TWO Third Quarter 2025 Financial Results Call

Tuesday, October 28, 2025

9:00am ET

Operator

Good morning. My name is Taryn and I will be your conference facilitator. At this time, I would like to welcome everyone to the TWO Third-Quarter 2025 Earnings Call. All participants will be in a listen-only mode. After the speakers' remarks, there will be a question-and-answer period. I would now like to turn the call over to Maggie Karr.

Maggie Karr

Good morning everyone and welcome to our call to discuss TWO's third quarter 2025 financial results. With me on the call this morning are Bill Greenberg, our President and Chief Executive Officer, Nick Letica, our Chief Investment Officer, and William Dellal, our Chief Financial Officer.

The earnings press release and presentation associated with today's call have been filed with the SEC and are available on the SEC's website as well as the Investor Relations page of our website at twoinv.com. In our earnings release and presentation, we have provided reconciliations of GAAP to non-GAAP financial measures and we urge you to review this information in conjunction with today's call.

As a reminder, our comments today will include forward-looking statements which are subject to risks and uncertainties that may cause our results to differ materially from expectations. These are described on Page 2 of the presentation and in our Form 10-K and subsequent reports filed with the SEC. Except as may be required by law, TWO does not update forward-looking statements and disclaims any obligation to do so.

I will now turn the call over to Bill.

Bill Greenberg

Thank you, Maggie. Good morning everyone, and welcome to our third quarter earnings call.

In August, we reached a settlement in the litigation with our former external manager arising from our internalization in 2020. In particular, we agreed to make a one-time payment of $375 million in exchange for a release of all claims, including ownership claims related to our intellectual property. The settlement payment was funded through a combination of portfolio sales, cash on hand, and available borrowing capacity. Importantly, we continue to have ample liquidity following the payment and our risk metrics are in line with how we have managed the portfolio historically. With this matter now fully behind us, we are glad to move forward with clarity and certainty of purpose.

During the quarter we took a number of steps to adjust our portfolio, largely on a pro rata basis, to address our lower capital base and higher structural leverage. We sold some Agency securities, bringing the RMBS portfolio to $10.9 billion from $11.4 billion. We also sold $19.1 billion UPB of MSR, and another approximately $10 billion UPB that will settle at the end of this month, in both cases slightly above our marks. Furthermore, these sales were done on a servicing-retained basis with a new subservicing client, establishing a significant and important relationship. These transactions validate our efforts to meaningfully grow our third-party subservicing business and confirm the thesis that we envisioned when we first acquired RoundPoint – specifically that, given our history as MSR investors, we are an ideal subservicing partner for other MSR owners. With those additions, we will have roughly $40 billion of true third-party clients using RoundPoint as a subservicer. In addition, RoundPoint will soon be set up to service GNMA loans too, allowing further growth in our subservicing business.

Additionally, we intend to redeem the full $262 million UPB of our outstanding convertible notes when they mature in January 2026, which will reduce our structural leverage to be in-line with historical levels. We plan to fund this redemption with cash on hand and by drawing down our MSR facilities. If we were to pay it down today, we would still have in excess of $500 million of cash on our balance sheet.

Lastly, the reduction in our capital base has also had the effect of increasing our expense ratio. While we are always intently focused on improving efficiencies and lowering costs, we are acutely aware of the impact today. We have already undertaken efforts to reduce our cost structure in light of the settlement payment, and we have line of sight into significant amounts of savings already. We will have more to say about this in coming quarters.

We are confident that after all of our portfolio adjustments, we will continue to be well positioned to execute on our MSR-focused investment strategy, to enhance and grow our servicing and originations activities, and to deliver long-term value for our stockholders.

Please turn to slide 3. For the third quarter, including the litigation settlement expense of $1.68 per share, we experienced a total economic return of negative 6.3%, and a positive 7.6% without the expense. For the first nine months of the year, this results in a total economic return on book value of negative 15.6% and positive 9.3% excluding the expense.

Please turn to slide 4. Performance across the fixed-income market was positive in the third quarter. Though inflation readings continued to run above the Fed's target, and the full impact of recent increases to tariffs on forward inflation were still unclear, the Fed cut rates by 25 basis points in September, the first cut since November 2024, as Chair Powell cited emerging downside risks in the labor market. The Fed's own guidance of another 50 basis points of cuts by year-end aligned with market consensus, as you can see in the blue line in figure 1. Net changes across the yield curve were small over the quarter, as you can see in figure 2, with 2-year yields lower by 11 basis points to 3.61% and 10-year yields down by 8 basis points to 4.15%. Equity markets were also buoyed by Fed cuts, with the S&P 500 up almost 8% by quarter-end after setting all-time record highs earlier in the quarter.

