2021 Vision – Looking Forward and Setting Expectations.

2020 has certainly been a year unlike any other. Before we look forward to 2021, lets first review where we are as 2020 comes to a close.

Reviewing 2020

At this time last year, as we shared with you our expectations for the upcoming 2020 year, we did so prior to any awareness of COVID-19 and the magnitude of the health, economic and social impacts that were about to cascade from it. Fortunately, and by design, ThreePoint's disciplined lending with a focus on portfolio security and stability underpinned our ability to perform throughout 2020.

Prior to COVID-19, in forecasting 2020 we anticipated that the portfolio's average mortgage size would gradually increase from $260,000 to $325,000 as we increased our lending activity in Ontario where the average home price is higher. To date, our portfolio's average mortgage size is $299,300.

We also anticipated that our weighted average loan-to-value (LTV) would increase from 53.4% to roughly 58% over the course of the year. We are pleased to report that the weighted average portfolio LTV is only 55.6%.

We also planned to work towards increasing our mortgage volume in an effort to move from a cash position to a more robust use of our TD line of credit as a way to boost the dividend with the added use of leverage. We achieved this by May of 2020 and have maintained this modest use of leverage since then.

We initially targeted an annual dividend for 2020 of 6.5% then scaled that back to a range of 5.5% - 6% as the uncertainty surrounding the pandemic grew. We are currently sitting at an annualized dividend yield of 6.21% for 2020.

2020 gave us an opportunity to test the portfolio. The stability and overall conservative position of the portfolio permitted us to increase the contingency when needed. It allowed us to offer 17 of our borrowers the ability to defer their mortgage payments when it was needed. It enabled us to continue to pay monthly dividends as the revenue of the company was not materially impacted. 2021 will continue to test the portfolio as certain risk factors remain elevated, but we feel confident in our ability to continue to succeed and are encouraged by what seems to be an otherwise stable market.

Looking Forward

Looking forward to 2021, the country's economy still has vulnerabilities and faces uncertainty amid the pandemic. Assuming vaccines and treatments might not be widely available until late 2021, some parts of the economy will be unable to fully reopen until that time. This has prompted the Bank of Canada to recently announce that "Canadians can be confident that borrowing costs are going to remain very low for a very long time." This statement causes both comfort and concern. While "very low for a very long time" does not encourage thoughts of a soaring dividend, it does provide a significant level of comfort as it points directly to the continued government support of the marketplace and therefore the security and stability of our portfolio.

The concern with that statement comes from prolonged, historically low interest rates and the way in which that impacts our ability to price our mortgage product and ultimately our dividend. One bank is currently offering a 5-year variable mortgage rate at 0.99%, while the Bank of Canada rate sits at 0.25% and prime rate at 2.45%. So while this government support and monetary policy designed to encourage economic growth and marketplace health is extremely comforting to the continued recovery of the economy, we are wise to adjust our dividend expectations for 2021.

With no intent to deviate from our disciplined approach to lending in search of higher yielding and higher risk mortgage opportunities, coupled with historically low interest rates, we need to plan for a more modest dividend in 2021. While we are currently sitting at 6.21% year to date for 2020, our anticipated dividend target for 2021 is 6%. Our intention is to continue to pay dividends monthly at 5% annualized, with a 1% annual top-up dividend at year-end.

Within the portfolio, we can expect our average mortgage size and loan-to-value to remain mostly stable, with only slight increases expected in 2021, possibly reaching $325,000 and 58% respectively. The provinces of BC and Ontario will continue to be our focus with new lending. We can expect Ontario to continue to grow in concentration, ultimately matching BC in size and percentage of portfolio as the year progresses.

As in previous years, ThreePoint has again engaged an analyst firm out of Vancouver, Fundamental Research Corporation, to provide analyst coverage on our company. We were very curious to see how they would rate ThreePoint during a pandemic and how they would adjust their overall rating to account for the added uncertainty. This firm has also been hired by Canadian Mortgage and Housing Corporation (CMHC) to provide insight into the alternative mortgage market in Canada so many feel they are expert in their analysis of our industry. Last year they gave us an overall rating of 2-, which only 30% of the firms they cover attain, no firm has ever earned a rating of 1. I am pleased to report that we again earned a 2- for overall rating.

They also assign a risk rating that incorporates external factors beyond the control of the company. Last year we received a risk rating of 2, this year we were rated 3 due to the pandemic. We are pleased with this rating as well given that some adjustment to risk is almost certain given COVID-19 and a modest adjustment from 2 to 3 is both reasonable and expected. We remain a "top-pick" from Fundamental Research. The full report can be found on our website.

With this strong rating, we expect interest in our investment offering to continue to grow and plan to remain open to accept new investment on the first of each month in 2021. We have appreciated the referrals of friends and family that we have received from many of you over the years and will continue to prioritize those relationships.

With the launch of Three Point Capital Wealth in 2020, the investment process looks a little different now. The addition of this new exempt market dealer has proven to be quite manageable and the process quite efficient. We thank those of you that have invested with us under these new regulations and we look forward to helping more of you through this process in 2021. Should you wish to share this opportunity with anyone in your circle, please feel welcome to.

As we turn the page on 2020, we are pleased with how we have managed through a challenging year and are comforted by the fact that we fully expect to continue to thrive in 2021; and we do so incredibly grateful to have the opportunity to do this together.

Merry Christmas, Happy Holidays, and we look forward to what 2021 has to offer.

Ryan Lee, President & CEO
ThreePoint Capital

Please contact me if you would like to discuss details of this report further or have any questions or concerns.