TWO First Quarter 2025 Financial Results Call

Tuesday, April 29, 2025

9:00am ET

Operator

Good morning. My name is Cynthia, and I will be your conference facilitator. At this time, I would like to welcome everyone to Two's first quarter 2025 earnings call. All participants will be in a listen-only mode. After the speaker's remarks, there will be a question-and-answer period. I would now like to turn over the call to Maggie Karr. Please go ahead.

Maggie Karr

Good morning everyone and welcome to our call to discuss TWO's first 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 first quarter earnings call.

Please turn to slide 3. We generated a total economic return of 4.4% for the first quarter, with both RMBS and MSR contributing positively to the results.

Throughout the changing macroeconomic environment of the first quarter, we kept our risk exposures low, which proved to be prudent. While overall, spreads have widened in the second quarter, they have been variable day-to-day, and we have actively managed the portfolio and our risk to take advantage of any market dislocations and attractive return opportunities.

Please turn to slide 4. Interest rates across the U.S. Treasury yield curve ended the first quarter lower than at 2024 year-end, with 2-year and 10-year notes both decreasing by 36 basis points to finish at 3.88% and 4.21%, respectively, as seen in figure 1.

The Fed once again held rates unchanged at their March 19th meeting but revised lower real GDP growth expectations for this year from 2.1% to 1.7%, while core PCE was revised up from 2.5% to 2.8%, changes which Chairman Powell acknowledged were related to potential changes in trade policies. As of the end of March, the market's expectations for cuts for the remainder of 2025 moved from 50 to 75 basis points, as you can see in figure 2.

However, subsequent data on employment, inflation, and most everything else has been largely overshadowed by growing economic uncertainty driven by proposals from the administration on tariffs, trade policy, and the composition of the Fed and its reaction function. The instability of U.S. policy has for the first time raised questions about the status of the dollar as the world's reserve currency, and we are carefully watching developments unfold.

Please turn to slide 5. Our focus at RoundPoint this year is fivefold. First, to bring our direct-to-consumer originations platform fully to scale with widespread brand recognition. Second, to increase the velocity and depth of our offerings of second liens to our borrowers, producing additional revenue. Third, to evaluate opportunities and adapt as the mortgage finance landscape evolves; this includes diversifying our portfolio by potentially participating in the Ginne Mae market as well as exploring possibilities in the non-agency sector. Fourth, as a full-service mortgage servicer and originator, to grow our presence in third party subservicing. Fifth and finally, to continue to generate additional cost efficiencies in servicing – primarily through the use of technology and AI applications. As I just described, we view the RoundPoint platform as an expansion of our opportunity set, providing additional benefits for our shareholders, by allowing us to impact our results through our own actions in ways that portfolios without operating platforms cannot.

At TWO, we have thoughtfully and intentionally built an investment portfolio with MSR at its core, that is designed to deliver attractive risk-adjusted returns across a variety of market environments. An investment in TWO allows our shareholders to benefit from our team's deep expertise and experience in managing and hedging portfolios of MSR and mortgage-backed securities. I'm very excited about the opportunities ahead for TWO. 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. Our book value increased to $14.66 per share at March 31st, compared to $14.47 on December 31st. Including the 45-cent common stock dividend, this resulted in a positive 4.4% quarterly economic return.

Please turn to slide 7. The company generated Comprehensive Income of $64.9 million, or $0.62 cents per weighted average common share in the first quarter.

We slightly amended the chart on this slide to better reflect how we think about changes in values for the assets and the hedges together, rather than in isolation. "Net interest and servicing income," which is the sum of GAAP net interest expense and net servicing income before operating costs, was higher in the first quarter by $5.2 million, driven by portfolio shifts into higher coupon Agency RMBS and lower borrowing rates, slightly offset by lower float income, due to seasonality and lower rates, and lower servicing fee income from MSR portfolio runoff.

