

Bond and Securities Market Update

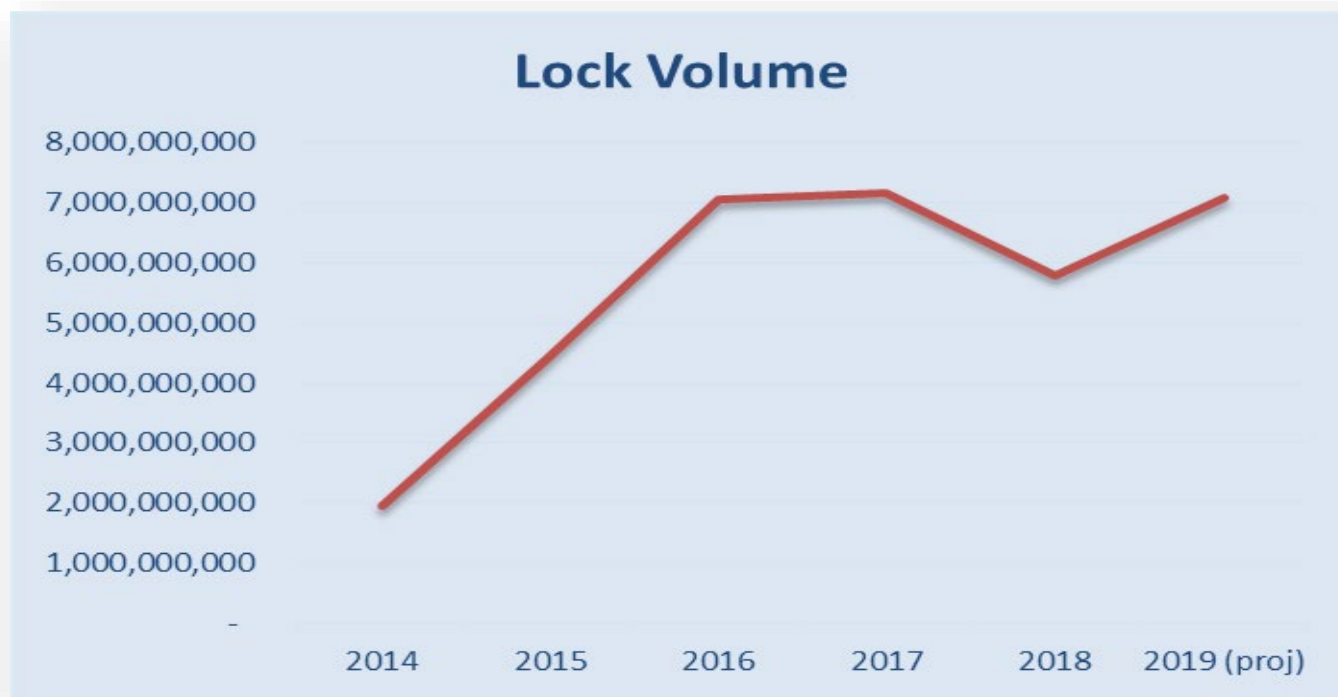
