



Two Harbors Investment Corp.  
Third Quarter 2021 Earnings Call Transcript

November 9, 2021



**TWO HARBORS**  
Investment Corp.

**PRESENTERS**

Paulina Sims, Head of Investor Relations

Bill Greenberg, President and Chief Executive Officer and Chief Investment Officer

Mary Risky, Chief Financial Officer

**Q&A PARTICIPANTS**

Trevor Cranston – JMP Securities

Eric Hagen – BTIG

Mike Smith – KBW

Rick Shane – JPMorgan

**PREPARED REMARKS**

---

Operator: Good morning. My name is John, and I will be your conference facilitator. At this time, I would like to welcome everyone to Two Harbors Third Quarter 2021 Financial Results Conference Call. All participants will be on 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 Paulina Sims, Head of Investor Relations. You may begin.

Paulina: Good morning everyone and welcome to our call to discuss Two Harbors' third quarter 2021 financial results. With me on the call this morning are Bill Greenberg, our President, Chief Executive Officer, and Chief Investment Officer and Mary Risky, our Chief Financial Officer.

The press release and financial tables associated with today's call were filed yesterday with the SEC and are available on both the Two Harbors and SEC websites. In our earnings release and slides, we have provided a reconciliation of GAAP to non-GAAP financial measures. We urge you to review this information in conjunction with today's call. I would also like to mention that this call is being webcast and may be accessed in the investor relations section of our website.

As a reminder, remarks made by management during this conference call and the supporting slides may include forward-looking statements. These statements are based on the current beliefs and expectations of management, and actual results may be materially different because of a variety of risks and other factors. We caution investors not to rely unduly on forward-looking statements. Except as may be required by law, Two Harbors does not update forward-looking statements and expressly disclaims any obligation to do so.

I will now turn the call over to Bill.

Bill: Thank you, Paulina. Good morning everyone and welcome to our third quarter earnings call.

Please turn to slide 3. At quarter end, book value was \$6.40 per share, representing a 2.3% total economic quarterly return. The performance, which was largely in line with the dividend, reflected the partial retracement tighter of high coupon spreads as recent data pointed to early signs of burnout and slower prepayment speeds. Earnings Available for Distribution, formerly known as Core Earnings, were 24 cents per share.

Elevated activity in the MSR market continued in the third quarter and into the fourth. We saw 120 billion UPB in bulk deals come to market in Q3, and another 100 billion in October, bringing the year-to-date volumes to approximately 400 billion. This is more than double the volume that we might typically see for a full year, and we expect this heightened activity to continue for the rest of the fourth quarter. In the third quarter, we acquired 15 billion UPB through bulk transactions and have committed to add another 21 billion over the next two quarters. Additionally, we settled on 14 billion through our flow program.

Lastly, post-quarter-end, we issued common equity for net proceeds of approximately \$194 million, in a transaction that was accretive to book value. We are seeing attractive opportunities in the MSR market and have already committed additional capital in that area. Furthermore, with the Fed taper upon us, we expect we will be able to increase leverage and deploy more capital in RMBS at attractive spreads in the near to intermediate term.

Please turn to slide 4, and I will briefly discuss the overall market environment.

The 10-year swap rate fell from 1.44 percent on June 30th to a low of 1.16 percent in the middle of July and then subsequently rose 40 basis points to end the quarter at 1.55 percent as the market considered increased inflationary pressures and more precise communication on tapering from the Federal Reserve.

Indeed, as announced last Wednesday, the Federal Reserve will reduce its monthly purchases of U.S. Treasury securities by \$10 billion and Agency RMBS by \$5 billion, beginning this month and expects to complete the process by mid-2022. Although the last taper in 2013 resulted in a tantrum of high market volatility, we expect the market reaction to be more orderly this time, all else being equal. Firstly, the Fed is expected to continue to be a source of demand for some time, as paydowns from its RMBS portfolio are reinvested, as shown by the blue bars in Figure 1. Secondly, the Fed has clearly communicated the timing and pace of its tapering and has clearly dissociated the decision to taper from the decision to raise rates. Lastly, even while banks have significantly reduced their purchases of Agency RMBS, as long as loan growth is tepid and deposit balances remain high, banks will also likely be a source of demand when spreads become more attractive.

