

Falcon Bridge Capital

U.S. Housing Credit Risk Strategy – Reinsuring U.S. Housing Agencies

Floating-Rate bond strategy focused on investing in debt securities issued by Fannie Mae and Freddie Mac to partially transfer their mortgage credit risk to private investors. Manager can tailor risk/return profile in a Separate Managed Account (“SMA”) or Fund of One.

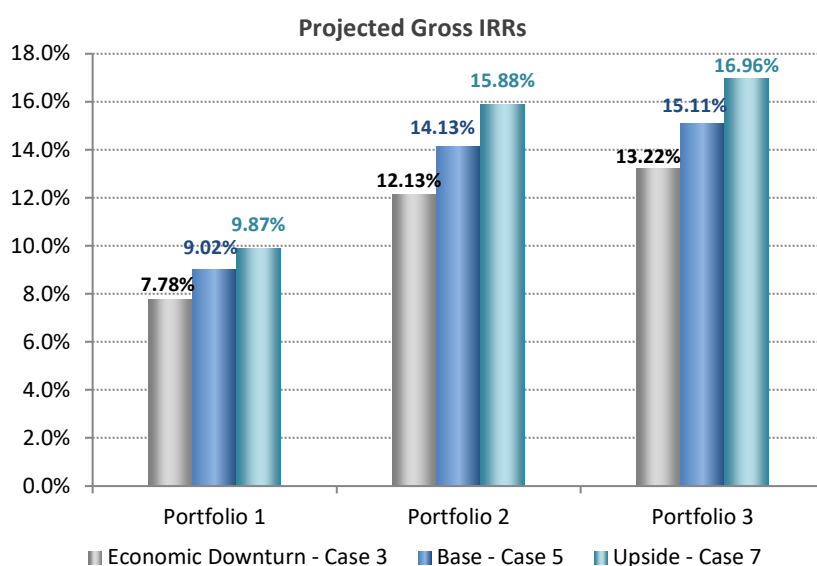
Overview, January 2023

SMA Description	
Currency	\$USD
Investment Vehicle	SMA or Fund of One
No Lockout	30 days notice
% Floating Rate	100%
Coupon Frequency	Monthly
Spread Duration	4.9 years
Distribution	Investor Discretion
Fees	Management Fee & Profit-Sharing

- U.S. Housing Agencies were mandated by Congress in 2012 to transfer credit risk from their portfolios to private capital investors; thereby creating a unique opportunity to reinsure Fannie Mae and Freddie Mac (Government Sponsored Agencies, “GSEs”).
- Falcon Bridge Capital (“FBC”) invests in residential mortgage Credit Risk Transfer (“CRT”) debt securities issued by GSEs.
 - Underlying loans being reinsured are large diversified pools originated to meet GSE underwriting and Servicing guidelines.
 - All securities are floating rate instruments indexed to 1 Month Libor/SOFR Plus a Spread to compensate for credit risk.
 - Strong housing market over the past 4 years has built substantial housing equity reducing default probabilities.

Recent spread widening is a result of record loan originations in 2020–2021 requiring high levels of risk-transfer by the GSEs.

- Short-term supply–demand dynamics are shifting, however strong household formation, equity build-up, and low inventory levels continue to support long-term housing equilibrium.
- Floating rate structure for CRT securities remains very attractive, given the potential of higher short-term rates in the near-term. **100% of the CRT sector is floating rate.**
- Strict underwriting standards, effective loss mitigation and limited housing inventories (for owners AND renters) will result in very low defaults, **consistent with “Investment Grade” risk.**



U.S. Housing Performance Across Business Cycles

Great Financial Crisis (GFC) in 2008 was the only period when home prices fell rapidly resulting in losses.

