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CORPORATE PARTICIPANTS

Brad Farrell *Two Harbors Investment Corp. - CFO and Treasurer*

Margaret Field

Thomas Edwin Siering *Two Harbors Investment Corp. - CEO, President and Director*

William Meyer Roth *Two Harbors Investment Corp. - CIO and Director*

CONFERENCE CALL PARTICIPANTS

Bose Thomas George *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Douglas Michael Harter *Crédit Suisse AG, Research Division - Director*

Jessica Sara Levi-Ribner *FBR Capital Markets & Co., Research Division - Research Analyst*

Richard Barry Shane *JP Morgan Chase & Co, Research Division - Senior Equity Analyst*

Robert Brock

Trevor John Cranston *JMP Securities LLC, Research Division - Director and Senior Research Analyst*

PRESENTATION

Operator

Good morning. My name is Chelsea, and I will be your conference facilitator. At this time, I would like to welcome everyone to Two Harbors' Third Quarter 2017 Financial Results Conference Call. (Operator Instructions) I would now like to turn the call over to Maggie Field with Investor Relations for Two Harbors.

Margaret Field

Thank you, Chelsea, and good morning, everyone. Thank you for joining our call to discuss Two Harbors' Third Quarter 2017 Financial Results. With me on the call this morning are Tom Siering, our President and CEO; Brad Farrell, our CFO; and Bill Roth, our CIO. After my introductory comments, Tom will provide a brief recap of our quarterly results; Brad will highlight key items from our financials and Bill will review our portfolio performance.

The press release and financial tables associated with today's call were filed yesterday with the SEC. If you do not have a copy, you may find them on our website or on the SEC's website at sec.gov. In our earnings release and slides, which are now posted in the Investor Relations section of our website, 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 on our website in the same location.

Before I turn the call over to Tom, I would like to remind you that remarks made by management during this conference call and the supporting slides may include forward-looking statements. Forward-looking statements reflect our views regarding future events and are typically associated with the use of words such as anticipate, expect, estimate and believe or other such words. We caution investors not to rely unduly on forward-looking statements. They imply risks and uncertainties and actual results may differ materially from expectations. We urge you to carefully consider the risks described in our filings with the SEC, which may be obtained on the SEC's website at sec.gov. We do not undertake any obligation to update or correct any forward-looking statements if later events prove them to be inaccurate.

I will now turn the call over to Tom.

Thomas Edwin Siering *Two Harbors Investment Corp. - CEO, President and Director*

Thank you, Maggie, and good morning, everyone. We hope that you had a chance to review our earnings press release and presentation that we issued last night.

As reflected on slide 3, we had a strong quarter, generating an economic return of 4.6%. Our performance, again, this quarter demonstrates the benefit of our hybrid model and the execution of our previously articulated plan for 2017.

Turning to slide 4, our goal is to maximize returns for our stockholders through running a more efficient and focused business model with a



sophisticated approach to risk management. As you may recall, in 2016, we undertook a thorough analysis of the fundamentals of our entire business, reviewing the performance and growth potential in each area. As a result of this review, in July 2016, we discontinued our mortgage loan conduit and securitization business, allowing us, in 2017, to focus on reducing our operating complexity and cost, and positioning us to redeploy capital to areas of the business that we believe generated stronger risk-adjusted returns for our stockholders over the long term.

In support of our plan, we also took advantage of opportunities to enhance our balance sheet and capital structure to benefit stockholders. Specifically in 2017, we successfully executed a convertible debt and 2 preferred stock offerings, which we believe will be accretive to our earnings in 2017 and beyond. Most notably, aligned with our focus on maximizing stockholder value and running a more focused business model, we formed Granite Point Mortgage Trust. We believe that creating a stand-alone vehicle for our commercial business would better reflect the embedded value in the platform that we established in 2015.

