DEFAULT RISK

SHED SOME LIGHT ON YOUR EXPOSURE

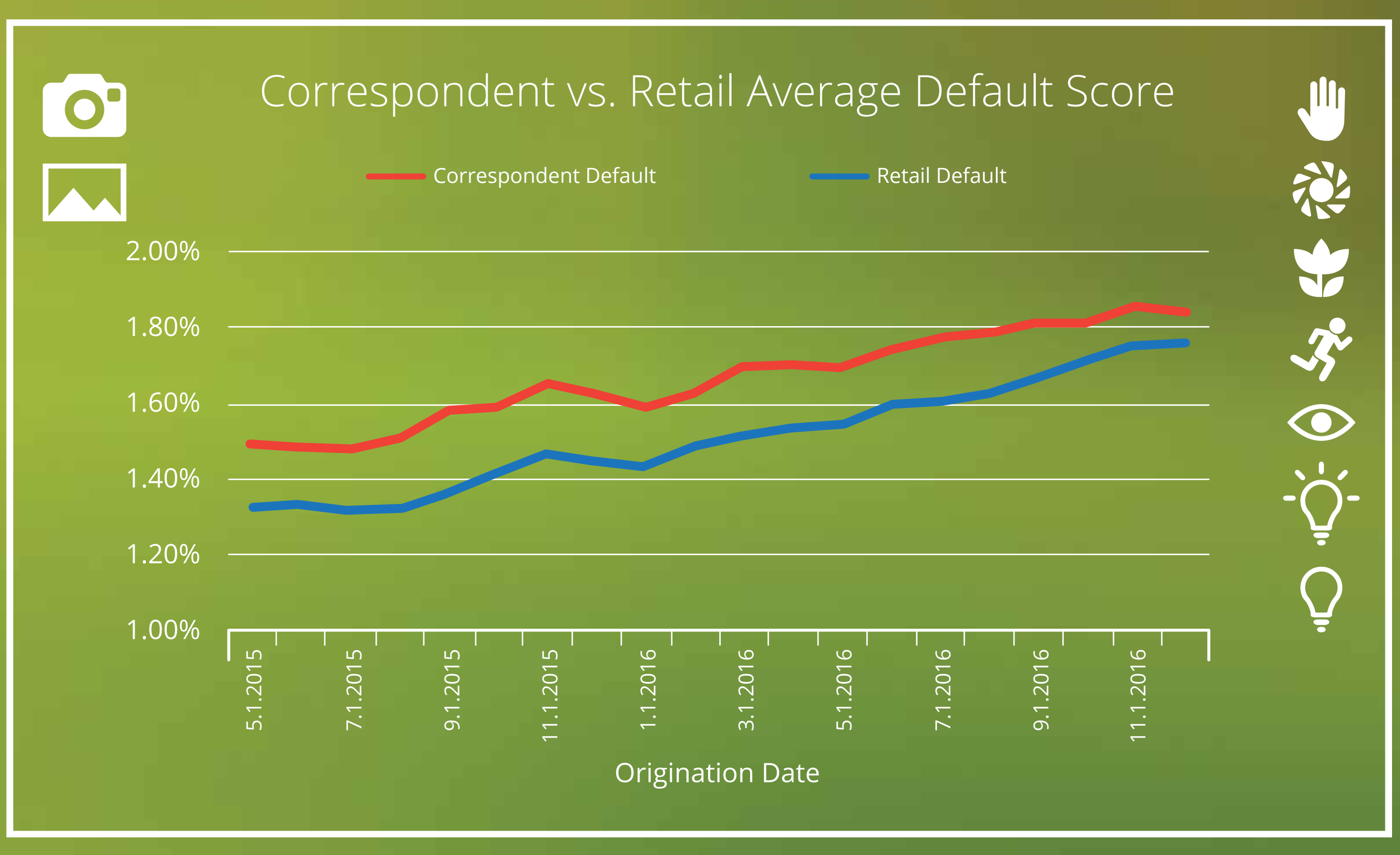
FOCAL POINT

MBA forecasts[1] interest rates will increase over 50 bps in 2017 which will result in lower refinance activity and a shift towards a purchase market.

Correspondent lenders have originated purchase loans for sale to the GSEs with higher risk of default as compared to retail.

