ASSET MANAGER'S LENS

Non-QM Lending: Filling the Post-GFC Mortgage Gap

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Recent headlines have revived interest in the agency mortgage market, with ongoing speculation about whether the Executive Branch might release Fannie Mae and Freddie Mac from conservatorship and privatize the organizations. While policy remains uncertain, yield-hungry investors seek alternatives to Agency RMBS and corporate bonds. Non-QM **residential mortgage-backed securities (RMBS)**, which cannot be backed by Fannie Mae or Freddie Mac, can offer an attractive risk/return profile. Research suggests improved structuring and tighter underwriting in today's non-QM RMBS compared to pre-GFC standards.

Increased investor demand has also driven innovation: warehouse lines, forward purchase agreements, and securitization vehicles now routinely support non-QM originators — creating liquidity and scale without government backing.

Non-Qualified Mortgages (Non-QM loans) are a flexible form of lending that complies with the CFPB's **Ability-to-Repay (ATR)** requirements, but not the full QM definition , making them riskier loans by comparison. These loans can provide credit access to borrowers with non-traditional income sources or recent credit events.

HOW THE MORTGAGE MARKET TRANSFORMED AFTER THE GREAT FINANCIAL CRISIS

Before the Global Financial Crisis (GFC) of 2008, residential mortgage lending standards were considerably more lenient, enabling a wave of subprime mortgages issued to borrowers who sometimes lacked the ability to repay. Since then, the U.S. mortgage market has undergone fundamental changes. Regulators implemented sweeping reforms to mitigate systemic lending risk. One of the most impactful was the **Qualified Mortgage (QM)** Rule, enacted by the Consumer Financial Protection Bureau (CFPB) under the Dodd-Frank Act.

THE RULE INTRODUCED STRICTER UNDERWRITING REQUIREMENTS, INCLUDING:

- Full documentation of borrower income and assets
- A maximum Debt-to-Income (DTI) ratio (previously capped at 43%, now primarily based on a "price-based threshold")
- Prohibitions on risky loan features such as interest-only periods, negative amortization, and balloon payments

While these standards enhanced financial stability, they also **excluded many would-be borrowers**, particularly those with non-traditional income sources (such as self-employed individuals) or recent credit events (such as bankruptcy).

THE RISE OF THE PRIVATE MARKET AND NON-QM LOANS

As agency credit tightened, the private market stepped in. Lenders recognized that many borrowers were being rejected not because of poor credit, but because their profiles didn't align with the narrow criteria of QM underwriting. Enter **non-QM loans**.

KEY FEATURES:

UNDERWRITING FLEXIBILITY

- Accepts alternative income documentation, such as bank statements, 1099s, or asset depletion models
- May allow higher DTIs (often above the previous 43% cap)
- Considers borrowers with recent credit blemishes

LOAN TERMS AND STRUCTURES

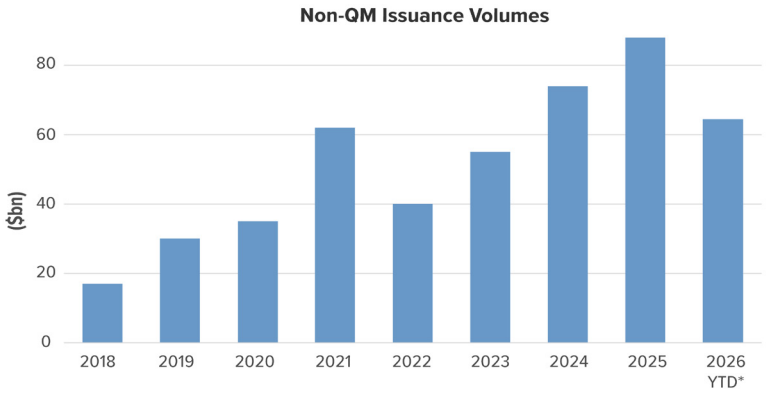
- Permits interest-only payments, loan terms exceeding 30 years, and balloon payments
- May include features that QM loans prohibit, though investors still require strong risk oversight

COST AND RISK CONSIDERATIONS

- Non-QM loans often carry higher interest rates and fees to reflect the customized increased credit risk

WHO BENEFITS FROM NON-QM LOANS?

