

# Falcon Bridge Capital

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

Floating-Rate credit strategy focused on reinsuring Fannie Mae and Freddie Mac to partially transfer their mortgage credit risk to private investors. Manager can tailor risk/return profile in an SMA that fits individual investor returns and liquidity needs.

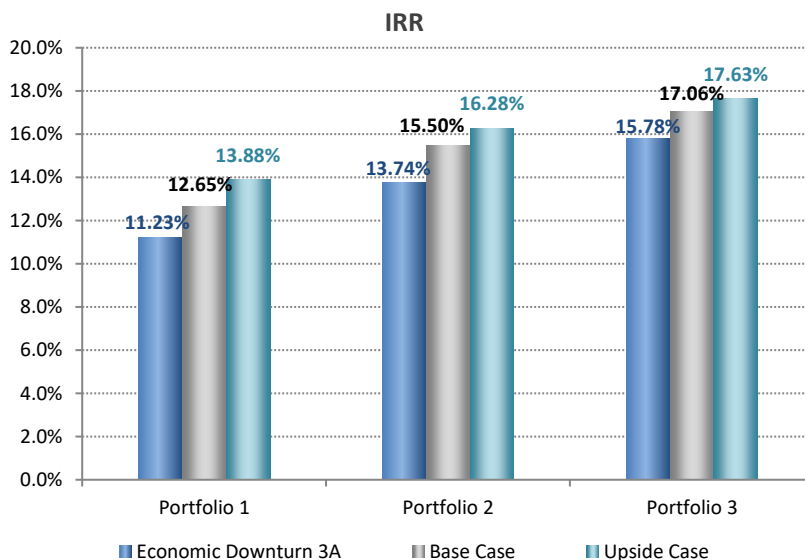
### Separate Managed Account (SMA)\* Overview, October 2022

SMA Information	
Currency	\$USD
Investment Vehicle	SMA
No Lockout	45 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 the GSEs.
  - Underlying loans being reinsured are large diversified pools originated throughout the U.S. All loans must 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, availability of credit and inventory levels continue to support housing.
- Floating rate structure 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 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