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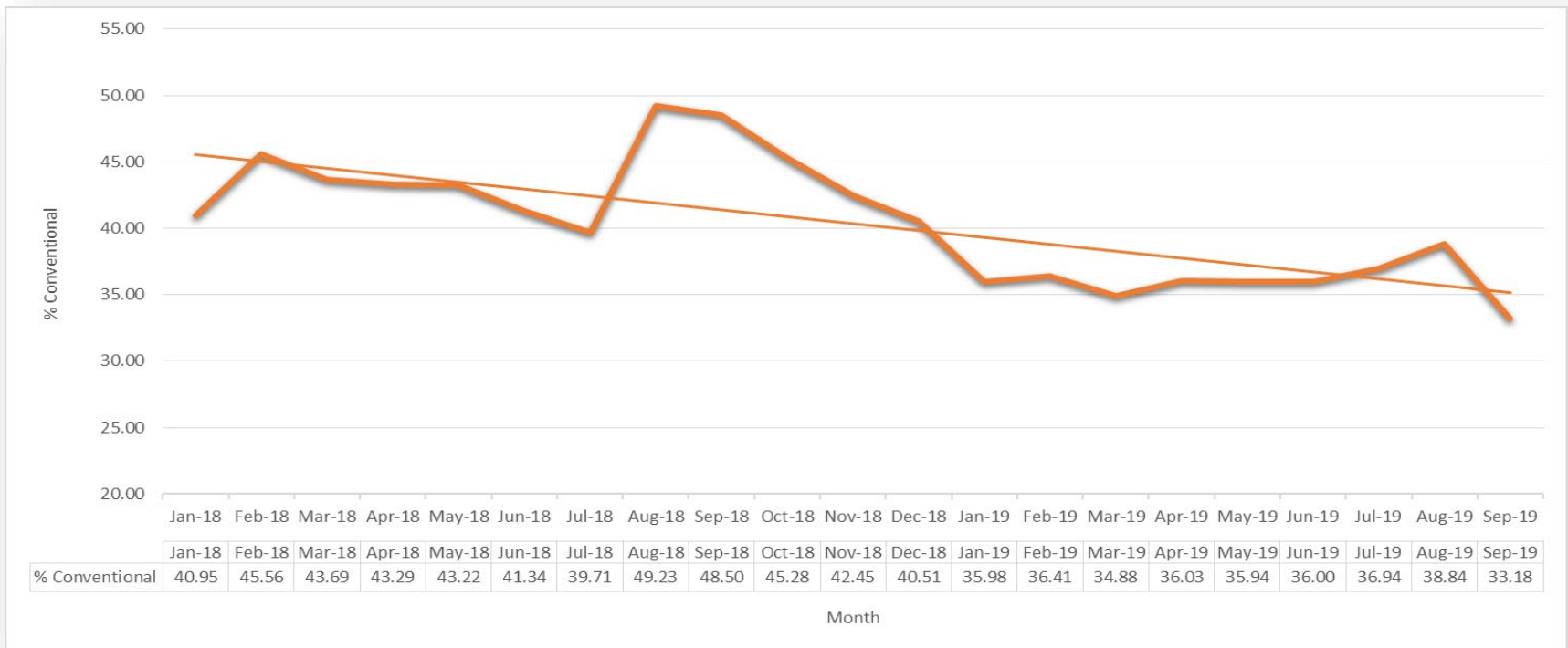
Production Trends

