



The Evolution of Residential Transition Lending

From Hard Money to Housing Supply?

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The Evolution of Residential Transition Lending

Introduction

The Challenge of Housing Supply

The US lacks sufficient affordable and workforce housing close to jobs and centers of economic growth.¹ This shortage is attributable to years of underbuilding exacerbated by the increasing average age of the existing housing stock,² which results in the loss of several hundred thousand units each year because of demolition or obsolescence.³

Cities, states, and the federal government are responding to this challenge by pursuing pro-growth housing policies.⁴ These include facilitating construction of “missing middle”⁵ housing in existing neighborhoods in cities and first-ring suburbs close to jobs, transit, and existing infrastructure.⁶

But while governments pursue policies to promote modestly greater housing density, huge challenges remain when it comes to turning these policies into actual homes. Who will finance and build these missing-middle homes?

Large homebuilders have access to ample bank and capital markets funding, but they are neither well suited nor strongly financially motivated to build modest scattered-site one-to-four-unit and small-balance multifamily housing.⁷ Homebuilding has become more concentrated among these large players,⁸ with even the 100th-largest builder closing more than 500 new home sales annually.⁹

Meanwhile smaller, local builders face challenges to increase production. The community and regional banks that historically provided these builders construction loans continue to tighten and recede,¹⁰ causing local builders to pull back as well.¹¹ The number of small builders shrank by half between 2007 and 2012 and remains well below 2007 levels.¹²

At the same time, subsidized forms of housing development such as the low-income housing tax credit program tend to focus on large apartments that include more deeply affordable units, not scattered-site one-to-four-family and small-balance multifamily infill construction.

An Unlikely Supplemental Source Hiding in Plain Sight

One modest but growing funding source to build or renovate these homes may come from an unlikely channel: residential transition lending (box 1).

BOX 1

What Are Residential Transition Loans?

Residential transition loans (RTLs) are a rebranded and modernized version of what was once more commonly known as “hard money” lending—that is, private, local, asset-based, short-term, high-interest, business-purpose loans made to real estate investors.^a

RTLs represent a subset of the larger business-purpose real estate private lending market in which individuals, groups, or nonbank business entities provide one-to-four-family and small-balance multifamily property loans to real estate investors and builders secured by non-owner-occupied residential properties.^b

- They are short term or **transitional** in that their terms are for 9 to 36 months, a period intended to be followed by a sale or refinancing.
- They are **asset based** in that they are underwritten with a greater emphasis on a property’s value and less on a borrower’s income and detailed credit history.
- They are **business purpose** in that they are commercial loans to corporate entities on non-owner-occupied properties rather than to individual owner-occupants.

RTLs come in three product types:^c

- **Bridge only:** Temporary financing to hold a property pending sale or permanent rental financing, or to acquire a property and hold it until construction financing is secured.
- **Fix and flip:** Renovation or rehabilitation loans to fund repairs and renovations pending resale to someone intending to occupy the home, to investors seeking to rent out the home, or for the current investor to refinance the property into a long-term rental loan.
- **Ground-up construction:** Loans to construct new homes on vacant land or to tear down and replace aging housing.^d Again, the homes are then sold to future owner-occupants, sold to investors seeking to rent out the property, or refinanced by the original investor into a long-term rental mortgage.

^a Spreo Capital, “[The Evolution of Private Real Estate Lending](#)” (Spreo Capital, n.d.). The term “hard money” refers to the hard asset—real property—that is the principal basis for the loan rather than “soft” factors, such as credit and income. Because “hard” has a negative connotation, the industry has migrated away from that term. See, for example, Jeff Levin, “Why Hard Money Has a Bad Name,” American Association of Private Lenders, February 1, 2019, <https://aaplonline.com/articles/editorial/why-hard-money-has-a-bad-name/>.

^b See National Private Lenders Association (NPLA), “[Private Lending Glossary](#)” (NPLA, 2023). The other main category of private lending is debt service coverage ratio (DSCR) long-term mortgages secured by rental properties.

^c Corina Gonzalez, Mark Branton, and Quincy Tang, “[Residential Transition Loans—A Primer](#)” (Morningstar DBRS, 2024).

^d Some in the RTL origination market use “bridge loan” to mean all three types of RTLs in that they are all short-term bridge loans intended to be paid off through a sale or a refinancing into a long-term permanent mortgage. See, for example, the definitions used in Nema Daghandan “DSCR Tightens Its Grip,” *Private Lender*, Winter 2026, 77. For this report, “RTLs” encompasses all three types of short-term real-estate-secured business-purpose loans.

While traditional funding sources have stalled or receded, this relatively ignored and poorly understood sector has grown to provide more than \$25 billion in one-to-four-family ground-up, scattered-site construction financing in 2025 and provided at least an additional \$35 billion to renovate or rehabilitate similar properties—most of it in infill locations and for housing designed to be relatively affordable.¹³ Given that the entire banking sector had only \$91 billion of single-family construction loans outstanding at the end of 2025,¹⁴ the additional nearly \$30 billion of ground-up construction loans outstanding in the RTL sector represents a noteworthy supplemental funding source (box 2).¹⁵

BOX 2

Sizing the Market

Unlike Federal Deposit Insurance Corporation bank lending reports or Home Mortgage Disclosure Act consumer mortgage data, no consolidated government reporting of residential transition lending exists.

But triangulating among several sources gives a reasonably good sense of this growing market’s approximate scale and contours.

