



Mortgage M&A Minute

February 2025

Quick Links

Market Snapshot

0.4% Mortgage loans in forbearance as of January 31, 2025. (Mortgage Bankers Association)

2.5% Increase in the Mortgage Bankers Association's Mortgage Credit Availability Index, which measures the availability of mortgage credit for homebuyers, from January 2024 to January 2025. (Mortgage Bankers Association)

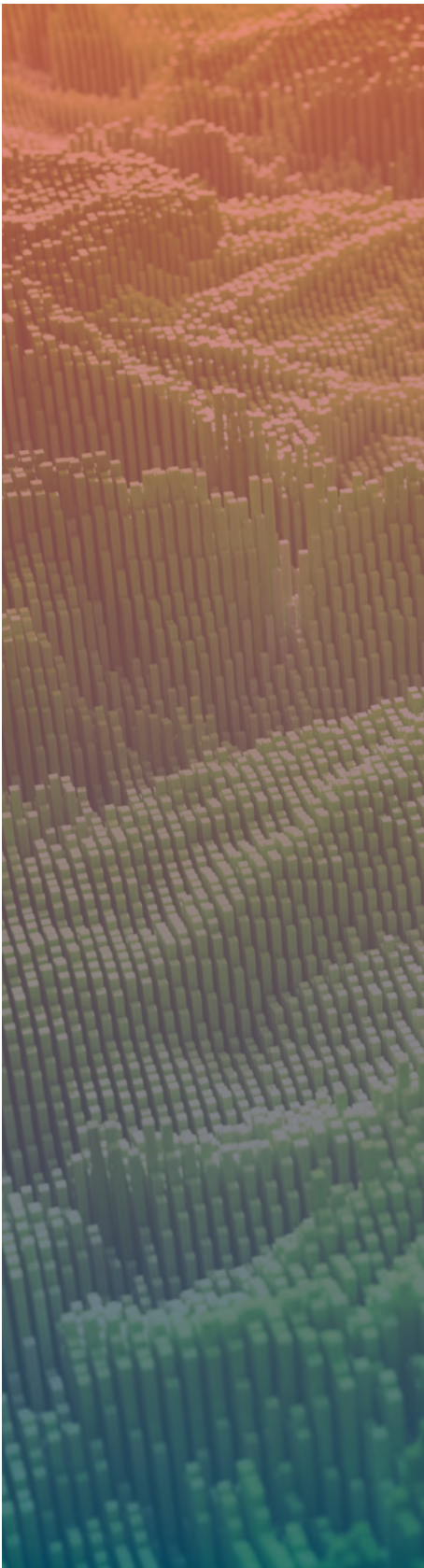
8.4% Year over year decline in number of M&A deals closed across all industries in January 2025 vs January 2024. (Global Data)

Quick Numbers

1,366,000 Seasonally adjusted annual rate of housing starts in January 2025, a 0.7 percent decrease from January 2024. (US Census Bureau)

\$400,500 Median price for homes sold in January 2025. (Realtor.com)

73 Days Average times home sold in January 2025 spent on the market, the longest average listing period since January 2020. (Realtor.com)



Back to the Basics

Preparing to Sell in 2025

By Michael Goldman and Austin Maloney

2025 is off and running. Two full months are behind us, and we are starting to see the political and economic environment unfold. A new presidential administration, tariffs, continued talk about interest rates and disasters in high-value property areas have given commentators plenty to keep busy but what will dealmaking look like as the year unfolds?

There is still a lot of time to see whether 2025 will be another difficult year for originators seeking volume, but regardless of origination volumes, we expect M&A volume to pick up in 2025 due to increasing comfort with the interest rate environment, discomfort with status quo, tightening margins on origination production, innovation (particularly in technology and AI), and diversification. No matter their motivation, we expect traditional banks, independent mortgage banks, and private equity investors will be more active in mortgage M&A.

To help you prepare for increased deal activity, we wanted to get back to basics with this newsletter. This newsletter focuses on the basics of an M&A transaction process for companies in the mortgage space but many principles apply across the board to M&A deals generally. What are the first steps that a seller should take when considering a sale? What does the process look like? Who needs to be involved? What should you expect in terms timing and potential issues? We will explore each of those in

this newsletter, and, as always, we are happy to discuss these issues and your particular situation. No one likes to call their lawyer, but the earlier you involve legal counsel in your planning process for a deal, the more likely you are to avoid thorny issues that crop up later in the transaction...and you might even save money!

So, you (or your Board or PE sponsor) are thinking about selling, what do you do first?