- **Self-employed borrowers** or gig workers with complex income
- **Real estate investors** who qualify based on property cash flow (DSCR-debt service coverage ratio)
- **Foreign nationals** lacking U.S. credit history
- Borrowers recovering from **bankruptcy, foreclosure, or other recent events**

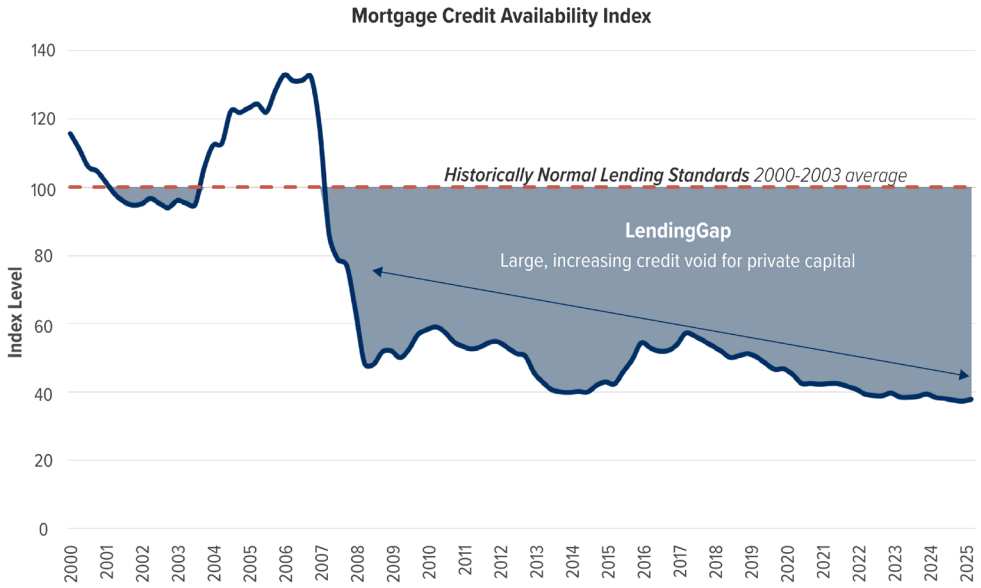


Sources: S&P Global, Deutsche Bank, Bloomberg. *Data as of 7.31.2026

These borrower segments are growing — and so is the non-QM market. Industry research highlights rapid expansion in this space, especially among originators backed by private equity and alternative asset managers.

BRIDGING THE LENDING GAP RESPONSIBLY

The mortgage market today reflects a shift from the rigid prime/subprime divide of the past to a more nuanced credit landscape. In the chart below, the shaded area highlights a significant void in credit availability that has persisted for years, despite borrowers with credible ability to repay. This is where Non-QM lending plays a critical role. By operating within the framework of **industry lending standards**— a middle ground that is stricter than pre-crisis norms but more inclusive than traditional agency guidelines—Non-QM loans expand access to credit.



Note: The dotted red lending standards line is equal to the value of 100, which corresponds to the average Mortgage Credit Availability Score between 2000 and 2003. A period, which is determined to be normal (or balanced), mortgage credit availability. The blue line shows mortgage index availability scores between 2000 and 2025.

Source: The Urban Institute, Housing Credit Availability Index (HCAI) as of 2Q2025

Understanding the regulatory guardrails and risk-adjusted opportunity set is essential. Properly structured, they represent a modern credit solution that supports underserved borrowers while maintaining risk discipline for investors.

IMPORTANT DISCLOSURES

Holdings are subject to change and may not be representative of the Fund's current or future investments.

Non-QM loans are by definition riskier than qualified mortgage loans, and so accordingly Non-QM loans are riskier than residential mortgage loans originated by Fannie Mae or Freddie Mac.

Consider these risks before investing: All investments involve risks, including possible loss of principal. Market risk includes

political, regulatory, economic, social and health risks (including the risks presented by the spread of infectious diseases). Changing interest rates may have sudden and unpredictable effects in the markets and on the Fund's investments. The Fund may purchase lower-rated and unrated fixed-income securities, which involve an increased possibility that the issuers of these may not be able to make payments of interest and principal. See the Fund's prospectus for a further discussion of risks.

Investors should consider carefully the investment objectives, risks, and charges and expenses of the Funds before investing. This and other important information is contained in the prospectus and summary prospectus, which may be obtained at weitzinvestments.com.

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