Two boutique data firms track and license transaction-level data on the private lending market, including RTLs and DSCR loans: Forecasa and SFR Analytics. They rely on public records data—either directly from governmental sources or through large public records data aggregators—to track individual transactions by known private lenders. Depending on the jurisdiction, recorder and assessor data can provide information about the transaction and parties, and secretary of state data can help identify the ultimate investor or borrower behind their single-asset limited liability companies (LLCs). But these transaction-level data miss some of the proliferation of unknown or new small private lenders. Likewise, not all jurisdictions provide sufficiently detailed data to understand the loan terms or the nature of any accompanying construction.

These aggregated transaction-level data are complemented by horizontal sources of data. Loan document provider LightningDocs.ai processed more than \$30 billion of private loans in 2025 from a cross-section of more than 200 lenders. The dataset is big enough to be roughly representative of the market. Likewise, \$8 billion in RTLs were securitized in 2025, providing detailed information on the sizes, rates, terms, and purposes of these loans, as well as credit performance information. These securitized pools are roughly representative of the mix originated by large and midsize RTL lenders.

Finally, additional sources of information exist for the more mature fix-and-flip sector—both for projects financed with mortgages and those consummated with all cash. Data company ATTOM Data provides reporting on the fix-and-flip market, and advisory and research firm John Burns Research and Consulting surveys a large sample of fix-and-flip transactors quarterly and provides reporting and analysis.

Based on these imperfect and incomplete data sources, the author estimates the following:

- More than \$85 billion in residential transition loans originated in 2025 with
 - more than \$25 billion in dollar volume representing ground-up construction,
 - more than \$25 billion in dollar volume representing bridge-only loans, and
 - the balance of more than \$35 billion consisting of fix-and-flip renovation loans.

As the industry matures, hopefully more robust and standardized data will become available to give market participants and other stakeholders greater visibility into this sector.

This report explores the history, growth, and evolution of the RTL sector and evaluates the opportunities and risks the sector presents as a growing source of construction and renovation financing.

The Curious Case of Residential Transition Lending

Despite its growth, residential transition lending remains a relatively overlooked corner of the mortgage market with some uncommon features.

First, residential transition lending exists on the fringes of the single-family mortgage universe. The loans do not flow to the Federal Housing Administration and government-sponsored enterprise (GSE) mortgage programs, the dominant single-family mortgage outlets. Nor are the loans originated by banks for their portfolios or by the largest nonbank mortgage originators for their private-label securitizations.

Second, unlike most of the mortgage market that simply funds purchase or refinance of existing housing stock, most RTLs create or improve housing supply either by building new one-to-four-unit homes or by renovating aging housing stock. And these loans are mostly not centered in far-flung exurbs but are typically secured by vacant lots or properties in maturing cities, towns, and first-ring suburbs.¹⁶

In short, residential transition lending appears to be a rarity, a naturally occurring unsubsidized financing source for creating infill housing, renovating aging homes, and contributing to community light densification at a time when those terms have become buzzwords in housing policy.

What Are the Typical Terms and Features of RTLs?

RTLs are typically interest-only, fixed-rate loans with balloon payments due at maturity. Some include short extension options.

Although referred to as “asset-based” loans, today’s RTLs consider more than just the property’s value. RTLs are typically supported by a personal guaranty from the borrowing entity’s owner or principal. Lenders also typically look at the guarantor’s FICO score using a soft credit pull. If the loan has a construction element, the lender also evaluates (1) the principal’s experience completing similar projects, (2) the construction plan and budget, and (3) the borrower’s liquid reserves to cover rehabilitation, carrying costs, and potential overruns.

Bridge-only RTLs are fully funded at origination, typically supported by an appraisal or estimate of the property’s value, in addition to the sponsor’s personal guaranty and soft credit pull.

Fix-and-flip and ground-up construction RTLs typically include draw features where a portion of the loan is disbursed at various milestones. Sometimes these draws are funded into an escrow account when the mortgage is originated and then are released in stages when the borrower satisfies completion milestones. Sometimes, the draws are simply an unfunded commitment that the lender funds in phases. Regardless of when the draws are funded, they are at the fixed rate established at the loan’s inception.

RTL underwriting also relies on the asset value using three key ratios:

- The loan-to-as-is-value (LTAIV) ratio, which is usually no greater than 75 or 80 percent.
- The loan-to-cost (LTC) ratio, which is calculated based on the up-front acquisition cost plus the construction or renovation budget. This ratio can be up to 95 or 100 percent for renovation but is typically slightly lower for more complex ground-up construction.
- The loan-to-after-repaired-value (LTARV) ratio, which is based on an estimate of what the value will be following completion of the planned repairs or construction, usually no greater than 65 to 70 percent.

Given the importance of pre- and postconstruction value to these calculations, RTL lenders use a surprisingly flexible range of valuation methods oftentimes less robust than a full, independent appraisal. Residential transition lending is not subject to GSE or bank regulatory appraisal requirements. As a result, some lenders use automated or other valuation methods short of a full, independent formal appraisal. But institutional investors and rating agencies are increasingly imposing more bank- or GSE-like independent appraisal requirements on the sector.

RTLs are not cheap. In recent quarters, RTL interest rates have ranged from 9.5 to 11.5 percent, averaging around 10.5 percent, about 200 basis points higher than bank construction loans.¹⁷ But as greater institutional capital enters the market, these spreads are compressing.¹⁸

What the loans lack in price, however, they make up for in speed and flexibility. RTLs can be underwritten and funded in a week or less, significantly faster than the 45 to 60 days the more extensive and intrusive bank construction loan underwriting process takes.¹⁹ Subsequent construction draws can be funded within a day, or even the same day the borrower submits the request and accompanying information.

In addition to greater speed, lighter documentation, and easier qualification, RTLs offer real estate investors and builders modestly greater leverage than typical bank construction loans for single-family speculative construction.²⁰

Who Are the Borrowers for RTLs?