The first thing to do, which may seem obvious, is to determine exactly what you are selling. Are you selling the entire company, are you carving out a part of the company or are you just selling a few discreet assets (a contract or some intellectual property perhaps)? If it is a carve-out transaction that only encompasses a part of the company, is it a standalone business line that is self-sufficient or even entirely contained in a separate legal entity, or is it a business or set of assets that shares resources with other businesses that the seller is retaining. The answers to these fundamental questions will not only dictate the type of transaction (asset versus equity deal), but they will also determine what kind of preparation work might be needed and what kind of ancillary agreements (like a transition services agreement) may be needed to accomplish the deal. A legal deal team, particularly one familiar with your organization or deals in your industry, can be very helpful in several ways – analyzing

options for deal structure, identifying the information that will be needed to properly market the deal, and determining the legal documentation that will be needed to accomplish the deal.

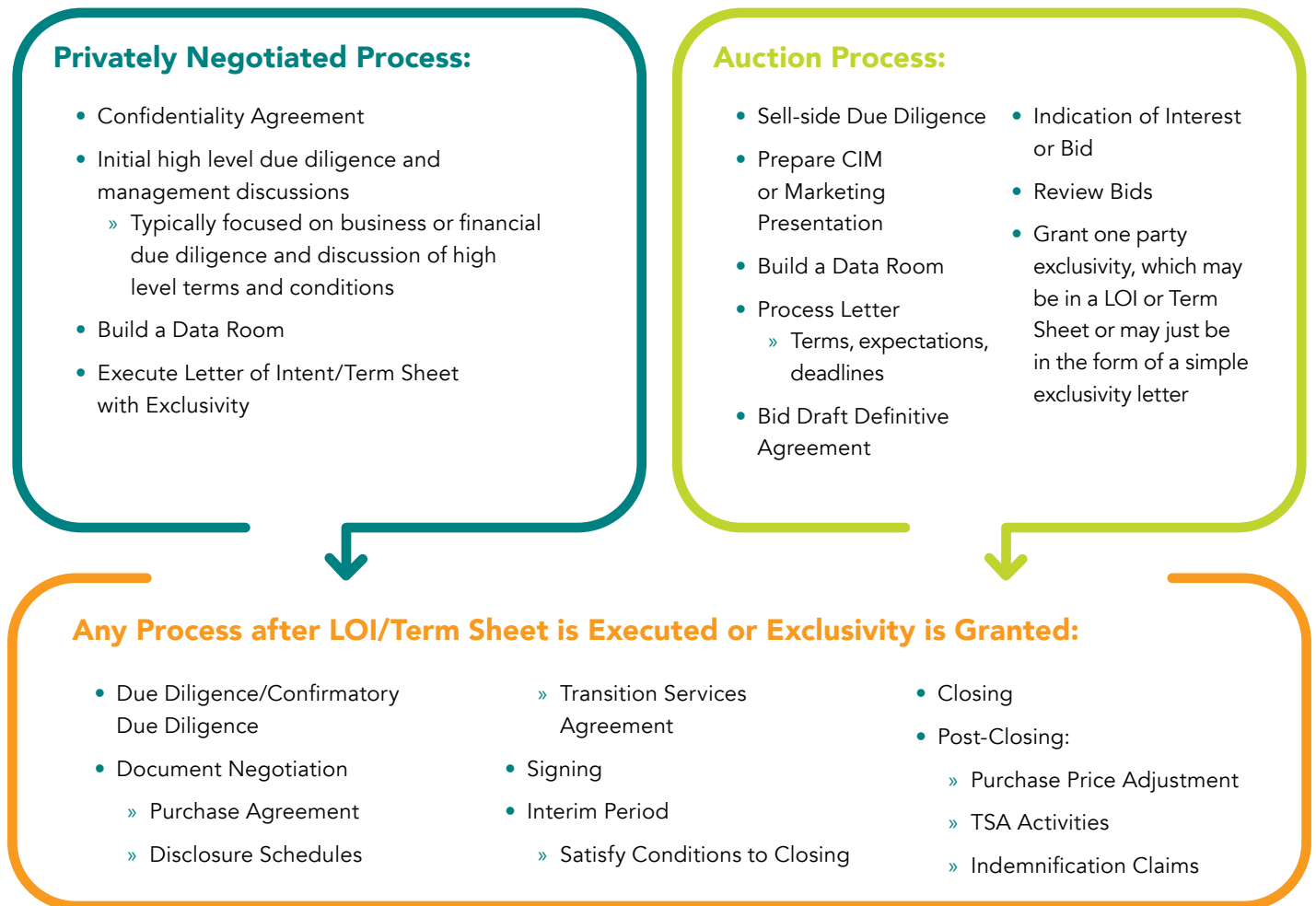
Once you have determined what you are selling, another basic question that the deal team should discuss is why are we selling this business or these assets? Determining the business rationale or goal of the transaction will help prioritize factors and issues. Is speed the priority for some reason? Is price or valuation the priority? Is risk avoidance the priority? The answer

