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Mortgage M&A Minute

September 2025

Quick Links

Market Snapshot

47%
Percentage of mortgage applications that were for a refinance as of the week of September 1, 2025
(FreddieMac)

59%
Percentage of refinance transactions in Q2 of 2025 that were cash-out refinances
(ICE Mortgage Technology)

70%
Percentage of borrowers in cash-out refinances who accepted higher interest rates on their new mortgage
(ICE Mortgage Technology)

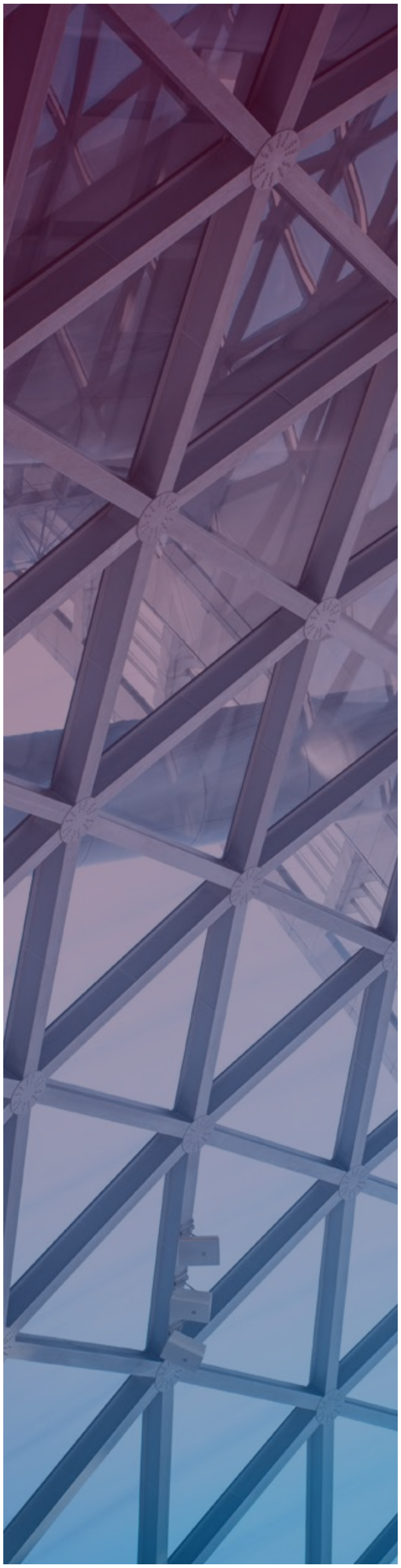
3.93%
Seasonally adjusted rate of delinquency on all mortgage loans for 1-4 unit residential properties at the end of Q2 2025
(Mortgage Bankers Association)

Quick Numbers

$17.8 trillion
In total home equity among US borrowers at the start of Q3 2025
(ICE Mortgage Technology)

$435,300
Median existing home price as of June 2025
(National Association of Realtors)

1,354,000
New home starts (by building permits) as of July 2025, down 5.7% from July 2024
(United States Census Bureau)



Considerations for REITs in Acquiring Mortgage Loan Originators

By Tianlu Zhang

We have recently represented some publicly traded mortgage REITs in acquiring mortgage loan originators and servicers, and we are aware of other similar deals being considered or that have been completed. Many REITs are seeking to diversify income streams by adding origination fees and mortgage servicing income, and to gain access to a steady flow of mortgage loan volume through the target's origination platform. Additionally, REITs may also be seeking to increase their presence in certain markets by leveraging the target's geographic footprint and network of professional brokers and borrowers. Below is a short summary of key factors REITs might consider in assessing these potential acquisition transactions.

QM Versus Non-QM Loans

Different types of mortgage loans have different rates of return and risks, as well as growth prospects. A mortgage REIT needs to carefully assess whether a certain type of loan suits the REIT's desired portfolio mix, risk appetite and potential market perception. One threshold determination to be made in selecting potential targets is to decide between traditional "qualified mortgage" (QM) loan originators and non-qualified (non-QM) loan originators. While QM loans represent the bulk of the mortgage market, non-QM loans have become increasingly popular in recent years. Non-QM loans are mortgage loans that do not conform to the underwriting guidelines for QM loans set by the Consumer Financial Protection Bureau.

Lenders of QM loans must make a good-faith effort to determine that borrowers have the ability to repay the mortgage before approving the mortgage application. QM loans must also satisfy certain additional criteria, including that the borrower's debt-to-income ratio must be 43 percent or less. QM loans are usually guaranteed or insured by federal government agencies such as the Federal Housing Administration, or government-sponsored enterprises (GSEs) such as Fannie Mae and Freddie Mac. In contrast, non-QM loans, as an alternative financing option for borrowers struggling to meet the traditional criteria, have more flexible income and credit standards and are not guaranteed by the federal government or GSEs (and therefore are subject to fewer regulatory restrictions on loan fees and features).

As a result of the foregoing, non-QM loans typically have higher origination fees and interest rates than QM loans. In addition, due to the potential removal of GSEs from federal conservatorship and the uncertainty it casts on the QM market, non-QM loans may experience even more growth. While non-QM loans may be riskier than QM loans due to the lack of strict underwriting criteria and governmental oversight, non-QM loan originators may be attractive to REITs that focus on income increase and future growth prospect and have reasonable risk tolerance. This is particularly true for non-QM originators who have a strong track record and a clean compliance history.