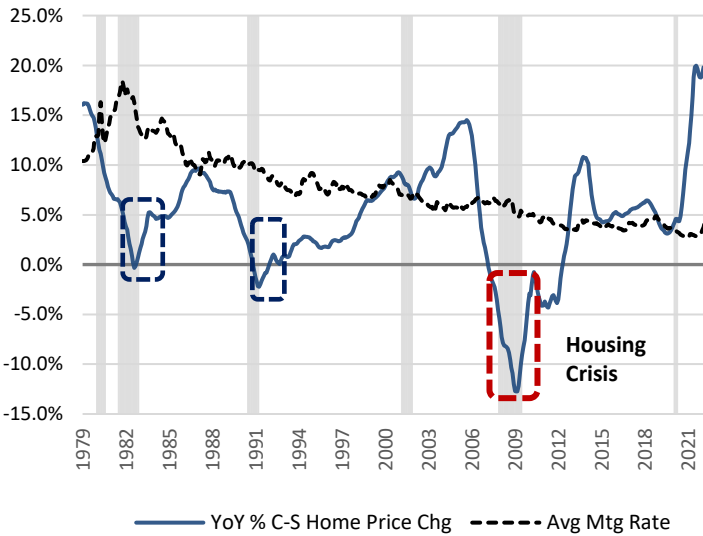
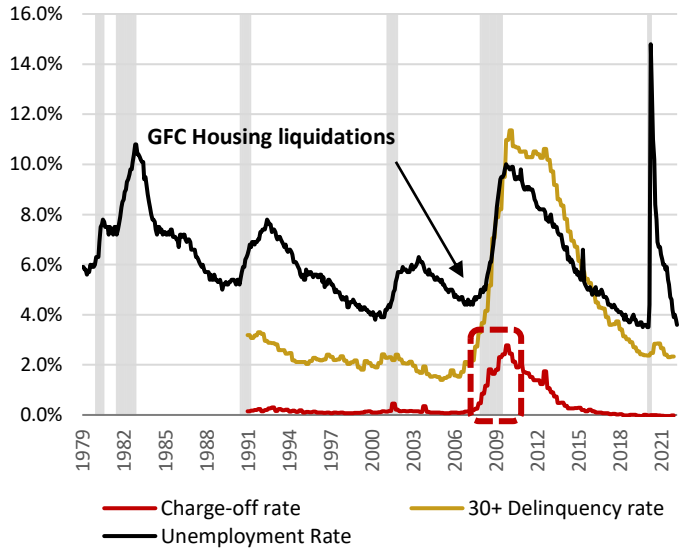
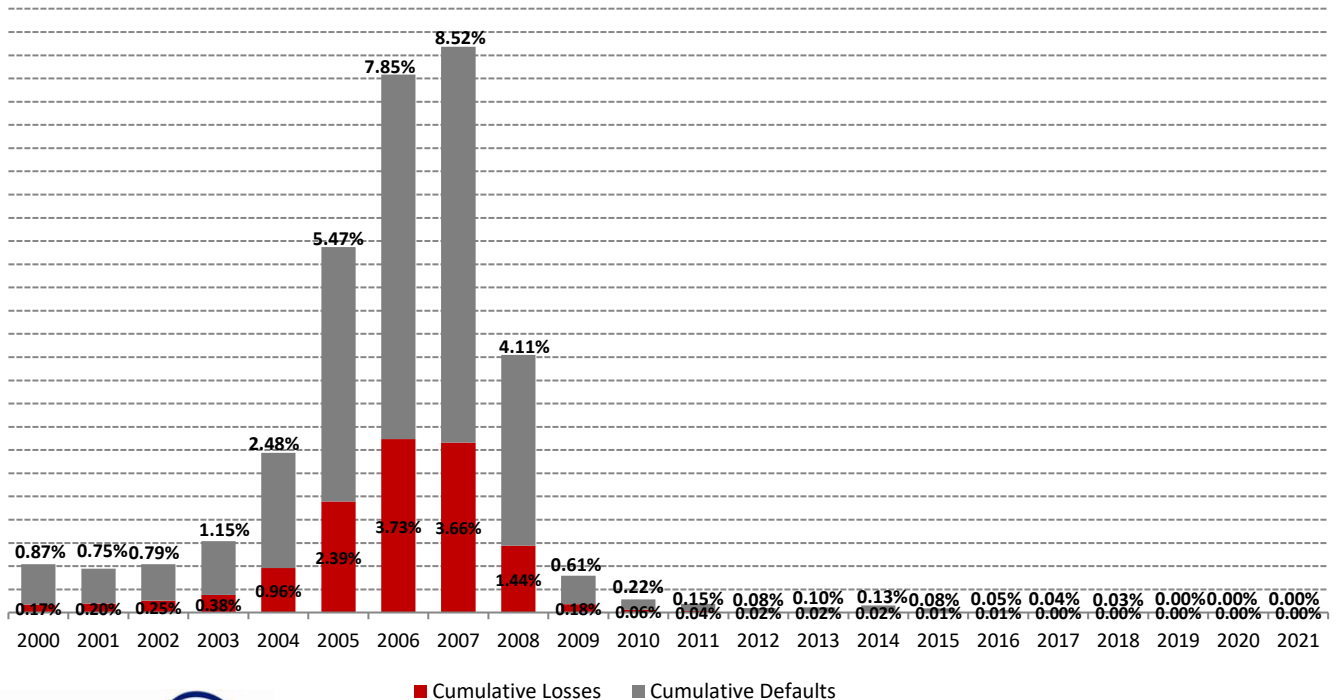


