

Deephaven and Selene Complete Residential Credit Ecosystem

Vertical Integration Key to Generating Long-Term Outsized Returns

February 2020

In late 2019, Pretium closed on the acquisition of Deephaven Mortgage (“Deephaven”), a market leading non-QM mortgage originator, and Selene Finance (“Selene”), a premier mortgage servicer.

The addition of these businesses to our existing asset management and investment platform provides significant scale and functionality to our residential credit ecosystem. We can now create attractive investments in non-QM loans for investors and have further enhanced our ability to create value-add investments in non-performing and re-performing loans with superior asset management and servicing.

Vertical Integration is Key to Generating Long-Term Outsized Returns as The Cycle Matures

As the investment landscape and economic outlook evolve, we believe the best way to generate alpha for our investors is to build vertically integrated platforms where we control portfolio construction, asset management, and servicing of the investable capital we manage, rather than rely on third parties.

Pretium’s successful build of a vertically integrated single-family rental asset and property management platform, Progress Residential, has enabled us to take operating margins for this business from the high-40s to the mid-60s over the last five years, performing at or above peers in multi-family.¹ The alignment of interest that we created between acquisitions, leasing, and service produced a culture that focuses on optimizing cash flow and resident experience.

We believe the acquisitions of Deephaven and Selene are similarly transformative in their impact on our residential credit ecosystem. We expect to continue to generate strong risk-adjusted returns from residential credit, a large asset class uncorrelated to broader financial markets and, we believe, well positioned fundamentally for the foreseeable future.

I’d like to briefly outline why we are so excited about these acquisitions and their impact to Pretium’s ability to deliver incremental risk-adjusted returns to investors as the residential credit markets evolve.

Deephaven Mortgage

Deephaven is a leader in the non-QM loan industry. Led by Matt Nichols (now a Senior Managing Director at Pretium), Deephaven has originated more than \$6bn of non-QM loans since 2012, making the company one of the largest issuers in the fastest growing segment of the non-agency residential market.

Non-agency residential mortgage lending largely shut down in response to the crisis. The market was slow to re-open as market constituents worked to digest the extended overhang of the crisis and the new regulatory environment. Many good credit borrowers were left without access to credit. Deephaven has been a leader in responsibly rebuilding the market to serve creditworthy self-employed borrowers, investors, and others with restricted access to credit.

The non-QM origination market has grown by \$40bn in the last few years and we expect it to triple organically over the next few years.² We believe the opportunity set for private capital is likely to be further accelerated by mortgage finance reform that will reduce the government’s footprint in mortgage lending.

Matt and team have cultivated a correspondent and wholesale network to originate loans underwritten to Deephaven’s credit and risk criteria. Like our acquisition engine at Pretium’s single-family rental platform where we buy almost all our homes one-by-one, Deephaven’s process improves both asset selection (we know what we are buying) and risk management (data analysis to improve future lending decisions).

Selene Finance

Selene is a leading residential mortgage servicing platform. Led by Joe Davila, Selene provides servicing across performing, re-performing and non-performing loans, with a rich heritage in high touch special servicing demonstrated since the company’s inception.

Our acquisition of Selene signals Pretium’s view that there is significant alpha in the residential credit business from owning and investing in high touch special servicing to maximize loss mitigation outcomes and investor returns through a cycle. We believe the stronger alignment between investment management, asset management, and servicing drives a timely, dynamic feedback loop that informs better decisions to accelerate and generate asset level returns.

Pretium has partnered with a number of mortgage servicers since 2014. Selene’s demonstrated outperformance against its peers, its scale and systems, and consistent ability to generate favorable asset level outcomes for borrowers and investors alike made Selene an ideal acquisition target for Pretium.

Since onboarding Selene into Pretium's residential credit ecosystem, the Firm has made significant investments in Selene's platform and technology, as we look to further enhance Selene's proprietary analytics, expand its service offerings, and promote outcome-driven processes.

We are excited about the future of Pretium's residential credit platform and the prospects for improving our risk-adjusted returns for investors with a broader, vertically integrated investment and management team.



Don Mullen

Pretium Founder, CEO, and CIO

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¹ Note: Past performance is not indicative of future results. There can be no assurance that these objectives will be achieved. Margins reflect the impact of a new lease accounting standard (ASU 2016-02) that Pretium adopted on January 1, 2019 consistent with the broader real estate industry. Pretium NOI margins reflect TTM performance of SFR Fund I and SFR Fund II as of September 30, 2019 with impacts of new lease accounting standard (ASU 2016-02). Multifamily REIT average comprised of Apartment Investment and Management Co (AIV), AvalonBay Communities Inc (AVB), Camden Property Trust (CPT), Essex Property Trust Inc (ESS), Equity Residential (EQR), Mid-America Apartment Communities Inc (MAA), and UDR, Inc (UDR).

² Inside Mortgage Finance, HMDA, Zelman & Associates analysis, as published in Zelman and Associates, “A Deep Dive on Non-QM Lending,” October 1, 2019.