Current coupon spreads have widened out somewhat as shown in Figure 2, but remain at very tight levels, with current coupon OAS currently sitting at -7.6 basis points as of October 29th. This spread is more than 15 basis points rich to past periods of quantitative easing where the Fed was buying mortgages, and more than 35 basis points lower compared to periods where the Fed was not actively buying mortgages. While we

don't expect these spreads to normalize immediately, we do expect spreads to gradually widen over the course of the tapering process.

Turning to Figure 3, we show the effect that the refinancing wave has had on the distribution of conventional mortgages by rate. By comparing the gray bars, which show the coupon distribution at the end of March, and the blue bars, which show the coupon distribution at the end of September, we can see that the distribution has shifted significantly to the left, indicating that a meaningful number of mortgages have already refinanced into lower coupons.

The gray and blue lines show the cumulative distribution of mortgages from March and September, respectively. At the end of March, the percentage of mortgages that were refinancable with at least 25 bps of incentive had declined from about 85% at the end of 2020 to about 64%, as shown by the light grey circle. At the end of September, although mortgage rates were 8 basis points lower than in March, there were actually fewer refinancable mortgages --56% - as shown by the dark gray circle - as a result of this re-striking of the mortgage universe. With the current mortgage rate at 3.14, the amount of refinancable mortgages falls further to 54% as shown by the green circle. Taken all together, this chart points to overall slower prepayment speeds which should be beneficial to our Agency + MSR strategy.

Now I will turn it over to Mary to discuss our financial results in more detail.

Mary:

Thank you, Bill and good morning everyone.

Please turn to slide 5 to review our financial results for the third quarter. Comprehensive income was \$45.2 million, representing an annualized return on average common equity of 9.1%. Our book value was \$6.40 per share compared to \$6.42 at June 30th. Including the 17 cent common dividend results in a quarterly economic return of 2.3%. As Bill mentioned earlier, the result reflects spread tightening in high coupon specified pools which offset spread widening in lower coupon RMBS.

Moving on to slide 6, as we note at the top of the page, Core Earnings will now be referred to as Earnings Available for Distribution, or EAD, in line with evolving industry practice. Earnings Available for Distribution increased to \$0.24 per share compared to \$0.19 in the second quarter. Beginning in the third quarter, EAD includes U.S. Treasury futures income which is the economic equivalent to holding and financing a relevant cheapest-to-deliver U.S. Treasury note or bond using short-term repurchase rates. As a hedging instrument, we use futures interchangeably with swaps and we think the treatment of hedging instruments in EAD should be consistent. Futures income in EAD was approximately \$0.03 per share for Q3. Had futures income been included for Q2, it would have increased EAD by \$0.02 for a total of \$0.21 per share.

Interest income decreased from \$43.4 million to \$36 million, as our RMBS position continued to decline through a combination of sales and paydowns. Interest expense declined by \$2.5 million, reflecting lower RMBS and MSR borrowings. Turning to MSR, net servicing income increased by \$9 million to \$56.7 million as a result of higher

balances and collections, and slower prepayments. Gain on other derivatives rose by almost \$20 million as we benefited from a larger position and continued roll specialness in TBA as well as the inclusion of futures income. Expenses increased by \$3.2 million to \$34.2 million, driven largely by one-time, non-recurring credits in servicing expenses in the second quarter as we mentioned on our last earnings call.

In the table on the lower right, we show our portfolio yield. Our realized net spread in the quarter rose by 62 basis points to 2.55%. This net increase was attributable to the combination of higher yields on newly purchased MSR and a greater proportion of MSR in the portfolio. Net spread as of September 30th, which reflects our estimate for the near term, increased further to 2.77%, but will be dependent on our portfolio mix.

Please turn to Slide 7. We continue to maintain a strong liquidity position with unrestricted cash of \$1.1 billion at quarter end which includes net proceeds from our July common stock offering of \$256 million. Funding for Agency RMBS through the repo market remained attractive and continues to remain attractive despite the recent increase in rates. We maintained access to diverse funding sources for MSR and our unfunded and committed MSR financing capacity stands at \$413 million.

Finally, leverage declined from the prior quarter in conjunction with the lower RMBS balance. Average and quarter-end economic debt-to-equity in the third quarter were 6.0x and 6.1x, respectively, compared to the second quarter average and ending of 6.5x. We expect our leverage to increase in coming quarters as we add MSR and RMBS.

I will now turn the call back to Bill for a portfolio update.

Bill: Thank you Mary. Let's turn to slide 8, to discuss our quarterly portfolio activity and composition.