Please turn to slide 5. As I mentioned earlier, in the third quarter we signed a term sheet with a new subservicing client, which will bring our combined subservicing UPB to approximately $40 billion, and will bring the total of our owned servicing down to approximately $165 billion.

We are particularly encouraged by the robust growth in our direct-to-consumer originations platform, especially since most of our portfolio is not economically incentivized to move or refinance. Our originations team recorded the most-ever locks for the month of September, and in the third quarter we funded $49 million UPB in first and second liens, and which gives us increasing confidence that our DTC efforts are working as intended and can provide a meaningful pickup in portfolio recapture and economic returns. Indeed, at quarter-end, we had an additional $52 million UPB in our originations pipeline. Additionally, we brokered $60 million UPB in second liens in the quarter, a significant pick-up from the $44 million we did in Q2, and also a record high for us at RoundPoint.

As interest rates have trended lower post-quarter-end, we are very optimistic about the additional value that RoundPoint can bring to shareholders.

Lastly, I wanted to mention again the improvements that we are making in the technology platform at RoundPoint. AI and other applications continue to allow us to improve customer and borrower experiences and quality. These efforts allow us to achieve more economies of scale and to recognize the benefits of our investments immediately, which are important components of our drive to reduce servicing and corporate costs.

Looking ahead, we now have a clean slate to capitalize on opportunities in our MSR and MBS portfolio and to drive growth in servicing and originations. We believe that with our stock trading at a discount to book, it is significantly undervalued. With the uncertainty created by the litigation behind us – with the quality of assets that we hold – and with several of our peers trading at premiums to book – we see no reason why we should trade at a 11% discount to book, as we were at quarter-end. We still see mortgage spreads as being very attractive despite the recent tightening. However, we view the risks to MBS performance as being symmetric, and therefore very supportive of our strategy in particular, with its large allocation to hedged MSR which is designed to have less sensitivity to fluctuations in mortgage spreads than portfolios without MSR. We are very optimistic about the attractive investment opportunities available in the market for our strategy. With that, I'd like to hand the call over to William to discuss our financial results.

William Dellal

Thank you, Bill.

Please turn to slide 6. This quarter, in connection with the settlement agreement with our former external manager, we recorded a $175.1 million litigation settlement expense, or $1.68 per weighted average basic common share. This expense is the difference between the $375 million cash payment made to our former external manager, less the related loss contingency accrual recorded in the second quarter of $199.9 million. You can see this reflected on this slide in the callout boxes. Including this expense, our return on book value is a negative 6.3%. Excluding this expense, our return on book value would have been a positive 7.6%.

Please turn to slide 7. Including the litigation settlement expense, the company incurred a Comprehensive Loss of $80.2 million, or $0.77 per share. Excluding the expense, we would have generated Comprehensive Income of $94.9 million, of $0.91 per share.

Net interest and servicing income, which is the sum of GAAP net interest expense and net servicing income before operating costs, was slightly higher in the third quarter by $2.8 million, driven by higher float and servicing fee income and lower financing costs. This was partially offset by lower interest income on Agency RMBS.

Mark-to-market gains and losses were higher in the quarter by $111.3 million. As a reminder, this column represents the sum of investment securities net gains and losses and change in OCI, net swap and other derivative gains and losses, and net servicing asset gains and losses. In the third quarter, we experienced mark-to-market gains on Agency RMBS, TBAs and swaps, partially offset by mark-to-market losses on MSR and futures. You can see the individual components of Net Interest and Servicing Income, and Mark-to-Market Gains and Losses, on Appendix slide 21.

Please turn to slide 8. On the left-hand side of this slide, you can see a breakdown of our balance sheet at quarter-end. After the litigation settlement payment of $375 million, and after the sale of $19.1 billion UPB of MSR, we ended the quarter with cash on the balance sheet of $770.5 million. As Bill mentioned, we plan to redeem the full $261.9 million UPB of our outstanding convertible notes when they mature on January 15, 2026. As a reminder, in the second quarter we defeased part of this maturing debt with the issuance of a baby bond for net proceeds of $110.6 million. Until the maturity of the convertible debt, we will use the cash on the balance sheet to lower our MSR borrowings.

RMBS funding markets remained stable and available throughout the quarter, with repurchase spreads at around SOFR plus 20 basis points. At quarter-end, our weighted average days to maturity for our Agency RMBS repo was 88 days.

We finance our MSR, including the MSR asset and related servicing advance obligations, across 6 lenders with $1.7 billion of outstanding borrowings under bilateral facilities. We ended the quarter with a total of $939 million in unused MSR asset financing capacity. Our servicing advances are fully financed and we have an additional $78 million in available capacity. I will now turn the call over to Nick.