- HFAs are continuing to see robust TBA volume despite the increase in MRB issuances
- 2019 is shaping up to be another record year in Lock volume for HTS clients
- Since July 2012 representing 14 state programs and over \$34.4 billion in locks and \$26.8 billion in MBS purchases
- 9 out of 14 HTS HFA partners are using both MRB and TBA to fund single family activity



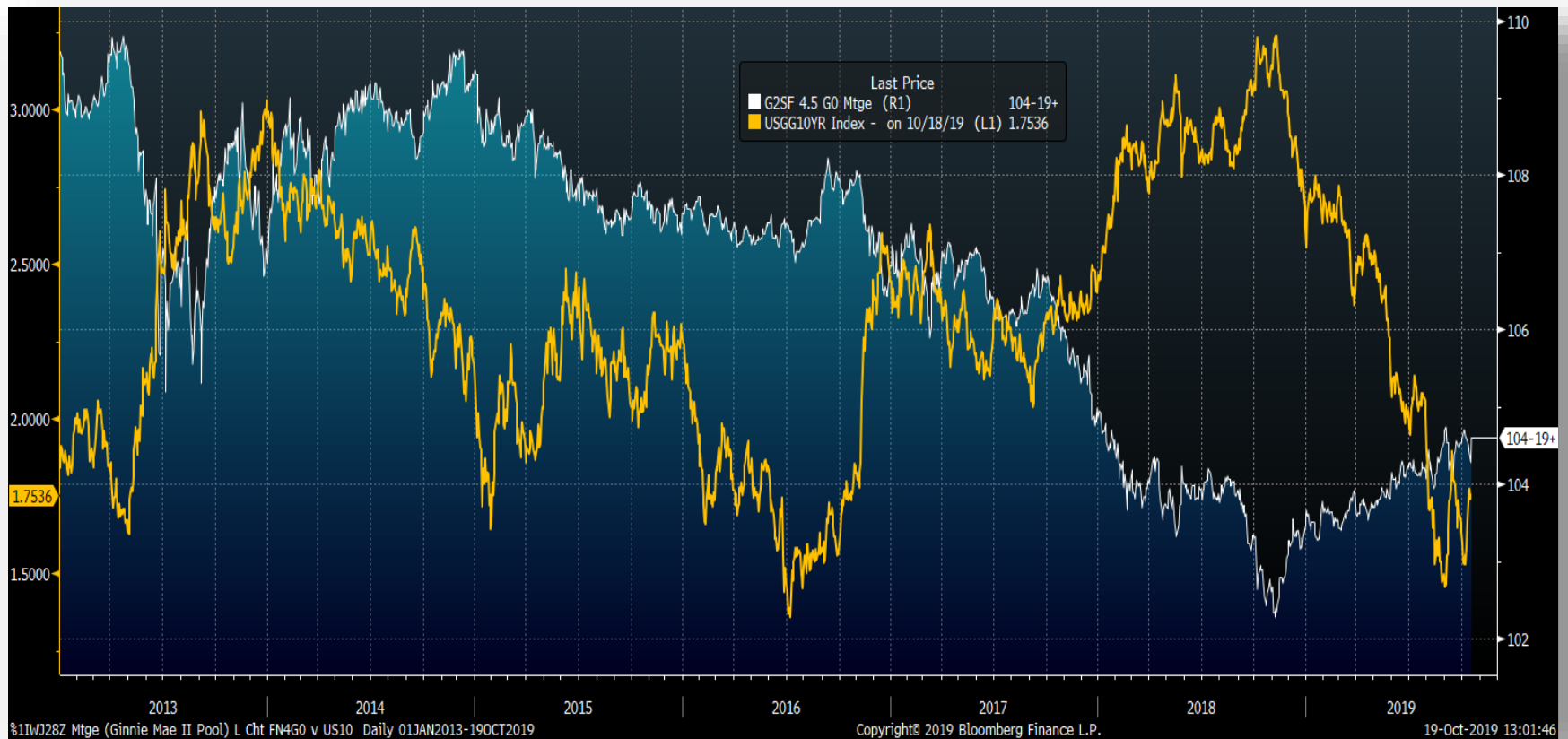
Continued Decline in the Share of Conventional Production

- As a result of the changes rolled out by Fannie Mae over the last 12 months and the tightening of the AUS by both GSEs
- Despite the big push by Freddie Mac for HFA production, September lock volume showed a 17% drop in conventional locks vs a year ago. Overall, conventional volume is down 32% from peak levels



Ginnie Mae TBA Underperforms in The Recent Rally

- The current TBA market is performing very differently compared to 3 years ago
- The coupon swaps have gotten much cheaper given the much higher prepay expectations for the higher coupon TBAs



TBA Coupon Swaps for Ginnie Mae II

MBS Coupon (%)	Ginnie Mae MBS Type	Ginnie Mae II TBA Price November Delivery	InterCoupon Spread	MBS Coupon (%)	UMBS TBA Price November Delivery	InterCoupon Spread	Spreads Btw Ginnie Mae & UMBS
3.00	GN2	102.28130	-	3.000	101.09380	-	1.18750
3.50	GN2	103.40630	1.125	3.500	102.37500	1.28120	1.03130
4.00	GN2	103.71880	0.313	4.000	103.62500	1.25000	0.09380
4.50	GN2	104.56250	0.844	4.500	105.09375	1.46875	(0.53125)
5.00	GN2	105.50000	0.938	5.000	106.96875	1.87500	(1.46875)
5.50	GN2	105.96880	0.469	5.500	107.96875	1.00000	(1.99995)

