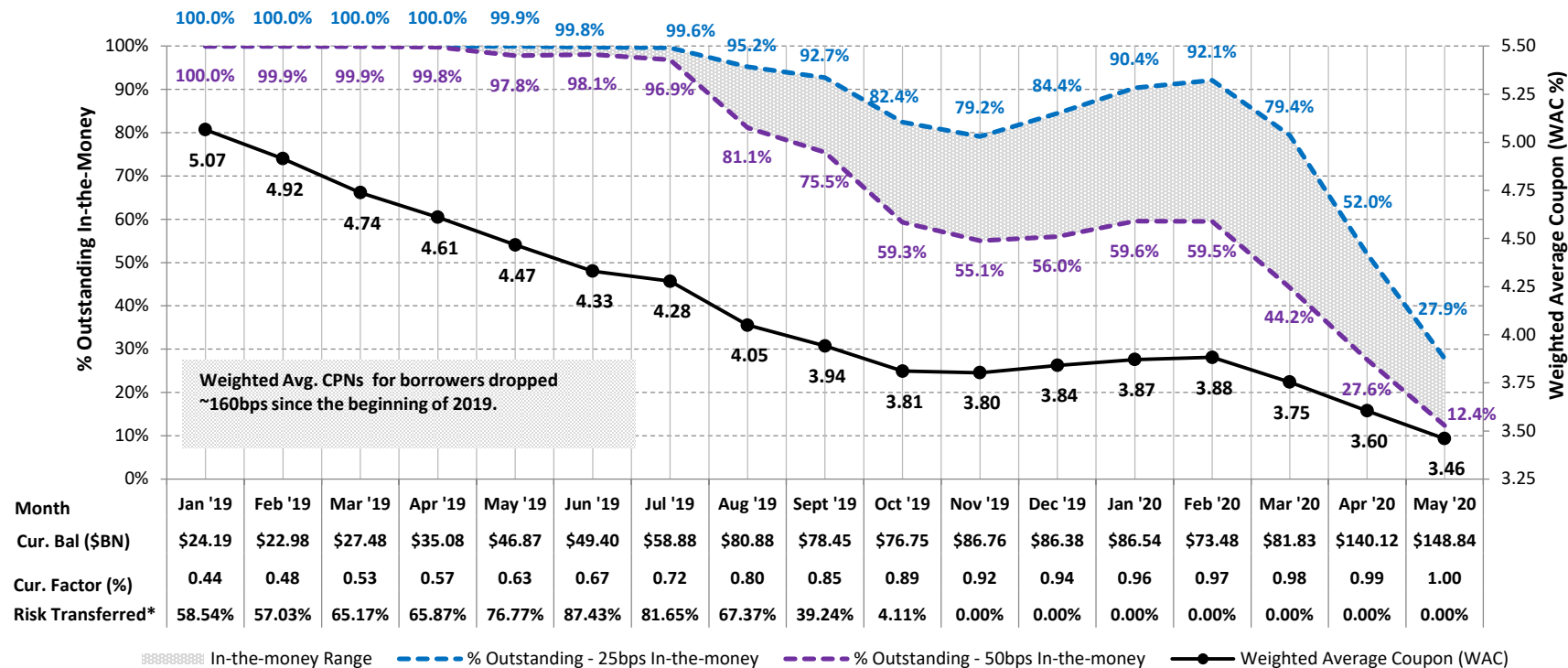


# Positive impact from prepayments in Agency mortgages to continue in 2019, 2020 and likely 2021 CRT issuance

- Prepayments to continue as many borrowers remain in-the-money.
- Strong prepayments are positive for CRT valuation in the subordinate tranches.

- 2019 vintage borrowers have strong refinance incentive. (Almost 80% of 2019 loan production or \$527bn has mortgage coupon exceeding 3.75%.)
- Significant portion of 2020 origination is also “in-the-money.” Mortgage rates projected to fall to 3.0% by Q4 2020.
- 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.

### Prepayment Potential and GSEs pending Risk-Transfer in 2020 and 2021



Note: The percentage of loans “In-the-money” is estimated based on the current mortgage rate of 3.25%. 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.