CORRESPONDENT DEFAULT SCORE[2] ON AVERAGE 10% HIGHER THAN RETAIL

(THE AVERAGE SPREAD BETWEEN CORRESPONDENT AND RETAIL LENDERS IS NARROWING)



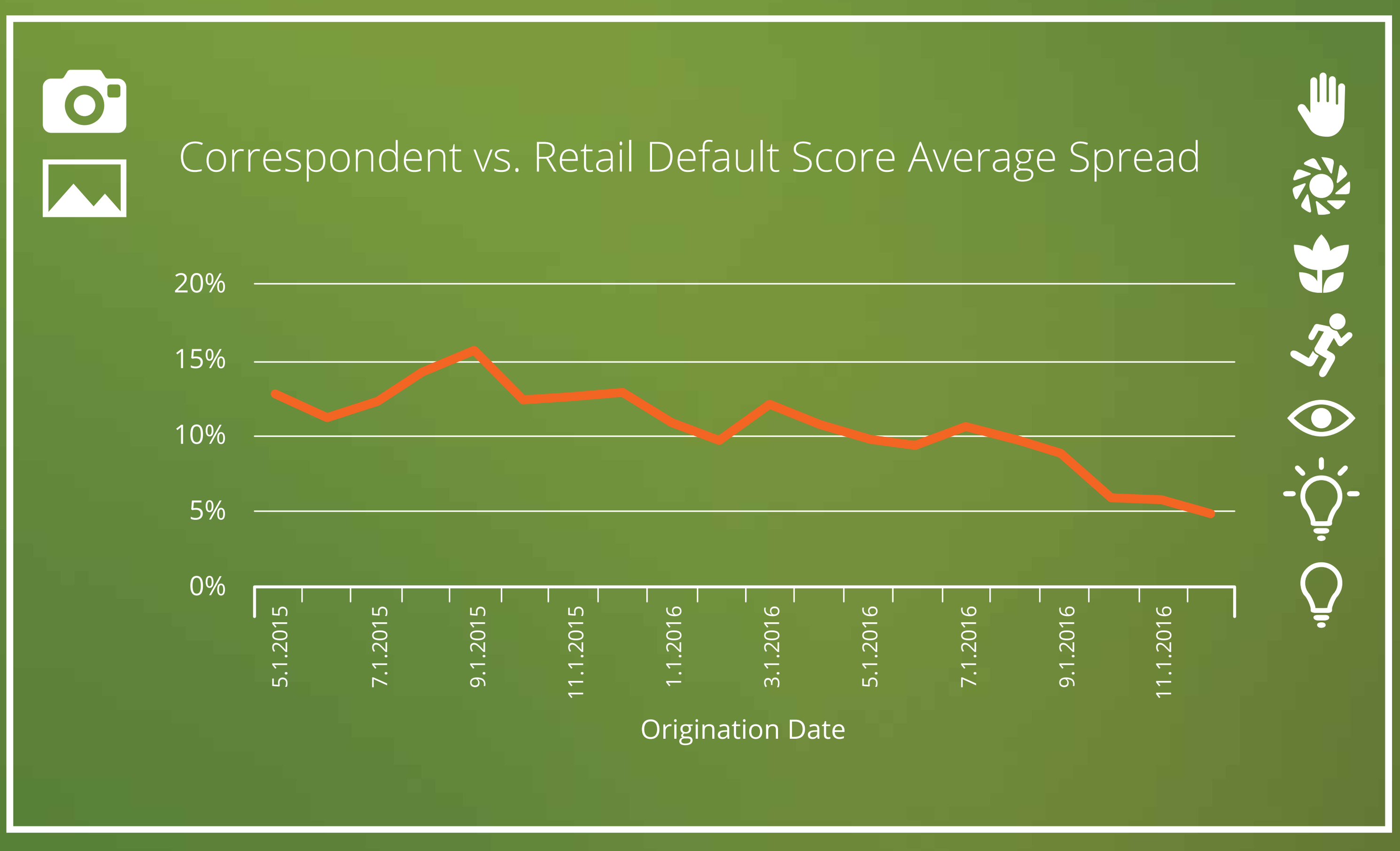
LANDSCAPE VIEW

IMPORTANCE OF UNDERSTANDING RISK PROFILES DIFFERENCES

As mortgage originators look to maintain volume in a reduced refinance market, we may expect correspondent lending to be a source of volume for mortgage aggregators. It is important for aggregators and lenders to understand the landscape of risk from this channel of originations.

THE AVERAGE SPREAD...

Default Risk spread[3] (the incremental percent spread between the correspondent average Default Risk and the retail average Default Risk) reduced over the last few months of 2016.

