The Inaugural NON-QM FORUM

November 14-15, 2019 | Los Angeles, CA

Questions & Answers with Some of Our Key Speakers
# Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>3</td>
</tr>
<tr>
<td>Tom Hutchens, Executive Vice President of Production, Angel Oak Mortgage Solutions</td>
<td>4</td>
</tr>
<tr>
<td>Rishi Bansal, Chief Investment Officer, BankUnited</td>
<td>5</td>
</tr>
<tr>
<td>Michael Crockett, Executive VP Product Development, Credit Plus</td>
<td>6-7</td>
</tr>
<tr>
<td>Nathan Turner, President, Earnest Inc</td>
<td>8</td>
</tr>
<tr>
<td>Lisa Schrieber, SVP, NonAgency, NewRez</td>
<td>9</td>
</tr>
<tr>
<td>Jon Daurio, Founder, Chairman &amp; CEO, Nikkael Mortgage</td>
<td>10-11</td>
</tr>
<tr>
<td>Leon Tatevossian, Adjunct Professor, Financial Mathematics and Engineering, NYU Courant and NYU Tandon</td>
<td>12</td>
</tr>
<tr>
<td>John Lynch, CEO, PCMA Private Client Lending</td>
<td>13-15</td>
</tr>
<tr>
<td>Shea Pallante, EVP, Sprout Mortgage</td>
<td>16</td>
</tr>
<tr>
<td>Event Information</td>
<td>17</td>
</tr>
</tbody>
</table>
IMN’s inaugural Non-QM Forum is just around the corner, taking place at The Sofitel Los Angeles in California November 14-15. In the lead up to this highly anticipated event, we asked some of our key speakers their insights into the market and how to capitalize on this surging market.

1. What has surprised you regarding the development of the Non-QM market?

2. How will a recession impact the Non-QM market from both an origination and existing loan point of view?

3. QM patch and ability-to-pay predictions- How will the results change the market?

4. For those grizzled market veterans how would you compare the Non-QM market today vs. the old subprime market?

5. What part of the Non-QM market will show the most growth? Investment strength?

6. What are the most efficient and accessible hedging instruments available to manage risk and liquidity?

7. What was the last movie you saw that you would recommend
What has surprised you regarding the development of the Non-QM market?
The only surprise is after 6 years of educating the industry about Non-QM loans there are still a large number of loan officers that are not originating Non-QM loans. There are so many success stories of LO’s using Non-QM products to differentiate themselves in the market. The good news is how much opportunity there still is!

How will a recession impact the Non-QM market from both an origination and existing loan point of view?
The biggest impact will be on the overall housing market, not Non-QM specifically. The existing book of business has been originated very responsibly and at LTV’s that can sustain an adjustment in collateral value.

QM patch and ability-to-pay predictions- How will the results change the market?
If the QM patch is removed it will have a significant impact on the market as the Agencies will no longer be able to originate Non-QM loans under the QM protections. It is important for all lenders to have Non-QM as part of their 2020 strategy or they will be far behind when the patch is removed. I do not see significant changes to the Ability-to-repay regulations.

For those grizzled market veterans how would you compare the Non-QM market today vs. the old subprime market?
There is very little to compare! The most important factors in lending; Loan-to-Value, DTI, Ability-to-repay, appraisal independence, fraud protections were not part of the old subprime market and are the key drivers of today’s responsible Non-QM originations.

What part of the Non-QM market will show the most growth? Investment strength?
The alternative income programs (bank statements) continue to be a significant part of the market and that should continue. There’s also a big opportunity in the “just missed” Jumbo and investment property space.

What was the last movie you saw that you would recommend?
Bohemian Rhapsody…great story about a great band.
What has surprised you regarding the development of the Non-QM market?

- How many different types of mortgages are labeled Non-QM
- That investors are willing to accept 2 year non call not only on the higher wac, lower fico deals, but also the lower wac higher fico deals which have a lot more convexity and less credit risk.

How will a recession impact the Non-QM market from both an origination and existing loan point of view?