The next column, "mark-to-market gains and losses," represents the sum of investment securities gain and change in OCI, net swap and other derivative losses, and servicing asset losses. The duration of our RMBS and MSR assets was hedged by net long TBA positions in the case of MSR and by net short futures and payer swaps in the case of RMBS. The $38.4 million difference quarter-over-quarter was driven primarily by unrealized gains on RMBS and TBA positions, offset by MSR portfolio run-off, and mark-to-market losses on swaps and futures.

Finally, operating expenses increased due primarily to higher non-cash equity compensation expenses, which typically occurs in the first quarter of the year.

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. RMBS funding markets remained stable and available throughout the quarter, with repurchase spreads normalizing into a tighter historical context, at SOFR plus around 20 basis points. At quarter-end, our weighted average days to maturity for our Agency RMBS repo was 68 days. To date in the second quarter, repo liquidity remains normal and we've observed no disruptions to our financing.

We finance our MSR, including the MSR asset and related servicing advance obligations, across 5 lenders with $1.7 billion of outstanding borrowings under bilateral facilities. We ended the quarter with a total of $950 million in unused MSR asset financing capacity and $47 million unused capacity for servicing advances. I will now turn the call over to Nick.

Nick Letica

Thank you, William.

Our portfolio performed well in the first quarter, with both components of our strategy contributing to the positive return. At year-end, we commented that mortgage spread volatility would decline and that indeed was the case in Q1, helping to drive our positive hedged RMBS return. Our MSR performance was bolstered not only by slower than expected speeds, but also a slight tightening of spreads indicative of the demand for the asset.

Jumping back into the deck, please turn to slide 9. Our portfolio at March 31st was $14.6 billion, including $11.6 billion in settled positions and $3.0 billion in TBAs. Our economic debt to equity decreased to 6.2 times. We manage our exposure to rates across the curve very closely, and in the first quarter we lowered our risks to mortgage spreads and interest rates, as you can see in figures 2 and 3. By quarter-end, we had substantially less risk than when we started the quarter. Overall, we decreased our mortgage exposure by 30% and reduced our leverage. You can see more detail on our risk exposures on Appendix slide 18.

Please turn to slide 10. The performance of Agency RMBS securities was net positive over the quarter. RMBS outperformed interest-rate hedges in January and February but underperformed in March as equities and fixed-income spread products weakened. The performance across the RMBS coupon stack was uneven, with higher coupons, both in TBAs and specified pools, outperforming longer duration lower coupons. As you can see in figure 1, our preferred implied volatility gauge, 2-year options on 10-year rates, decreased modestly from 101 to 98 basis points on an annualized basis. Both the nominal spread and OAS tightened slightly, and these metrics, as well as the 2-year 10-year implied volatility, finished the quarter close to their 6-month and 12-month averages. As has been the case, nominal spreads and volatility remain well above longer-term averages, but option-adjusted spreads are close to their long-term average. For this reason, we continue to believe that volatility will need to decline for RMBS spreads to materially tighten to Treasuries.

Of course we have seen the opposite, as implied and realized volatility has increased in the second quarter, given the uncertainty around the macroeconomic outlook. Spreads for Agency RMBS have widened and spread volatility itself has increased back to pre-election levels.

Please turn to slide 11 to review our Agency RMBS portfolio. Figure 1 shows the performance of TBAs compared to the specified pools we owned throughout this quarter. The bull steepening of the swap curve plus strong levels of CMO issuance led to the outperformance of higher coupon RMBS.

In terms of coupon stack activity, we started the quarter with an up-in-coupon bias while progressively lowering our risk throughout the quarter. We reduced our exposure in 3 percent to 4.5 percent season specified pools by approximately $730 million and simultaneously added about $1.7 billion of 6-to-6.5 percent specified pools while reducing our net TBA position correspondingly. To maintain our MSR current coupon hedging, we moved our MSR duration-related TBA position down-in-coupon by selling 6s and buying 5s.

Primary mortgage rates hovered around 7% for most of the quarter. With winter seasonals at play, prepayment activity was muted on both refi and turnover fronts. Overall prepayment rates for the 30-year Agency RMBS universe decreased by 1.4 percentage points quarter-over-quarter to 5.6% CPR. Figure 2 on the bottom right shows our specified pool prepayment speeds by coupon. Most of the decline in speeds quarter-over-quarter came from the lagged response of higher coupons slowing down because of higher rates earlier in the quarter.