We're also pleased to announce that subsequent to quarter-end, on November 1, we completed the distribution of 33.1 million shares of common stock of Granite Point that we held as a result of Granite Point's IPO. Concurrent with the distribution, we also effected a one-for-two reverse stock split of our common stock. We believe that the reverse stock split will make our stock more broadly available to investors, as the double-digit stock price is preferable for many institutional holders and will likely improve the marketability and liquidity of our stock.

The execution of our plan in 2017 has manifested itself through core earnings growth, book value stability and 3 dividend increases. Our stock price has reacted favorably to this, and we are pleased to have delivered a total stockholder return of 25% for the 9 months ending September 30.

Turning to slide 5, our vision for Two Harbors going forward is simple. We intend to be the industry leading hybrid mortgage REIT. With this in mind, we believe that focusing our business model on our residential rate and credit strategies allows us to run a more focused business. Through close attention to asset selection, we will opportunistically allocate capital to the most attractive investment opportunities across our strategies.

Additionally, we will continue to diversify our financing profile and manage our capital structure to optimize earnings and shareholder returns. Historically, higher interest rates have been the bane of mortgage REITs. However, we believe that our rigorous approach to risk management, of which MSR is a distinguishing factor, will allow us to deliver strong results and book value stability through a variety of interest rate environments. As the Fed becomes less aggressive with the reinvestments in Agency RMBS, we think that this creates a lot of opportunity for our company going forward.

I will now turn the call over to Brad for a review of our financial results.

Brad Farrell *Two Harbors Investment Corp. - CFO and Treasurer*

Thank you, Tom. Please turn to slide 6.

Due to the one-for-two reverse stock split that was effected on November 1, we were required under GAAP to go back and retroactively apply the effects of the reverse stock split to our prior period per share financials, including the per share disclosures as of September 30. As a result, our book value at September 30 was \$20.12 per share compared to \$19.74 at June 30.

During the quarter, we delivered comprehensive income of \$161.6 million or \$0.93 per basic share, which more than offset our dividend per common share of \$0.52 and our Series A and Series B preferred stock dividends.

As I noted on our second quarter earnings call, due to our controlling ownership interest in Granite Point, we consolidated Granite Point on our GAAP financial statements as of September 30, and continue to do so through the completion of the distribution of Granite Point shares on November 1.

As we turn to slide 7, let's review our quarterly core earnings results. Third quarter core earnings were \$0.51 per basic share compared to

\$0.56 per basic share in the second quarter. Our second quarter core earnings exceeded our run rate expectations, primarily due to favorable net interest income and prepayment speeds as well as a favorable difference in swap expenses.

As expected, third quarter core earnings normalized to \$0.51 per basic share. We would note that this result was in line with our expectations heading into the third quarter and when we set the third quarter dividend.

When reviewing these slides' quarter-over-quarter presentation, it is important to call out that we elected to include only Two Harbors' portion of the Granite Point declared dividend in our core earnings presentation for the quarter. We felt this presentation was the most accurate reflection of our incoming cash, associated with holding Granite Point shares and assists with the understanding of the forward-looking financial presentation of the company. Because of this change, you will see quarter-over-quarter declines in many of the financial lines due to the removal of the underlying commercial real estate income and expenses.

Putting aside the effects on Granite Point, core earnings this quarter benefited from higher average balances in our RMBS portfolio, offset by higher amortization on Agency RMBS, Agency IO and MSR, driven by increased prepayments. We also realized a favorable difference of \$2.2 million in swap expenses, quarter-over-quarter, due to an increase in short-term LIBOR. Our overall expenses decreased from prior quarter, largely due to the \$2.5 million of subservicer deboarding fees recognized in the prior quarter.

On the next slide, let's take a look at what Two Harbors' earnings looks like without the effects of Granite Point. On the table on slide 8, we have provided 3 columns. Total core earnings, adjusted core earnings, which is core with the removal of the dividend income from Granite Point and pro forma core earnings, which is indicative of what Two Harbors' core earnings may look like on a go-forward basis.