- Existing loans will experience meaningful increase in defaults
- The legal standing on non QM loans will get battle tested
- reps and warranties will get tested
- origination volumes will likely decline initially

QM patch and ability-to-pay predictions- How will the results change the market?
QM Patch will increase size of non agency market

For those grizzled market veterans how would you compare the Non-QM market today vs. the old subprime market?

- Overall very different
  - Typical loans used to be 2/28 or 3/27 hybrid with penalties, now most loans are longer hybrid or fixed rate
  - The non QM label covers a whole spectrum of borrowers while some are close to subprime credit with sub 640 fico, and near prime with 640-680 fico, most of the volume is 680+ fico
  - ATR rules require more validation of ability to repay
- But there is some echoes of the past
  - A re-surgence of broker originated loans
  - more liberal cash-out
  - lower documentation standards
  - some piggy back loans being done

Rishi Bansal, Chief Investment Officer, BankUnited: Mr. Bansal has been the Bank’s Chief Investment Officer since February 2017 and most recently served as Executive Vice President, Mortgage Portfolio. Mr. Bansal joined the Bank in July 2009, and was part of the advisory group that worked on the Bank’s acquisition. In his role as Chief Investment Officer, Mr. Bansal is responsible for the bank’s investment securities portfolio. He manages the Bank’s residential loan portfolio, residential mortgage warehouse business and Pinnacle Public Finance business. Prior to joining BankUnited, Mr. Bansal was a Managing Director in fixed income with Merrill Lynch from 2007 through 2009 and a fixed income trader at Lehman Brothers from 1998 through 2007. Mr. Bansal received a Post Graduate Diploma in Management from Indian Institute of Management, Ahmedabad and earned his Bachelor of Technology (Chemical Engineering) from Indian Institute of Technology, Delhi.
What has surprised you regarding the development of the Non-QM market?
To be completely honest, not much. We expected the non-QM market to come back in some form or fashion. If I’ve been surprised by anything, it would be the length of time it took to come back. Today we are seeing more due diligence in the non-QM market than before because ability-to-repay is a requirement, but again, that was to be expected. It’s also no surprise that there are plenty of responsible applicants out there who simply just need different financing options from conventional loans. The non-QM market is filling a real need. We view it as the pendulum swinging back to where it should be.

How will a recession impact the Non-QM market from both an origination and existing loan point of view?
We don’t believe the recession will have much of an impact for origination for Non-QM, especially where foreign investors are concerned. And those here in the states, must still prove the ability to repay. Even though their DTI ratios are higher than conventional QM loans, non-QMs are performing quite well. According to Corelogic, both non-QM and QM conventional loans had low delinquency rates in 2018. In fact, the serious delinquency rate for non-QM loans is slightly lower than the rate for conventional QM loans and government-insured loans in 2018. We believe non-QM loans will continue to perform well should a recession take hold because of the increased due diligence we see in today’s market.

QM patch and ability-to-pay predictions- How will the results change the market?
The QM patch is going to go away in 2021 – meaning the loans that would be QM eligible through this patch would no longer be, which will ultimately elevate their perceived overall risk and, in turn, make them candidates for non-QM programs. It appears that the FHFA’s goal here is to prevent the GSEs from acquiring all qualified mortgages in the future, such as non-owner occupied, cash out, second homes, higher LTV, which would cause the non-QM and Private Loan Securitizations (PLS) markets to grow even more.
For those grizzled market veterans how would you compare the Non-QM market today vs. the old subprime market?

Today we see a lot more due diligence which has made the non-QM market a viable one for real estate investment, entrepreneurs, and foreign investors. The sub-prime market was mainly for high-risk consumers that didn’t qualify – and the self-employed were in that pool too because of the inherent challenges associated with proving income. But today, non-QM loans are appropriate for real estate investment purposes and for those who are self-employed. Essentially, we are seeing more and more less risky consumers enter this space because they have been properly vetted to repay.

What part of the Non-QM market will show the most growth? Investment strength?

We believe real estate investment is an area that will grow rapidly. We’re seeing rising loan volumes for investment properties because non-traditional methods for qualifying are being used that consider investment dollars versus traditional W2s.

What was the last movie you saw that you would recommend?

