Our Take-Aways from Recent Conferences: The Mood & The Market Are Improving

By Pete Pannes, Chief Business Officer

Something different was in the air at the first two major conferences of this year—MBA Servicing and SF Vegas—and it was optimism. Not wild exuberance, but a clear, shared sense of resolve to do what it takes in 2024. Consumer and lender confidence, seemed to be moving in the right direction. The cautious optimism was particularly palpable in Las Vegas during the securitization industry's annual conference where participants were continuing to get creative about unlocking the billions of dollars of home equity in the U.S.

Registrations at this year's SF Vegas topped 8,900, bringing it back to pre-pandemic levels and that's before you add in the estimated 2,000 non-registered attendees. As one of my associates who had been to the last four shows noted: "This year's show was by far the most optimistic. There has been optimism in the past, but not with results to show for it." The difference this year is that rates have stabilized, and that stability is giving originators and securitizers the confidence to step up non-QM originations and expand their securitization programs. The fact that non-QM rates have dropped from the 8's down to the 7's, and for a while were even in the high 6's, has also been a tailwind. One investor said his company has grown its non-QM volume by 40% already in what is usually a seasonably slower period.

Interest rate stability continues to aid the secondary market, which had seen several deals unravel at the end of 2022. The deals we are reviewing indicate that aggregators used Q4 to line up and price deals, but it was really January and February before those deals came to market. Over the past two months, our Clayton due diligence business has seen growth in DSCR volume, traditional non-QM, closed-end seconds and HELOCs—all of which are opportunistic plays based on the structure of the market right now. There is also a renewed interest in fix-and-flip and bridge loan deals, as specialty lenders look to recapitalize these assets.

Recently, Kroll Bond Rating Agency (KBRA) upped its forecast for private label issuance to $20 billion in both Q1 and Q2 and its full year projection from $57 billion to $67 billion. "While we expect non-prime and government-sponsored enterprise [credit risk transfer] issuance to remain relatively steady versus last year, we see meaningful growth in both the prime sector and in second liens," KBRA's analyst said.

If the mood at MBA Servicing and SF Vegas are any indicators of how the rest of the year is going to play out, it looks like there could be little chance of a downside surprise.

At the MBA Servicing Conference in Orlando, lenders acknowledged the potential for a late 2024 origination rally but were not in short supply of commenting on the continuing oversight pressure on servicing procedures. Although costs continue to be a major concern for servicers, there was less discussion about cutting costs and reducing vendors and more about investing in cybersecurity and compliance, and a renewed interest in vendor redundancy...just in case.

It's the economy—most of the clients we spoke with are now expecting a soft landing rather than a recession this year. For the third year in a row, our company hosted an invitation-only event with Moody's Chief Economist Mark Zandi, who provided a reassuring message to those in attendance.

Some of Mark's major points:

- The economy, overall, is resilient, and he sees an 80% chance of a soft landing.
- In support of this forecast, he noted: inflation is nearing the Federal Reserve's target; consumer purchasing power is improving; and a decade-long dearth of housing starts has created a severe shortage that is propping up home prices.
- On the what-could-go-wrong side of the ledger, he listed oil prices, commercial real estate problems and the potential for another banking crisis.
- In his Q&A, Mark also expressed concern that the Fed might wait too long to begin anticipated rate cuts.