As you can see, on the right-hand side, while we expect to have numerically lower core earnings due to the lower capital base, we believe that going forward, we may have higher core earnings as a percent of book value.

Turning to slide 9, let's look at a pro forma balance sheet of Two Harbors as of September 30. Similar to our second quarter disclosure, the intent of this pro forma balance sheet is to illustrate what our balance sheet would look like following the distribution of the Granite Point shares. As you can see on the bottom right, our GAAP book value per share would have been \$16.44. I'd like to reiterate a comment I made on the prior earnings call: with the removal of lower levered commercial real estate, on a pro forma basis, our debt-to-equity would have been around 5.8x at the end of the third quarter. This is consistent with our expectation that debt-to-equity on a pro forma basis would nominally increase.

Please turn to slide 10. We continue to maintain a diversified financing profile, which includes traditional repurchase agreements, FHLB advances, revolving credit facilities and convertible senior notes. We had \$18.3 billion of outstanding repurchase agreements at September 30 with 25 counterparties. We have not observed any disruptions in the repo markets and they continue to function efficiently for us. Consistent with our historical practice, we extended our repo maturity profile in the third quarter, as we have rolled the majority of our repo maturities out past year-end to avoid potential strain around that time.

Our FHLB advances totaled \$2 billion at September 30 with a weighted average borrowing rate of 1.56%. The decline in balance is consistent with our expectations, as we reduce commercial real estate and Agency RMBS, particularly as today's agency repo rates and terms are more favorable for financing these assets.

Our MSR is financed through both revolving credit facilities and a convertible debt issuance. At quarter-end, we had \$40 million of short-term borrowings under revolving credit facilities, with additional available capacity of \$50 million. We continue to make progress on other MSR facility discussions and believe we will have more to say in the near future. We have provided additional details on our borrowings on appendix Slide 27.

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

William Meyer Roth *Two Harbors Investment Corp.* - CIO and Director

Thank you, Brad, and good morning, everyone. Starting with slide 11, you will see both our portfolio composition at September 30 and our capital allocation, which was relatively unchanged quarter-over-quarter and year-over-year. If the Granite Point shares had been distributed as of September 30, our capital allocation to rates and credit would have been approximately 66% and 34%, respectively.

We completed a preferred stock offering early in the third quarter and deployed that capital into our rates and credit strategies in roughly that same proportion. This included purchasing agency pools at attractive spreads and increasing our legacy non-Agency holdings by several hundred million.

As we will highlight in more detail shortly, we believe expected ROEs in our REIT strategy, which includes Agency RMBS paired with MSR, are quite attractive in the low- to mid-teens. We believe that baseline ROEs in our credit strategy are currently in the high single digits, but with upside opportunity for much higher total returns.

Moving to slide 12, I'd like to discuss some of the drivers of our strong portfolio performance in the quarter. Our net interest spread was 2.1% compared to 2.4% in the second quarter. This was primarily due to an increase in funding cost and slightly lower yields on our RMBS holdings.

Also, the addition of agency pools served to lower our overall net interest margin, while increasing leverage somewhat. On a pro forma basis, without the consolidation of Granite Point, our net interest spread would have been about 2% in the third quarter. Our higher holdings of agency pools served us nicely from a book value perspective, as the mortgage base is tightened and specified pools performed well outperforming their hedges. Residential credit also performed well in the quarter, as we realized attractive yields on our portfolio, released more credit reserves and saw some modest price improvement for deeply discounted subprime legacy non-Agency.

Please turn to slide 13. We are very excited about the opportunities ahead to deliver strong returns, in particular those related to the Fed's tapering of its RMBS reinvestments. In our REIT strategy, as we've highlighted on prior calls, it is our goal to provide strong returns through a variety of interest-rate environments. MSR is a key component of this. We believe it is possible to construct a portfolio of RMBS and MSR that has higher returns than a portfolio of RMBS hedged only with swap, yet with much less exposure to mortgage spread risks. Let's take a look at this with a little more granularity.