Nick Letica

Thank you, William.

Please turn to slide 9. Our portfolio at September 30th was $13.5 billion, including $9.1 billion in settled positions and $4.4 billion in TBAs. After adjusting our portfolio for our lower capital base, we slightly increased our economic debt to equity to 7.2 times. We are comfortable at this current leverage level. Though spreads have contracted, they still look attractive on a levered basis versus swaps, especially in the context of diminished interest rate and spread volatility. Furthermore, positive demand technicals such as robust flows into bond funds and buying by REITs are likely to persist as the Fed continues to cut interest rates. That said, spreads have normalized quite a bit, and while they are less volatile we see spread changes to be more two-sided. Consequently by quarter-end we reduced the portfolio's sensitivity to spread changes from 4.2% to 2.3% if spreads were to tighten by 25 basis points, which you can see in chart 3. This quarter despite leverage increasing, we actually reduced our risk exposure. You can see more details on our risk exposures on Appendix slide 18.

Please turn to slide 10. Given the stability of rates and broad consensus that the Fed is on a gradual path to lowering rates further, implied volatility declined to its lowest level since mid-2022. As you can see in figure 1, our preferred volatility gauge, 2-year options on 10-year swap rates, shown by the green line, closed the quarter at 84 basis points, down by 10 basis points and back to just about its average level over the past 10 years. If you look back to 2022 when volatility was last here, spreads versus swaps were tighter. We see attractive static returns with volatility at this level, between 15 and 19%, which you will see in the return potential slide shortly.

RMBS performance was positive across the 30-year coupon stack, with the best performance concentrated in the "belly" coupons, such as 4.5s and 5.0s. The excess return of the Bloomberg US Mortgage-Backed Securities Index was positive 82 basis points, the best performance since Q4 2023. You can see spreads across the curve, both nominally and on an option-adjusted basis, in figure 2. During the third quarter, the nominal spread for current coupon RMBS tightened by 26 basis points to 145 basis points to the swap curve, while option-adjusted spreads finished 14 basis points tighter at 67 basis points.

Please turn to slide 11 to review our Agency RMBS portfolio. Figure 1 shows the performance of TBAs and specified pools we owned throughout this quarter. Specified pools, across the coupons that we owned, outperformed TBAs, led by 4.5s and 5.0s. We rotated the portfolio down in coupon, reducing our 6-6.5% position in TBAs and specified pools by approximately $1.8 billion and increasing our 5-5.5% position by approximately $1.6 billion. We also opportunistically sold approximately $1.3 billion of specified pools vs TBAs across several coupons. You can see detail on this on Appendix slide 17. We have continued this downward rotation into this quarter, as the rally in rates continues.

In September, primary mortgage rates dropped to their lowest levels of 2025, finishing the quarter for a sustained period around 6.25%, aided by the drop in U.S. Treasury rates as well as the strong performance of current coupon RMBS spreads and firm primary-secondary mortgage spreads We are seeing the effects of the rate drop on refinancing activity, with large month/month increases for refinancable coupons' prepayment speeds as reported in early October. Thus far the pickup in speeds has followed the pattern seen in recent prepayment episodes, such as when rates dropped about a year ago. With rates remaining about here, we expect to see further pickups in speeds as borrower refinance activity fully works its way through closings.

Figure 2 on the bottom right shows our specified pool prepayment speeds by coupon, which despite the drop in primary mortgage rates, decreased to 8.3% from 8.6% CPR. This is a result of having the majority of our pool holdings in lower coupons, as well as in call protected securities that did not experience the large increases seen for generic collateral.

Please turn to slide 12. You can see in Figure 1 that the volume of MSR available in the bulk market has remained lower than prior years. The market continues to be well subscribed, with bank and non-bank portfolios continuing to compete for greater scale in MSRs.

Figure 2 is a chart that we periodically update, which shows that with mortgage rates at their current level of around 6.25%, still only about 3% of our MSR portfolio is considered in the money. If rates were to drop to around 5%, the portion of our portfolio in the money would rise to about 9%. As Bill highlighted, RoundPoint's direct-to-consumer originations platform has been growing, consistent with the market opportunity to recapture loans in our portfolio that may refinance. When interest rates dropped in September, we saw the benefits of these efforts, and our platform is poised and ready to do more.