Figure 1: Home Price Change vs. Prevailing Mortgage Rates

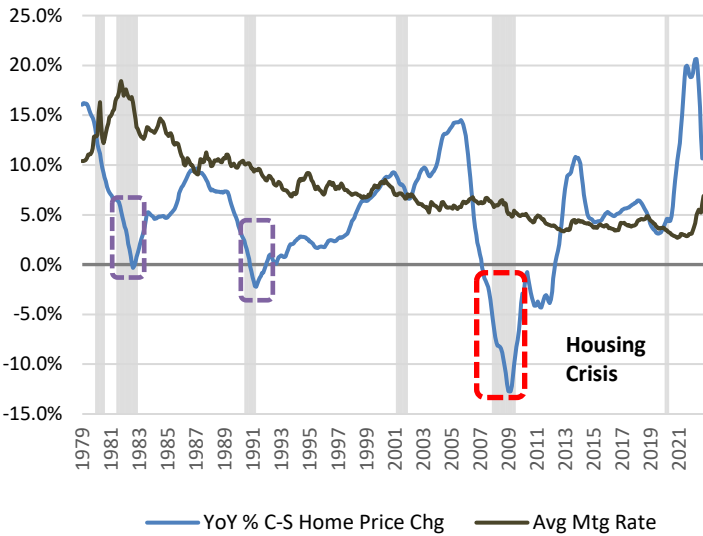
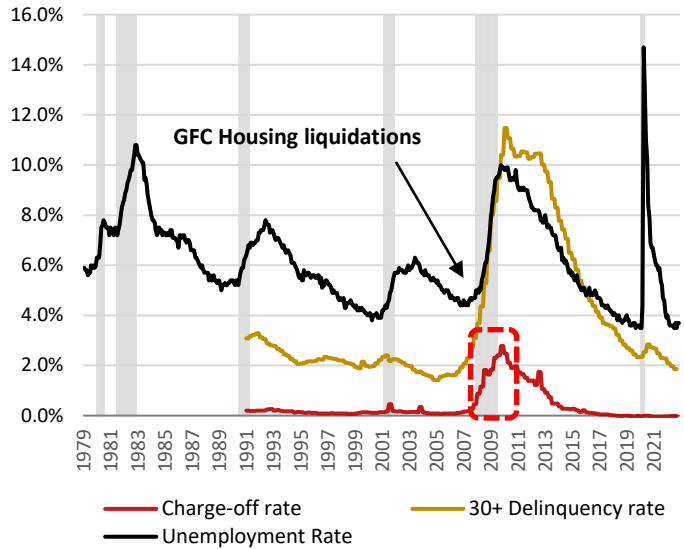
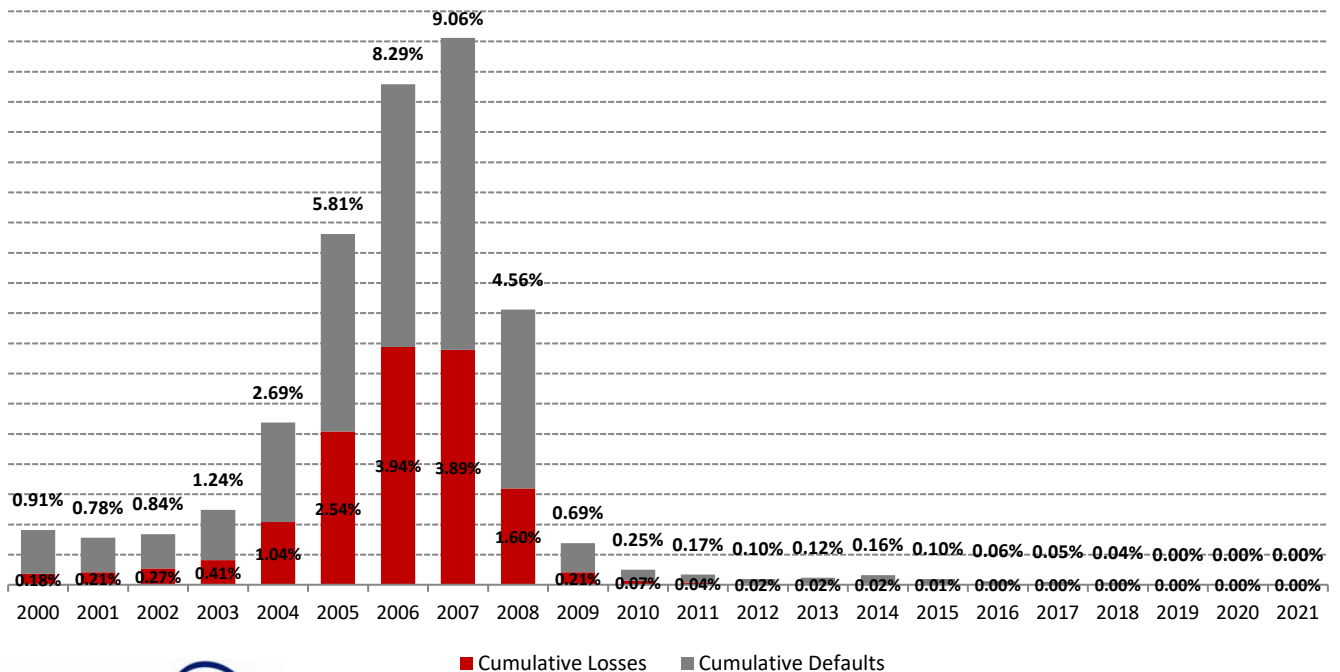


Figure 2: Unemployment and Delinquency Rates



Post-GFC losses remain *de minimis* due to tight borrower underwriting.