With the Fed reducing their reinvestments in mortgages, it is estimated that over \$400 billion of net supply of Agency RMBS will need to be absorbed by the market in 2018. This will likely cause mortgage spreads to widen, which has the potential to hurt mortgage REIT book values.

In this scenario, MSR is a significant benefit to our portfolio, because it increases in value when mortgage spreads widen. The table on this slide shows that using a combination of MSR and Agency RMBS leads to reduced book value sensitivity to agency mortgage spreads. As highlighted on the far right, as of September 30, on a pro forma capital base, our expected overall book value sensitivity to 25 basis points wider spread is a relatively low 2.9%. Pairing MSR with agencies positions us to protect book value in this type of spread-widening environment. Yet, at wider spreads, we believe there could be a tremendous investment opportunity to add agencies.

Turning to our credit strategy on slide 14. Our portfolio continued to realize benefits from fundamental improvement in the housing market and the overall economy. Yields have been strong and bond prices have improved during 2017. We expect future residential credit performance to remain strong, driven by increasing prepayments, lower delinquencies, defaults in severity. To take advantage of this, we have kept our portfolio position primarily in deeply discounted legacy non-Agency assets, due to the yield pickup these assets can realize from these tailwinds and the opportunity to drive increases in book value.

As I noted earlier, current baseline expected ROEs for discounted legacy bonds are in the high single digits. It is important, however, to realize that this masks the total return opportunity over time, which would be driven by higher legacy bond prices.

To highlight this, the legacy non-Agencies that we added in the first quarter of this year have already delivered strong realized yields as well

as price appreciation, positively impacting our book value this year. Given our expectation for continued improvement in residential credit metrics for legacy assets, including increasing prepayments, we believe that the opportunity still exists for strong total returns going forward.

In closing, we delivered a very strong quarter, while continuing to execute on our previously articulated plan. We believe there are tremendous opportunities ahead across our investment strategies to drive returns. We have positioned our rates strategy well by pairing MSR with Agency RMBS to generate attractive yields, protect book value and to be able to capitalize on opportunities arising from potential spread widening in a Fed-tapering environment. Additionally, we believe that strong tailwinds will continue to drive our credit strategy yield and benefit our book value. We are very excited about the future opportunities for Two Harbors and for our stockholders.

With that, I will now turn the call back over to Chelsea for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Douglas Harter with Crédit Suisse.

Douglas Michael Harter *Crédit Suisse AG, Research Division - Director*

Can you talk about how you see the opportunity from agencies today, kind of, given the spread tightening we saw since you kind of grew the balance sheet in the third quarter?

Thomas Edwin Siering *Two Harbors Investment Corp. - CEO, President and Director*

Well, firstly, Doug, I don't get a good morning?

Douglas Michael Harter *Crédit Suisse AG, Research Division - Director*

Well, yes, I guess, I'll say good morning to you too. Good morning, Tom.

William Meyer Roth *Two Harbors Investment Corp. - CIO and Director*

Thanks, Doug, thanks for joining us. Yes, well, as I mentioned on the call, when we raised the preferred early in the quarter, we thought Agency spreads looked attractive just on their own as well as compared to other fixed income alternatives, such as corporate credit, et cetera. So we thought there was the opportunity for them to perform well, which they did. In terms of going forward, we haven't really seen much movement in spreads yet, although it's only been, really, 1 month that the Fed has started their -- tapering their reinvestment. And it's our opinion that today, to give you an idea, agencies on their own without using MSR are probably high single digit, maybe 10% area. But we had particularly liked the MSR and Agency combination, which, as I mentioned, is in the double digits to the mid-teens. For two reasons: one, obviously, the returns are a lot higher; and second of all, the risk profile is, obviously, lower, as I pointed out on slide 13. So to the extent that Agency spreads widen that would make, obviously, Agencies on their own more attractive, but obviously, the combination with MSR even more so which could potentially add several hundred basis points to the expected return. So we think it's really important to have the ability to protect book value into a spread-widening environment, so you can actually take advantage of the wider spreads when they come about.