Figure 2: Unemployment and Delinquency Rates



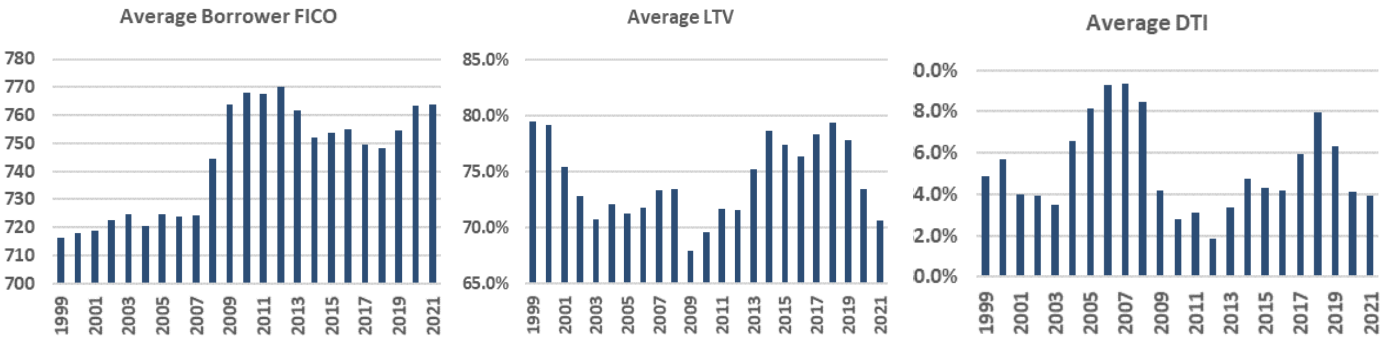
Post-GFC losses remain *de minimis* due to tight borrower underwriting.

Figure 3: Cumulative Default and Loss % Across Origination Vintages



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

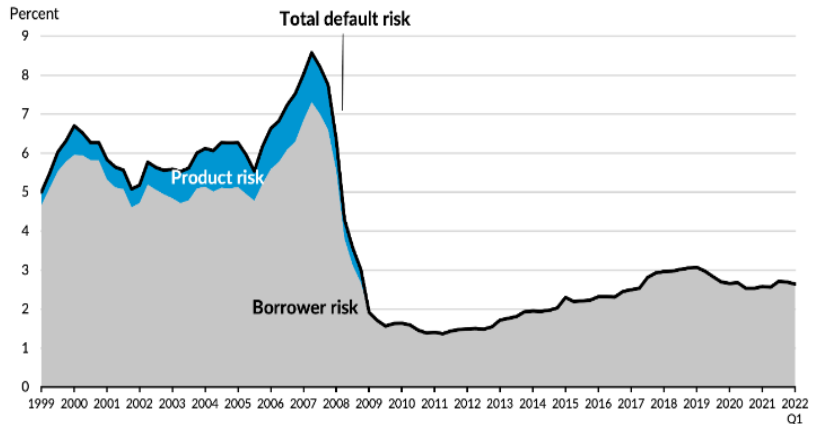
Figure 4: Strong Borrower Profile and Homeowner Equity to Out-Perform Modeled Credit Performance



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

Figure 5: Default Risk

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

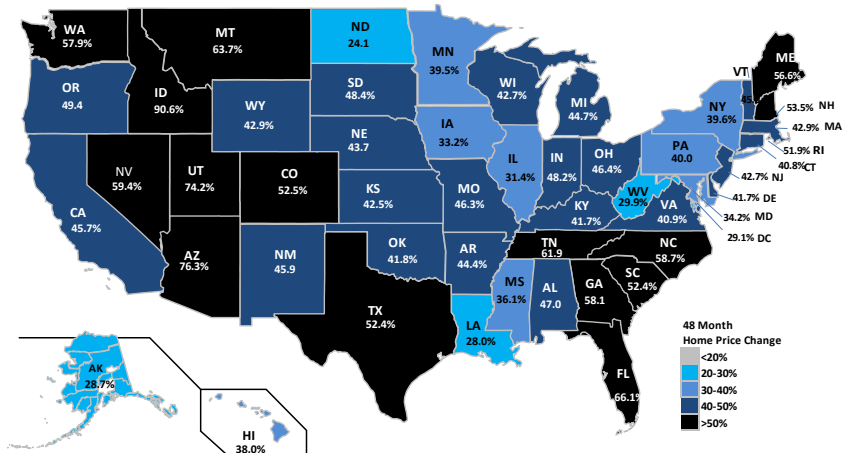


Sources: eMBS, CoreLogic, HMDA, IMF, and Urban Institute.