Licensing Requirements

Mortgage origination is subject to significant regulation on a state and federal level as readers of this newsletter know. These regulations impose licensing requirements on originators, servicers and certain other industry participants. Licensing requirements vary from jurisdiction to jurisdiction and can involve restrictions on loan origination and servicing practices. Obtaining and maintaining the requisite licenses can be time-consuming and costly, especially for originators with an active presence in multiple jurisdictions. REITs considering acquiring an originator should familiarize themselves with the applicable licensing and regulatory requirements along with engaging appropriate counsel to advise. The compliance burden is usually not handled by outside counsel alone so REITs will need to be sure to have appropriate internal teams who can address routine compliance filings and issues. Understanding the licensing and compliance requirements associated with acquiring an originator is a key piece of any transaction. In addition to the post-closing licensing and compliance obligations, notifications and approvals that must be obtained from regulators can add significant time between signing and closing of an acquisition. In our next issue, we will take a deeper dive into compliance and regulatory considerations in acquisitions.

Secondary Market Liquidity Considerations

Mortgage loans are routinely resold by lenders and investors to generate liquidity. REITs looking to acquire mortgage loan originators should assess the secondary market of the loan portfolio to be acquired, taking into consideration the operating history of the target, and any particular market conditions of a geographic region. For example, there may be limited market for certain loans that are perceived as riskier, such as non-QM loans (which do not meet the GSE purchase eligibility); accordingly, these loans may not be resold as whole loans on favorable terms and need to be securitized. Many mortgage REITs sponsor mortgage loan securitizations in their ordinary course of business as an alternative to whole loan sales, but those that do not should assess the target's securitization capacity, if any, or the process and cost of building such capacity. Additionally, mortgage loan originators may retain the servicing rights (MSRs) on the mortgage loans after the loans are sold in the secondary market, or they may sell such rights to third-party servicers instead. The former may make the originator a more attractive target for REITs seeking to retain mortgage servicing capacity and build direct relationships with borrowers, while the latter may be more suitable for those focused on immediate liquidity while outsourcing administrative tasks to third parties.

Hunton has experience in all areas addressed above—REIT securities, mortgage M&A, licensing and regulatory issues, structured finance and securitization matters and MSR transactions, including setting up fund structures focused on investing in MSRs. Hunton attorneys are ready to assist if any REIT client is considering acquiring a mortgage loan originator or servicer or engaging in any transactions involving mortgage loans or MSRs.

Hunton is the most active law firm advising on mortgage REIT M&A in the past three years.

S&P Capital IQ, 2025

M&A Opportunities for REITs Using a Taxable REIT Subsidiary

By Patrick Tricker

Real estate investment trusts (REITs) are subject to numerous tax rules on the nature and extent of their non-real estate activities. REITs have more latitude when operating through a taxable REIT subsidiary (a TRS), which is treated as a corporation for tax purposes and subject to normal corporate tax rates. TRSs can conduct many activities directly that would otherwise endanger the parent's REIT status, such as M&A activity with a non-REIT business.

Congress intended REITs to be passive investors in real property and loans secured by real property. As a result, REITs are subject to a 100 percent prohibited transaction tax (PTT) on any "dealer" income that they receive. Dealer income generally refers to gain from property held primarily for sale to customers in the normal course of the REIT's trade or business.

Mortgage REITs center their business model on investing in mortgages and mortgage-backed securities. In addition to such passive investment, many mortgage REITs originate loans to hold themselves, to sell or to be securitized. Loan sales (including REMIC securitizations) generally are conducted through a TRS to avoid any PTT concerns.

In this way, TRSs give REITs an opportunity for vertical integration of their mortgage business. REITs can acquire active businesses such as loan originators, loan servicers and fund managers through a TRS. In general, M&A activity where the TRS is the acquiror will be taxable to the target, even where a portion of the consideration is paid in REIT shares.

The recently passed One Big Beautiful Bill Act expands the ability for REITs to engage in this kind of activity. Starting in tax years that begin in 2026, the limit on the value of TRS securities that a REIT can hold will increase from 20 percent to 25 percent.

TRSs present many opportunities for REITs to acquire attractive business that add value and synergy to a REIT's existing investments. As always, make sure to talk to your tax advisor to structure any acquisition in compliance with the REIT rules and to maximize tax efficiency.

Hunton has represented financial services clients in M&A and other strategic transactions worth more than $13.5 billion in the past 12 months.

Contributors and Key Contacts

Austin Maloney

amaloney@Hunton.com
+1 804 788 8258

Michael Goldman

mgoldman@Hunton.com
+1 804 788 8404

Marissa Rogers

mrogers@Hunton.com
+1 804 344 7934

Tianlu Zhang

tzhang@Hunton.com
+1 202 419 2090

Patrick Tricker

ptricker@Hunton.com
+1 804 344 7815

Hunton is proud to be one of the top, fully integrated and multidisciplinary legal platforms in the US for advising companies in the mortgage and financial services industry on transactional matters. We are—and have been for decades—at the forefront of advising mortgage companies and other financial services entities on mergers and acquisitions.

The collective experience of our mortgage industry M&A lawyers enables us to address the needs of mortgage companies on a holistic basis. We help senior business leaders negotiate the increasingly complex M&A path, and we collaborate across the firm with our top-tier warehouse financing, MSR/loan transfer, and securitization colleagues.

We pride ourselves on our institutional relationships with longstanding clients. Our overall approach to mortgage industry M&A transactions focuses on: responsiveness to clients; seamless integration with client business and legal teams; creative, practical solutions; commonsense approaches; and, most important, completing transactions consistent with our clients' strategic goals.

Learn More About Our
Mortgage Industry M&A Practice

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