Douglas Michael Harter *Crédit Suisse AG, Research Division - Director*

Makes sense. And Tom, I think since you guys have been public, you've always kind of looked at new potential asset classes, whether it was single-family or commercial. Is there anything on the horizon that you are looking at, at this point?

Thomas Edwin Siering *Two Harbors Investment Corp. - CEO, President and Director*

No, not really, Doug. I mean, as we've said many times and as Bill just stated, MSR is an acute area of focus for us, because it protects us not only as mortgage basis widens, but also in the higher interest rate scenario. The one thing that we really consider to be a strategic comparative for the company is MSR financing and as Brad said in his comments, we hope to have much more to say about that in the near future. But in regards of new business initiatives, there really is nothing on the drawing board that's worth discussing.



Operator

And our next question comes from the line of Bose George with KBW.

Bose Thomas George Keefe, Bruyette, & Woods, Inc., Research Division - MD

In the area of MSR returns in your prepared comments, you talked about the mid -- low to mid-teens return. The attractive financing opportunity that you mentioned, as those kick in, is that sort of incremental? We could see upside to the numbers you mentioned or is kind of the mid-teens, sort of, baking some of that in?

William Meyer Roth Two Harbors Investment Corp. - CIO and Director

Yes. Thanks, Bose for the question. That's a great question. Yes, I would say that the mid-teens is, sort of, what we would expect when we get financing in place. It's currently in the, I would say, without that in the low double digits. And so I think it's fair to think about it that way. I mean, we do have some financing lines in place. But I think, as Brad mentioned, we're working really hard. And Tom mentioned, this is a big priority for us to continue to add to that at attractive financing levels and that's what the mid-teens imply.

Bose Thomas George Keefe, Bruyette, & Woods, Inc., Research Division - MD

Okay. Great. And then, just in terms of the MSR growth over time. Is that largely still going to be on a flow basis? Is there room to kind of accelerate that, just given, obviously, how attractive it is?

William Meyer Roth Two Harbors Investment Corp. - CIO and Director

Yes, so let me spend a moment on that. So our flow program, we're expecting roughly \$2 billion to \$2.5 billion a month in the near term. We have been able to establish some new co-issue relationships during the year. And so that's, obviously, a really nice baseline for us. The bulk market has actually been very, very vibrant the last several years. There was one very, very large trade this year, north of \$50 billion. But without including that, the last three years have averaged a little bit over \$100 billion a year in bulk transactions. As you know, we've already closed on a little over \$13 billion this year. And we are continuously looking at opportunities to grow that. So I think the vibrancy in that market and our position within the market, certainly sets us up well to continue to take advantage. And so I would agree with you to the extent that there are bulk opportunities, we will absolutely be focused on those.

Bose Thomas George Keefe, Bruyette, & Woods, Inc., Research Division - MD

Okay. Great. And just one more on the credit. Just on your comments about the potential upside to credit. If you -- the bond share you're buying now, if you hold them to maturity and the performance is good, do you capture that upside or is that upside really, should we think about that as a spread-tightening upside?