A Star is Born
Q

What has surprised you regarding the development of the Non-QM market?
I have been surprised at how quickly this market made its return. I'm pleased to see the changes that have been made in lending standards as well.

How will a recession impact the Non-QM market from both an origination and existing loan point of view?
I believe that Non-QM will fare better than traditional lending in that there is more flexibility and availability to borrowers.

QM patch and ability-to-pay predictions - How will the results change the market?
Predictions are good to a certain point, after that it's hard to say exactly how people will behave. Overall I believe people want to do the right thing and know that part of that is paying for housing.

For those grizzled market veterans how would you compare the Non-QM market today vs. the old subprime market?
Similar but not the same. I don’t think it’s as “fast and loose” as it was before. More careful and responsible lending seems to have won the day.

What part of the Non-QM market will show the most growth? Investment strength?
I think that many people that benefit from non-QM lending are self employed people or people with alternative income. Often these are lower income people but not necessarily. There are plenty of good, hardworking people that are still being refused by conventional standards that can be great borrowers.

What was the last movie you saw that you would recommend?
We’ve been enjoying helping our kids discover the ‘80’s. Re-watching movies like Superman, Karate Kid, Dark Crystal... movies that are all getting remade today!

A
What has surprised you regarding the development of the Non-QM market?
How challenging is it has been to educate and provide tools to ease the origination process.

How will a recession impact the Non-QM market from both an origination and existing loan point of view?
As many borrowers are self-employed, small business owners or investors, we will have to watch the impact of a recession to their business, rent vs. buy and trends relating to delinquencies. Most small businesses have been around through many cycles so that is a positive that should carry most through unscathed.

QM patch and ability-to-pay predictions - How will the results change the market?
There could be an influx of new borrowers coming into NonQM. We would have to make sure we understood the credit profiles of these clients and their ATR in order to serve them properly.

For those grizzled market veterans how would you compare the Non-QM market today vs. the old subprime market?
I think I am one of these grizzled old veterans! I do not see any true comparison in the mainstream NonQM product set. These loans are very well documented (better than many agency loans), credit scores on average are in the 700’s, LTVs in the low 70’s and good reserves. In contrast my perception of the old B, C, D world is poor credit quality, lack of funds relying almost solely on equity which is a far cry from what we do today.

What part of the Non-QM market will show the most growth? Investment strength?
Certainly the small business owner has benefitted from these products. Good people with history of managing their finances well (as mentioned through many economic cycles). It’d be great to look to those going into homeownership and offer more options as they are managing rental payments that are in many cases more than a mortgage would be but may be stifled from lack of savings or burdened with college debt which precludes them from qualifying.

What was the last movie you saw that you would recommend?
Yesterday, you don’t even have to love the Beatles to enjoy this one!
What has surprised you regarding the development of the Non-QM market?

1. The slowness in the development of the market. A Non-QM was first defined in January 2013 (by virtue of the CFPB defining what a Qualified Mortgage is). The market finally gained some steam in 2017, in my opinion, as the result of:

   a. The beginning of the Trump Administration (and the removal of Dick Cordray) – I believe that all market participants became less afraid of perceived CFPB enforcement action with respect to practices that were never fully (or ever) defined as illegal.

   b. The beginning of a history of performance of Non-QM loans upon which market participants could make predictions of future performance (i.e., default ratios and loss severities).

The market has expanded mostly with a greater number of refinances (relative to purchases, although the number of Non-QM purchase money loans has increased) and with the relaxation of borrower capacity requirements (rather than significant relaxation of requirements with respect to credit and/or collateral), which is also surprising.

How will a recession impact the Non-QM market from both an origination and existing loan point of view?

I believe that a recession will greatly increase the Non-QM market since I believe that the number of applicants that will no longer qualify for a Qualified Mortgage will grow substantially (mostly due to a tightened of credit by the GSEs in times of recession and due to a great percentage of homeowners whose credit scores will decrease).
QM patch and ability-to-pay predictions- How will the results change the market?
I personally doubt that some sort of QM patch will not be implemented. If not implemented, however, Non-QM will grow even faster.

