



## **TWO First Quarter 2026 Financial Results Call**

**Wednesday, April 29, 2026**

**9:00am ET**

### **Operator**

Good morning. My name is Jennifer and I will be your conference facilitator today. At this time, I'd like to welcome everyone to TWO's First Quarter 2026 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 Ms. Maggie Karr.

### **Maggie Karr**

Good morning everyone and welcome to our call to discuss TWO's first quarter 2026 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](http://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 first quarter earnings call.

I'd like to begin by addressing the recent developments regarding the merger plans that we initially disclosed last December.

As we describe in detail in our proxy statement, in March we received an unsolicited all-cash proposal from CrossCountry Mortgage. After careful consideration, and in coordination with our financial and legal advisors, our Board unanimously determined that the CrossCountry proposal was superior and in the best interests of shareholders, and on March 27, 2026 we executed a new merger agreement with CrossCountry pursuant to which CrossCountry agreed to acquire Two Harbors for \$10.80 per share in cash. In connection with entering into this agreement, we terminated the prior merger agreement with UWM.

Yesterday, we announced that we signed an amendment to the new merger agreement with CCM. Under the terms of the amended agreement, CCM will increase the per-share cash consideration payable to TWO stockholders to \$11.30 per share, an increase from \$10.80 per share under the original merger agreement.

The amended agreement follows our Board's thorough evaluation of an unsolicited competing proposal received on April 20, 2026 from UWMC. After consulting with our financial and legal advisors, including assessment of the competing proposal's terms, proposed financing, regulatory path, deal certainty and other factors, the TWO Board determined that the CCM transaction, as amended, continues to be in the best interests of TWO and its stockholders.

The business combination with CCM pairs the country's leading retail originator with RoundPoint's best-in-class servicing platform, creating a fully integrated mortgage company. We are confident that this merger is in the best interest of shareholders, allowing them to receive the certainty of cash and reinvest the proceeds in a manner that best suits them.

The transaction is expected to close in the second half of 2026 and is not subject to any financing condition. Prior to closing, we intend to continue paying regular quarterly dividends, but not stub dividends, consistent with past practice. We will hold a Special Meeting to approve the CrossCountry merger on May 19th at 10:00 am ET. If you have already submitted your vote in favor of the CCM merger, your vote remains valid. If you have not yet voted, or if you previously voted only on the terminated UWM transaction, please submit your vote as soon as possible. Your vote is very important. Our Board unanimously recommends that all shareholders vote in favor of the transaction with CrossCountry.

Now, let's turn to our quarterly results as summarized on slide 3. At the start of the quarter, RMBS performance was buoyed by the continued decline of implied volatility and the announcement on January 8th by the FHFA Director instructing the GSEs to purchase \$200 billion of agency MBS in an effort to explicitly tighten mortgage spreads as part of a larger effort to lower mortgage rates.



However, mostly as a result of the outbreak of the Middle East conflict, the performance of risk assets, including RMBS, deteriorated over the balance of the quarter. Amid this backdrop, for the first quarter, we had a total economic return of negative 2.0%.

Please turn to slide 4. Forecasts for inflation and economic growth became more uncertain as the quarter unfolded, and as a result, the Federal Reserve left rates unchanged at their February and March meetings. As you can see in figure 1, market expectations for the Fed's effective rate at 2026 year-end rose from 3.06% on December 31st to 3.57% at quarter-end, essentially wiping away any prospects of Fed cuts in 2026. Economic statistics over the quarter were mixed, punctuated by a weaker than anticipated employment report on March 6th, with the unemployment rate unexpectedly rising to 4.4%. Normally such an outcome would likely result in a bull steepener, with short rates falling more than long rates. In this instance, rekindled concerns over inflation, both from continued elevation of core PCE inflation, and from the oil price shock, were strong enough that rates did the opposite, rising into the end of the quarter. As you can see in figure 2, the U.S. Treasury yield curve bear flattened, with 2-year yields rising 32 basis points to 3.79%, while 10-year yields increased 15 basis points to 4.32%. The Fed's median forecast released in March continued to price in one 25 basis point cut in 2026, though forecast for core PCE inflation increased from 2.5% to 2.7%, which Chairman Powell said partly reflected incoming inflation news since the last report.