William Meyer Roth Two Harbors Investment Corp. - CIO and Director

Well, yes, another good question. Thank you for that. So when we buy bonds today or have this year, we make assumptions that we think are fairly conservative around prepayments and defaults, et cetera, and that sets sort of a baseline expected yield. To the extent that the assumptions that we make are outperformed, which has been the case in the past and we think can very easily be the case in the future, if the current trends continue, that would lead to not necessarily spread tightening but changes in scenarios. So for instance, if you set a bond with \$70 and you thought you were going to get \$85 as a result of certain scenarios, as prepayments are better and defaults and delinquencies are lower, and you relax those assumptions because of performance, you might recover \$90 or \$95. So therefore, the bonds could go up in price and provide the same "expected yield" but based on better performance metrics, which is sort of a long way of saying that if spreads can stay the same, but if assumptions change, prices can go higher. And that's what we've seen. I mean, just to give you an example, there was a dealer-research piece out just this past week that had legacy subprime returns around 9% for the year through the end of October. So that's a combination of yield and price gain. So you can see that once you apply some leverage to that, that baseline ROE dramatically understates the value that we can create for shareholders.

Thomas Edwin Siering Two Harbors Investment Corp. - CEO, President and Director

Bose, this is Tom. Good morning. ROEs are a metric that the market has adopted. But we've discussed this before. We really don't think in respect of agencies or non-agencies what ROE really is. That's not our super metric, if you will. What we really think about is return expectancy. And so in the non-Agency space, there has been all sorts of options embedded in those non-Agency securities, all of which have been virtuous over time. And the one thing that's -- HPA has kicked in and just the maturation of these securities embeds a lot of positive



options in them. So it takes a nominal ROE and then adds those options into such that we can drive return expectancy. And the return expectancy is what we're so excited about in non-agencies. They've delivered really well in the past and everything that we see in the housing market, et cetera, makes us very excited for the return expectancy of the subprime bonds going forward.

Operator

And our next question comes from the line of Trevor Cranston with JMP Securities.

Trevor John Cranston *JMP Securities LLC, Research Division - Director and Senior Research Analyst*

Wanted to follow up on the comment you made, Bill, about the importance of protecting book value in the event that there is a spread widening associated with the taper of the Fed's balance sheet. Can you talk about how you guys are thinking about leverage within your rate strategy and how much room you potentially have to increase that to the extent that we do get a meaningful widening at some point next year?

William Meyer Roth *Two Harbors Investment Corp. - CIO and Director*

Good morning, Trevor. Thanks for joining us. Getting up early. So let me spend a minute on the leverage. Our leverage is, obviously, a function of opportunity, as you pointed out. And I would expect that our REITs leverage would sort of be in the range of 6 to 8x depending on the attractiveness of agencies. Obviously, pools are higher and MSR is, obviously, a lot lower. And then credit is sort of 2x, plus or minus. We all -- as you've called us over the years, you'll see that we always carry a substantial amount of liquidity on the balance sheet to be able to deploy to the extent we see a dramatic change in the opportunities in our favor. And as I pointed out on 13, if spreads widen, if you lose a lot of money then you're not going to be in a position to add at the wider spreads. So the thing that we're excited about for the portfolios is by having MSR that sort of dramatically dampens the impact, so So I would say that we're comfortable with where we are today, but we certainly have room to increase leverage to agencies overall to the extent that we see spreads wider.

Trevor John Cranston *JMP Securities LLC, Research Division - Director and Senior Research Analyst*

Got it. Okay. That helps. And then one question on the credit portfolio. Looking at the yields on the non-Agency book on Page 24, it looked like they ticked down a little bit from last quarter to this quarter. I was just curious, if there is -- if that was primarily driven by the new assets you added? Or if there is anything else driving that?

William Meyer Roth *Two Harbors Investment Corp. - CIO and Director*

Yes. So that's a great -- that you got to the appendix and looked through all slides. Yes -- and it's a great question. It's absolutely, driven primarily by addition of assets at lower "baseline yields" that we talked about. As Tom mentioned, that's just the first part of the equation. So perfect example is, if you look at our yields, which have come down from they were, I guess, around 9% or so last year or thereabouts, I don't have the exact date. And realized for the third quarter was around 8%. But yet, look at what the contribution to our book value has been since the beginning of the year. It's been really quite dramatic. The other thing I'd like to point out, which is something that's particularly exciting for the strategy is we have seen a tremendous improvement in the financing environment for these assets. There have been a number of new entrants that have come in. Haircuts have come down. Since the beginning of the year, I would say that haircuts were in the 35 to 40 -- 30% to 45% range and today, they're probably 10 to 15 points lower than that, sort of, in that 25% to 30%. And spreads over LIBOR, which a year ago were in the 160 to 175 range, are now in the 125 to 140 range. So despite the fact that the yields available on the bonds in the market are not what they were in, say, 2011 or '12 or '13, we are still very excited about the ability to drive a total return that's very compelling here.