Figure 3: Cumulative Default and Loss % Across Origination Vintages



Trends in Underlying Borrower Profile and Housing Market Continue To Mitigate Underlying Credit Risk

Figure 4: Strong Borrower Profile and Homeowner Equity to Out-Perform Modeled Credit Performance

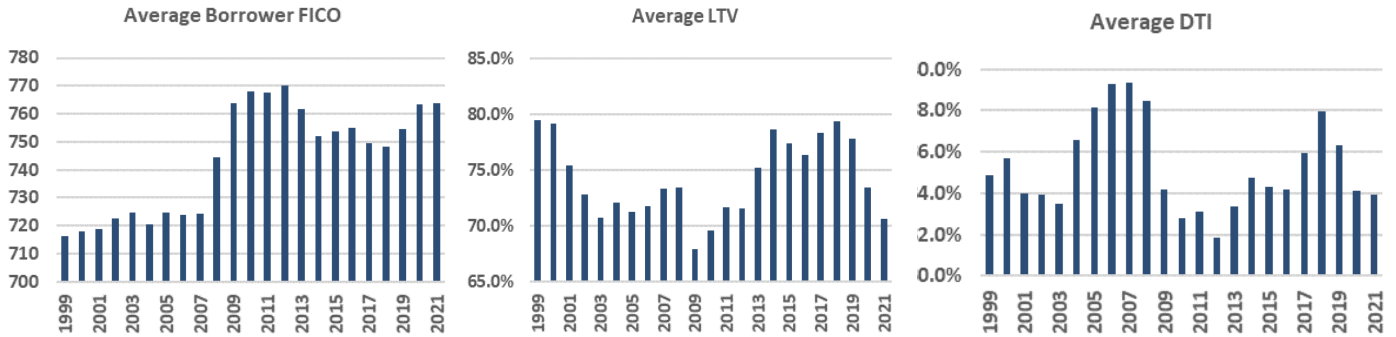
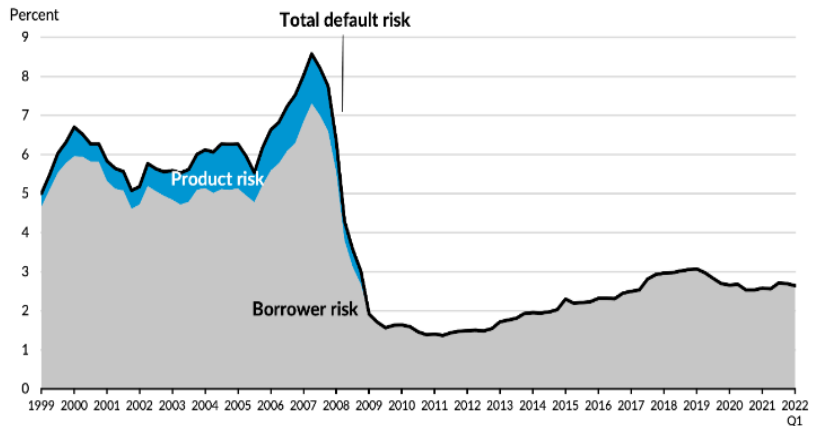


Figure 5: Default Risk

Default Risk Taken by the Government-Sponsored Enterprises Channel, 1998Q1–2022Q1



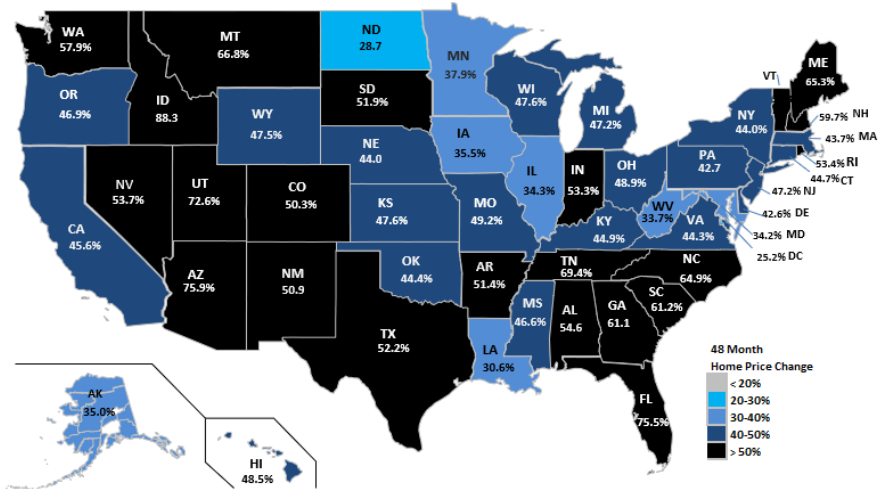
Sources: eMBS, CoreLogic, HMDA, IMF, and Urban Institute.

URBAN INSTITUTE

Tight underwriting standards since the 2008 housing crisis have eliminated product risk for loans considered eligible for CRT securities.

Figure 6: 48-Month Home Price Change

Home Price Appreciation over the past 48 months has contributed to a significant increase in home equity and wealth effect across the country (see U.S. Map).