Please turn to slide 12 as we discuss the market for investing in MSR. The MSR market remains well-supported given the high demand for the asset class and limited bulk acquisition opportunities. As you can see in figure 1, transfer volume appears to have normalized to pre-COVID levels. Borrowers remain as locked in as ever, happy with their low rates. With a current mortgage rate around 6.75%, less than 1 percent of the UPB of our portfolio has 50 basis points or more of a rate incentive to refinance. As you can see in figure 2, prepays have remained low and steady – and below our projections - for the majority of our portfolio, with only 5's and above slightly increasing. The slow and steady nature of realized prepayment speeds, however, belies a very interesting characteristic of the structure of the market and of the nature of lock-in. In particular, looking at the blue line, we do not see prepayment speeds asymptotically approaching some base turnover level of payoffs. Historical 12-month prepayment rates for 2.5's are faster than for 2's by about 1.2 CPR, and faster for 3's than for 2.5's by about .5 CPR. This shows that even for mortgages that are very deeply out of the money, there is still rate sensitivity to the prepayment function. This has pricing implications for low coupon MSR and explains why the lowest note rate MSR has been able to trade at historically high multiples.

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 April, we committed to purchase $1.7 billion UPB of MSR through two bulk purchases, which are expected to settle in the second quarter. The price multiple of our MSR was unchanged quarter-over-quarter at 5.9 times 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. The prepayment speed for our MSR portfolio was 4.2% CPR in the first quarter, down .7 percentage points from the fourth quarter, as slower seasonal factors kicked in.

Finally, please turn to slide 14, our Return Potential and Outlook slide.

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 65% of our capital is allocated to Servicing with a static return projection of 12 to 14%. The remaining capital is allocated to Securities with a static return estimate of 10 to 15%.

With our portfolio allocations shown in the top half of the table, and after expenses, the static return estimate for our portfolio is between 8.7 to 12.3% before applying any capital structure leverage to the portfolio. After giving effect to our outstanding convertible notes and preferred stock, we believe that the potential static return on common equity falls in the range of 9.1% to 14.7%, or a prospective quarterly static return per share of 33 to 54 cents. Remember, these numbers reflect our portfolio and spreads at quarter-end, and would be higher today given that spreads are wider.

We made a small update to this table this quarter by expanding the factors that we vary in determining the range of prospective static returns per basic common share. Previously, we had determined the range by varying prepayment rates and funding rates. Today, in addition, we have also chosen to vary portfolio leverage rather than only using the spot value, keeping in mind that this slide is meant to be a medium-term estimate of return potential.

Post quarter-end, dramatic shifts on tariff policies have triggered speculation on broad global asset allocation shifts away from dollar-based assets and heightened concerns about the effects of stagflation on Fed policy. Predictably, equity and fixed-income volatility have spiked. Since April 2nd, the 10-year Treasury yield has traded in a whopping 70 basis point range, and the yield curve between 2- and 10-year Treasuries has steepened by 20 basis points. Swap spreads also fell precipitously to all time tights, before widening back. While recent talk of tariff walk-backs have calmed the markets, there still remains a large amount of economic uncertainty, all but guaranteeing a continued bumpy road ahead.

But from dislocation, there is also opportunity. Volatility will continue to be a headwind, but we manage our portfolio for the long-term. Being mindful of the current environment, we are keeping our portfolio leverage and risk at muted levels until there is more clarity on the economic path forward. However, we continue to see attractive levered returns on Agency RMBS, and portfolio of our low weighted average coupon rate MSR should continue to generate stable cashflows over a wide range of interest rate 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

Thank you. 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 your mute function is turned off to allow the signal to reach our equipment. Again, press star one to ask a question. We'll take our first question from Doug Harter with UBS.