TBA		1) Actions		3) Settings		Fixed Income Trading			
16:50 * Market Closed *									
4) TBA30 5) TBA15 6) MBS 7) Swaps 8) Butterflies									
2) SW30 2) SW15									
G2SF	Nov	Agcy Swaps	FN/G2	GN/G2	15 Yr/30 Yr Swap - Nov				
Cpn	Bid / Ask	Chg	Bid/Ask	Bid/Ask	Cpn	Price	Spread		
2.5	100-19+ / 20+	+ 02+	-1-23 / - 21	-0-07 / - 05	2.5-3	/	/		
3.0	102-09 / 10	- 01+	-1-06+ / - 04+	0-04 / 06	3-3.5	/	/		
3.5	103-13 / 14	- 00+	-1-02 /	0-10 / 12	3.5-4	/	/		
4.0	103-23+ / 24+	+ 00	-0-04 / - 02	0-26 / 28	4-4.5	/	/		
4.5	104-18+ / 19+	+ 01	0-16 / 18	1-08+ / 10+	4.5-5	/	/		
5.0	105-16+ / 17+	- 02	1-14 / 16	-0-01 / 01	5-5.5	/	/		
5.5	105-31 /	- 00+	1-31 / 01	1-01 / 03					
Cpn Swap 30 - Nov		G2SF 30Yr - Nov			Mtge Performance			Dur	Edit
Cpn	Price Spread	Cpn	Dur	CT10	Perf	Cpn	Tsy Crv	Swap Crv	
3-2.5	1-20+ / 22+	2.5	0.00	0.0%	+ 02+	2.5	+ 02+	+ 02+	
3.5-3	1-03 / 05	3.0	0.00	0.0%	- 01+	3.0	- 01+	- 01+	
4-3.5	0-09+ / 11+	3.5	0.00	0.0%	- 00+	3.5	- 00+	- 00+	
4.5-4	0-26 / 28	4.0	0.00	0.0%	--	4.0	--	--	
5-4.5	0-29 / 31	4.5	0.00	0.0%	+ 01	4.5	+ 01	+ 01	
5.5-5	0-13+ / 15+	5.0	0.00	0.0%	- 02	5.0	- 02	- 02	
		5.5	0.00	0.0%	- 00+	5.5	- 00+	- 00+	

Factors to Consider When Hedging HFA TBA Pipeline

- Ginnie Mae I TBA screen pricing is irrelevant and should not be used for hedging given the wide bid/ask spreads
- Managing the risk on HFA paper has changed dramatically in this rally
- In the past you could hedge your long HFA lock/pool risk with a short that comprised the corresponding TBA
- Now the duration/convexity of the TBA is completely different than that of the HFA pool. If you hedge your long G2 4.5 pool exposure with the G2 4.5 TBA, you will be dramatically under-hedged
- Given how integral pay-ups are to lock pricing at origination, it is very important to hedge pay-ups. Otherwise, the negative convexity of the asset class will result in bigger losses
- Making best execution decisions (MRB vs TBA) should take into account real “spec” pay-ups and not screen levels

Factors Impacting Investor Interest in HFA MBS

- Type of program DPA (grant vs 2nd lien)
- Type of 2nd lien (repayable, forgivable or amortizing)
- Historic prepayment performance and home price appreciation
- Servicer

What Does it Take to Maximize Execution on HFA Paper

- Ability to analyze the prepayment behavior over a prolonged period of time across various HFAs is necessary to identify fundamental valuation of a certain HFAs pools
- Broadly speaking, current industry standard MBS valuation models - used by most institutional investors - do not understand HFA collateral well
- If you run a G2 4.5% new production HFA pool through that model, it will price it assuming the pool prepays 60 CPR at 6 month seasoning
- Working with institutional investors in fine tuning their respective systems to make them HFA intelligent is paramount and requires deep relationships, and thorough product research/understanding
- Almost all of HTS' HFA paper is sold to end customers (money managers, insurance companies, hedge funds etc.) as opposed to dealers, which helps cut the middleman

Monthly Investor Research

- HTS' MBS quant group releases a detailed report to our institutional clients that shows how our HFA paper prepaid. Here is an excerpt of that report:

Agency	State	Curr Face	Coupon	WAC	Season	WALA	Oct CPR	1mo Ratio	3mo CPR	3mo Ratio	12mo CPR	12mo Ratio
G2	TX	>100	4.50	5.03	New Prod	3	0.2	0%	0.2	1%	0	
G2	TX	>100	5.00	5.50	New Prod	7	0.1	0%	0.7	2%	0.5	3%
G2	TX	>100	5.50	5.83	New Prod	9	0.9		1.1		0.4	
UMBS	TX	>100	5.00	5.53	New Prod	7	0.3	1%	0.3	1%	0.4	3%

Agency	State	Curr Face	Coupon	WAC	Season	WALA	Oct CPR	1mo Ratio	3mo CPR	3mo Ratio	12mo CPR	12mo Ratio
G2	TX	>100	4.00	4.40	Mod Seasoned	23	5.9	15%	5.2	14%	3.6	0.17
G2	TX	>100	4.50	4.90	Mod Seasoned	20	6.9	17%	5	13%	2.8	0.11
G2	TX	>100	5.00	5.42	Mod Seasoned	16	2.2	6%	2.3	6%	1.6	0.05