	+ 7.1%	38	+ 1	44.8	- 15	\$383,000	- 8.3%	Softening
Washington, DC	10,198	+ 1.5%	17.19%	+ 4.7%	36	+ 3	49.5	- 21	\$572,800	+ 4.2%	Softening
San Francisco, CA	5,960	+ 40.4%	17.73%	+ 10.1%	35	+ 6	7.5	- 4	\$1,049,000	- 15.5%	Softening
St. Louis, MO	4,675	- 2.2%	14.58%	+ 3.5%	44	+ 3	73.1	- 10	\$279,450	- 1.3%	Softening
Columbus, OH	2,663	+ 11.1%	19.46%	+ 5.9%	29	+ 8	55.7	- 14	\$336,000	- 5.2%	Softening
Indianapolis, IN	3,406	+ 39.6%	20.70%	+ 9.1%	37	+ 1	83.2	- 4	\$312,500	- 7.0%	Softening
Nashville, TN	6,001	+129.2%	27.11%	+ 15.5%	28	+ 9			\$533,275	- 7.0%	Softening
Oklahoma City, OK	3,287	+ 40.7%	18.53%	+ 6.6%	41	+ 5	69.3	- 11	\$319,900	- 1.3%	Softening
Louisville, KY	2,231	+ 15.5%	19.78%	+ 6.2%	32	+ 6	67.9	- 12	\$299,000	+ 0.7%	Softening
New Orleans, LA	3,440	+ 24.4%	22.66%	+ 9.0%	49	+ 4			\$334,450	- 11.2%	Softening
Buffalo, NY	1,301	+ 11.2%	9.35%	+ 2.0%	37	+ 6	73.3	- 8	\$247,200	- 9.9%	Softening
Birmingham, AL	2,570	+ 27.3%	17.22%	+ 9.1%	42	+ 5	69.3	- 10	\$284,025	- 12.6%	Softening
Dallas, TX	16,504	+ 80.7%	25.71%	+ 13.4%	36	+ 5	31.9	- 21	\$461,450	- 8.9%	Weak
Atlanta, GA	27,516	+ 48.7%	22.01%	+ 12.7%	35	+ 1	48.9	- 21	\$424,975	- 17.6%	Weak
Phoenix, AZ	16,250	+177.4%	42.47%	+ 30.7%	38	+ 8	22.3	- 34	\$499,950	- 22.6%	Weak
Seattle, WA	7,156	+ 91.4%	21.77%	+ 13.6%	34	+ 5	18.2	- 14	\$776,995	- 1.8%	Weak
Riverside, CA	11,008	+ 75.6%	23.48%	+ 14.7%	42	+ 11	14.4	- 16	\$587,320	- 12.8%	Weak
Tampa, FL	9,887	+101.0%	27.62%	+ 16.8%	37	+ 3	37.7	- 25	\$437,000	- 8.0%	Weak
San Diego, CA	4,476	+ 45.8%	23.11%	+ 13.5%	32	+ 3	6.9	- 10	\$897,000	- 10.6%	Weak
Denver, CO	6,529	+ 71.6%	30.99%	+ 18.4%	30	+ 8	27.8	- 26	\$637,000	- 11.3%	Weak
Portland, OR	5,802	+ 51.3%	29.15%	+ 13.3%	37	+ 3	19.3	- 26	\$595,000	- 6.5%	Weak
Charlotte, NC	5,227	+ 64.3%	19.77%	+ 7.6%	37	+ 9	46.5	- 22	\$425,000	- 12.5%	Weak
Orlando, FL	7,206	+ 74.0%	21.77%	+ 11.2%	40	+ 3	31.5	- 26	\$454,116	- 5.2%	Weak
San Antonio, TX	8,000	+ 66.5%	22.42%	+ 9.9%	39	+ 5	39.9	- 21	\$374,525	- 13.0%	Weak
Sacramento, CA	4,712	+ 63.0%	29.93%	+ 17.5%	36	+ 7	14.5	- 18	\$614,925	- 11.2%	Weak
Las Vegas, NV	10,580	+ 93.4%	40.85%	+ 23.9%	37	+ 10	21.9	- 32	\$469,710	- 14.8%	Weak
Austin, TX	8,758	+138.6%	41.41%	+ 24.6%	39	+ 16	30.4	- 24	\$575,000	- 16.9%	Weak
San Jose, CA	1,745	+ 31.1%	18.45%	+ 11.1%	36	+ 6	11.1	- 11	\$1,371,500	- 5.2%	Weak
Jacksonville, FL	5,741	+ 75.1%	23.33%	+ 13.2%	41	+ 3	48.6	- 15	\$429,000	- 9.3%	Weak
Raleigh, NC	3,237	+163.6%	25.17%	+ 18.2%	30	+ 11	41	- 27	\$486,500	- 15.8%	Weak
Boise City, ID	3,983	+105.3%	38.56%	+ 17.2%	46	+ 17	12.5	- 9	\$554,500	- 11.4%	Weak

Notes: * HOI: NAHB/Wells Fargo Housing Opportunity Index - the share of homes sold in that area that would have been affordable to a family earning the local median income, based on standard mortgage underwriting criteria.

** FHFA HPI PO YoY % Change as of Q2 2022

Sources: Realtor.com, NAHB/Wells Fargo, S&P Global, FHFA, Falcon Bridge Capital.

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Company Background & Disclosures

Firm Overview

- Falcon Bridge Capital was formed in January 2006 as part of joint venture with one of the largest P.E. firms in the U.S. to provide portfolio management of legacy U.S. Residential Mortgage-Backed Securities ("RMBS").
- Firm provides loan acquisition, analytical and due diligence services to various Community Banks in CA.
- Firm has extensive expertise across mortgage credit and securitized products.

Registered Investment Advisor since June 30, 2011.

SEC Registration Number: 801-72513

FINRA IARD Number: 156661

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09.2022