During the quarter, our portfolio grew to \$17.9 billion as we deployed some of the capital that was raised in July into MSR and RMBS. We adjusted our allocation in RMBS by selling some higher coupon pools that had tightened to unattractive spreads and reinvested into TBA which continue to benefit from roll specialness.

We also added to our hedging mix by increasing our options positions, utilizing both interest rate and mortgage options which are expected to benefit from volatility in a sharp breakout to higher rates, should that occur.

Please turn to slide 9, as we discuss our specified pool positioning, prepayments, and performance. As you can see in Figure 1, we remain positioned in Loan Balance and Geography stories. Although prepayment speeds have generally been very fast, the New York collateral has performed particularly well, with speeds in the 4% and 4.5% coupons coming in around 30 CPR during the third quarter, compared with generics which came in higher than 50 CPR.

Figure 2 shows the quarterly total return performance, by coupon, on TBA contracts, shown by the gray bars, and on our specified pool holdings, shown by the blue bars.

You can see that our up-in-coupon pools outperformed TBAs as the market reacted to data published during the quarter pointing to nascent, but clear, evidence of burnout.

Finally, Figure 3 compares, by coupon, observed prepayment speeds from pools delivered into TBA contracts to observed prepayment speeds on our specified portfolio. Overall, prepayment speeds in our specified pools declined 8% to 30 CPR and remain significantly slower than pools delivered into TBA, showing the value of the prepayment characteristics of that collateral.

Please turn to slide 10. Our MSR portfolio is currently valued at \$2.2 billion as of September 30th, based on \$200 billion UPB and with a gross coupon of 3.4%. That translates into a price of about 111 cents or right around a 4.2 multiple. The percentage of MSR in forbearance continued to decline and ended the quarter at 1.7% by loan count. Forbearance rates have continued to decline even further in October, to 1.2% by loan count.

During the quarter, we settled on 14 billion UPB of MSR through our flow program and 15 billion in bulk purchases, offsetting the runoff and growing the UPB by 9 billion. Additionally, we have executed term sheets to acquire a further 21 billion in bulk transactions in future quarters. Year to date, we have committed to purchasing 44 billion through the bulk channel alone.

In Figure 2, we show the trend of our settled UPB for the flow and bulk channels over the last four quarters. Flow channel settlements have continued to decline, mirroring the drop in overall refinancing activity. The bulk market, on the other hand, has been very active, and that trend has accelerated throughout the year. Although bulk supply has been robust, pricing has held steady, with demand rising to meet the increased supply as some large participants re-entered the market, and some new participants expand their interest in the asset class.

In Figure 3, we compare our servicing prepayment speeds in blue bars versus TBA speeds in grey bars. Since more than half of our portfolio has some kind of specified characteristic such as low loan balance or high LTV, or has some significant seasoning to it that makes it more prone to burnout, our prepayment speeds are significantly slower than generic. Overall, prepay speeds on our MSR portfolio declined by 7% to 27 CPR.

Please turn to slide 11. In place of the charts that we have historically shown, we thought it would be helpful to show a slightly different risk view of our Agency + MSR portfolio. On this page, you can see a snapshot view of our effective coupon exposure and spread risk for Agency RMBS paired with MSR and Agency RMBS hedged with Rates. Because the MSR asset has negative interest rate duration and negative current coupon spread duration, the MSR asset looks and acts in many ways like a short position in RMBS.

This effective short position, which is shown in the top left chart by the gray bars, can be hedged perfectly for both rates and spreads by adding TBA, as indicated by the blue

bars. The chart in the top middle shows our portfolio's remaining RMBS exposure after setting aside the exposure already accounted for in the top left chart. These RMBS assets are hedged with interest rates and are largely distributed in the 3% through 5% coupons. Lastly, the top right chart shows our aggregate position. Because the RMBS + MSR chart in the top left nets to zero by design, the Combined chart showing the current coupon risk position is identical to that expressed in the top middle chart.

In the second row, we show book value exposure to changes in current coupon mortgage spread. In the left chart, book value declines about 0.5% in both spread widening and spread tightening scenarios. The fact that these numbers are not exactly zero despite a perfect hedge is the just the result of negative spread convexity.

The remaining current coupon spread exposure, shown in the bottom middle chart, is 3 times higher than in the bottom left chart because it doesn't have any MSR to act as a spread offset. In a hypothetical portfolio consisting of only RMBS with no MSR, the current coupon spread exposure would be expected to be 5% to 10% for a 25 basis point shift. The fact that this exposure in the bottom middle chart is only 1.5% is the result of dividing the sensitivity by the book value of our entire portfolio, where a significant amount of capital is allocated to the paired construction shown in the charts on the left.