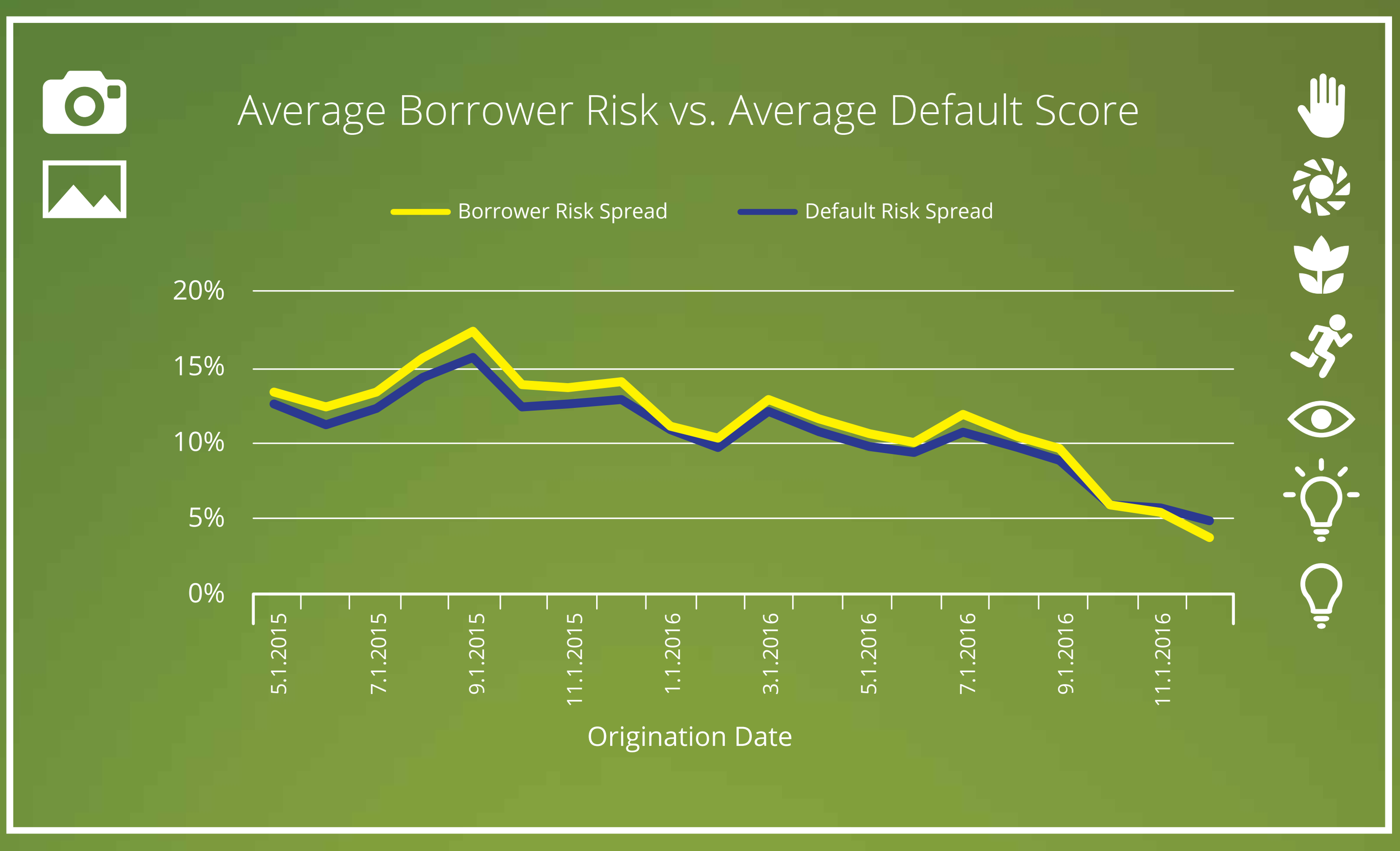


COMPONENTS OF DEFAULT RISK INCLUDE BORROWER, UNDERWRITING AND ECONOMIC RISK

Underwriting risk and economic risk were generally consistent between the two origination channels.

Borrower risk[4] has a comparable spread to the Default risk spread, both of which are narrowing.

On average, correspondent lenders have delivered loans with lower credit scores and higher LTVs compared to retail originations.



