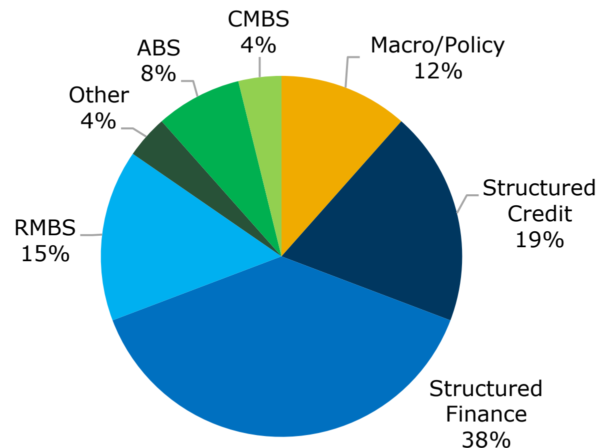
SFVegas 2025 Conference: Day 1 Recap

Structured finance market professionals assembled at the Aria in Las Vegas for the annual SFVegas conference held on February 23–26. The event was well trafficked, and reportedly had a record 10,000+ registrants. The morning was allocated to plenary sessions focused on the political and economic landscape. The afternoon featured asset-specific panels focusing on areas of interest within the ABS, CLO, CMBS, and RMBS sectors. Below is a recap of some of the asset-specific panels.

Figure 1: Breakdown of Day 1 Conference Panels



Sources: KBRA, SFA

Opportunities in Prime & Non-QM RMBS

Panelists began by examining notable shifts in the non-qualified mortgage (non-QM) space over the past year, highlighting that spreads have tightened and securitized volume has risen in tandem with increased insurance company demand. Participants remarked that non-QM products are gradually gaining broader acceptance as more originators enter the sector and new pockets of capital flow in. Meanwhile, the prime jumbo market has seen less dramatic change, although it continues to expand its investor base and maintain tight spreads.

Regarding collateral performance, the panel underscored that the 2022 non-QM vintage faces greater pressure—driven by lower FICO scores and higher loan-to-values (LTV)—yet overall delinquencies remain manageable. Although recent data shows a slight uptick in non-QM delinquencies, realized losses remain minimal owing to investor-friendly call provisions and structural enhancements. However, it was noted that some enhancements in the deals such as step-up coupons rarely, if ever, materialize due to net weighted average coupon (WAC) caps on the bonds.

In addition, panelists offered differing outlooks on housing prices, underscoring the complexity of this market dynamic. Some participants pointed to an oversupply of homes in certain regions, forecasting a modest correction as demand levels off. Others highlighted the resilience of borrower credit profiles and the strength of the broader economy, suggesting that prices could remain stable or even climb higher. Further, it was noted that external factors—ranging from natural disasters to potential immigration policy changes—may impact home prices. One of the panelists also raised concerns that recent price appreciation could be obscuring underwriting weaknesses, noting that any sustained price decline might bring hidden credit risks to light.

Fund Finance

The panel provided a deep dive into the evolving landscape of fund finance, particularly in the private credit space. Fund finance has become a critical tool for private credit funds, offering liquidity and leverage to support investment strategies across multiple asset classes. The panelists examined various financing structures, including subscription facilities, hybrid facilities, and net asset value (NAV) facilities, each offering distinct advantages in optimizing fund liquidity. Panelists highlighted that fund finance has expanded significantly, driven by increased capital raising in private markets and a growing demand for structured financing solutions. One notable development is the rise of rated note feeders, which have become a common mechanism for limited partner (LP) financing, providing structured access to leverage while ensuring

recourse to uncalled capital. Another emerging trend is sub line securitization, which has gained traction as a cash management tool that enhances liquidity management for funds. An influx of new lenders in 2024 has made the market more competitive, shifting deal terms from lender-friendly structures in 2022–23 to a more borrower-friendly environment in 2024. In addition, perpetual non-traded business development companies (BDC) have been growing rapidly, reflecting a broader industry trend toward private credit expansion.