Please turn to Slide 13, where we will discuss our MSR portfolio. Figure 1 is an overview of our portfolio at quarter-end, further details of which can be found on Appendix slide 24. In the second quarter, we settled about $700 million from flow acquisitions. As Bill said - we also committed to sell approximately $30 billion UPB of low gross WAC MSR on a servicing retained basis as part of our portfolio reallocation. Being able to sell it retained, with a large new subservicing client, benefits us not only by being able to leave those loans at RoundPoint and retain the economies of scale, but also gives us an important lever in efficiently managing our assets. Though we like our MSR portfolio, should we want redeploy capital away from low gross WAC MSR into, say, high gross WAC MSR, selling it to a subservicing client is ideal.

The price multiple of our MSR was down slightly quarter-over-quarter to 5.8 times, in line with the drop in mortgage rates, and 60+ day delinquencies remained low at under 1%. Figure 2 compares CPRs across those implied security coupons in our portfolio of MSR versus TBAs. Quarter-over-quarter, our MSR portfolio experienced a minor 0.2-percentage point pickup in prepayment rates to 6.0%. Importantly, prepays have remained below our projections for the majority of our portfolio, which is a positive tailwind for returns.

Finally, please turn to slide 14, our Return Potential and Outlook slide. This is a forward-looking projection of our expected portfolio returns, which incorporates all of our recent portfolio adjustments. Further, while the $262 million of convertible note is shown in the table, the projections assume it is redeemed at its maturity in January.

As you can see on this slide, the top half of this table is meant to show what returns we believe are available on the assets in our portfolio. We estimate that about 68% of our capital is allocated to Servicing with a static return projection of 11 to 14%. The remaining capital is allocated to Securities with a static return estimate of 15 to 19%.

With our portfolio allocations shown in the top half of the table, and after expenses, the static return estimate for our portfolio would be between 9.1 to 12.6% before applying any capital structure leverage to the portfolio. After giving effect to our unsecured notes, and preferred stock, we believe that the potential static return on common equity falls in the range of 9.5% to 15.2%, or a prospective quarterly static return per share of 26 to 42 cents.

With Agency securities showing a higher range of prospective static returns than MSR, astute investors might ask the question as to why we don't sell more MSR and rotate into MBS. One reason is that the marginal cost of owning MSR is lower than its average cost and so lowering our exposure there would have the effect of increasing costs. Another reason is that we believe that the quality of the returns on the MSR side is higher, mostly consisting of very low note rate, easy to hedge, cashflows with lower convexity risk than MBS. While we do think that there is a lot of opportunity in MBS, especially given the level of implied volatility, we think our capital allocation is just where we want it to be.

To conclude, returns remain attractive and supportive of our core strategy of low mortgage rate MSR paired with Agency RMBS. The MSR market continues to benefit from historically high levels of interest and participation from bank and non-bank originators and investors. Though mortgage rates have dropped and prepayment rates for refinancible coupons are on the rise, our low gross coupon rate MSR portfolio remains hundreds of basis points out of the money. Thus far, the exposure that the portfolio has to higher rate, newer production servicing has grown very modestly. Given RoundPoint's capability to refinance and recapture these loans, we look forward to continued growth in this part of our MSR portfolio. We continue to be optimistic that our portfolio construction of MSR paired with Agency RMBS should generate attractive risk-adjusted returns over a wide range of market scenarios.

Thank you very much for joining us today, and now, we will be happy to take any questions you might have.

Question & Answer

Operator
If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you are using a speakerphone, please make sure that your mute function is turned off to allow your signal to reach our equipment. Again, you may press star one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal. We'll take our first question from Bose George with KBW. Please go ahead.

Bose George, KBW

Everyone, good morning. Actually, first, what are the key drivers of the increase in the EAD in the third quarter relative to the second quarter? And then can you just remind us what are the drivers that take you from the low end of the high end of your guided range?

William Dellal

Hi, Bose. On the EAD, I think it's, if we look at our cost of our financing securities, that's what has come down to allow the EAD to go up. The asset yields on EAD are roughly constant, but the financing rates have come down. Of course, there's no mark to market, so this is just as a result of re-jiggering the portfolio.

Bose George, KBW

Actually, just as a follow-up to that, with short rates coming down as the Fed cuts, like is that trend continue or just in terms of what happens to the EAD over the next, say, quarter or two?

William Dellal

I don't think it's a trend that will continue. It's largely as a result of the change in the mix of the liabilities between TBAs and - the financing on TBAs and spec pools.

Bose George, KBW

Okay. Great. Thanks. And then can you give us an update on your book value quarter-to-date?

Bill Greenberg

Yeah, sure. Good morning, Bose. As of last Friday, our book value was up about 1%.

Bose George, KBW

Great. Thanks.

Bill Greenberg

Thanks, Bose.