Given the market's relative youth and lighter regulatory and data-reporting requirements, RTL industry data are hard to come by. The best information on RTL borrowers is from the data firm Forecasa, which tracks private lending transactions by lender and borrower based on public property data and corporate filings.

But Forecasa's published data combine both short-term residential transition lending private loans and long-term single-family rental property debt service coverage ratio (DSCR) private loans. Still, given the significant borrower and lender overlap and comparable scale in these sister markets,²¹ the data shed some light on the participants.

Forecasa estimates that in the first three quarters of 2025, there were 89,611 distinct private, business-purpose real estate loan borrowers who transacted for \$90.5 billion in loan volume.²² Forecasa divides the market into two borrower cohorts: (1) "casual" borrowers who obtain three or fewer loans in a year and (2) "active" borrowers who obtain four or more. In the first three quarters of

2025, casual borrowers made up more than 91 percent of the total, with active borrowers composing slightly less than 9 percent.

Most casual borrowers transact intermittently—only 26 percent remained active from one year to the next—and when they do borrow, they generally have only one or two projects each year and work with a single lender.²³ In contrast, active borrowers accounted for more than 40 percent of the \$90.5 billion private loan transactions in the first three quarters of 2025.²⁴ And active borrowers typically have multiple lender relationships, suggesting that they shop around.

The data paint a picture of a starkly bifurcated market with a small cohort of high-volume, professional real estate investor and builder borrowers accompanied by a long tail of casual “mom-and-pop” intermittent transactors.

Even though some active borrowers would have the scale and track record to seek community or regional bank construction financing instead of RTL funding, these active borrowers largely prefer the asset-based structure, higher leverage, more flexible terms, and greater speed of RTL lenders for their high-velocity, project-based businesses.²⁵ National Association of Home Builders data²⁶ reflect that there has not been a noteworthy shift of traditional bank construction loan customers into the residential transition lending sector for financing. But at the margin, some private lender marketing efforts appear to target builders who borrow from banks.²⁷

Casual borrowers, in contrast, seem less likely to be able to qualify for bank construction loans even if they wanted to.

The History, Evolution, and Institutionalization of the RTL Market

The Early Days: Local, Hard Money Lending

Before 2008, hard money business-purpose real estate lending was virtually all hyperlocal, with loans made by individuals or small co-lending groups to local real estate investors.²⁸

Given the loans’ short terms, many lenders simply held the loans to maturity. Others acted as intermediaries, brokering or selling the loans or fractionalized interests to a stable of high-net-worth individual financial investors.²⁹

Eventually, private lenders seeking greater scale and a more efficient funding model structured pooled investment vehicles. A lender would create a fund, usually a limited partnership or LLC, and serve as general partner or managing member, responsible for managing lending and servicing. The fund would raise capital in a private placement by selling interests to passive investors³⁰ searching for a high-yielding, real-estate-secured investment. This structure allowed greater scale and diversification.

The fund structure also enabled borrowing against the fund's assets to ensure liquidity to pursue new lending opportunities and as a source of leverage to enhance returns on investment.³¹ But even with these larger funds, the financial investors who purchased LLC or limited partnership interests were typically local individuals.

Accelerated Growth and Scale Following the 2008 Financial Crisis

Following the 2008 financial crisis, several factors catalyzed more rapid growth and scale in private business-purpose real estate lending.

First, credit standards and availability tightened severely. The subprime and Alt-A market collapses,³² passage of Dodd–Frank mortgage reforms, heavier bank regulation and supervision, and more stringent GSE loan purchase standards severely constricted the traditional sources of real estate investor funding for single-family homes. These investors either needed to buy properties for cash or look elsewhere for funding.³³

This credit constriction coincided with postcrisis property value declines and heightened foreclosure inventory, which attracted both seasoned and new real estate investors to seek investment properties at what they perceived to be bargain prices from the large pool of foreclosures and distressed sales.

Private business-purpose lenders—unencumbered by tighter regulations in the consumer mortgage market and banking sectors and not dependent on GSE or securitization take-outs for their loans—grew quickly by providing private loans to fix-and-flip and rental property investors.

The Growth of National Players and the Introduction of Institutional Capital

As private lenders were experiencing the “push” of demand from local real estate investors to fund their acquisition and rehabilitation of one-to-four-family homes, they also began to experience the “pull” of institutional capital.

Fixed-income investors looking for yield in a low-interest-rate environment noticed this emerging asset class. RTLs had low-double-digit coupons, they were secured by first liens on a hard asset, the borrowers had significant equity with LTAIV ratios in the 65 to 75 percent range at that time, and a pool could easily be constructed with geographic diversification. Moreover, they offered a shorter-duration asset—one or two years—that was less susceptible to mark-to-market risks when interest rates rise. These characteristics appealed to a wide range of investors, including insurance companies, pension funds, hedge funds, real estate investment trusts, and other asset managers. Banks and nonbanks also saw opportunities to provide short-term warehouse financing³⁴ to RTL lenders and even to purchase some of these loans. And private equity firms saw opportunities to invest in the sector.

Starting in the mid-2010s, these institutional sources sought investments or relationships that allowed them a steady, captive flow of RTLs and allowed them to participate in the sector’s growth. Today, almost all the largest RTL players have some sort of institutional ownership or relationship. Table 1 highlights some of the key institutional milestones in this sector.