The chart on the bottom right sums these risk exposures together, for a total of a 2% exposure for a 25 basis point widening in the current coupon mortgage spread, which we consider to be very low. Of course, this exposure assumes a parallel shock across the coupon stack, and is not a relevant estimate for the book value sensitivity to spreads on higher coupons moving in isolation, or on MSR.

Please turn to slide 12, where we show our interest rate and curve exposures.

In Figure 1, we show our exposure to an instantaneous parallel shift in interest rates, with a total exposure of -0.7% for a 25 basis point shock. We can see the total interest rate exposure for MSR, shown in gray, is roughly hedged with our RMBS portfolio, shown in blue, with relatively little impact from swaps and futures.

In Figure 2, we show our exposure to changes in the long end of the yield curve, keeping the front end constant. With rising rates more of a concern today, we see that our portfolio exposure to a bear steepening shift of 25 basis points results in a +0.1% gain in book value.

Figure 3 is a new addition this quarter. With Fed hikes on the horizon, it is interesting to look at our portfolio exposure to changes in the front end of the yield curve while leaving the longer end unchanged. With inflation fears in the foreground, the obvious concern is to a shock upward in the front end in a bear flattening move. In this scenario, our portfolio has low sensitivity with only a -0.8% impact to book value.

Taken together, these three charts demonstrate our commitment to hedging the full yield curve exposure and our desire to have little book value volatility no matter the rate environment.

Finally, I'd like to discuss our outlook for Two Harbors and our return expectations for new investments on slide 13. Spreads and returns on target assets largely remained constant over the quarter, with the exception of high coupon specified pools. With the tightening we experienced in the quarter, we now see return expectations in the mid to high single digits, down from high single / low double digits at the end of Q2. Current coupon specified pools remain unattractive with expected returns in the mid-single digits.

Current coupon TBA rolls remained around 50bps special and they continue to carry well, so that TBA's hedged with swaps offer low double digit returns assuming this roll specialness lasts forever. Spreads, however, continue to be tight and returns would decrease to mid to high single digits depending on how fast specialness goes away.

Moving to the lower half of the chart, we continue to be excited about our investment opportunities in the paired Agency + MSR construction and we are focused on investing here. Expected returns on new investments in a paired MSR and pools construction can be in the high-single digits to low-teens, while MSR paired with current coupon TBA's can offer returns in the low to mid-teens.

As I mentioned previously, large supply in the MSR market is creating currently attractive opportunities to deploy more capital in the paired Agency + MSR construction and that's where we are spending most of our effort and capital. Additionally, we expect to see more opportunities in RMBS hedged with rates in the coming quarters as we expect the weight of robust mortgage origination in the absence of offsetting Fed purchases to push spreads gradually wider. With the Fed finally removing accommodation and prepayments speeds beginning to slow materially, we are very constructive and optimistic about the forward outlook for Two Harbors and our paired Agency + MSR strategy.

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

---

## QUESTION & ANSWER

---

**Operator** Thank you. At this time, we will be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment please while we poll for questions.

Our first question comes from the line of Trevor Cranston with JMP Securities. You may proceed with your question.

**Trevor Cranston** Great, thanks and thanks for all the new turnkey data you put in the deck this quarter. It's very helpful. Just curious, you talked about the level of current coupon spreads today versus historical levels and why they're likely to widen over the next few



quarters. I was curious if you could share your thoughts on the roll specialness, where that is today versus maybe an average historical level and how you think that evolves as the Fed taper starts to get implemented? Thanks.

Bill Greenberg Sure, thanks very much, Trevor, and thanks for joining us. I think that the roll specialness, and the reason for the roll specialness, at about 50 basis points special, is—we've certainly seen it slightly more special over in certain periods than it is today. We've certainly seen it less special. And in a normal environment, it's typically the case that roles are not very special at all. And in fact, one of the main sources, probably the main source of roll specialness today, is the activity of the Fed and large banks buying and creating this supply-demand imbalance between front month and back month contracts.

I do fully expect that roll specialness will follow mortgage spreads, and that as the market returns to normal, as the Fed reduces its involvement, spreads will, in all likelihood, normalize, and roll specialness will probably also normalize along with it in roughly the same kinds of time periods. So, I would think by the time that the Fed is done tapering, spreads will be somewhat more normalized, and roll specialness will mostly be gone. That's my expectation.