Despite this growth, panelists cautioned about risk considerations, particularly the impact of tightening spreads, LP credit quality, and fund manager execution on deal performance. Unlike other securitization products, fund finance risk is highly dependent on fund managers' strategy and execution, with leveraged strategies presenting both opportunities and additional risks. Looking ahead, panelists expect lender growth to continue into 2025, supporting greater liquidity and diversification among LP investors. Some panelists anticipate rated feeder funds to expand further into new asset-backed lending strategies, blending with traditional securitization markets.

In terms of industry takeaways, the panel emphasized that fund finance remains a relationship-driven business, where reliable lenders are highly valued in this growing sector. Fund manager strategy and execution, along with deal structure, LP credit quality, and leverage strategies, are key considerations for investors and lenders. Securitization in fund finance is still developing, and while growth opportunities exist, particularly in rated feeders and sub line securitization, continued education and caution are necessary. The 2025 outlook remains positive, with more lenders entering the space, shifting private equity and credit investing from "Wall Street to Main Street."

CLO Market: Private Credit and Middle Market (MM) CLOs

Over the past four years, there has been record MM CLO issuance, driven by direct lending growth and investor demand for private credit exposure. CLOs offer the most efficient way to leverage a diversified senior loan portfolio, and record issuance has largely been fueled by strong asset supply and aggregation in the middle market. MM loan performance remains stable, with fewer downgrades, lower defaults, and better recoveries compared to broadly syndicated loans (BSL). With higher spreads at equivalent ratings, MM CLO tranches remain attractive for investors seeking floating rate yields.

MM CLOs typically have higher credit enhancement than BSL CLOs due to lower portfolio diversity. However, portfolio overlap across MM managers is also lower, as each has distinct competencies and investment philosophies. Managers, often holding the equity tranche, are highly incentivized to maintain strong-performing portfolios. Given their "buy-and-hold" strategy, MM CLOs focus on managing credit risks rather than actively trading loans, making underwriting more about assessing the manager's strategy, style, and risk oversight.

Recent discussions have centered on the potential development of a liquid private credit secondary market and the influence of BSL loan terms on workouts and liability management. While competition between the upper middle market and BSL space is expected to persist, the relationship is viewed as symbiotic, with borrowers choosing between markets based on pricing, documentation, and structural flexibility.

Housing Policy

Panelists addressed a range of housing policy issues. One panelist recapped 2024 by noting that following Federal Reserve rate cuts, mortgage origination volumes remained steady and banks had recovered from a prolonged rate hike cycle. Looking into 2025, the same panelist acknowledged the uncertainty introduced by the new administration's rapid series of executive orders and policy actions. However, with the tightening cycle concluded, the outlook for 2025 remains positive. The forecast was for the 10-year Treasury yield to move to 4.50%, which could translate into a 6.50% mortgage rate. In addition, the ongoing shortage in housing supply was identified as a favorable technical indicator for the sector.

Another panelist focused on housing affordability, noting that current rates have returned to levels last seen in 2008, with an expectation that mortgage rates will stabilize in the mid-5% range. This panelist projected a 30% increase in mortgage originations for 2025 despite low inventory levels; today, there are approximately one million home listings compared to four million in 2008. It was suggested that a "lock-in" effect among homeowners could diminish if rates fall to 5% or lower.

When discussing rising insurance rates, panelists observed that insurance now represents a larger share of total housing payments. Some noted that state regulations have constrained insurers' ability to price premiums appropriately. With limited housing supply remaining a key concern, discussions also turned to policies designed to increase inventory. Federal efforts to influence state and local zoning have not gained traction. For example, New York's attempt to use a state board of appeals to impact local zoning has yielded limited success. Institutional buyers of single-family homes were also mentioned, with one panelist asserting that corporate ownership is generally positive and associated with responsible landlord practices.

Finally, panelists shared mixed views on the likelihood and potential pathways for government-sponsored enterprise (GSE) privatization, with no clear consensus emerging on the issue.

Unsecured Consumer ABS Market: Investment Opportunities

This panel focused on the resurgence of pre-pandemic issuance levels, with investor appetite driving new deal flow in late 2024 and early 2025. Panelists noted that issuance slowed in 2022–23 due to asset pricing challenges, but improved spreads and tightening credit underwriting standards helped drive performance stabilization. Consumer reliance on unsecured loans has grown as inflation and stagnant wages have weakened traditional credit fundamentals, prompting lenders to expand short- and long-term lending products. Panelist described performance as remaining generally strong, with 2024 vintages outperforming prior years and mid-tier FICO segments (680–720) showing the greatest credit improvement. Panelists also discussed private ratings and investor demand for nontraditional securitization structures, highlighting growing interest from insurance companies in privately rated deals.