TABLE 1
Milestones in the RTL Sector

Year	Description
2014	Oaktree Capital Management invested in private lender Genesis Capital and invested in a fund to purchase private business-purpose loans.
2016	KKR invested in private correspondent lender Toorak Capital Partners, and PIMCO invested in private lender Velocity Financial.
2017	Fortress Investment Group acquired private lender Colony American Finance and rebranded it CoreVest.
2018	Redwood Trust, a real estate investment trust, acquired a minority interest in private lender 5Arches.
2019	Redwood Trust acquired all of 5Arches and acquired CoreVest.
2020	Hunter Street and Rice Park Capital Management created a fund to buy portfolios of business-purpose loans. In 2021, they joined forces to buy RTL lender Asset-Based Lending. Blackstone acquired private lender LendingOne, Pretium acquired private lender Anchor Loans, and New Residential (now known as Rithm) acquired Genesis Capital.
2021	Real estate investment trust MFA Financial Inc. acquired private lender Lima One Capital following a 2018 strategic minority investment and loan purchase arrangement.
2022	KKR acquired private lender Merchants Mortgage & Trust Corporation.
2023	Oaktree Capital Management entered into a \$100 million strategic joint venture with lender Arixa Capital Advisors.
2024	InterVest Capital Partners committed up to \$500 million in growth capital to lender Builders Capital and acquired a minority interest. The same year, Bain Capital acquired a majority stake and provided growth capital to lender Archwest Capital, and Elliott Investment Management provided \$300 million in de novo capital to lender start-up Ascent Developer Solutions.
2025	New York Mortgage Trust Inc. (now known as Adamas Trust Inc.) acquired the remaining interest in lender Constructive Loans LLC, following an initial investment in 2021.

Note: RTL = residential transition loan.

During this same period, financial institutions including Nomura, Churchill Real Estate, Wells Fargo, and Western Alliance Bancorp began providing warehouse financing to RTL originators and aggregators.

Even lenders who chose not to sell themselves or develop joint ventures, funding, or flow³⁵ relationships with larger institutions tapped into institutional capital by expanding their fund investor base from high-net-worth individuals to include endowments, foundations, large family offices, and other sources of institutional investment.³⁶

Securitization of Residential Transition Loans

Concurrently (and perhaps inevitably) with the increasing institutional investor interest in this asset class was the advent of RTL securitization.

Starting in 2015, a few smaller, static-pool RTL securitizations were consummated. These deals lacked an elegant means to satisfy unfunded future draw commitments and were very short duration given the terms of the underlying loans.

Then, in 2018, Angel Oak issued the first securitization that employed a revolving structure³⁷ that addressed both considerations, thereby inaugurating the model that has become the norm for the more than 100 RTL securitizations since then.³⁸

Like many other securitized assets, RTL securitizations use a sequential-pay structure where the senior notes receive payments before the other classes. They typically have a two-year reinvestment period (i.e., the revolving period) during which the notes are interest-only. During this period, after payment of monthly interest to noteholders, any remaining payments on the collateral, including from paydowns and payoffs, go to purchase additional RTLs and to fund committed construction draws. To avoid having insufficient amounts to fund draws, the structures limit the percentage of unfunded commitments both for the loans in the initial pool and for the additional loans. If in any month there is not enough money to fund draws, the servicer advances them and can reimburse itself at the top of the cash flow waterfall in the next payment cycle.

After the reinvestment period, the pool becomes static, interest payments continue, and principal begins to be applied to sequential pay-down of the notes. But amounts collected from the pool still are first used to fund any construction draws before they are released to investors.³⁹

Introduction of the revolving structure expanded interest in and viability of RTL securitizations among the larger originators and aggregators, with more than a dozen completing unrated securitizations in the late 2010s and early 2020s.

Then, in 2023, the rating agency Morningstar DBRS published the first ratings criteria for RTL securitizations.⁴⁰ And in early 2024, Toorak Capital Partners completed the first rated RTL securitization: Toorak Mortgage Trust 2024-RRTL1.⁴¹

Ratings massively expanded the potential investor base in RTL securitizations and immediately improved the execution significantly, lowering the cost of capital for RTL lenders.

Since then, securitization has continued to expand. In 2025, RTL securitizations totaled approximately \$8 billion, with 20 total issuers (including 10 new ones). The share of rated deals in 2025 grew to nearly two-thirds of the total (Nikodem et al. 2025). Moreover, collateral performance has continued to be strong, with cumulative losses under 30 basis points for most vintages (Nikodem et al. 2025).

But securitization's impact on the RTL market's maturation goes beyond lower funding costs. The disclosures and ratings reports provide greater transparency into the asset class: the loan characteristics, the underwriting, the origination and servicing models, and the loan performance. Likewise, the third-party collateral and platform reviews attendant to the securitization process drive greater discipline and standardization. In short, securitization sheds light on the loans and players that had previously not been broadly visible.

The securitization transaction documents and ratings reports also reveal the heterogeneity of business models among the securitizers. There are retail originators, wholesale originators, table funders, correspondents, and aggregators, as well as some multichannel players.⁴² There are third-party servicers and subservicers. There are at least half a dozen third-party diligence firms who review the initial loans or those added to the pools.

Similarly, the securitizations illustrate the diversity of origination profiles in the sector. Some originators focus more on light-rehabilitation fix-and-flip loans. Some lean into bridge loans. And others embrace ground-up construction loans. Some even lean more heavily into loans secured by two-to-four-unit and small multifamily properties.

Barring a sharp and unexpected disruption in the sector, it seems likely that securitization will remain an important feature of the RTL market, with the investor base continuing to broaden as familiarity with the asset class expands and its value is borne out in consistent performance over the

cycle. In February 2026, another important securitization milestone was reached when a second rating agency, KBRA, released its proposed US Residential Transition Loan Securitization Methodology.⁴³

The Growth of Ground-Up Construction Lending in the RTL Sector

Concurrently with the RTL sector's increasing institutionalization and maturity, another noteworthy change was taking place: the movement of RTL lenders and borrowers into ground-up construction at scale.