Operator

We'll take our next question from Doug Harter with UBS. Please go ahead.

Douglas Harter, UBS

Thanks. Yeah. I know leverage is just one metric you look at, but can you talk about the various risk metrics as you think about the size of the portfolio kind of following the settlement?

Nicholas Letica

Sure. Hey, Doug. This is Nick. Thank you for the question. Yeah. As you know, we look at a lot of risk metrics in managing the portfolio. And as I said in my prepared remarks, this quarter, our economic debt to equity did go up while we, by quarter end, had taken down our overall spread risk. It's a slew of things that we look at when we manage a portfolio. It's clearly, first and foremost, the returns that are available on the asset classes that we have in the portfolio and what seems to be the ideal mix in the context of the market that we are in.

All of those kind of things come into play, whether it's the amount of leverage that's available in the market, the financing rates, clearly, but just most importantly, the asset yields versus the risk that each security sector has. And each quarter and each and every day we look to maximize the return that we can generate from the portfolio versus the amount of risk that each asset has.

Bill Greenberg

Yeah. I might just add here, Doug, Nick made a comment in his prepared remarks about the difference between leverage ticking up a little bit while our mortgage spread risk went down. And that's a good example of not being too focused on one metric versus another. Both of those things are important as we look at the overall leverage, the overall liquidity, overall, what I will call drawdown risk. Different scenario analyses that we look at depending on volatility of interest rates and rates, the volatility of spreads, and so forth. So all those things get mixed in to our decisions about how we manage the risk of the portfolio. Especially in the context of the returns available, as Nick said.

Douglas Harter, UBS

Thanks. And Bill, you mentioned that you were looking to try to implement some cost saves on the corporate expense side. On your return potential slide, does that factor in potential cost savings or is that kind of where your costs are today?

Bill Greenberg

So that's where they are today.

Douglas Harter, UBS

Potential upside. So there would be potential upside to that number as those cost savings are realized?

Bill Greenberg

Yes, I think so.

Douglas Harter, UBS

Great. Thank you.

Operator

We'll take our next question from Rick Shane with JP Morgan. Your line is now open.

Rick Shane, J.P. Morgan

Hey, guys. Thanks for taking my question this morning. In looking at charter, slide 17, what stands out to me is that for the third quarter in a row, at least, you are tactically net short the coupon 50 basis points below the coupon where you are - you have the highest concentration. Can you help us understand, again, as an equity guy, I'm just trying to understand what's going on there, what drives that strategy?

Nicholas Letica

Hey, Rick. Thank you for that question. A lot of what drives that coupon exposure, and we do manage it of course, but it is how rates move and where the current coupon sits relative to our risk exposures and our MSR and the rest of our portfolio. So as rates rally, you can see in that table we do show what we believe is the effective - what the effective offset to our mortgage longs by the current coupon exposure of the MSR and other negatively de-rated assets in our portfolio. And as rates rally, that negative number migrates down in coupon and we manage that through time. And as I said in my prepared remarks, we had gone down in coupon in terms of our mortgage holdings. And a lot of that was just in response to the fact that rates are rallying and we need to offset the current coupon risk in our MSR portfolio as that happens.

So I will say that we don't get overly, the word I used - I think the word I typically use is fussed with 50 basis point coupon swap. There are times when there can be an extreme value difference in 50 basis points. But the truth of the matter is that we sort of look at these risks a little bit on a bucketed basis. And there's not really a - I wouldn't say that there's a strong strategic reason why that 50 basis point exposure is the way it is. It's just looking at the overall context of where spreads are and where spec pools are for those respective coupons, and managing that risk on an overall basis. But we try to keep the exposure relatively tight around those current coupons because if tomorrow we walked in and rates were up 25 basis points, that exposure in our MSR would shift up in coupon and that chart would change to a reasonable degree. So we kind of look at it in that sense of nearby coupons rather than just looking at it a specific coupon, if that makes sense.

Rick Shane, J.P. Morgan

It totally does. It's very helpful. And I have learned two new words to add to my mortgage glossary, de-rated and fuss. So I appreciate all of that. And thank you for taking my questions this morning.

Nicholas Letica

Thank you.

Bill Greenberg

Thanks, Rick.

Operator

We'll take our next question from Trevor Cranston with Citizens JMP. Your line is now open.

Trevor Cranston, Citizens JMP

Hey, thanks. Good morning. Can you guys give us a little bit of color in terms of what you're seeing on growth opportunities of the sub-servicing business? And in particular, I guess I'm curious if you think further growth in sub-servicing is likely to be in combination with MSR sales, like we saw this quarter, or if you're seeing other opportunities beyond that? Thanks.