Doug Harter, UBS

Thanks. Just given the volatility, can you give us an update on book value through April and then also, you know, any changes you might have made in the portfolio to, you know, to sort of adjust for the current environment?

Bill Greenberg

Yeah, sure. Good morning, Doug. Thanks for the question. As you know, it's been quite a volatile April with all the activity that's happened. Nick mentioned some of those in his prepared remarks rate volatility, spread volatility and so forth, but I think we've been able to manage that pretty well and so that through last Friday we were down about three and a half percent. I'll let Nick take the question of the changes to the portfolio that we've made.

Nick Letica

Hey, Doug. Thank you for the question. We have modulated the portfolio since the beginning of April. As again, in my prepared remarks, you know, we did take our risk down by the end of the first quarter and we actually lowered it even further, you know, into early April. Just with some of the news coming out it seemed to us that there, that we were in for about of greater amounts of volatility and some weakness in assets and but since we have actually raised it a little bit from where we were, you know, we were, you know, we ended the quarter, you know, in around 6.2 debt to equity. You know, we got as low as some of the -- in the low fives and we're now back up, you know, approaching six again.

You know, that's really been a function of seeing the developments in some of the, you know, some of the actions coming out of DC and are, you know, around the markets. You know, there has been a little bit of a de-escalation in our opinion in terms of the rhetoric and are clear recognition that some of the, you know, actions that have been proposed, you know, have had a, you know, dis-regulatory effect on the markets, especially the bond market. And, you know, we take it to heart that some of that has, you know, has calmed the markets down and, you know, spreads have widened particularly in terms of mortgages versus swaps where, you know, the majority of our hedges and you know, while they certainly don't look as wide as they did at some of the really peak wide periods of this interest rate cycle, like in late 22 or late 23 for example, they have widened out to a decent degree and present a better opportunity than they were at the end of the quarter.

But you know, there's still a lot of unknown things ahead and even with all of this, you know, when, and if all of this tariff and trade policy gets settled, you know, there's clearly still some effects are going to happen in terms of the fed and how they're going to react to either a slowdown in the economy or a pickup in inflation. And, you know, we do feel like there, again, there's good reasons to believe that volatility is not going to be going down, you know, in any real material way for the foreseeable future.

Doug Harter, UBS

Great. And then Nick, if I could just clarify, I believe you said in your prepared remarks that the return potential would be higher today because of wider spreads. Just wanted to make sure I heard that correct.

Nick Letica

Yes, that's correct. I mean, we estimate that where spreads were, again, I think we did this as of Friday, that it would be about three cents on the return potential just with spreads being wider.

Doug Harter, UBS

Great. I appreciate that. Thank you.

Bill Greenberg

Thanks Doug.

Operator

We will take our next question from Trevor Cranston with Citizens JMP.

Trevor Cranston, Citizens JMP

Thanks. Good morning. Can you guys talk a little bit about. you know, the big merger or acquisition between Rocket and Mr. Cooper and how you think that sort of impacts the competitive landscape in the servicing market and potentially the bulk MSR purchase market as well? Thanks.

Bill Greenberg

Yeah, sure. Certainly, an exciting development in the market in terms of its real-life impacts, though I think they may be more muted than the headlines might appear. I mean, both those guys were active buyers of MSR. So, I think that, you know, as a combined entity, I think that demand will stay the same as being as being equal to the what the individual, the sum of the individual demands. I think the bid is probably a little bit better than it was because now you have the maximum of the two individual bids, right? So, I think it will be a little bit more competitive than it was on the margins, though, I don't think it's a wholesale change.

You know, the securities markets has reacted somewhat with regards to prepayment speeds in terms of, you know, pools that were serviced by Cooper being modulated to forward prepayment speeds being in line with more Rocket speeds. So we've seen an impact there. So, I think the impact generally are non-zero, but it's not market changing. The dynamics in the servicing market are larger the same as what it was. There's still, as we said in the prepared remarks, the supply of MSR is back to pre-COVID levels. And that's not going to change that.