Until relatively recently, residential transition lending was not associated with ground-up new construction. Rather, the RTL market (and the hard money market before it) consisted almost exclusively of fix-and-flip and short-term bridge lending. Nomura's 2016 seminal "A Brief Introduction to RTLs," which was perhaps the first broadly disseminated use of the term "residential transition loans," does not even mention ground-up construction as an element of this market.⁴⁴

But in the late 2010s, market forces converged to drive interest in RTL ground-up construction financing. As property values rose and as more fix-and-flippers competed for a dwindling supply of viable rehab opportunities, some larger players began to approach their private lenders for ground-up construction loans, either for teardowns or for construction on vacant lots.⁴⁵ Though it is riskier and requires larger loans than would modest renovation projects, ground-up construction lending started to have more enticing return profiles in a market with a dearth of new housing supply relative to household formation and demand.

This trend accelerated in the early 2020s with the extremely low-interest-rate environment as part of the COVID-19 pandemic response and the accompanying surge in property values. The lock-in effect reduced the transactional inventory available for fix-and-flip investors, and the higher prices reduced the number of deals that would "pencil out." Local real estate investors and builders saw they could earn superior returns by buying land or a severely distressed property and build a new single-family or two-to-four-unit residential property. And even though bank funding would likely have been available to some of the more active investors, most preferred the familiar RTL underwriting model, loan structures, and speedy service.

Private lenders responded, and ground-up construction lending grew rapidly. Though initially a small portion of RTL originations, investors eventually saw the solid performance of these loans and began to gain more comfort with ground-up construction as a significant minority of RTL originations.

Most private lenders now list ground-up construction as a distinct product type of equal prominence with fix-and-flip and bridge financing.⁴⁶ Lenders' marketing and client engagement encourages borrowers to consider diversifying from fix-and-flip to pursue some ground-up projects, and a support ecosystem helps them make that transition up the complexity scale.⁴⁷ Lenders also added construction lending expertise to their teams.⁴⁸

And unlike many large builders who focus on undeveloped tracts at the fringes of existing metropolitan areas, RTL-funded ground-up construction is focused in mature, developed areas of towns and cities. The existing infrastructure and the greater predictability of as-completed values in denser areas make this less risky and more desirable for lenders. And their marketing reflects this. RTL lender websites use the word "infill" prominently in advertising their ground-up construction financing options.

The RTL Market Today

The RTL market has evolved from a mom-and-pop industry made up almost entirely of local balance sheet lenders and small funds into a maturing, diverse market with a broad range of originators and capital sources.

These lenders exist in an ecosystem that includes trade associations,⁴⁹ specialized law firms,⁵⁰ data and analytics companies,⁵¹ advisory firms,⁵² origination and servicing software providers,⁵³ inspection and draw management technology providers,⁵⁴ warehouse financing sources,⁵⁵ due diligence firms,⁵⁶ diverse sources of private and institutional capital, and a robust conference circuit.

Even regional and local banks have found a foothold in the market, not as originators of asset-based construction and rehab loans but as providers of credit and services to private lenders.⁵⁷

Over the past 10 years, some larger, well-capitalized originators have emerged, with the 10 biggest (by unit) now making up 22 percent to 24 percent of private loan originations,⁵⁸ a range similar to the 10 largest originators' share in the conforming mortgage market.

In many ways, this is a familiar evolutionary path. Larger players—with scale, technology, and access to lower-cost capital—gain market share. Smaller players get acquired, go out of business, or survive as links in a distribution chain leading to larger players and the capital markets. Product design, terms, and

underwriting become more uniform, promoting greater liquidity and transparency. And loans and the accompanying credit risk proceed on their inexorable march to the lowest-cost capital markets or large-balance-sheet executions, whether it be the GSEs, Ginnie Mae, large bank balance sheets, or private-label securitization. This is the world today for conforming mortgages, Federal Housing Administration and Veterans Administration loans, jumbo loans, and, more recently, nonqualified mortgages and DSCR loans. Before 2008, it was also the path for subprime and Alt-A mortgages.

But there are reasons to believe the RTL market might follow a slightly different evolutionary path that preserves the prominent local character of this market, even as institutional capital enters it.

First, the short-term nature of RTLs means a secondary market takeout is not an essential precondition to a viable business. Unlike other mortgage segments where originators are in an I-can't-originate-it-if-I-can't-sell-it quandary, RTL lenders have historically held most of these loans on their balance sheets and recycled the capital as the loans paid off. Access to their own and other local investor funds preserve this as a viable and sufficiently attractive model. A takeout might allow greater scale and financial flexibility, but it is not an imperative.

Moreover, originators have learned that the secondary market's allure comes with risks. Brief hiccups in liquidity at the start of the pandemic and in the Federal Reserve's postpandemic tightening pivot seared in lenders' minds that institutional loan buyers can be fickle. A 2024 private lending trade association article preached diversifying funding sources "because institutional sources are volatile and susceptible to market changes."⁵⁹ More reliable alternative sources included balance sheets, fund structures, family offices, and more stable take-out sources, such as insurers, pensions, and endowments.⁶⁰ Many originators, even some large ones that could access flow or bulk sale arrangements with institutional buyers, have elected to preserve greater control of their funding by remaining principally balance sheet lenders.⁶¹

Second, the RTL market's characteristics make it less rate sensitive than other parts of the mortgage market. RTLs are short-term loans, with the borrower's economic model tied to leverage, velocity, and exit execution. It is a capital gains business rather than a long-term rental income model. That is why when interest rates went up from 2022 through 2024, RTL originations nevertheless continued to increase while more rate-sensitive parts of the market held steady or shrank.⁶²

Although the interest rate still matters, RTL borrowers value flexibility, a trait in tension with the capital markets' demand for standardization. Lenders know this, and some are reluctant to limit their product terms and features to those dictated by the secondary market or a rating agency, even if it means they could offer a marginally lower interest rate. These lenders value their hyperlocal market

knowledge and their intimacy with their investor-borrowers. They want to continue to customize deal terms and underwriting criteria to serve their loyal customers' needs. They view their balance sheet-funded model as providing them the flexibility to do so creatively and the incentive to do so prudently. After all, they usually retain 100 percent of the credit risk.

