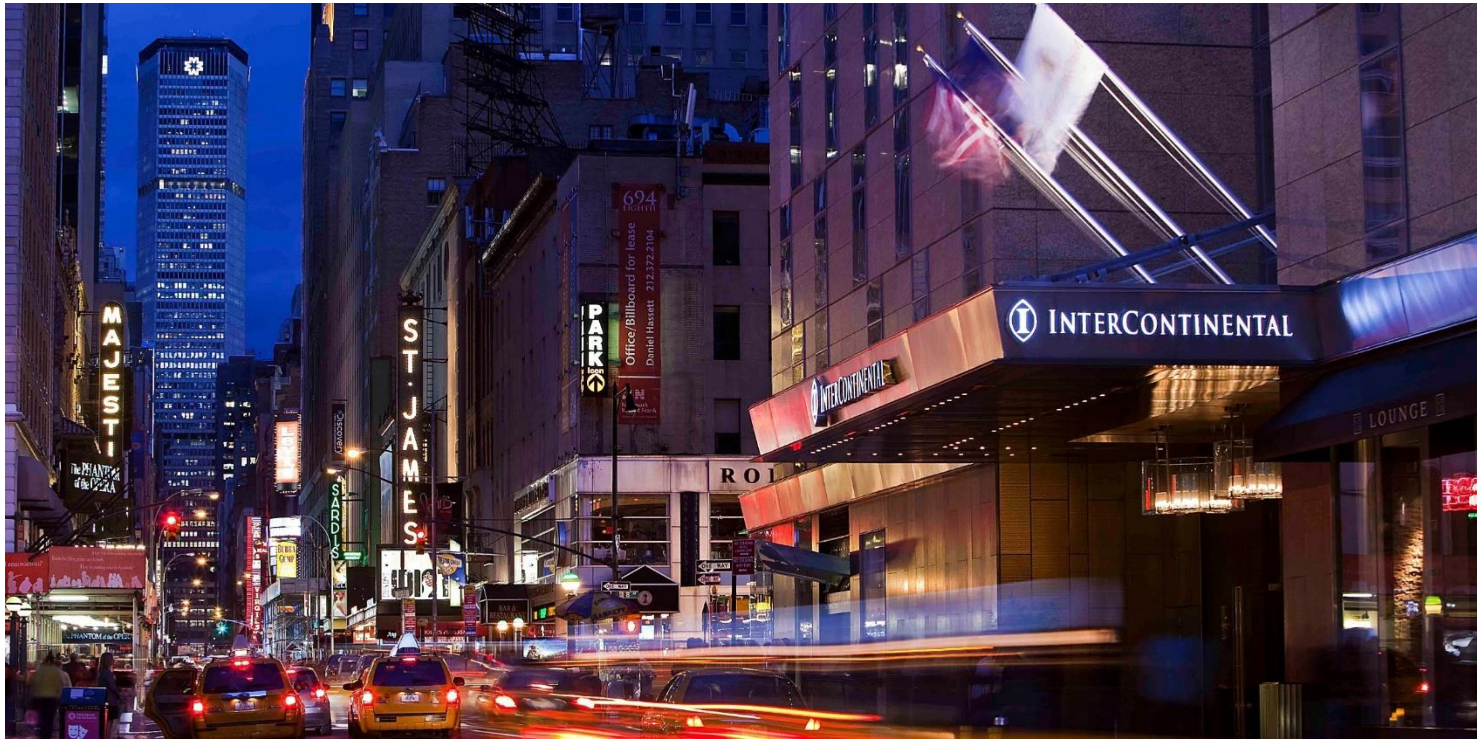
National Reverse Mortgage Lenders Association

Eastern Regional Meeting

May 20-21, 2019 New York, NY



Proprietary Reverse Mortgage Securitization Trends

Moderator: Mike McCully, New View Advisors, Naples, FL

Presenters:

- Timothy J. Geraghty, Waterfall Asset Management, New York
- Michael Kelly, Performance Trust Capital Partners, Greenwich, CT
- Phil Theodoropoulos, Nomura Securities International, Inc., New York

Proprietary Loan Securitization Basics

- **Bond cash flow comes from loan payoffs**
  - Maturity Events include death, moveout, refinance
- **Loan level cash flow modeling required to anticipate multiple variables and scenarios**
- **Realized loss occurs when loan balance exceeds property value, net of disposition costs**
  - Underlying property and timeline for resolution determines magnitude of loss
- **Overcollateralization from build-up of excess spread sized to protect bondholders**

Structural Issues and Solutions

Issue	Problem	Solution
Home Price Decline	Crossover loss	Subordination, low LTVs, excess spread builds O/C
Sequential Pay Gaps	Whipsaw / fast then slow prepays	Always pay available PDA to Senior Class
Large Loan Impact	Lumpy prepays and crossover loss	Restrict loan size / Haircut loans
Foreclosure Severity	Non-SFR property type	Haircut non-SFR LTVs
Litigation	Non-borrowing spouse; Contingent interest	No NBS or contingent interest allowed
Liquidity	Slow initial prepays; potential interest shortfall	Reserve fund equal to first 6-12 months' interest
Investor Reporting	Unrelated legacy servicing	Credit risk management/Servicer oversight

Proprietary Loan History

- **$7+ billion of non-Agency loans originated life-to-date**
- **8 securitizations for $3.5 billion**
  - Additional $4+ billion of proprietary loans not securitized
  - Approx. $1 billion current outstanding balance

Trust	Original Balance	Current Balance
SASCO 1999-RM1	$317,000,000	Paid off 6/14
SASCO 2002-RM1	$291,000,000	Paid off 1/14
SASCO 2005-RM1	$504,000,000	Paid off 5/16
SASCO 2006-RM1	$599,000,000	Paid off 2/19
SASCO 2007-RM1	$701,000,000	$263,000,000
SHAP 2013-RM1	$193,000,000	Paid off 5/18
TMFT 2017-RJ1	$275,000,000	$200,000,000 est.
CFMT 2018-RM2	$573,000,000	$560,000,000

Proprietary Loan Investor Performance

- **Proprietary loans are paying at 15-16% CPR**
  - Trending up in the past 12 months
  - This remains below the 18% historical average

- **Many of the SASCO bonds were downgraded but…**
  - The securities have all withstood the original stress test of 30%+ immediate drop in home prices
  - The downgrades occurred primarily as a result of the rating agencies recalibrating their home price assumptions *down another 30%*

- **There have been *no realized losses or writedowns* of bonds**

Proprietary Product Current State

- **Product development driven by investor requirements, not borrower demand**
  - Early HECMs had Fannie Mae to thank
  - Ginnie Mae created new investor demand with HMBS
- **Risk/return analysis is key to success**
  - Proprietary product is self-insured
  - Structure must withstand losses yet still provide meaningful returns
  - Long gestation period another factor
- **With bond pricing validation comes product improvement**
- **Five reverse mortgage lenders now offering proprietary product alternatives to HECM**

Proprietary Becomes Competitive

- **As HECM Principal Limits are reduced, the home value at which self-insured proprietary products become competitive drops**

- **A reduction in the HECM Maximum Claim Amount would lower indifference points further**

Borrower Age	MCA	Mid 2000s Indiff Point	2014 HECM Indiff Point	2017 HECM Indiff Point
62 – 90+	$726,525	--	$1.5mm-$0.9mm	$1mm-$0.6mm
62 – 90+	$417,000	--	$1mm-$0.6mm	$0.7mm-$0.4mm
62 – 90+	$217,000	$0.5mm-$0.3mm	--	--

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