Thomas Edwin Siering *Two Harbors Investment Corp. - CEO, President and Director*

And as you know, Trevor, that dealers-based haircuts and financing spreads are the perception of price volatility, right? And so there's been a very robust bid in the market for non-Agencies because the fundamentals that underlie them are so strong. So if you look at our opportunities, going forward, 2 areas of acute focus, as I said earlier, MSR financing and also non-Agency financing. Those are real areas of opportunity for our company and pretty reasonably uniquely so.

Operator

And our next question comes from the line of Rick Shane with JPMorgan.

Richard Barry Shane *JP Morgan Chase & Co, Research Division - Senior Equity Analyst*

My questions have been asked and answered, but I'll touch on this just in a slightly different way. During the third quarter, we saw a lot of capital come into the sector, primary targeted at rate strategies given the opportunity there. As you guys have pointed to and as most folks are aware that opportunity -- that capital sort of eroded the opportunity fairly quickly. Markets are super efficient. Money is rotating. Are you seeing some of that excess capital that came in flow towards the credit strategies from your peers in the hybrid space, and is that creating any short-term dislocations that you need to be careful of?

William Meyer Roth *Two Harbors Investment Corp. - CIO and Director*

Rick, good morning. Thanks for joining us. I mean, as you pointed out, there was a lot of money raised that moved into the agency space, which was, I mean, we did the same thing. So we think that people benefited from that. In terms of rotation -- well, first of all, we can see price action in the markets that we're involved in. We, obviously, don't necessarily know who is causing that price action. So it'd be very difficult to say that we're seeing other REITs do this or do that. What we have seen is agency spreads -- they wind a little bit and then they kind of come back in. So they are hanging in there, actually, reasonably well. On the credit side, I think we saw a little hiccup in the CRT market with the hurricanes and other natural disasters, but those seem to have rebounded back to where they were and legacy assets have held pretty steady as well. So I would say, to be honest with you, I know it's not headline news, but by and large, we've seen reasonably stable spreads across the markets that we participate in, in the last month or so.

Thomas Edwin Siering *Two Harbors Investment Corp. - CEO, President and Director*

Rick, it's Tom. And your question was really kind of focused on the non-Agency space. We buy bonds at prices that we like, and we continue to do so. We don't feel compelled to chase prices and we're certainly not doing that. Just a fundamental mantra of our company: We don't do things to do things. We do things that we think are smart for our shareholders. So we continue to buy bonds from non-Agency space that we like for all the reasons that we've discussed previously.

Operator

And our next question comes from the line of Jessica Levi-Ribner with B. Riley FBR.

Jessica Sara Levi-Ribner *FBR Capital Markets & Co., Research Division - Research Analyst*

Most have been asked and answered, but I did want to hear maybe your thoughts around the competition in the MSR market. I know that you don't participate too much in bulk sales. But you're seeing maybe even competition for flow agreements? And how we can think about the pricing?

