

Takeaways from SFIG Vegas 2019

For Fix-and-Flip Loan Securitization, Originator Expertise Is Key

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Morningstar Perspective

At just over five years old, the single-family rental space is already mature, according to panelists discussing financing investor properties on Monday. The new fresh face is so-called fix-and-flip loans, which are short-term loans for buying, renovating, or rebuilding homes to resell them or rent them out. This asset class is still very young and has room for growth.

This isn't to say that a maturing SFR industry is bad. In fact, Jeff Tennyson, Lima One Capital's CEO, believes the industry's maturation has been a good thing. The loan documents and underwriting guidelines are more standardized now than five years ago. There isn't as much volatility in the types of products available, which is helpful from an originator's perspective.

Despite the small balance and short terms of fix-and-flip loans, Pete Sack, a managing director at Credit Suisse, predicts that there will be more capital infusion into this space. This could expand the scale of the origination platforms, which he thinks suggests increased securitization. "[The] continued scale, institutionalization, and consolidation [could lead] to more."

The key to successfully managing a portfolio of these assets is the originator's expertise in working out defaulted fix-and-flip loans through multiple cycles, according to Jason Moutray, a managing director at Redwood Trust. Sack agreed with this statement, saying that the combination of this knowledge, property management, and efficiently originating a mortgage is powerful to investors and debtholders.

Moderator Claudine Chen-Young, a partner at Katten Muchin, asked Kevin Dwyer, head of RMBS, about Morningstar Credit Ratings, LLC's announcement that it is considering coming out with specific ratings criteria for fix-and-flip loans. (For more information, see [How Morningstar Views the Credit Risks Residential Bridge Loans Pose](#), published October 2018.) "Can you address, or to what extent can you address, some of the criteria being considered in that official framework?"

Dwyer specified that he can "address it from a principals standpoint," because the process is still in its preliminary stages. He referred to the discussion between Moutray and Sack about the importance of the originator's expertise. Morningstar is developing a list of the right questions to ask in the originator review process to evaluate the entity's skill in managing fix-and-flip assets. Morningstar has meet with some originators already. "As we meet with them and talk with them, we're trying to marry this originator review process specifically into how we would look at these loans," said Dwyer.

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