URBAN INSTITUTE

Figure 6: 48-Month Home Price Change

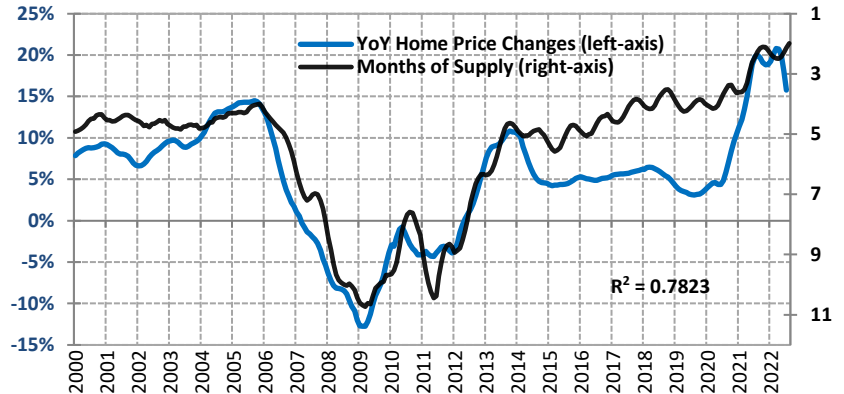
*Home Price Appreciation over the past 48 months has contributed to a significant increase in home equity and wealth effect across the country (see U.S. Map).*



# Long-Term Housing Shortages Persist

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

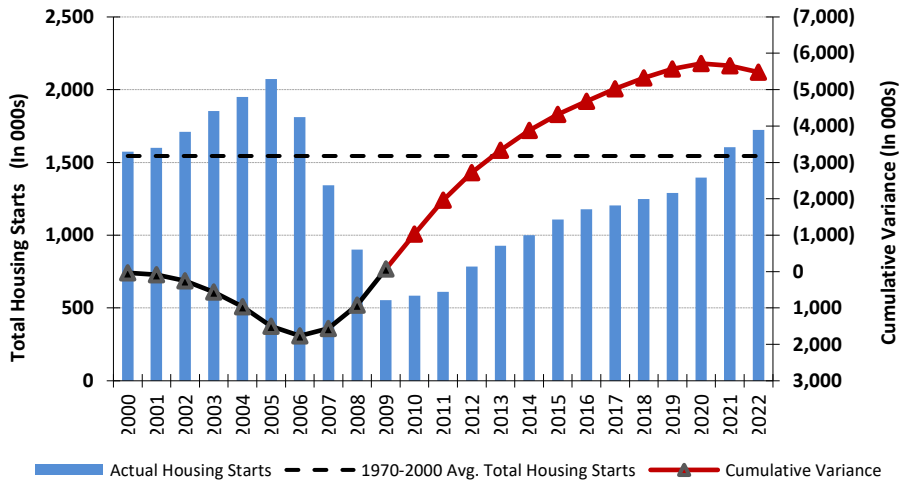
**Figure 7: YoY Home Prices Changes vs. Months of Supply**



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

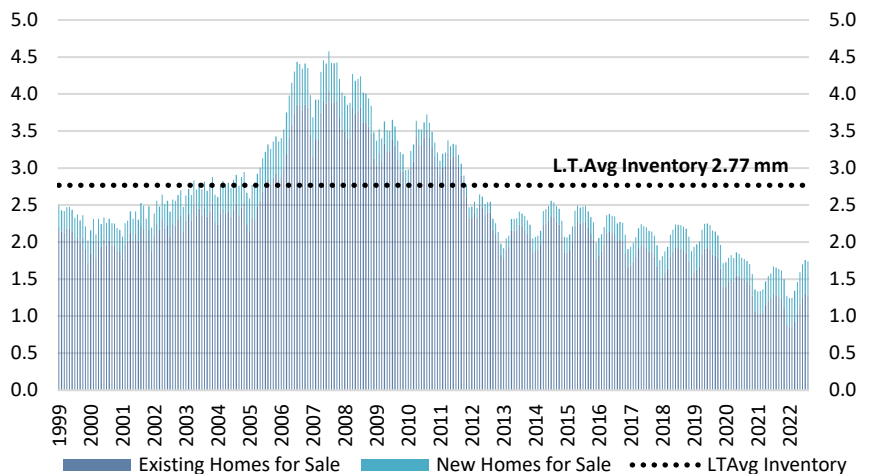
Supply shortages will continue to persist for several years as builders try to meet long-term demand for housing.

**Figure 8: Housing Shortage**



Housing inventory is ~35% below long-term trends. The supply of homes available for sale (existing and new) stood at 1.7 million in August 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

**For complete analysis, research, loss modeling and sensitivity analysis, please contact:**

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10.2022