Trevor Cranston Okay. That makes sense. Then you also commented that the flow MSR purchase volume was declining a bit as originations come down and the bulk activities picked up. Do you guys see any opportunities to add more flow partners that are more originators were looking for partners to provide that capital, just given the lower profitability of the origination business today?

Bill Greenberg Sure. We have a group of flow seller partners that have been among the larger participants in that market over time. The reason that people choose to be in the flow market is because they don't want to accumulate the interest rate risk and the prepayment risk and they don't want to bother hedging, either because they don't want to or it cost too much for them to implement the program. As the market—as interest rates sell off, as refinancing volumes go down, there's less of that to do, right? And so that's why we expect flow volumes to continue to decline.

It's possible, I guess, that some people have kept servicing because they thought that rates were low and we are going to rise and that mults were low and they wanted to hold. That's been one of the sources of bulk supply over the last year as those participants have chosen to monetize their holdings. It's possible that maybe some of those guys with compressed margins could want to restart flow relationships. Some of those guys have been in and out of the flow market over time, so we may see some of that. We're well-positioned and already in touch with those guys in order to be able to reengage with them, should they desire.

Trevor Cranston I appreciate the comments. Thank you.

Bill Greenberg Thank you.

- Operator Our next question comes from the line of Eric Hagen with BTIG. You may proceed with your question.
- Eric Hagen Hey, thanks, good morning. Seems like you're active in growing the MSR portfolio and you've identified an opportunity with all the bulk paper coming to market. On the \$21 billion in bulk that you've bought since quarter end, can you clarify when those are expected to settle? And then the \$4 hundred and--I think it was--13 million in funding capacity for MSR that you noted, I assume that's before the bulk settles that you've bought since quarter end, but maybe you can clarify that, too. Thank you.
- Bill Greenberg Yeah, thanks for the question Eric. Mary, can you take that one? Do you do you have that information handy?
- Mary Risky Sure. The bulk settlements are expected in the December and January timeframe.
- Eric Hagen Okay, got it.
- Mary Risky Your other question was related to unused committed capacity, and you're correct, that is--that capacity is before the bulk transactions that have not yet closed.
- Eric Hagen Got it. Can you say kind of how you expect to finance the \$21 billion that you're closing on in December and January? Is it the breakdown of capital and funding capacity that's going to be absorbed?
- Mary Risky Yeah, we actually took down financing and MSR a bit in the third quarter just due to our excess cash position. So, I think the answer is it's going to depend on opportunities to deploy capital. And we have plenty of options to finance that should we need to from a cash perspective.
- Eric Hagen Got it. Thank you.
- Bill Greenberg Thanks, Eric.
- Operator Our next question comes from the line of Mike Smith with KBW. You may proceed with your question.
- Mike Smith Hey, everyone. This is actually Mike Smith on for Bose. Just a few related to the equity raise - can you just talk about your proforma leverage, how much of the capital is deployed, and then whether or not there's any expectations for a drag on earnings in the fourth quarter?
- Bill Greenberg Yeah, thanks for the question. I'll start with that, and then maybe Mary can add with the proforma numbers. We've already started to deploy some of that capital, as we indicated previously, with some of the MSR purchases that we've settled on as well as committed to. We continue to see attractive opportunities in the MSR market. And when we do that, we often pair it with RMBS, so that capital is already in the process of being deployed. Of course, we're cognizant of the overall level of mortgage spreads, which are still very tight.

So, to the extent that we're deploying capital, it's in the MSR assets right now or in the paired construction. We're not adding outright RMBS versus rate investments here yet because spreads are still unattractive, as we said, 15 basis points rich to a period where the Fed is buying and 35 basis points rich to other periods. So, we expect that to occur in coming quarters, and we're prepared to deploy more capital there, as well. But when you look at how much capital is being deployed here, looking at the overall leverage number is not necessarily a good indication of that rather than looking at the assets that we're buying and how we're funding it.

Mary, do you want to speak to the proforma numbers?

Mary Risky I'm sorry, can you repeat the proforma part of the question, please?

Mike Smith Yeah. I was just wondering if you could talk about how leverage has trended since quarter end and then if there's any expectations for a drag on earnings in the fourth quarter?

Mary Risky I don't--there has not been a material change in leverage since quarter end; we're about where we were.