Panelists were also keen to point out banks increasingly partnering with private credit funds, expanding liquidity through forward flow agreements and structured back leverage, allowing investors to sell assets back into the securitization market. Looking ahead to 2025, uncertainty surrounding the new presidential administration was noted as a key determinant of the expected future performance. The panelists pointed out the impact of inflationary policies, labor markets, and regulatory oversight, with some panelists concerned about potential market volatility from trade tariffs. Although the Consumer Financial Protection Bureau (CFPB) may face deregulation, panelists did not seem concerned as existing compliance frameworks and state-level enforcement will likely sustain consumer protections. Overall, panelists expressed optimism about the continued growth of the unsecured consumer ABS sector, driven by investor demand, lender participation, and evolving deal structures.

CLO Credit Quality & Tiering

The panelists began with a discussion on relative value, comparing CLOs to other asset classes such as investment-grade (IG) corporates and high-yield (HY) corporates. Over the last five to 10 years, CLOs have returned 2x-3x that of corporates. Within the CLO structure, CLO equity exhibits the greatest dispersion, with five-year returns ranging from 30%-100%.

Tiering is a qualitative way for investors to distinguish between cohorts of collateral managers. Tiering can be important for liquidity at the top of the capital structure, specifically on AAA tranches, which is reflected through a basis on spreads. Currently, the basis between top- and bottom-tier managers at the AAA level is around 20 basis points (bps), which is tight from a historical perspective. Other considerations come into play lower in the capital structure, such as market value overcollateralization (MVOC) or quantum of assets in the portfolio trading at a discount.

One of the panelists emphasized the importance of considering how managers acted historically during periods of stress when underwriting them. Important behavioral considerations include selling or holding distressed credits through a workout, timing of crystallizing par losses, and reducing exposure to troubled sectors.

Two months into 2025, liquidity up and down the capital structure has increased, as investors with fresh budgets look to deploy capital into the asset class. With that, supply-and-demand dynamics have pushed spreads tighter and have generally compressed tiering across managers and structures.

Challenges to Consumer Health

Panelists noted that since pre-COVID levels, credit card utilization has increased 3% and average credit card balances have risen 10% between January 2020 and October 2024. Despite these increases in household debt, concurrent income growth has kept the household debt-to-income ratio stable at approximately 11.5%—a relatively low level by historical standards. Overall, the financial health of U.S. consumers is described as "OK." However, there is a notable divergence across income segments—lower-income (non-prime) borrowers face heightened affordability challenges, whereas higher-income (prime) borrowers benefit from real asset appreciation, such as rising home values, and continue to perform better.

Panelists identified several factors that could impact consumers, including inflation, interest rates, tariffs and trade policies, and unemployment. They also debated the likelihood of a loosening in underwriting standards. Following the pandemic, issuers initially broadened credit criteria but then tightened them in response to deteriorating performance in 2022 vintages. With performance now appearing more stable, a key question is whether issuers will expand their credit criteria again in pursuit of growth.

The discussion also addressed recent credit reporting modifications and their potential impact on FICO scores, particularly regarding medical collections and student loan delinquencies. In January 2025, the CFPB finalized a proposed rule to remove all medical collections from credit reports, potentially affecting around five million consumers. Although the effective date remains uncertain under the new administration, simulations indicate that the rule could increase the national average FICO score by less than one point, with 0.5% of consumers shifting above a score of 680. In contrast, new federal student loan delinquencies—set to be reported for the first time since March 2020 between January and April 2025—are projected to impact approximately seven million consumers and decrease the national average FICO score by about three points.