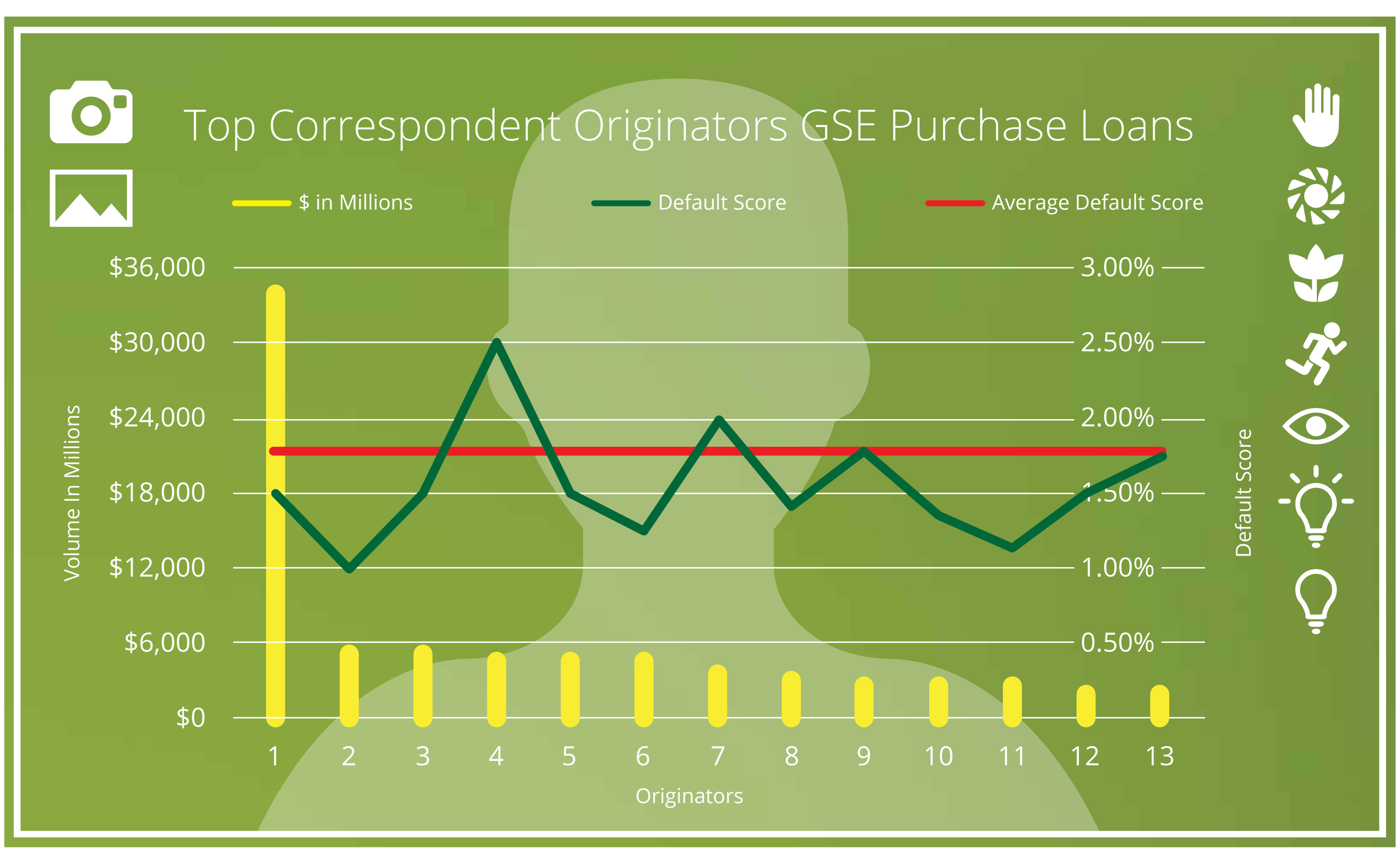
TIGHT SHOT OR WIDE ANGLE?

WILL STRATEGIES TO TAP A BROADER PURCHASE MARKET INCREASE OR DECREASE DEFAULT RISK SPREAD?

TAKE A SELFIE

DEFAULT RISK PROFILES FOR CORRESPONDENT ORIGINATORS ARE VARIABLE

Examination of default risk scores can help identify not only which loans to purchase from correspondents, but can help lenders define the underwriting guidelines for their loan purchase agreements and determine the right mix of correspondents to support their desired risk profile.



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1 MBA Mortgage Finance Forecast, March 15, 2017

2 The Milliman Default Score is a loan-level lifetime probability estimate of default where default is defined as a loan that becomes 90 days delinquent or worse. The Default Score is a composite default rate calculation that combines three attributes of mortgage credit risk to estimate the frequency of borrower defaults. The three attributes are: 1). creditworthiness of the borrower 2), underwriting properties of the loan; and 3). Macroeconomic influences.

3 Default risk spread = (Correspondent default risk-Retail default risk)/Retail Default Risk

4 In Milliman's model, Borrower risk includes FICO and LTV.