Bill Greenberg

Yeah. Thanks very much for the question. I think growing a sub-servicing business typically takes a long time. These are pretty sticky relationships that people have with their sub-servicers, and so we've been doing the hard work of maintaining and developing relationships and explaining to the world why we are an ideal partner for this sort of thing.

So I think as other consolidation has occurred in the sub-servicing market, there are opportunities for us to pick up either some clients that are dissatisfied with their current sub-servicer, or people who might feel that they have too much concentration risk as the number of servicers in the world has decreased. And so we're out there trying to attract those customers with the value proposition that as investors, ourselves, as MSR owners, as someone who can be more nimble with the portfolio, and who knows where the money is contained in sub-servicing and can extract that for the benefit of owners. I think that's a story that's resonating and starting to resonate with other sub-servicing clients.

We sold $30 billion of MSR to a client to seed a relationship like this. That was good. We sold the amount of servicing that we wanted to sell at this time. But that's not to say that we wouldn't be open in the future for other sorts of opportunities to seed other sub-servicing relationships. One way that we can effectuate being able to modify our servicing portfolio, say, if we wanted to move up in coupon from low gross back to high gross rack, one very good way to do that would be to seed another sub-servicing relationship and then recycle that capital into servicing. That's higher WACC that gives us different opportunities, or it might be cheaper in some way. So it's another tool in our tool belt in order to be able to manage the portfolio and to grow the business together.

Trevor Cranston, Citizens JMP

Got it. Okay. That's helpful. And then looking at the return estimates on slide 14, I was just curious specifically on the securities portfolio. It looks like it went up a couple hundred basis points from last quarter even though spreads are tighter. I was wondering if you could just sort of walk us through the math on why that went up. Thanks.

Nicholas Letica

Sure, Trevor. I'm happy to do that. And that's a very good question. I just want to remind everyone that the spreads that we use in that calculation are actually on our, it's on our actual portfolio at quarter end, as opposed to a stylized version of a levered spread that you see elsewhere in the market. And as you know, there's a wide variation of mortgage spreads available from mortgage backed securities. It depends where you are in the coupon stack. Obviously, lower coupons have tighter static returns, higher coupons have higher static returns, generally.

So from quarter to quarter, as the portfolio shifts around and spreads shift around, even if spreads move in one direction or another, those numbers can go in opposite directions. And of course, it does include, as I said, everything we have in our portfolio. Our portfolio is predominantly mortgage-backed security pools, TBAs, things of that nature. But we do have other things in our portfolio like dust bonds, we have derivatives, like IOs or inverse IOs, for example. And that's a sector that we have added to in the last six months, still a small portion of the portfolio but have added to that.

All of those things mix into generate those yields from quarter to quarter. And of course, we also have assumptions that we apply to generate those ranges. As we've said before, we have some financing assumptions up and down, we have some leverage assumptions up and down, and some prepay assumptions up and down. And all of those things go into that mix to generate that return estimate that you see on that page.

Trevor Cranston, Citizens JMP

Okay. That makes sense. Thank you.

Operator

We'll take our next question from Harsh Hemnani with Green Street. Please go ahead.

Harsh Hemnani, GreenStreet

Thank you. Oh, maybe on the direct to consumer origination platform, originations have been growing. And I think the strategic story there is as prepayment speeds rise, the origination business could be a good hedge to MSRs. Given sort of the cost saving strategies you've highlighted, do you - does that impede the ability at all of the origination business to ramp up at the right time, to be able to provide that hedge?

Bill Greenberg

Good morning, Harsh. Thanks for the question. I have two thoughts about your question. The first is that we've always said that the DTC platform isn't meant to hedge the entire interest rate risk of the MSR portfolio, but only to hedge that part of it, which is faster than expected speeds. And so we all know that when rates go lower, prepayments are going to go up and originations are going to go up and MSR values are going to go down. And we hedge that with financial instruments. It's only the part where speeds are faster than expected that we are expecting the DTC origination business in order to be able to add materially.

Look, certainly I'm well aware that that you can't cut costs - you can't cut your way to growth. And we have to be very smart about how we're going to invest in technology and our ability to scale as mortgage rates go lower. And so that's why it's not as simple exercise of just cutting a certain amount across the board. Technology investments and improvements are going to be key to being able to maintain or retain that ability in order to get those benefits as rates fall. And so we're going to be careful about that and continue to make the investments that we need to make as well.

