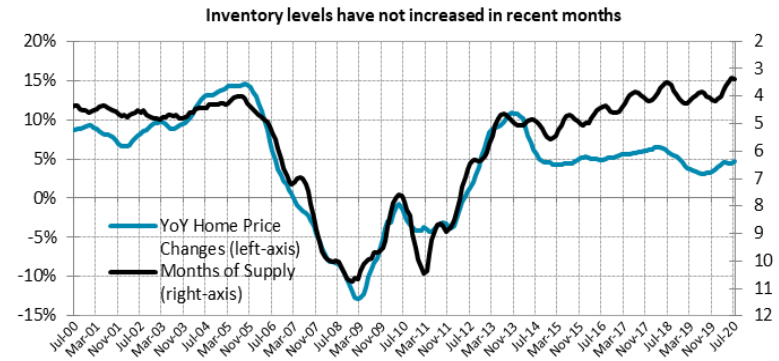


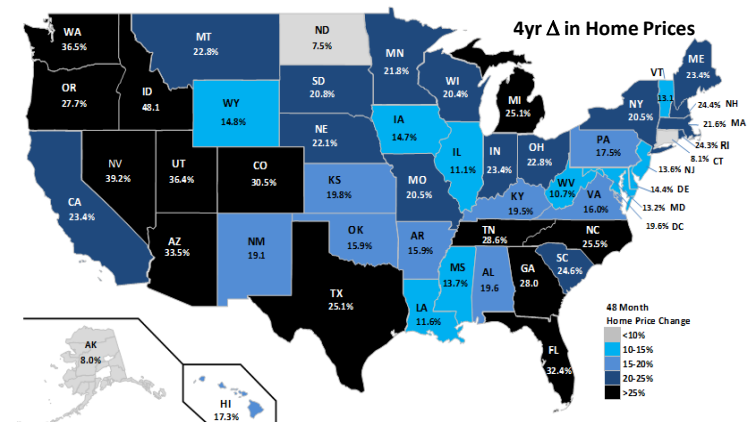
# Presidential Election and Housing Market Update

October 7<sup>th</sup>, 2020

- A** **“Technical” may create a buying opportunity** - Presidential elections typically bring a degree of uncertainty and could result in market volatility, potentially creating improved entry points in mortgage credit sector – Credit Risk Transfer (“CRT”).
- B** **Both major party platforms are committed to support the housing sector** – Democratic White House would likely result in additional borrower assistance in the form of a larger fiscal stimulus or extension of the forbearance program; both of which are positive to mortgage credit performance. Republican win would likely mean the continuation of the existing aid efforts already being implemented by Fannie Mae and Freddie Mac (see slide 2). The extension of unemployment benefits is also likely to remain the focus of both parties as Pandemic Unemployment Assistance (PUA), Pandemic Emergency Unemployment Compensation (PEUC) and Lost Wages Supplemental Payment Assistance are nearing their program end dates, and are currently assisting over 26MM claimants.
- C** **Fundamentals are positioned to remain strong and are expected to result in increased CRT prices** – Despite the pandemic and the accompanying economic slowdown, housing is robust. Low rates continue to attract buyers to the housing market, while limited inventory of homes for sale supports sustained home price appreciation. *CRT price appreciation is expected when loans currently in forbearance are modified and become current.*
- D** **Credit remains resilient** – Trends in forbearances are positive as the level of new delinquencies is dropping, while cure rates remain high. Recent modification performance also points to limited credit losses.
- E** **High Prepayments for subordinate bonds** – **“Double Edge Sword”** - Continued strong refinancing reduces credit risk for B1 and B2 tranches and de-leverages capital structure; however shortening average lives of the bond may limit price appreciation. *Yields offer excellent relative value in a low interest rate environment, which is supporting U.S. Housing market fundamentals.*
- F** **Mortgage Rates** – A Democratic sweep could result in a steeper yield curve in anticipation of a larger fiscal stimulus. Higher mortgage rates could extend durations of MBS and CRT bonds.