Trevor Cranston, Citizens JMP

Got it. Okay. That's helpful. And then can you guys maybe provide a little color around the change you had to the previously announced CFO transition? Thanks.

Bill Greenberg

Yeah, well as we announced, you know, we, you know, William Dellal has been appointed chief of officer instead of interim chief financial officer. We're thrilled to have him here. William has added so much value and he's been terrific. And we're happy to have him and, you know, we continue to benefit from all of William's experience and we're happy to have him. So, and that's all I'm really going to say about that.

Trevor Cranston, Citizens JMP

Okay. Appreciate the comments. Thank you.

Operator

We'll take our next question from Bose George with KBW.

Bose George, KBW

Hey guys, good morning. If you quick call, follow up to Doug's question just on the impact on spread. So, you said up three cents. Is that both the high end and the low end or just volatility? Do anything just in terms of what happens to that range?

Nick Letica

Hey, Bose, it's Nick. Yes, it's high end and low end and, you know, it's a little bit of a, you know, rough estimate. But yeah, it's three cents on both sides.

Bose George, KBW

Okay, great. And then just, you know, with the new target range, et cetera, can you just talk about the comfort level with the dividend?

Nick Letica

Yeah, I mean, well, I mean you can see what the, you know, what we're, you know, what we're projecting. You know, we're -- we are comfortable with the dividend with spreads where they are and our composition of our portfolio. You know, with the -- with spreads having widened this quarter and again bringing our risk back up now that we feel like, you know, it's a little bit of a safer passage, you know, we feel confident about supporting the dividend here with our portfolio

Bose George, KBW

Okay, great. Thanks.

Bill Greenberg

Thank you, Bose.

Operator

We will take our next question from Eric Hagen with BTIG.

Eric Hagen, BTIG

Hey guys. Good morning. We're just looking at the book value sensitivity for the change in a tightening and spreads. And I realize that in April, maybe it's changed a little bit, but for a 25-basis point move we may be expected the sensitivity to be a little bit higher. Is there a way to flesh out kind of like what's going on with the sensitivity in the MBS portfolio versus the MSRs?

Bill Greenberg

I'm sorry. You think that the -- so spreads up 25 basis points in the deck we showed minus 4.9% and --

Eric Hagen, BTIG

Yeah, I'm actually looking at a --

Bill Greenberg

Tightening and spreads.

Eric Hagen, BTIG

Yeah, yeah, so like a -- like the up move 4%.

Bill Greenberg

Up 4.1%, you think that should be higher?

Eric Hagen, BTIG

Maybe a little bit. I mean, just for a 25-basis point move in spreads, that's pretty meaningful, right?

Bill Greenberg

Yeah, well, so yeah, well, you know, I mean, as you know, you know, if you go back down to slide 14, right? We say that, you know, 65% of our capital is allocated to the hedge servicing strategy part of the portfolio and only 35% is allocated to hedge securities. So, when MBS spreads do something the MSR part of the portfolio doesn't react really at all because that is incorporated quickly and immediately into the MSR values, right? That's the way the MSR market prices itself and works. And so, by definition, right, our -- all else being equal, you would think that our portfolio would have 35% of the spread sensitivity exposure to a portfolio without MSR. Now there is somewhat differences between capital structures and so forth. So, there's slight differences, but as a base case that's where I would start is say whatever spreads do, we would be 35% of what portfolios without MSR would be. And that's true when spreads tighten, and that's true when spreads wide. Nick, would you add anything to that?

Nick Letica

Yeah, Eric so I would just, I would point you to the fact that if you look at our net mortgage exposure, as in my comments, and if you look at it quarter over quarter, you know, our net mortgage exposure, which is on page 17 of the deck I think was down to about, you know, 5.5 billion when you take out the, you know, the effect of the MSR which was down significantly. And, you know, we talked about this before, you know, the amount of duration, the amount of spread duration you have in a mortgage, you know, with a mortgage portfolio does depend on where you are on the coupon stack too, right? If we had all of that 5 billion in, you know, two and a half or threes, as opposed to having the majority of it more up in the stack, you would have more spread exposure there.