William Meyer Roth *Two Harbors Investment Corp. - CIO and Director*

Hey, Jessica, thanks for joining us. I'll kind of cover a little bit of that. I mentioned a little bit earlier. This year, there's been a little over \$100 billion in bulk transactions, like I said, excluding this one big headline transaction. And we've already closed on over \$13 billion. So I'd say, I think it's fair to say that we participated or purchased about 10% of what's transacted so far this year. You have to keep in mind the other thing about bulk is lot of the bulk transactions may not fit us. So we are focused exclusively on new issue, high-quality performing conventional collateral. So if you look at our portfolio statistics, you'll see we have, I don't want to say 0, but pretty close to 0 in terms of delinquency, very high credit quality. So of that \$100 billion or so, a lot of it could be Ginnie Mae, a lot of it could be nonperforming or high-touch servicing. So I would say that our -- we see all the deals that come through, and we are happy to participate if it fits us and it comes at a price we like. And I would expect that going forward -- we participated in the bulk deals in 2016, 2015 as well, and we'll have more to say about that as we have transactions that we line up and take advantage of.

Thomas Edwin Siering *Two Harbors Investment Corp. - CEO, President and Director*

Jessica, it's Tom. In respect to competition, which was the heart of your question, there are a number of reasons that we could love MSR. And we've discussed the benefits it has in higher interest rate or a wider spread environment. And also, we think that the fundamentals of the origination business certainly suggest that supply will continue to be abundant going forward. But the other thing that we love, love is the barriers to entry to get into the MSR market are significant. And so in respect of new competition, which was the root of your question, we really aren't seeing it. Yes, it's a competitive market as it has been. But the environment has not changed in respect to the competition significantly at all.



Operator

And our next question comes from the line of Robert Brock with West Family Investments.

Robert Brock

I just had one question about the agency market. Could you talk a little bit about the flattening of the yield curve? And with the 2 to 10 spread being so flat, what the impact is for your Agency book?

William Meyer Roth *Two Harbors Investment Corp. - CIO and Director*

Rob, Tom's here with me as well, says hello. Sure, that's really an important question. And so I'd say there is a couple of things. In terms of the -- what we have seen in the yield curve is a function of the fact that the Fed is on this sort of glide path towards higher rates, which is impacting the front-end, but at the same time, the lack of visibility for higher inflation has kind of kept the longer end pinned at lower rates than you might expect. So we have seen the curve flatten. Then I think that's sort of one of the key dynamics that's driving that. The second thing I'd like to address about this is, our sensitivity to that, to what's going on. So I mean, obviously, we like a lot of things about our portfolio, but one thing that we really like with regard to the curve is that our sensitivity of our income to higher short-term rates in a flatter curve is actually really quite low. And there are a couple of reasons for that. First of all, we hedge across all points of the curve or at least we attempt to. So that helps immunize any curve movements or dampen the impact of curve movements, not only to our book value but also to our income. The second thing is that our non-Agency holdings are almost entirely floating rate. So higher LIBOR, obviously, benefits our income there. So to give you an example, basically, if we have some leverage on non-Agencies and LIBOR goes up, right? We get more income vis-à-vis our financing cost. So on an overall basis, we actually have very little sensitivity to higher shorter-term rates and a flatter curve from an income standpoint than you might suspect. And that will be -- that should be out in the queue when we put that out shortly. I think it's later today, most likely.

Thomas Edwin Siering *Two Harbors Investment Corp. - CEO, President and Director*

And Rob, it's Tom. Just to add to that a little bit. With respect to our agency exposure and the flattening of the yield curve, I will have to make this a qualitative statement because a lot of this has happened post quarter-end. But I will say that the team was really well positioned for what happened and -- in respect of our interest rate hedges. And so the team did a really good job of positioning for a flatter yield curve. So we've come through this quite nicely.

Operator

I'm showing no further questions at this time. I will now turn the call back to Mr. Siering for concluding comments.

Thomas Edwin Siering *Two Harbors Investment Corp. - CEO, President and Director*

Thanks a lot, Chelsea. And thank you all for joining our third quarter conference call today. We're pleased with the progress we have made in respect of our plan for 2017. And we're very excited about the opportunities we see emerging for our business. We look forward to speaking with you again soon. Have a wonderful day.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone, have a great day.

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