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



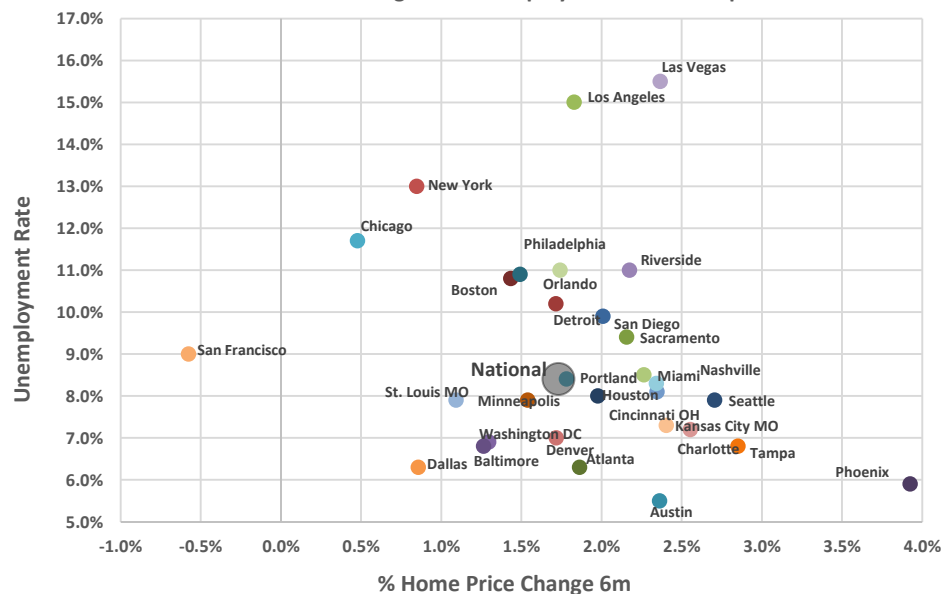
# Possible Future Policy Actions to Avoid Foreclosures

Congress and The Federal Reserve are focused on minimizing economic hardship and return to full employment.

| Potential Government /Servicer Actions to Avoid Severe Housing Crisis  | Economic Impact  | Impact to CRT Bonds   |
|--|--|---|
| <p>➤ <b>Extend Forbearance</b></p> <ul style="list-style-type: none"> <li>FHFA to extend forbearance past 12 months for borrowers continuing to experience job losses on a <b>case-by-case basis</b>.</li> </ul>   | <ul style="list-style-type: none"> <li>Allows further reduction in financial stress to individual borrowers.</li> <li>This is an indirect way of extending unemployment benefits.</li> </ul>   | <ul style="list-style-type: none"> <li>No CF impact to CRT subordinate bonds.</li> <li>Extension of M1 and M2 bond CFs possible.</li> </ul>   |
| <p>➤ <b>Extend Foreclosure Moratorium</b></p> <ul style="list-style-type: none"> <li>FHFA has already extended the moratorium on foreclosures four times since March.</li> <li>Currently there is a Foreclosure moratorium through December 2020.</li> <li>Foreclosures are allowed for vacant and abandoned properties</li> </ul> | <ul style="list-style-type: none"> <li>Under the forbearance plan options, foreclosures are effectively extended until forbearance ends.</li> <li><b><u>Borrowers under forbearance cannot be subject to foreclosure.</u></b></li> <li>Excess supply of properties is minimized keeping demand and supply in equilibrium.</li> </ul> | <ul style="list-style-type: none"> <li>Any foreclosure delay or realized loss severity is positive for all tranches of CRT bonds.</li> <li>Any foreclosure moratorium results in delayed liquidations and delays losses to CRT tranches in reverse sequential order.</li> </ul> |

- Home prices have remained stable amidst high unemployment rates. Core Logic's latest U.S. Home Price Index indicates prices nationwide increased 5.9% YoY in August and were 1% higher relative to prior month.
- Low interest rates, limited inventory, and pent-up demand continue to support home prices.

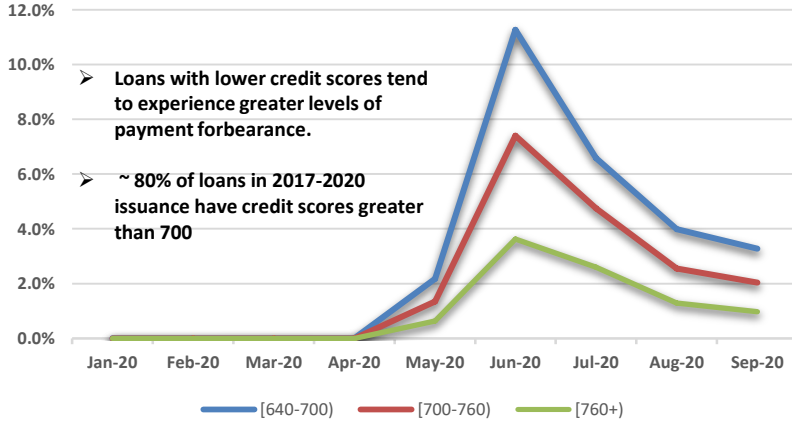
6M Home Price Change and Unemployment Rate of Top 30 CBSAs