You know, it's the notional amount and where it's located on the coupon stack that determine that sensitivity. And I think that if you distill down that the net mortgage exposure is lower, number one and two, we did have a little bit more of a shift up in coupon both of those things will decline the amount of spread sensitivity. But again, that was something that we very intentionally did by the end of the quarter because, you know, we were sort of hunkering down getting into second quarter with, you know, all of these, you know, changes flowing through the macroeconomic world.

Eric Hagen, BTIG

Yep. Okay. That's helpful. I think that prompts a follow up question. I mean, do you feel like the -- like MBS spreads have essentially kind of reset wider as a result of tariffs in this new range for volatility? And how do you feel like spreads would maybe respond if the fed looks more likely to cut rates from this point?

Nick Letica

They, I mean, they have reset a little bit. I mean, they haven't gone nuts in terms of spreads like by our if that's a technical term but they, you know, actually if you look at like treasury spreads, they're pretty close to where they were at the beginning of the year. You know, swap spreads, mortgages to swaps are wider, but you know, like I said earlier, they're not like at all times, they're good and they're, and we like them here and that's why we're getting a little bit, you know, we're putting on -- putting back on some risk and being opportunistic and adding some assets here and there that we think look really good. But you know, they're far from, you know, they're far from where they were at sort of the peak points in time and the way we look at the world and everyone looks at the world differently.

We, you know, as you know, we really look at our securities across the call yield curve with partial durations. We tend not to use sort of spot numbers, and that's the way we hedge our book and run our book. But answer your last question, you know, if the fed cuts, you know, I think that's going to be good for mortgages. I mean, steeper yield curves are typically good for mortgages. It, you know, brings more investors into the -- into fixed income in general. And you know, I think that would be stimulative to mortgage spreads.

Eric Hagen, BTIG

Got it. That's helpful. Thank you, guys.

Bill Greenberg

Thanks Eric.

Operator

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

Harsh Hemnani, Green Street

Thank you. So sounds like you think that volatility, at least in the near term, will continue to remain elevated especially on the realized side perhaps, and given maybe the more deeper negative convexity in the portfolio, has there sort of been more hedging activity that could, you know, impact the static return estimates that we should be thinking about?

Nick Letica

Hey, Harsh, how you doing? Yeah, I mean, look, the -- we know that a lot of realized volatility is never good for, you know, a hedge mortgage portfolio. So, we, you know, we clearly, you know, ourselves and I'm sure other REITs have been experiencing more convexity costs than they would in -- under other circumstances. But you know, we have been as you know, and we've been keeping our risk pretty tight through this whole time period. You know, I think this is a time period where you have to be, you know, very cautious about taking on, you know, any sort of excess risk in the portfolio. But the, you know, there is compensation for it, of course, and the fact that spreads have widened, right? So, I mean, it's -- it is -- it -- there, there are pluses and minuses to it. Yes, convexity costs are going to be higher when you have more realized volatility. But thankfully spreads, you know, have widened, you know, in concert with that which should mitigate some of that convexity cost.

Harsh Hemnani, Green Street

Okay. That's helpful. And then maybe as you've been stepping back into getting more spread exposure, maybe towards the back half of April, is it fair to assume that the up in coupon bias still remains or where you see relative value across the coupons factor today?

Nick Letica

Yeah, that is fair to assume. You know, we really do. You know, I'm -- what the issue with lower coupons for me is I think they trade in such a technical way that, you know, the value across the curve is -- on an OAS basis at least is fairly evenly distributed. But I -- there, like everything else there are tradeoffs, but you know, the lower part of the stack continues to be extraordinarily technical in the way of trades and I think can trade in ways that are not necessarily intuitive. So at the moment we do like being more up in coupon than down in coupon.

Harsh Hemnani, Green Street

Got it. Thank you.

Bill Greenberg

Thanks Harsh.

Operator

We'll take our next question from Rick Shane from J.P. Morgan.

Bill Greenberg

Hey Rick.