One thing I will say about the DTC platform and the recapture rates that we've seen so far, while it is small, Nick said in his prepared remarks, there's only 3% of our portfolio is refinanceable from a rate and term perspective with mortgage rates here, but we've already seen recapture rates. Not just record amounts in absolute levels, as I said in my prepared remarks, but also the recapture rates are higher than we have been modeling into our cash-flows for these level of rates and for the portfolio composition that we have. So we're real excited and optimistic about the benefits that that program is already producing.

Harsh Hemnani, GreenStreet

That's helpful. Thank you. And then maybe as I look at the coupon positioning, it seems like the higher coupons - you mentioned this in the prepared remarks, there seems to be a spread trade there where your long specified pools and short TBAs to be able to capitalize on differences in pre-pay speeds there. But it seems like it's not necessarily the opposite, but somewhat flipped in sort of the intermediate coupons at the fives and the five and a half, where exposure to TBA is higher. Can I may be read into that as assuming that where current mortgage rates are, you feel like for the next quarter or so, they hang out around here?

Nicholas Letica

Hey, Harsh. No, I don't think you should read into that conclusion. The TBAs, as I mentioned, rates have moved a reasonable amount. And we did re-hedge with rates going down, we did migrate our exposure down along with our MSR and current coupon exposure. As far as the TBA Concentration in those five, five and a halves, it's a mix of the fact that adjusting the portfolio a moment in time and also just how we see where specified pools are relative to TBAs at that juncture.

We do employ a lot of TBAs to hedge our current coupon risk because it's not easy to transact easy and fast and just allows us maximum flexibility with that stuff. But it's not necessarily a long-term commitment or a statement to how we feel about those specific - the trade-offs between spec pools and TBAs and those coupons. It's a moment in time, and as we see value in specified pools, and depending on how roles are trading, we'll make the determination as to whether we want that exposure in one or the other. But we do typically leave a fair amount of TBA exposure in those current coupon-esque type securities, so we have that flexibility.

Harsh Hemnani, GreenStreet

Thanks.

Operator:

We'll take our next question from Merrill Ross with Compass Point Research. Please go ahead.

Merrill Ross, Compass Point

Good morning. Thank you. I wanted to talk about the MSR sales. First, it seems like that was broken into 19 in the third quarter, and there's a balance that will be transacted or has been transacted in the fourth quarter here, is that right?

Bill Greenberg

That other $10 billion is scheduling the end of this month.

Merrill Ross, Compass Point

Right. Okay. And then what were the characteristics of those MSR? As I look at it, it seems like this is a financial investor, that makes sense. And they're looking for a very low coupon. Is that correct?

Bill Greenberg

These were low coupon sales, yeah. Look, our entire portfolio is really centered around the low coupon.

Merrill Ross, Compass Point

Yeah. No, I can see that.

Bill Greenberg

This was in that part of the portfolio, for sure. Yes.

Merrill Ross, Compass Point

It just seems that the ones that you added on a flow basis can't be that low, because mortgage rates are not that low anymore. So you've got a little bit of a rotation from these sales into slightly higher coupons. But it seems, from what you said, you're willing to do that because the DTC is a better hedge against that decline MSR value that you spoke about. Is that right?

Bill Greenberg

That's correct. I mean, in fact if you look at slide 13, you can see the gross coupon rate of our portfolio increase from 353 to 359. So this is a small change given that the additions that we've added up weren't that big. But it also speaks a little bit to the fact that we sold generally stuff that was on average lower than the average. So that was the impact, was a six basis point rise in the gross coupon. But given what I said about the DTC thing, this is something that we are totally comfortable with and desirous of. Because we think that that higher coupon part of the MSR curve can be attractive to us given the recapture rates that we're seeing on the portfolio that we have.

Merrill Ross, Compass Point

Right. Right. And so the sales that are going to settle will be pretty similar and have a smaller but directionally correct impact on the growth coupon.

Bill Greenberg

Yeah.

Merrill Ross, Compass Point

Right. Okay. Thank you.

Bill Greenberg

Thanks, Merrill.

Operator:

We'll move to our next question from Eric Hagen with BTIG. Please go ahead.

Eric Hagen, BTIG

Hey thanks. Good morning. Maybe following up a little bit there, I mean, how do you see MSR valuations responding to a further drop in interest rates? I mean, MSR valuations seem to be really strong right now. I mean, do you see the same sources of demand like holding up in a refi event? And how would you guys potentially respond to even higher MSR valuations at lower interest rates?

Bill Greenberg

Yes. So first of all, I would say that with our gross WACC of our portfolio at 360, that is still almost 300 basis points out of the money. So at these level of mortgage rates, even 50 lower or 100 lower, this is still not going to have large impacts on the refinanceability of that portfolio. I mean, certainly the way the MSR market and mortgage market works is that when rates decline prepayment expectations do go up, even albeit slightly, given the growth of the portfolio. But the MSR prices will go down. And we all know that. And that's in our - it's in our models and our estimates, it's in the way that we hedge the asset. And so that seems to be something that I'm not worried about at the moment.