Finally, given that most RTLs involve a construction component, this market retains a “boots on the ground” character that allows hyperlocal lenders with deep investor-builder relationships and intimate market knowledge to remain competitive. These lenders are experts on the local neighborhoods, construction costs and timelines, reliability of local contractors, and the viability of the rental or sale exit assumptions.

These uncommon features may be why, despite a highly visible institutional tip of the residential transition lending iceberg, this sector remains dominated by local players lending to a small number of familiar, repeat borrowers secured by local properties. Forecasa found that over the past four years, more than 83 percent of private lenders made loans to fewer than 10 unique borrowers. And most of those borrowers obtained only one or two loans every year or two.⁶³

In the same vein, market share growth among the top 10 RTL originators is slowing or plateauing. Similarly, securitization of RTL loans, which has grown from nothing to approximately \$7 billion in 2024 and \$8 billion in 2025, is expected to decline marginally in 2026 (Nikodem et al. 2025).

To be sure, scale, technology, and funding costs will remain formidable factors in the RTL market, but it seems likely that a local balance sheet-funded model will endure as a significant part of the RTL market, even as the largest players gradually gain market share.⁶⁴

Open Questions and Predictions

The RTL market has matured to its late adolescence. Where does it go from here? Will it continue to grow? And what could disrupt its growth or viability? Both opportunities and risks exist.

The RTL Sector Should Continue to Grow Modestly as a Contributor to Funding Construction and Renovation

The RTL industry should benefit from both housing market-wide and RTL sector-specific tailwinds to increase its relative contribution to narrowing the housing supply gap.

Market-wide Factors

Market-wide factors include the increasing adoption of pro-growth zoning, permitting, and other policies that should make housing construction faster and easier, and permit greater density, in more communities. This should increase the number of economically viable projects that RTLs can finance.

Of course, the counterpoint is that residential transition lending is not impervious to many of the market-wide factors that negatively affect other mortgage and construction lending.

If property values trend downward, fewer fix-and-flip and ground-up construction projects will be viable, and defaults on existing projects will rise.⁶⁵ Likewise, higher construction and labor costs, labor shortages, or supply chain disruptions can reduce the number of projects that will satisfy return hurdles. Geopolitical shocks or sudden tightening of institutional liquidity from contagion in unrelated lending sectors could also disrupt the RTL sector.

In addition, residential transition lending depends on an exit event—either for someone to buy the home as a residence or for the investor or another purchaser to turn it into a rental property. Both paths depend heavily on mortgage financing terms and availability. If interest rates rise or if underwriting terms for DSCR, conforming investor, and conforming owner-occupied loans tighten, RTL borrowers will be less likely to take on new projects, and existing projects may flounder.

RTL Sector-Specific Factors

In terms of the RTL sector, funding costs and origination costs should continue to decline, which, all else equal, should increase the number of transactions that meet real estate investor return hurdles. As the securitization and whole loan investor bases have broadened and deepened, there has been a steady and continuing decline in the average RTL interest rate. LightningDocs.ai reported that in February 2026, the median interest rate on RTLs originated through its system continued to decline and fell below 10 percent.⁶⁶

Likewise, larger players and vendors bringing greater automation (e.g., greater use of software, analytics, and artificial intelligence) to RTL marketing, lead generation, origination, servicing, and risk management processes will improve the sector's economics and allow for greater origination volume.

Additionally, the continued thriving cohort of medium-size and large balance sheet lenders represent a natural laboratory to experiment with different product offerings to generate the lessons and performance data that can inform the evolution of rating agency criteria for securitizations. For example, some lenders are delving into small-balance multifamily RTLs. They are keeping them on their balance sheets or securitizing them in unrated pools for now, but it is entirely conceivable that with

sufficient historical performance data, ratings criteria could evolve to permit small-balance multifamily ground-up construction loans in rated securitized pools.

Finally, the pool of individuals and businesses who generate RTL demand is increasing. The number of small builders has begun to recover from post-financial crisis lows, and the number of remodelers is now at record levels.⁶⁷ This creates fertile ground for projects that generate RTLs. Some tradespeople who have worked on numerous fix-and-flip transactions are now seeking to do their own deals. And some of yesterday's seasoned fix-and-flippers have now "graduated" to ground-up construction projects. Lenders and a broader support ecosystem have evolved to help them on that journey.

And the barriers to entry for smaller-scale builders and developers are much lower in the RTL sector than in traditional bank construction lending, making it more likely that the lower rungs on the ladder to becoming a builder and developer will be served more often by RTLs than by banks. Moreover, these bank credit access barriers are often experienced more acutely by minority and women builders and developers,⁶⁸ so it is possible that the growth of residential transition lending will help catalyze a more expansive and inclusive next generation of builders and developers.

Ultimately, if RTLs continue to perform well, the key limiters to the growth of residential transition lending will be the number of viable deals and real estate investors willing to pursue them, not access to capital to fund them.

What Could Disrupt the Sector's Continued Growth and Evolution?

Residential transition lending's health and growth are not without sector-specific threats.

Loan Performance

As with any fast-growing, less-mature market, there is a risk of credit standards declining and underwriting quality degrading.