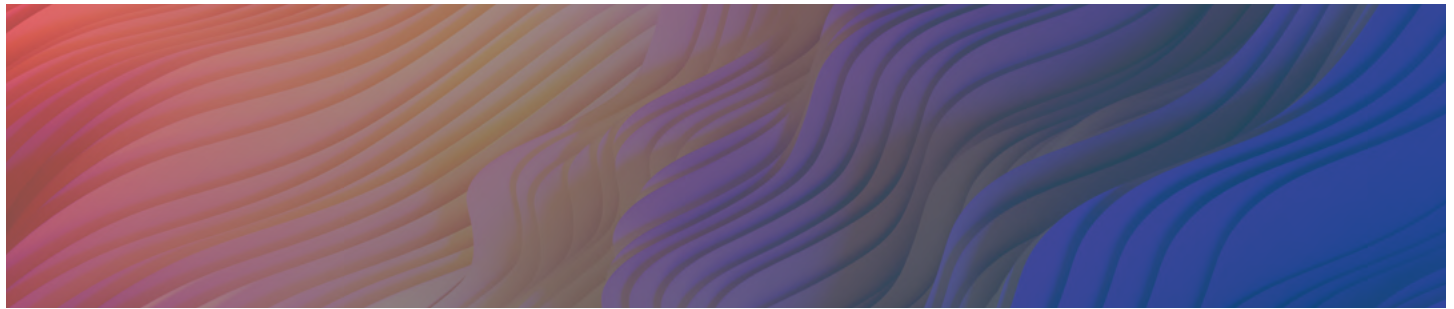
to these questions, or the relative importance of these goals, will drive both the business and legal points of the deal and ensure that the entire deal team (including advisors) is focused on the appropriate issues in negotiations and drafting.

Finally, do you have a specific buyer in mind or have you been approached? Is this a privately negotiated process or a competitive auction process? The answer to these questions will determine the next steps in the process as outlined by the chart below.

What does the full process look like?

The process for a transaction looks a little different if you are embarking on a competitive auction process as opposed to a privately negotiated transaction with one party. However, each process typically gets to a point where a seller agrees to negotiate exclusively with one party. That exclusivity may be evidenced by a letter of intent (LOI) or a term sheet or just an exclusivity letter agreement. Once exclusivity is granted, the process to signing definitive agreements and getting the deal closed is the same. This process represents almost all transactions, but in some exceptional transactions a seller may negotiate simultaneously with multiple parties and have the potential buyers race to negotiate and sign definitive agreements. This is unusual and requires exceptional circumstances with significant leverage for a seller. The more typical process is depicted in the chart below.





Who needs to be involved? And, when?

As noted above, while it may be tempting to keep third party advisors (accounting, legal, regulatory) on the sidelines as long as possible, looping in these advisors at an appropriate level earlier in the process can create savings and efficiency as the transaction unfolds. Some benefits include structuring the transaction in the most tax-efficient manner possible or identifying key deal terms to include in any LOI or Term Sheet to avoid having to change course or “re-trade” later in the process. Early stage preparation can include some initial sell-side due diligence to compile a data room for bidders and to scrub or review diligence materials for any competitively sensitive information that cannot be shared without special procedures or limitations. Preparing an organized and fulsome data room before granting access to a buyer (or to multiple bidders) can greatly streamline the entire process and avoid multiple rounds of supplemental requests and questions from a buyer (or bidders).

What should my expectations be—common issues, pitfalls, and, of course, timing?

First and foremost, sellers should expect an intense time commitment during due diligence and management meetings with potential bidders (if running an auction). This creates a distraction from day-to-day work. You need to be prepared, and make sure your team is

prepared, to manage the process. Taking some of the steps noted above, and involving qualified partners and advisors, can also minimize the disruptions. Additionally, getting the right people involved early can help avoid surprises or delays later in the process. This includes bringing all of the necessary business leaders internally “under the tent,” and involving external advisors experienced in similar transactions to spot issues and create solutions proactively.

Regardless of preparation or structure, you can expect a transaction to take at least 30 days to get from the time an LOI or term sheet is executed for a privately negotiated deal or from the time bidders are given access to a data room and bid-draft definitive agreement to execution of definitive agreements. More often, the timeline will be 60-90 days or longer if there are diligence surprises or negotiating issues that arise. If there are not third-party consents, or if seller and buyer agree to pursue those (to the extent possible) prior to executing definitive agreements, it is possible to have a simultaneous sign and close transaction. That is not very typical in the mortgage M&A market as various consents or approvals are often implicated by either an asset deal or an equity, change-of-control transaction. Therefore, the typical interim period in mortgage M&A transactions runs from 30 days to as long as a year. Conditions to closing that typically take the longest in mortgage M&A are the various state

and federal Agency change of control or licensing approvals—especially if a change-of-control approval is required from New York or California or certain other states.

We hope you found this article helpful to provide some perspective to sell-side transactions and the process. We would love to talk more if you are considering a potential sale.

Key Contacts