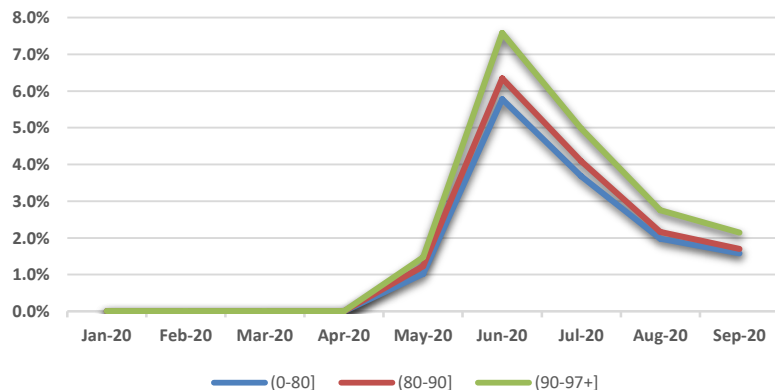
# Delinquency Rates Due to Covid-19 Falling

The pace of new forbearances has slowed since the beginning of the pandemic. The current transition rate into forbearance stands at 1.68%, much lower than the peak of 6.12%.

Current to Forbearance Roll Rate across FICOs



Current to Forbearance Roll Rate across LTVs

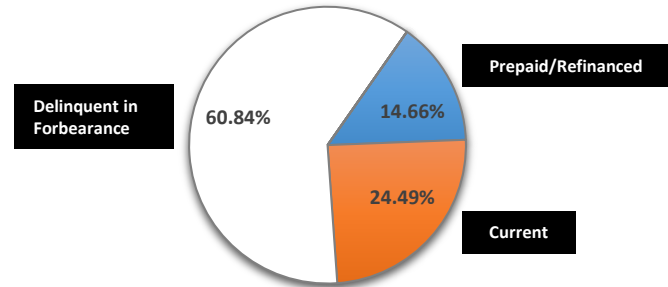


## Forbearance Characteristics

- Delinquent loans have lower credit scores relative to the rest of the outstanding population (WA FICO ~727 vs. 749).
- However, only ~1% of loans that fell behind on their payments since March had been previously seriously delinquent (60+ Day delinquent), while the rest show very strong credit performance.
- Loan characteristics of mortgages that became delinquent during the pandemic: 2018-2020 issuance, includes Low/High LTV and HARP deals.

| Count   | WA Mortgage Rate | WA FICO | WA Orig LTV <sup>1</sup> | WA Curr LTV <sup>2</sup> | WA Curr Effective LTV <sup>3</sup> | 60+ DQ % Pre-Covid | Value Change from Origination |
|---------|------------------|---------|--------------------------|--------------------------|------------------------------------|--------------------|-------------------------------|
| 227,794 | 4.42             | 727     | 84.8                     | 70.8                     | 62.63                              | 1%                 | +14%                          |

- Thus far, over 90% of modifications for borrowers in forbearance are term extensions and delinquent capitalizations. This type of modification **WILL NOT** result in any interest reduction or credit losses to investors.
  - As a reminder, losses that reflect the monthly foregone interest are first applied as a reduction to Available Interest Funds before affecting bond's principal. (See *detailed waterfall in Credit Risk Transfer presentation*)
- Approximately 40% of loans that requested COVID-19 related forbearances are already current or have paid off their loans.