JJ, J.P. Morgan

This is JJ on for Rick. Your static return estimate on slide 14 appears to have widened a bit. Can you talk about what drove that and how has varying your leverage impacted this measure compared to last quarter?

Bill Greenberg

Yeah, sure. Thanks for the question. As Nick said in his prepared remarks, we added this other dimension of changing the portfolio leverage a little bit to the lower and upper end of those ranges. And really that was a reflection of, you know, when we're dynamically and actively managing the portfolio especially as we have been this quarter it's important. We felt it was important to show the range of expected static returns, projected static returns that are available over the medium term in a sort of equilibrium style leverage portfolio. As Nick said, you know, we closed the quarter with leverage at 6.2, we got down as low as low fives, and we're back up towards, you know, the high fives right around six now. So, it seems like it would be not as informative to be, you know, to show these static return estimates moving around so much as we actively manage the portfolio in order to take advantage of dislocations and opportunities in the market. And so, we've made the higher and lower end of the range. There also include some leverage ranges basically at the low end of the range. Something like six at the high end of the range, something like seven, right? In addition to the changes in the funding spreads and prepayment rates that we've been doing for some time. And so that's the source of why, that's why not a little bit, but we think it gives a more reflective view as to what the portfolio really is.

JJ, J.P. Morgan

Okay. That's super helpful. Thank you. That's all for me.

Operator

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

Merrill Ross, Compass Point Research

I have three questions or three things I'd like to hear you about -- hear from you about. One is liquidity. You say you maintain high liquidity, but if you could just put some rough numbers around that, that would help.

William Dellal

Good morning, Merrill. It's we maintained our liquidity at very high levels from the end of the year. And we're maintaining a lot of cash and capacity in our borrowing.

Merrill Ross, Compass Point Research

And on the recapture you refer to the whatever, 179 million of loans that were flow and recapture 174. What is the nature of that, how much of it was recapture versus flow and how, you know, did that meet your expectations relative to the market runoff? Because the portfolio is ever so slightly larger. I'm just wondering if you're holding your own against the runoff with the recapture effort.

Bill Greenberg

Yeah, thanks for that question, Merrill. The organic recapture coming from our direct-to-consumer channel is still very low. It's still in its nascent stages. You know, as Nick said in his remarks, and I could put a finer point on it only about 0.5% of our portfolio is refinanceable from a rate and term perspective right now, right? And so, there's very little ability to capture some of those loans. However, we are seeing within that 0.5% we are seeing, you know, some increased activity in our direct-to-consumer channel there. And so, I'm very optimistic about what we'll be able to do when we bring the platform fully to scale, right? We are and I think we'll be able to achieve some really good numbers there once we get there. We have been active in the bulk market in small size, right? And able to replenish the portfolio somewhat as well as being participating in the flow market. And so, you know, we're confident that we're going to be able to maintain our servicing portfolio or even grow it over time. And we think, you know, we're going to be using all of the tools that are available to us in both the bulk and flow markets. And eventually the DTC once that gets more up to scale and fully formed.

Merrill Ross, Compass Point Research

Right. Thank you. And the last one is quite small, but you -- throughout a mention to being interested in the Ginnie Mae market, do you see price dislocations there or is that just sort of a safe harbor for, you know, return generation when the GSEs are being recapped and released?

Bill Greenberg

You know; I think it's many factors. I mean, we're taking the beginning stages in order to get involved in that market. You know, but the rationales are number one, just to have the ability to participate in the broader aspect of the servicing market rather than just conventional, the ability to be able to service and sub-service for Ginnie Mae's. It is slightly cheaper. It's a little bit more opportunity there. And I think being able to be a more full-service mortgage originator slash servicer sort of requires us to be involved in Ginnie Mae market. So, we're taking the beginning steps in order to do that.

Merrill Ross, Compass Point Research

Thank you.

Operator

There are no further questions at this time. I will turn the conference back to Bill Greenberg for any additional or closing remarks.

Bill Greenberg

I want to thank everyone for joining us today. Thank you as always to our shareholders for your interest, and I look forward to talking to you again next quarter.