For those grizzled market veterans how would you compare the Non-QM market today vs. the old subprime market?
The Non-QM market today is VERY different from the old subprime market. In the subprime days, we could gain the economic benefits of making and servicing the loans without keeping any of the risk of loss. Today, it is much more difficult, if impossible, to transfer 100% of the risk of loss to someone else (profitably, at least). Today’s Non-QM market is more akin to the B/C market of the 1980s and early 1990s (which the REALLY grizzled market veterans remember).

What part of the Non-QM market will show the most growth? Investment strength?
See #1. The greatest opportunity is with the relaxation of underwriting guidelines with respect to credit

What was the last movie you saw that you would recommend?
The Peanut Butter Falcon
**What has surprised you regarding the development of the Non-QM market?**
Given the favorable consumer-credit environment and the growing share of non-bank originations I’m surprised that we don’t have more production in the less-than-prime sector.

**How will a recession impact the Non-QM market from both an origination and existing loan point of view?**
I think that a controlled drift into weaker economic conditions will have a muted effect on valuations of existing product. The effect on origination volume might be greater since some of the non-bank lenders might decide to pull back (given that they could fear stress on funding).

**QM patch and ability-to-pay predictions - How will the results change the market?**
Not sure. Have not been following the market commentary on the upcoming expiration.

**For those grizzled market veterans how would you compare the Non-QM market today vs. the old subprime market?**
More conservative underwriting overall, which was to be expected.

**What part of the Non-QM market will show the most growth? Investment strength?**
To the extent that the economy has a soft landing and a short-lived period of slower growth ... I think that the deeper-credit part of the sector could show some valuation upside.

**What was the last movie you saw that you would recommend?**
“The Goldfinch”
What has surprised you regarding the development of the Non-QM market?

Between the years of 2003 – 2007 we averaged $2.7 Trillion dollars per year in origination loan volume. Fast forward a decade, post Dodd Frank and we dropped to an average of $1.6 Trillion between the years 2013 – 2017 in the lowest interest rate environment in history. Our research suggests that government overreach and crisis legislation has created a credit blind spot that has pushed over a trillion dollars of residential lending out of the market due to punitive regulatory oversight and onerous safe harbour requirements.

How will a recession impact the Non-QM market from both an origination and existing loan point of view?

I am not sure if a recession would have any impact on the emergence of non-agency market share. Residential lending needs still remain in good times and bad therefore the innovative nature of risk capital and evolution of origination platforms transition towards this credit category will further grow the non-agency mbs markets.

If the market would recognize the mass affluent – high net worth individuals; a trillion dollars back into the economy may just ward off the coming recession.

QM patch and ability-to-pay predictions- How will the results change the market?

QM patch and ability-to-pay predictions- How will the results change the market? Our theory is based on a correlation of fact pattern that will show how the rules born out of the Dodd Frank Legislation have negatively impacted borrower access to credit and artificially inflated home prices that has created a crisis of unaffordability. Our fact pattern begins with a simple analysis of average annual residential loan volume pre crisis versus post crisis overregulation

*For example:*

**Annual Residential Loan Volume**

<table>
<thead>
<tr>
<th>Year Range</th>
<th>Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-2007</td>
<td>2.7 Trillion</td>
</tr>
<tr>
<td>2013 - 2017</td>
<td>1.6 Trillion</td>
</tr>
</tbody>
</table>

Loss of $1.1 Trillion or 40% in residential lending in a time of unprecedented interest rates and economic growth
We have lost 1.1 Volume due to over regulation creating a credit blind spot that we are still reeling from today that has created inflated home prices, unaffordability for new buyers and an overall distrust for the financial system. Overregulation has pushed out 40% of the market participation we had prior that helped create home price equal Librium. Ask any real estate analyst or talking head on television that covers this sector and they will all tell you that home price appreciation has had hyperbolic growth due to lack of inventory available in the market for sale. They all think it is due to lack of new housing but my argument is that it has been due to inventory not coming on to market due to the industry being regulated into a corner of only originating safe harbor designated loans under civil and criminal penalty by the previous administration and legislative body.