Sector Speed Dating: HELOCs

This panel discussed the current market for home equity lines of credit (HELOC) and how the product has evolved from the traditional HELOCs last securitized before the global financial crisis (GFC). Today's HELOCs, primarily second liens, are more strongly underwritten than pre-GFC (albeit the product is underwritten via both the traditional and alternative/streamlined approaches). Although HELOCs are not subject to ability-to-repay (ATR) rules, they are generally originated in line with ATR. HELOCs remain attractive to borrowers due to their draw flexibility and generally easier and quicker approval processes when compared to closed-end seconds (CES).

Economic factors have driven the growth in second liens, both HELOC and CES. These include borrowers with locked-in, low rate first liens and the growth in real homeowners' equity. Homeowner equity levels are high given the tight underwriting and controlled LTV imposed upon the first lien loan over the last decade and significant post-COVID price appreciation. Also, while HELOCs have historically been a bank product, nonbank originators have stepped into the second lien market as a tool to meet portfolio retention goals and to offset slower first lien loan production.

The securitization landscape for second liens, both HELOC and CES, has also evolved and grown with the increased borrower demand and number of nonbank originators offering the product. Whereas pre-GFC securitizations were often structured as monoline wrap deals, today's securitization structures—while mostly rated and tranched based on rating agency criteria—are not standardized. Structural features include different principal payment priorities and can have different approaches to funding future HELOC draws. Second lien securitization has grown to approximately $15 billion in 2024 from $5 billion in 2023. The 2025 outlook for HELOC originations and securitization volume is optimistic, with a 5%-10% increase in origination volume and a projected $20 billion securitization market.

CLO Market: The Manager Roundtable

Panelists anticipate another record year of issuance but caution that political uncertainty presents risks to the loan market on multiple fronts, including tariffs, interest rates, and inflation. As managers prepare for the next cycle, they stressed the importance of diversification—not only by increasing the number of obligors in portfolios but also by broadening industry exposure. While tariffs remain a concern, only 20% of sectors in CLO portfolios are considered at risk, which is a manageable figure. Moreover, the CLO market appears to have moved past the worst of the spread compression, with repricing expected to continue into 2024 despite talk of another 40-bp increase on the horizon.

Trading strategies are also shifting. Panelists noted that it is not an ideal time to trade on par build since more than one-half of all loans are trading above par. In addition, resets are attracting extra equity contributions to help clean up portfolios in anticipation of expected volatility this year. As a result, there is now less appetite among investors for larger CCC buckets.

Data Center Securitization

One of the last panels of the day included Nitin Bhasin, KBRA's Senior Managing Director and Global Head of CMBS. The panel began with a description of the different types of data centers, which are broadly divided into retail colocation, enterprise, and hyperscale, which differ by the number and size of tenants, lease duration, and operational complexity. Issuance volume has totaled $40 billion in 75 deals since 2018, with the ABS market accounting for approximately 75% of the dollar volume and 85% of the deals. The industry's growth is evident in the shift from 15 years ago when a 2MW deal was considered large, whereas today, a 200MW deal holds that distinction.

Panelists discussed whether data centers present the same risks as traditional real estate. While lease renewal, tenant credit, and management expertise were generally identified as typical of traditional real estate, technological obsolescence, redundancy, and access to the internet and power present a different set of risks not typically associated with more traditional real estate.

The panelists also focused on the difference between the ABS and CMBS structure, with the former having the advantage of providing significantly more flexibility. In contrast to the CMBS structure, which precludes substituting or adding collateral, the ABS structure can accommodate additional note issuance based on either adding new collateral or increased cash flow. An issuer has the option to effectively ladder a series of maturities that accommodates a company's growth while spreading maturity risk. Notably, the anticipated repayment date (ARD) structure in ABS deals was identified as a challenge for some CMBS investors, as the hard maturity in a CMBS deal appears to ensure repayment on a specific date. However, other panelists noted that the tendency for CMBS borrowers to extend has effectively diminished the value of the hard maturity.

Primary Author

Brian Ford, Head of Structured Finance Research
+1 646-731-2329
brian.ford@kbra.com

Additional Contacts

Yee Cent Wong, Senior Managing Director, Structured Finance Ratings
+1 646-731-2374
yee.cent.wong@kbra.com

Caleb Murphy, Senior Analyst
+1 646-731-1433
caleb.murthy@kbra.com

Media Contact

Adam Tempkin, Director of Communications
+1 646-731-1347
adam.tempkin@kbra.com

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