

insights

TYPES NOT MAPPED YET August 01, 2023 | TTR not mapped yet | Mark S. Indelicato, Mark T. Power

Mark Indelicato and Mark Power Discuss Challenges and Strategies in the Slumping U.S. Mortgage Industry

[Mark Indelicato](#) and [Mark Power](#), Financial Restructuring & Bankruptcy partners in Thompson Coburn's New York office, discussed the current slump facing the U.S. mortgage industry with *National Mortgage Professional*. They highlighted the impacts affecting the industry, such as declining profits and increased bankruptcies resulting from rising interest rates.

"Last year's market – which has continued into 2023 – is something that both Power and I describe as chaotic," Indelicato said. Power added that when the market tightened, loans with locked rates caused mortgage companies to lose money from loans, leading to significant cash drains on liquidity. "Banks who lend to them started holding back and charging higher interest rates," Indelicato said.

Power further elaborated, "What's contributing is that banks don't have a big enough balance sheet, and [they] will see more defaults, especially those with adjustable-rate mortgages. People are going to try and sell their homes. There's going to be a decline in the real estate values of the homes because there will be more inventory. We saw the same thing in 2008. The amount of cash needed to service mortgages just became too much, and banks couldn't keep up."

Indelicato and Power emphasize the importance of liquidity management, proactive risk practices, and diversified lines of credit as essential strategies for mortgage companies to weather the storm successfully. The exit of traditional banks from the industry has left non-bank financial institutions thinly capitalized and volatile. Although salvaging mortgage company assets during bankruptcy is a complex process, there is still potential to monetize certain assets. While the situation may not lead to a recession as deep as in 2008, higher interest rates will likely affect the home market and the construction industry.

[Read the full article here.](#)

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