

Not sure many of us had that kind of ride on our dance cards for April and May...

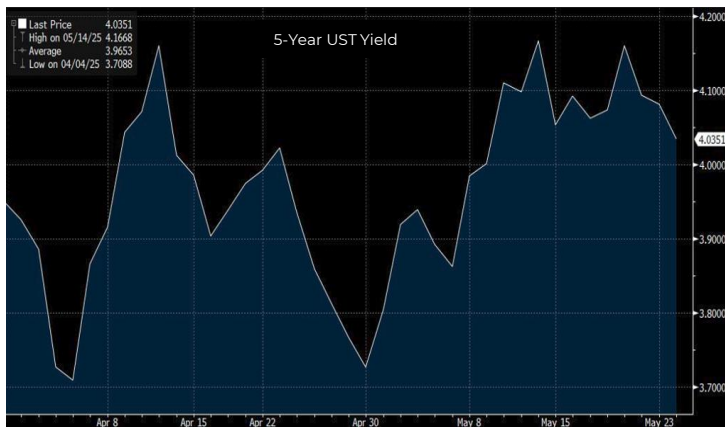
Now that we have a moment of calm, and fresh off meeting with 50+ mortgage originators at last week's Mortgage Bankers Association (MBA) conference, we wanted to provide some insights into what we saw during the post-Liberation Day volatility, along with our broader thoughts on residential credit and RMLs.

Let's start with some market spots to highlight the recent volatility.

Asset	31-Mar	Largest Move in April	27-May	March ME to Largest Move	Largest Move to May 27
2YR UST	3.88	3.65	3.98	-0.23	+0.33
5YR UST	3.95	3.70	4.03	-0.25	+0.33
10YR UST	4.20	3.99	4.44	-0.21	+0.45
CDX IG	61	81	56	+20	-25
CDX HY	376	476	352	+100	-124
NQM AAA	145	190	140	+45	-50
NQM BBB	225	280	225	+55	-55
NQM RMLs	270	310	295	+40	-15

Source: Bloomberg

Corporate credit spreads widened by 20 and 100 basis points for IG and HY, respectively. While Non-QM AAAs underperformed IG, BBBs and broader credit outperformed. Rate volatility felt worse than it looks on the table- maybe the below graph of 5-year US Treasury yields does a better job at reflecting the reality.



Source: Bloomberg

One consistent question in our discussions with investors was how markets were functioning. While liquidity was understandably reduced, markets were open and active. Across Non-QM and Jumbo/Agency private label securitizations (PLS), April saw \$6 billion of new issue price.

Securitized Assets	April 2025		YTD
	Count	Size (\$B)	Size (\$B)
NQM	10	4	24
Prime Jumbo/Agency	5	2	12

Source: SGCP estimates.

The RML market was open and active as well. We've seen a healthy pace of new acquisitions over the past two months and have been busy delivering RMLs to investing clients as well as trading with third parties. We were repricing rate sheets intra-day quite often to follow broader markets, so while prices were certainly moving, in general the RML market was quite orderly.

One of the consistent themes we saw during April's volatility was insurance portfolios' ability to capture gains by being the liquidity provider during periods of stress. As one of us who remembers the pre-GFC days, these times were when the Street used to make hay. At least in ABF markets, those days seem long gone. Overall Street balance sheet capacity is low, and risk appetite feels even lower. Insurance portfolios are taking advantage of the Street's absence and adding positions at attractive levels during market volatility.

We talked to several insurance companies who added IG RMBS at the wides and felt like they were the only game in town. The same was true in RMLs. Our insurance clients were able to take advantage of adding at very attractive spreads. In broader bids in comp for RMLs, insurance companies were also able to add as other bidders faded with volatility.

We think this creates a compelling dynamic that benefits insurance company portfolios. There are generally three types of bidders for RMLs: debt funds for securitization, the Street for securitization and insurance for portfolio. When markets are volatile, insurers have structural advantages in RMLs. As we've covered, the Street largely disappears and debt fund securitizers need to estimate where RMBS spreads are going amidst volatility. Said another way, securitizers need the bond markets to cooperate. Insurance portfolios, on the other hand, are a one stop shop. If the risk-adjusted returns look attractive, they don't need anyone else to weigh in. This comes back to another common theme we discuss with investors; building out RML capabilities allows you to take advantage of the opportunities that inevitably arise.

Current State of the Market

So where are we today? For the most part, it's back to business as usual. Broader markets and RMBS have retraced, securitization activity is strong, and the RML market is active. Non-QM and Prime 2nd Lien RMLs screen cheap to us (call us biased- that's okay). We're in the flows

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on Prime Jumbo and Agency Investor/Second home loans, but we still see the marginal insurance portfolio investment tilted toward Non-QM given the spread pickup. Importantly, as we head into peak home buying and moving season, the seasonal origination uptick is kicking in.

Loan Product	Current Coupon	Current Spread	Spread Range
Non-QM / DSCR	7.625%	+295	225 - 325
Agency Investor	7.05%	+230	175 - 250
Prime Jumbo	6.875%	+230	150 - 225
Prime 2nds / HELOC	9.500%	+495	400 - 475

Source: SGCP estimates.

Origination Market Update

We just spent a couple days in Times Square for the annual MBA conference with several thousand attendees from across the origination landscape – the GSEs, originators large and small, investors and vendors. We had 50+ meetings across a mix of current and prospective partners. The attention to Non-Agency broadly and Non-QM in particular was significant. With the largest, public originators (Rocket, UWM) keeping a tight lid on agency margins, Non-QM is one of the brighter spots in origination. Prime 2nd Liens were also a focus as originators look for new products in a world locked into 3% first liens.

We left the conference bullish on the growth path for Non-QM for several reasons. Broadly speaking, originators are still at varying degrees of building out their capabilities in Non-QM. That same dynamic exists within the production staff at originators themselves. In dialogue with originators, there's typically 10-20% of the production staff that are 'power users' of the product, with the rest sticking to Agency. We had a number of conversations with originators on how to get their

full staff producing the product.

Another positive factor is that originators are more resigned to a rates "higher-for-longer" outlook. With no significant refi rate wave rally on the horizon, growth (or even preservation) requires originators to have a full product menu, which includes Non-QM.

What does this mean for potential loan investors? The two big questions we get are:

- 1) **Am I late?** Nope. You may not be first but you're far from last as the market is still growing. If you want to access residential credit, you need both loan investing and securities investing capabilities
- 2) **Are all the loans spoken for?** No. The Non-QM market is growing and even as a small(ish) percentage of the \$2-4 trillion residential origination market, investors can put significant dollars to work at favorable risk-adjusted returns.

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