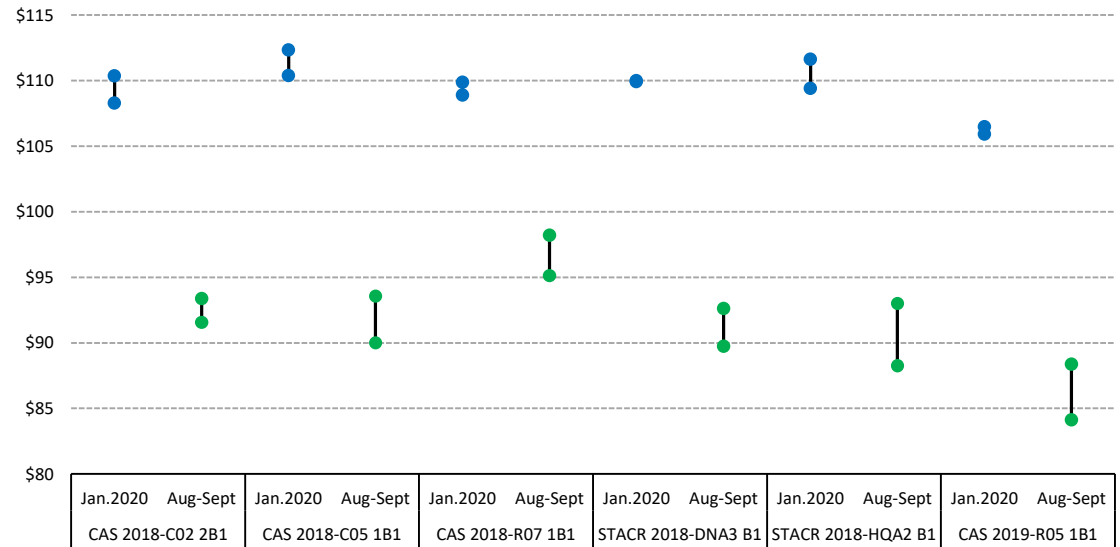


Note: The above chart represents current status of loans that requested forbearance in response to the pandemic related business closures and employment disruptions.

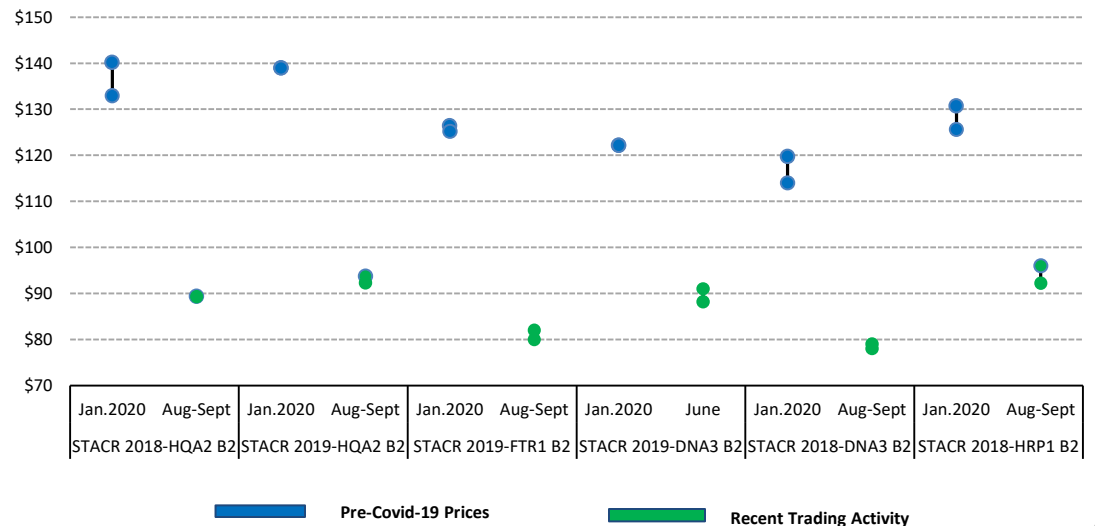
# Prices of CRT: Pre-COVID vs. Recent Trading Levels

- **Uncertainty around future forbearance requests and delinquencies continue to weigh on investors creating an attractive investment opportunity.**
- CRT has seen price recovery since March '20 but not to the level of spreads seen pre-pandemic.
- Fiscal support for housing in the form of foreclosure moratorium and options for modifications from the GSEs will enable borrowers facing hardships to avoid foreclosure leading to further spread tightening in the sector.
- Please see detailed discussion in ***"Credit Risk Transfer Presentation"***.

### B1 Tranche Price Ranges Pre-Covid-19 vs. Recent Trading



### B2 Tranche Price Ranges Pre-Covid-19 vs. Recent Trading



# Company Background

## INVESTORS

Capitalize on FBC's insight and product knowledge of the U.S. Securitized market

Registered with the SEC since June 30, 2011

SEC Registration Number: 801-72513

FINRA IARD Number: 156661

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10.2020