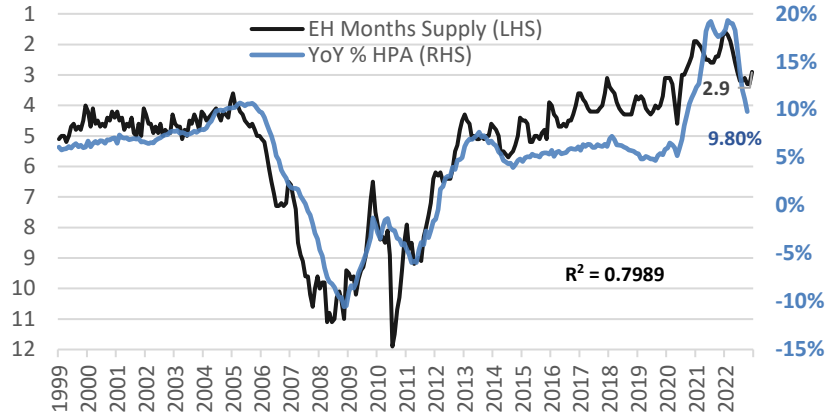


Sources: Federal Housing Finance Agency ("FHFA") House Price Index® as of Q3 2022, Fannie Mae as of June 2022, FBC.

Long-Term Housing Shortages Persist

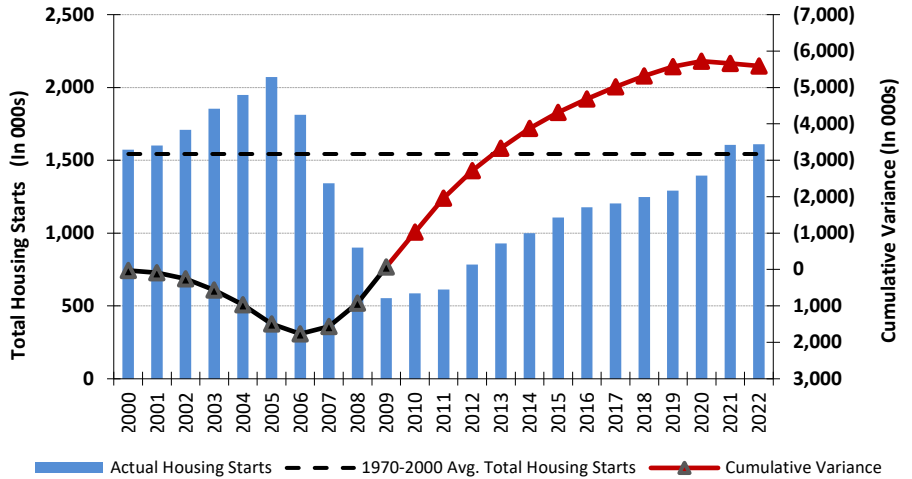
Home prices experienced sharp increases as inventories (as illustrated by months of supply) have dropped to unprecedented levels.

Figure 7: YoY Home Prices Changes vs. Months of Supply



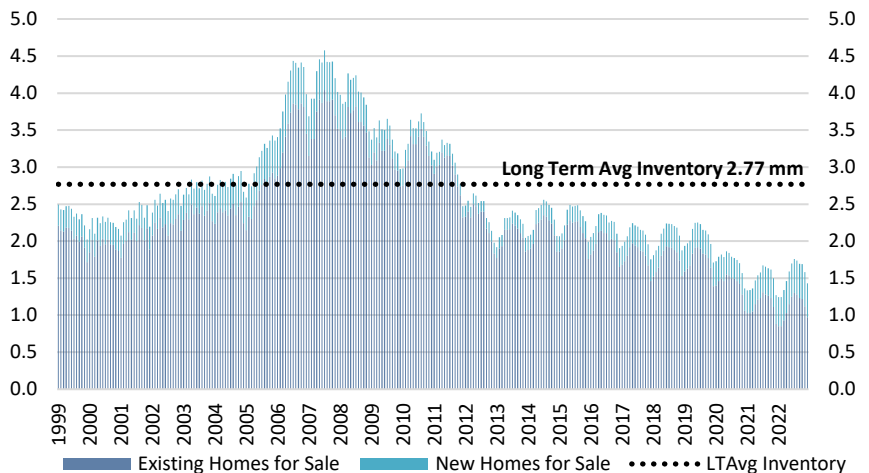
Supply shortages will continue to persist for several years as builders try to meet long-term demand for housing.

Figure 8: Housing Shortage



Housing inventory is ~48% below long-term trends. The supply of homes available for sale (existing and new) stood at 1.4 million in December 2022. In comparison, inventory averaged 2.77 million during 1999-2019.

Figure 9: Inventory of Homes for Sale (mm)



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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