RTLs enjoy strong and growing investor appetite. At a certain point, will this demand prompt a race to the bottom in underwriting standards? Will originators eager to capitalize on a hot secondary market tolerate more aggressive terms or lend to less experienced borrowers, and will their secondary market investors buy the riskier paper? Will smaller lenders in competitive markets loosen their underwriting standards to try to retain business in the face of larger players with better technology and lower funding costs? The growth and ultimate collapse of the subprime and Alt-A markets may serve as a cautionary tale of how intense investor appetite and competitive pressures can encourage riskier practices.⁶⁹

And most of these loans reside outside the banking sector, where capital standards and supervisory oversight can moderate aggressive or imprudent underwriting. Residential transition lending relies not on bank regulations and examinations but on market discipline from the participants informed in part by rating agency analysis.

An abrupt increase in delinquencies and losses, prompted either by market forces or poor credit quality and underwriting execution, could cause this fledgling secondary market to tighten. Likewise, if some prominent originators fail, investor appetite for this sector could shrink.

One significant mitigant to these risks is the persistence of a large segment of localized balance sheet lending in residential transition lending. This heightened risk retention can serve as a natural governor of riskier behaviors that can easily gain a foothold in originate-to-distribute models.

Fraud

Another risk to the growth and health of the RTL market is fraud. When residential transition lending consisted almost exclusively of small, local balance sheet lenders operating in their immediate market with a small group of familiar, repeat investor-borrowers, local knowledge and personal relationships mitigated fraud risks.

But as more of the market is being served by national platforms, and as new borrowers are entering this market, there is heightened risk of fraud.

Types of borrower fraud in residential transition lending can include inflated or fraudulent appraisals, fraudulent photos and documents to support draw requests, falsified cash reserves, intentionally incorrect estimates of construction budgets and timelines, and straw buyers and falsified transactions establishing bogus comparable sales.⁷⁰

Some high-profile fraud rings have been reported in the past two years,⁷¹ prompting industry players and their trade groups and investors to develop standardized best practices and mitigation strategies.⁷²

There are also fraud risks relating to lender conduct, such as double-pledging loans to funding sources⁷³ or fraudulently comingling investor funds.⁷⁴

If RTL buyers sustain large losses, or if originating lenders go out of business because of fraud losses, it could undermine confidence in the sector and impede its growth.

Federal Policy Is the Wild Card

One final source of both risk and opportunity for residential transition lending emanates from possible federal housing policies.

On the positive side, federal policies to promote the housing market and make more homes available for first-time and move-up homebuyers would generally be positive for the RTL sector. For example, increases in the capital gains tax exemption for home sales could unlock more inventory for fix-and-flip rehab projects. Likewise, if the GSEs were to begin purchasing RTL securitization notes, it could lower RTL funding costs, especially for one-to-four-unit loans under the conforming loan limits or small-balance multifamily loans. More broadly, federal policies that promote more pro-growth zoning and land use in local jurisdictions should benefit residential transition lending.

On the downside, the RTL market relies heavily on investors who seek to own single-family rental properties. Some RTL borrowers themselves intend to “build to rent” and refinance their RTL into a long-term investor mortgage upon completion of construction. Others depend on a pool of rental property investors as purchasers of their fix-and-flips or ground-up construction projects. Policies hostile to investor construction, purchases, and ownership of single-family rental properties could have a negative effect on the RTL sector.

Relaxation of bank capital standards to promote more construction lending by banks could also have a marginally negative effect on residential transition lending, as some RTL customers pursue bank financing and as bank-funded builders are better able to compete with RTL-funded bidders for vacant lots and teardowns. But even with lower bank capital standards and lighter construction lending supervisory activity, residential transition lending and bank construction lending are distinct, nonfungible funding channels. Most RTL borrowers will either continue to prefer the structure, speed, and flexibility of residential transition lending or will be unable to qualify for even more accommodative bank funding.

Whatever the federal government decides to do, it would be prudent to consider its effect on this dynamic and growing source of more local housing capital spurring local, small-scale homebuilding.

Conclusion

The RTL sector’s evolution has been a fascinating story of how a nascent lending sector expands and matures through the commercial efforts of enterprising private-sector actors in the origination,

secondary, and capital markets, all ultimately in service of the local businesspeople buying, renovating, building, and then selling or renting out homes. And unlike other institutionalization stories in local finance, it appears that institutional capital in RTL will not inevitably supplant this market's fundamentally local character.

In the decades following the Great Depression, most single-family homes were built by decentralized local homebuilders supported by decentralized local lenders: community banks and savings and loan associations. Observers have bemoaned the loss of this capacity in the face of an increasingly concentrated, capital markets-funded homebuilding industry (Kilgour 2025). But the RTL sector may be a new (albeit smaller) variation of this storied model: mostly local lenders funding small, local homebuilders.

To be clear, residential transition lending is unlikely to ever surpass bank single-family construction lending, and RTL-funded new construction is equally unlikely to become a major contributor to fulfilling the need for at least 1 million new single-family units each year in the coming decade. But it is entirely conceivable that residential transition lending will continue to increase its contribution from current levels to fund annual construction of 50,000 to 70,000 new relatively affordable one-to-four-family and small-balance multifamily residences and finance the renovation and preservation of an even greater number of homes each year. And it would be doing so while fostering the growth and health of small, local builders, developers, and construction tradespeople—all without subsidies, tax credits, or government-supported financing. That is not nothing.