If you're asking about how I think supply will or demand will function in that in a 50 or lower or 100 or lower, I don't see it particularly changing given what I said, the low gross nature of it, the cash-flows are still slow and stable and easy to hedge. Typically, what you see in refinance environments is that originators are able to hold their MSR as they're originating it and the supply-demand switch really only reverses once rates start to rise after refi wave. So I think we're a long way from that. There continues to be very strong demand from various market participants for the low gross WACC MSR that we hold.

Nicholas Letica

Yeah. And I'll follow-up with what Bill - from what Bill said, Eric. And that's just that if you look at the progression of technology and the ability to reach mortgage holders and be able to recapture, I think that there has been substantial improvements in that, I think, across the industry. So, I mean, I think there's a greater ability by holders of servicing to recapture and retain the value of MSR compared to other points in the last 20 years of refi events. Not that it's perfect, but it is definitely better. So, I mean, I completely agree with everything Bill said. I think that the hands that MSR are in are very solid.

Eric Hagen, BTIG

Yep. That's helpful. Hey, I mean, on that point about kind of market evolution, I mean, a question about the MSR repo financing. It feels like the MSR market has matured a lot. The size and the scale for you guys has improved considerably. I mean, can you remind us the maturity on that MSR repo and the revolving credit facility? And do you think there's going to be any opportunities to maybe optimize the financing there next year?

William Dellal

Our maturities are roughly in the range from one to two years. They do roll. When they roll closer, we do renew them. We will look for opportunities to see if we can improve the yield on the MSR, but basically it seems to be static right now.

Bill Greenberg

Yeah. So to follow-up on that, we continue to field incoming calls from people wanting to enter the space and provide financing on the asset. So I agree with your comment there, Eric, that that the market has matured a lot since the financing on the asset really opened up in 2018, 2019. And there continues to be more and more participants wanting to participate and spreads are well supported. I wouldn't say that they're really going down a lot here, but they're well supported and stable at the levels that we're at.

Eric Hagen, BTIG

Yep. I appreciate you guys. Thank you.

Bill Greenberg

Appreciate you, Eric.

Operator

As a reminder, if you would like to ask a question, you may press star one on your telephone keypad to join the queue. We'll move to Bose George with KBW for our next question.

Bose George, KBW

Yeah. I just wanted to follow-up on the MSR discussion. What's the valuation of the flow MSR that you are originating versus your existing portfolio? And also, can you remind us - can you reflect the value of recapture in the value of the MSR, and how does that differ for originated versus bulk MSR that you purchased?

Bill Greenberg

Well, so I'm not sure I understand the second part of the question about whether we include recapture in our valuations. We mark our portfolio to the market price, to where we think the thing would transact in the market. And so whether the cash-flows include recapture cash-flows or not is something that impacts the yield or the prospective return of the thing. It doesn't impact the price or the mark, if that makes sense.

Bose George, KBW

Yeah, it does. But I guess there's not a specific recapture assumption that sort of goes in there. There's a broader cash-flow assumption that sort of has an embedded recapture feature. Is that a way to think about it?

Bill Greenberg

Yeah, I guess. But again, I would just reiterate that that doesn't impact the mark that we value the asset at. Because if we had a different assumption, we would have other different assumptions, typically in discount rates, which would get us to the same market price estimate.

Bose George, KBW

Yeah. Yeah. Okay. That makes sense. And then just in terms of the valuation, is there - where is sort of the originated MSR valued at now versus sort of the lower coupon stuff?

Bill Greenberg

Yeah. I mean, if you look at the price multiple that we have on the whole portfolio, it's 5.8X on a weighted average basis for the whole portfolio. And there's a whole curve of prices, of price multiples, as coupons change. So certainly as the WACC, as the note rate increases, that MOAT on those servicing levels will go down. So high WACC stuff, like over long periods of time, you can look at the money servicing, typically trades on average between four and a half and five MOAT, depending on lots of things. But as a basic rule of thumb, that's something where at the money servicing always trades. And this market is not inconsistent with that level.

Bose George, KBW

Okay. Great. Thanks.

Operator

There are no further questions at this time. I'd like to turn the conference back over to Bill for any additional or closing remarks.

Bill Greenberg

I'd like to thank everyone for joining us today. And thank you, as always, for your interest in TWO Harbors.

Operator

This concludes today's call. Thank you again for your participation. You may now disconnect. And have a great day.