Please turn to slide 5. Our DTC platform has made excellent progress since we began making our first loan in June of 2024. In the first quarter we funded \$92 million in first and second liens, about the same as in the fourth quarter, despite rising interest rates. We also brokered \$38 million in second liens. At quarter-end, we had an additional \$57 million in our pipeline. These are still small numbers which, to some extent, are expected given the low note rate nature of our servicing portfolio. However, we believe the upcoming combination with CrossCountry should bring the origination efforts to a new level, and we expect that our recapture efforts should improve substantially, benefitting our servicing customers.

Now, 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. Our book value decreased to \$10.57 per share at March 31st, compared to \$11.13 per share at December 31st. Including the 0.34 cent common stock dividend, this resulted in a negative 2.0% quarterly economic return.

Please turn to slide 7. The company incurred a Comprehensive Loss of \$24.7 million, or \$0.24 per share.

Net interest and servicing income, which is the sum of GAAP net interest expense and net servicing income before operating costs, decreased as a result of lower float earnings rates and lower balances due to MSR sales and seasonals as well as lower servicing fee collections on lower UPB, partially offset by lower financing rates.

Mark-to-market losses on Agency RMBS and TBAs were due to higher interest rates and wider spreads in the first quarter versus gains in the fourth quarter driven by a bull steepening in rates. The decrease in mark-to-market losses on MSR was driven by a slight favorable change in valuation inputs and assumptions used in the fair valuation of MSR versus an unfavorable change in Q4, as well as lower portfolio run-off on lower MSR balances as a result of sales, and lower experienced prepayment speeds. Other derivative instruments utilized for purposes of hedging our interest rate exposure, including swaps, futures and inverse interest-only securities, experienced net mark-to-market gains in Q1 versus net losses in Q4.

You can see the individual components of Net Interest and Servicing Income, and Mark-to-Market Gains and Losses, on Appendix slide 20.

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. We ended the quarter with over \$500 million of cash on the balance sheet. As we said on our last earnings call, we repaid our convertible senior notes of \$261.9 million in full on their January 15, 2026 maturity date.

RMBS funding markets remained stable and available throughout the quarter, with repurchase spreads at around SOFR plus 15-to-18 basis points. At quarter-end, our weighted average days to maturity for our Agency RMBS repo was 71 days.

We finance our MSR, including the MSR asset and related servicing advance obligations, across 5 lenders with \$1.5 billion of outstanding borrowings under bilateral facilities. We ended the quarter with a total of \$977 million in unused MSR asset financing capacity. We have \$69.0 million drawn on our servicing advances facility with an additional \$81.0 million of available capacity. I will now turn the call over to Nick.



## **Nick Letica**

Thank you, William.

Please turn to slide 9. In his opening comments, Bill discussed the up/down nature of mortgage performance over the quarter. Ultimately, risk sentiment took an abrupt negative shift in late February with the onset of hostilities in the Middle East, leading to wider spreads for RMBS. Though mortgage spreads widened, they outperformed the increase in volatility due to favorable supply/demand technicals aided by the Administration's explicit support of the mortgage basis. At quarter end, and even today, the situation in the Middle East is highly fluid, with a broad range of outcomes. For the near-term, geopolitical tensions will remain the primary driver of market sentiment and economic outlook. That said, the widening of spreads by quarter-end made performance outcomes more balanced and improved the return potential of our portfolio.

At March 31st, the portfolio was \$11.9 billion, including \$8.9 billion in settled positions and \$3.0 billion in TBAs.

Our primary risk metrics quarter-over-quarter were not much different. Our economic debt to equity was lower at 6.4 times, while our portfolio's sensitivity to a 25 basis point spread tightening decreased slightly from 3.7% to 3.2%. Throughout the quarter, given the elevated level of macro volatility, we kept interest rate risks low in aggregate and across the yield curve. You can see more details on our risk exposures on Appendix slide 17.

Please turn to slide 10. As previously discussed, January was an excellent month for mortgage performance, with the Bloomberg MBS index delivering 52 basis points of excess return, its best month in over a year. Implied volatility, as measured by 2-year options on 10-year swap rates, fell to 73 basis points on January 27th, its lowest level since October 2021. Spreads ratcheted tighter after the January 8th announcement directing the GSEs to buy MBS, adding to what was already a constructive supply/demand picture with money managers enjoying consistent inflows of capital, banks driving CMO demand through floater purchases, and REITs raising capital in the equity markets. Current coupon spreads reached quarterly tights on January 12th, with nominal and option-adjusted spreads tightening by 10-to-15 basis points from the beginning of the quarter. In response, we lowered our mortgage exposure given historically tight Treasury spreads, mostly by selling 4.5% specified pools and 5% TBAs.