Mike Smith Is there any expectation for--?

Mary Risky (Inaudible)--go ahead.

Mike Smith I was going to say, on the earnings part of the question, is there any expectations for a drag in the fourth quarter with capital deployment?

Mary Risky I would say no, not directly. We're expecting the taper to start and to be able to see more opportunities, and we've got MSR in the pipeline, so no expectations for that.

Mike Smith Great. And then just one more - could you just provide any updates on how book value has trended since quarter-end and what are the drivers of this?

Bill Greenberg Yes, since quarter-end, as of last Friday, we're down around 2 percent. And that's been driven by some slight widening in both MSR to the tune of around 20 basis points in spreads and some slight widening in high-coupon specs, as well.

Mike Smith Great, thanks a lot for taking the questions.

Bill Greenberg Thank you.

Operator As a reminder, we are in the question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad.

Our next question comes from the line of Rick Shane with JPMorgan. You may proceed with your question.

- Rick Shane Hey, guys. Thanks for taking my questions this morning, and thank you for the additional disclosure. It's certainly very helpful.
- Bill, when we look at Slide 13, it's obviously really interesting in terms of how it differentiates both assets and hedging from a performance perspective. What is interesting to me is that the--at this point, the dispositive factor driving your performance is the hedging strategy more than the asset gathering strategy.
- When we look at hedging swaps and MSR, you're certainly growing MSR much faster than swaps, but you've grown swaps a bit, as well. But when we compare TBA versus pools, you're growing TBA a lot faster than pools. I'm just trying to think about what that means. Are you creating in the short term sort of less durable assets with the idea that that way when spreads widen as we move through taper, that you'll move back into pools?
- Bill Greenberg Thanks, Rick. Thanks for joining us today. Those are good questions. I'm not sure I totally understand the model. Let me talk for a little bit and see if I answer them, and if not, you can ask more explicitly. Recently, as we pointed out on the presentation, we've let our high coupons pools pay down, and we've sold some and replaced them with low coupon TBAs because the role specialness is adding incremental return. If you look at the charts on page 13, the TBAs hedged with swaps, the higher end of that range in the low teens is assuming that roll specialness last for a long time and the lower end of that range, is assuming that roll specialness disappears tomorrow, right?
- And so, given the Fed's posture and the statements they've made, we think that roll specialness will continue for a little bit. It should follow spreads so that, as spreads begin to widen from reduced asset purchases and continued mortgage supply, we expect the roll specialness to also decline in that way. When roll specialness declines, that will also come with it in all likelihood a more attractive spreads not just in the TBA but also in the specified pools that are associated with those coupons, because as roll specialness goes down, those specified pools become more attractive. And I think it is fair to expect that, during a period like that, that we would be rotating out of TBA into specified pools in the lower coupons as that happens.
- Rick Shane Got it. Okay, that's exactly what I was looking for. Yeah. And then, so when we think about it, clearly, the strategy, you're going to lean different directions, but you're also clearly not putting all of your eggs in any one basket, either from an asset or a hedging perspective. As you look forward and see the scenario that would create an opportunity to migrate back into pools, I'm curious what--and I really just don't know the answer here, looking forward, what would be the implication for the swap market, would that become a more compelling element of the strategy, as well, in that same environment?
- Bill Greenberg So, first thing I would say is that one of the great things about our MSR plus MBS strategy is that we don't care very much about what the--what this current coupon spread does. And so, the fact that we're able to add investments in that paired construction is independent of our view as to whether spreads widened or not. And

the fact that that can still be in the low teens is a very good fact, and we're continuing to add capital in that strategy.

To the extent that we have additional capital to invest in an RMBS plus rates strip part of the portfolio, then as we said, we're going to be looking for some widening there. The hedge--or that exposure, whether it exists in current coupon TBAs or in specified pools, will depend on the relative attractiveness of those asset classes, which in turn will depend on Fed involvement, role specialness, and those dynamics. Not sure if I got your question there.

Rick Shane        You did. That's exactly it. Perfect. Thank you so much.

Bill Greenberg    Thank you, Rick.

Operator         At this time, we have reached the end of the question-and-answer session, and I would like to turn the call back over to Bill for any closing remarks.

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

Operator         This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation, and have a great day.

## **CONTACT INFORMATION**

---

Investor Relations  
Two Harbors Investment Corp.  
612-446-5431  
[investors@twoharborsinvestment.com](mailto:investors@twoharborsinvestment.com)