Think about this for a moment, if homeowners who have spent the last 10 years getting denied for a loan modification or refinance because they didn’t fit the government’s interpretation of safe harbor, why would they ever put their home up for sale if I cannot buy a new home. Not allowing this inventory to come to market would create a dislocation in inventory in market thus creating a supply and demand dislocation that would unnaturally push values above the median affordability of the local markets creating an even further wealth gap between those who have and have not. Not to mention interrupt the natural cycle of new home buyers and move up buyers to balance the supply and demand factors that affect pricing at all stages and levels of housing.

Speaking to the Mass and Affluent and High Net-Worth community that we serve, safe harbor has really tarred and feathered this community the most. Mass Affluent and HNWI make up for nearly 32% of all US Households and only 3% are managed money that has created nearly 30% of all households are in credit blind spot that were not able to ascertain credit due to the new ATR requirements based on their employment status and method of income accumulation.

With the increase in freelance and independent consulting this gap is only going to get wider. It is estimated that self-employed and freelance income in some form will make up nearly 50% of all US Labor Force by 2025. Safe Harbor if not removed will only further exacerbate the borrowers lack of access to safe harbor credit by the government standards which is why the Non-Agency origination marketplace is growing so rapidly. We estimate even though the MAI and HNWI may only make up 30% of the households we estimate that their buying power makes up nearly $400-$600 Billion of the $1.1Trillion pushed out of the market and we intend to get this community back into the financial system with credit policies that meet regulatory requirements but do not shame them or create distrust.

Homeowners have been shamed out of the market by this ridiculous overreaction by the government to right the wrongs of the past and creating an even bigger problem. It took a decade to get us into this situation and I fear it may take us years to repair the damage of QM and ATR but the first step by the government to help repair is repeal.

John Lynch continued onto the next page...
For those grizzled market veterans how would you compare the Non-QM market today vs. the old subprime market?

For those grizzled market veterans how would you compare the Non-QM market today vs. the old subprime market? For anyone to categorize this market in totality as “Subprime” is foolish and naïve to the consequences and damage that government overreach did due the housing market and to present and would be homeowners.

What part of the Non-QM market will show the most growth? Investment strength?

What part of the Non-QM market will show the most growth? Investment strength? We believe all subset categories within the non-agency credit markets from Super Prime (Private Client), Alt-A and Sub-Prime will benefit from liquidity re-entering these markets to satisfy current and future demand.
What has surprised you regarding the development of the Non-QM market?
- How quick it’s moved in the last 3 years.

How will a recession impact the Non-QM market from both an origination and existing loan point of view?
Non-QM thrived in a rising rate environment and continues to thrive in a low rate environment. Typically in a recession, agency refi apps drop so originators look to replace the lost production with Non-QM.

QM patch and ability-to-pay predictions- How will the results change the market?
Loans over 43% DTI will instantly become Non-QM. The largest underserved market (Non-QM) in the mortgage industry will increase overnight!

For those grizzled market veterans how would you compare the Non-QM market today vs. the old subprime market?
Non-QM is far from being subprime. Non-QM is more alt-doc as it focuses on the Ability to Repay more than subprime ever did.

What part of the Non-QM market will show the most growth? Investment strength?
Non-QM will grow through education of product. The Self Employed products continues to be the strongest product and will likely continue to show the most growth.

What was the last movie you saw that you would recommend?
Godzilla, King of Monsters
Find out more...

The speakers who contributed to this e-book will be joined by a “Who’s Who” of the sector including Correspondents, Wholesale Originators, Investors, Servicers, etc. for 1.5 days of lively discussion, thoughtful debate and countless networking opportunities at IMN’s inaugural Non-QM Forum. Click here to view the conference agenda with the complete list of speakers and sessions, which will be discussed.

Conference Venue
Sofitel Los Angeles at Beverly Hills
8555 Beverly Blvd
Los Angeles, CA 90048 USA
Phone:  (310) 278-5444
Website: Sofitel Los Angeles at Beverly Hills

For more information, please contact
Andy Melvin at amelvin@imn.org or (212) 901-0542 or visit the event website here.