However, over the course of February and March, driven predominantly by the start of the conflict and the attendant increase in realized and implied volatility and the flattening of the yield curve, performance deteriorated. As you can see in figure 1, implied volatility on 2-year/10-year swaptions finished the quarter up +5 basis points nominally to 85 basis points. Current coupon spreads versus swaps, on a nominal and option-adjusted basis, widened by 26 and 15 basis points, finishing the quarter at +141 and +60 basis points, respectively. With mortgage spreads cheaper, we reversed course and managed spread exposure higher by quarter-end, simultaneously adding some 5.5% specified pools.



As you can see in Figure 2, the spread curve, both nominally and risk adjusted, steepened over quarter with lower coupons close to unchanged while 4.5 and higher coupons widened. Peak spreads were in the 5.5% to 6.0% coupons.

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. Hedged performance versus swaps across the coupon stack was mixed, with some belly coupons and higher coupon specified pools eking out a positive return, while performance for most of the stack between 4.5s and 6.0s was negative. Hedged performance versus Treasuries was better, as longer-end swap spreads tightened over the quarter. Even so, the Bloomberg MBS Index, in which performance is measured against Treasuries, had an excess cumulative return of -36 basis points over February and March.

30-year mortgage rates finished up about 25 basis points quarter-over-quarter to 6.50%, though they touched 6% in both January and February, allowing savvy and fast-acting borrowers to find the best rates in years. Prepayment rates for refinanceable loans jumped higher in March reacting to the multi-year lows in mortgage rates earlier in the quarter. Though absolute prepayment rates for refinancible coupons reached similar levels as observed in October 2025, they were actually more benign after adjusting for rate incentive. Thus, the prepayment S-curve was not as reactive as it had been in the fourth quarter, when the media effect was more elevated.

With prepayment rates on higher coupon TBAs remaining fast the call protection offered by our carefully selected specified pools was evident, as can be seen in Figure 2 which shows TBAs vs the specified pools we owned by coupon. For 5.5 coupons and higher, our specified pools paid at a fraction of TBA speeds. On aggregate our pool speed increased to 9.8% from 8.6% CPR quarter over quarter, mostly driven by increases in speeds from these higher coupons.

Please turn to slide 12. Activity and demand for MSR in the first quarter remained high, with servicing transfers in the first quarter topping \$93 billion UPB, outpacing Q1 2025, though below the prior two quarters. We continue to see most of the supply coming from non-bank originators with a broader array of buyer types which include other non-bank originators, banks, and REITs.

Figure 2 shows that with mortgage rates at their current level of around 6.5%, the share of our MSR portfolio that is considered in the money drops to 1%. If mortgage rates were to drop to around 5%, the portion of our portfolio in the money would rise to about 9%. The housing market remains slow, and persistent inventory shortages in many markets is expected to continue to put upward pressure on prices. That said, there are pockets of weakness in Southern markets with builders continuing to offer buydowns to move inventory. Housing affordability, which had been improving since mid-2025 is likely to reverse given the rise in mortgage rates. On a broad basis, we anticipate home prices to rise in the single digits annualized, and for housing turnover to continue to trend about 5% higher year-on-year, especially as primary rates today are lower than a year ago at this time.



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 23. In the first quarter we added \$152 million UPB of MSR through flow-sale and recapture channels. Given the increase in mortgage rates and wider RMBS spreads, the price multiple of our MSR increased slightly quarter-over-quarter to 5.9 times. 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 decrease in prepayment rates to 5.6% CPR reflecting lower housing turnover that is typical in the winter months. Importantly, prepays have remained below our projections for the majority of our portfolio, which has been a positive tailwind for returns.

Finally, please turn to slide 14, our Return Potential and Outlook slide, which is a forward-looking projection of our expected portfolio returns.

We estimate that about 65% 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 11 to 15%.

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 8.0 to 11.4% 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 7.3% to 12.9%, or a prospective quarterly static return per share of 19 to 34 cents.

Looking ahead, the situation in the Middle East remains highly fluid. The economic disruptions caused by this conflict are inherently hard to gauge. While technical factors in the RMBS market are a positive for the sector, the outlook for interest rate volatility is less certain. It's worth noting that while there was a substantial increase in volatility off the quarterly lows in Q1, volatility for much of the term structure only went back to levels last seen in Q4 2025. Relative to that timeframe, current coupon spreads finished the quarter slightly tighter than they were then, which reflects the explicit support the sector has received from the Administration. In addition to the demand from the GSEs, the latest proposals for the Basel III Endgame could provide a lift as banks should have more capital to use to purchase MBS and hold mortgage loans, which could reduce securitization rates and RMBS supply. In total, RMBS hedged with swaps possesses good nominal yield with a more balanced performance profile, albeit with a key dependency on the direction of volatility. The MSR market remains very well supported with a broad range of buyers. We continue to favor our portfolio construction of pairing MSR with RMBS, which we expect will deliver attractive returns over a wide range of market outcomes.

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



## Question & Answer

**Operator:** Thank you. If you are dialed in via the telephone and 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 your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask a question. We'll pause for just a moment. We'll go first to Doug Harter with BTIG.

**Doug Harter:** Thanks. Just talking about kind of the book value performance in the quarter. Hoping you could help break that down between the two strategies and kind of how MSR performed and how kind of the hedged agency would have performed, just as we think about those components?

**Nicholas Letica:** Hey, Doug, this is Nick. Thank you for that question. And a very good one. Over the quarter, we saw our MSR, hedged MSR strategy performed extremely well over the quarter. That was a positive. The hedged securities part of the portfolio was an offset to that. I think over the quarter, there was a fair amount, big pickup both in realized and implied volatility, convexity hedging costs over the quarter were definitely a pickup from the prior quarter.

And if you look at the anecdotally, if you just look at the basis points travelled or the range that the market traded in in terms of the tenure, definitely would see a pickup that would make sense in that context. So it was a better quarter for hedged MSR versus hedge securities. The one thing I will say is, in terms of like relative performance among the REITs, I saw the comment you made in your note about us last night, I would say there are two things. First of all, we have generally a higher expense base.

So when you actually, I think, if you looked at the portfolio in isolation relative to other portfolios, I think on a comparative basis, it probably looked pretty favorable, the expense, a higher expense base because of our servicing business was - is an offset to that relative to some peers. And the other part of it is that unlike other peers that had raised equity over the quarter and had some accretion relative - owing to the fact they're trading over book value and some of that adds to their performance. I think with those adjustments, I think that the portfolio performance would actually look relatively favorable, if that makes sense.

**Doug Harter:** That does. I appreciate that clarity, Nick. Thank you.

**Nicholas Letica:** Of course.



**Bill Greenberg:** Thanks, Doug. Congratulations on the new role.

**Operator:** And we'll go next to Bose George with KBW.

**Bose George:** Hey, guys. Good morning. Can we get an update on your book value quarter-to-date?

**Nicholas Letica:** Hey, Bose, this is Nick. We're up about 2%.

**Bose George:** Okay, great. Thanks. And then not sure if you can answer this, but in terms of the merger, is the situation with UWM over or does that remain kind of live until the shareholder vote?

**Bill Greenberg:** Well, as we disclosed last night, we executed a revised merger agreement with CCM. We're working through the process in terms of getting that merger to completion. There is a shareholder vote which is scheduled for May 19th, and we're excited about that transaction and we're focused on doing everything we can in order to bring that to completion.

**Bose George:** Okay, great. But - okay. I guess, that's good. I was just curious if there's still room for bids until the vote happens. Is that a fair statement?

**Bill Greenberg:** The merger agreement is very, very prescribed and lays out the details and the circumstances for how someone should do that if they were so interested.

**Bose George:** Okay, great. Thanks a lot.

**Bill Greenberg:** Thank you.

**Operator:** We'll take our next question from Jason Weaver with Jones Trading.

**Speaker:** Hey, good morning, guys. This is [inaudible] here filling in for Jason Weaver. Just had a quick one for you. Can you walk us through the financing package supporting the \$11.30 cash consideration? Whether it's debt-sponsored, private equity, internal cash, and also whether the merger agreement contains a financing condition or a market MAC carve-out tied to book value per share, mortgage spreads or like rate volatility at close. Thanks.



**Bill Greenberg:** Yeah. Thanks for the question. And I appreciate it. As you might expect, everything that is disclosable has been disclosed in the merger agreements, which is filed publicly. So I would refer you to that document to answer some of your questions.

**Speaker:** Okay. Great. Thank you. Appreciate it.

**Bill Greenberg:** Thank you.

**Operator:** And at this time, there are no further questions. I'll turn the call back to the speakers for any additional or closing remarks.

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

**Operator:** This does conclude today's conference. We thank you for your participation.