Notes

- ¹ Elena Patel, Aastha Rajan, and Natalie Tomeh, “Make It Count: Measuring Our Housing Supply Shortage,” Brookings Institution, November 26, 2024, <https://www.brookings.edu/articles/make-it-count-measuring-our-housing-supply-shortage/>.
- ² Na Zhao, “Almost Half of the Owner-Occupied Homes Built Before 1980,” *Eye on Housing* (blog), National Association of Home Builders, April 8, 2025, <https://eyeonhousing.org/2025/04/almost-half-of-the-owner-occupied-homes-built-before-1980/>.
- ³ Laurie Goodman and Rolf Pendall, “Housing Supply Falls Short of Demand by 430,000 Units,” *Urban Wire*, Urban Institute, June 21, 2016, <https://www.urban.org/urban-wire/housing-supply-falls-short-demand-430000-units>.
- ⁴ For a cross-section of the types of reforms that have been adopted or proposed, see Furth et al. (2025) and Pinto et al. (2022). At a federal level, the House passed the Housing for the 21st Century Act, and the Senate passed the 21st Century ROAD to Housing Act.
- ⁵ Daniel Parolek of Opticos is credited with popularizing this term to refer to housing types such as duplexes, fourplexes, bungalow courts, and small apartments that can produce moderately higher density in areas dominated by single-family homes on one end and large apartments at the other end. See Daniel Parolek, “Missing Middle Housing: Responding to the Demand for Walkable Urban Living,” Opticos Design blog, April 6, 2012, <https://opticosdesign.com/blog/missing-middle-housing-responding-to-the-demand-for-walkable-urban-living-2/>. The American Enterprise Institute Housing Center uses “light-touch density” to describe development that overlaps considerably with the missing-middle definition. The American Enterprise Institute defines light-touch density as “housing including detached single-family houses with accessory dwelling units (ADUs), small-lot single-family houses, attached single-family houses, and duplexes, triplexes, and fourplexes” (Pinto et al. 2022, 3).
- ⁶ In addition to mitigating housing affordability challenges, these reforms are emerging as a strategy to address racial and income segregation. See Pinto et al. (2022, 25).
- ⁷ These issues are explored in Kilgour (2025).
- ⁸ Sarah Caldwell, “Top Ten Builder Share Rises Again in 2024,” *Eye on Housing* (blog), National Association of Home Builders, July 8, 2025, <https://eyeonhousing.org/2025/07/top-ten-builder-share-rises-again-in-2024/>.
- ⁹ “2025 The Top 100,” *Builder*, accessed March 18, 2026, <https://www.builderonline.com/builder-100/builder-100-list/2025/>.
- ¹⁰ Paul Emrath, “Credit Conditions for Builders Continue to Be Tight,” *Eye on Housing* (blog), National Association of Home Builders, November 14, 2025, <https://eyeonhousing.org/2025/11/credit-conditions-for-builders-continue-to-be-tight/>; and EHPG (2026). The collapse of Silicon Valley Bank and subsequent credit tightening among regional banks also affected the availability of construction loans.
- ¹¹ Ananta Agarwal, “Small U.S. Homebuilders Tap the Brakes as Credit Squeeze, Rising Rates Hurt,” Reuters, July 6, 2023, <https://www.reuters.com/markets/us/small-us-homebuilders-tap-brakes-credit-squeeze-rising-rates-hurt-2023-07-06/>.
- ¹² Rose Quint, “Top Posts—Residential Remodelers Outnumber Single-Family Builders in the U.S.,” *Eye on Housing* (blog), National Association of Home Builders, December 31, 2025, <https://eyeonhousing.org/2025/12/top-posts-residential-remodelers-outnumber-single-family-builders-in-the-u-s/>.
- ¹³ SFR Analytics estimates that the median size of a ground-up construction RTL in 2025 was \$332,000, suggesting that most of these projects are for modest single-family and two-to-four-unit housing.

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- ¹⁴ “Quarterly Banking Profile—Q4 2025,” Federal Deposit Insurance Corporation, accessed March 18, 2026, <https://www.fdic.gov/quarterly-banking-profile/quarterly-banking-profile-q4-2025>.
- ¹⁵ Estimate based on \$25 billion in annual originations with an average term between 13 and 14 months.
- ¹⁶ Where data on average age of housing stock are available, SFR Analytics estimates that RTL-financed ground-up construction is nearly twice as likely to take place in an aging neighborhood.
- ¹⁷ Document provider LightningDocs.ai tracks rates on its RTLs and DSCR loans and publishes averages periodically in the American Association of Private Lenders *Private Lender* magazine. See, for example, in the magazine’s winter 2026 issue, “DSCR Tightens Its Grip” by Nema Daghbandan of Lightning Docs. Page 79 contains an average of rates over the past year. By comparison, during this same period, the average interest rate for bank construction loans hovered around 8 percent for single-family speculative construction financing (EHPG 2026).
- ¹⁸ Lightning Docs reported that in February 2026, the average rate on the RTLs originated using its system was 10.1 percent and the median was 9.9 percent. See “February Sets New Record for Loans per Business Day,” Lightning Docs, accessed March 18, 2026, <https://lightningdocs.ai/february-sets-new-record-for-loans-per-business-day/>.
- ¹⁹ Banks are subject to detailed regulations and supervisory oversight attributable to their ability to take insured deposits and engage in other banking activities. As a result, their underwriting and documentation processes are necessarily more extensive.
- ²⁰ Pages 9 and 10 of EHPG (2026) contain average LTC and LTV ratios for single-family speculative construction loans. These data consist overwhelmingly of bank loans rather than private loans.
- ²¹ Forecasa estimates \$155 billion in 2025 private lending volume, of which RTLs made up 54.6 percent, with DSCR loans making up the balance.
- ²² Michael Fogliano and Sean Morgan, “The Borrower Divide Shaping Lending Today,” *Private Lender*, Winter 2026, 68. Because many real estate investors operate through multiple LLCs or single-asset entities, Forecasa consolidates those entities into a single borrower record when they represent the same underlying borrower. But there are inevitably additional transactions among private individuals that Forecasa does not capture.
- ²³ Fogliano and Morgan, “The Borrower Divide,” 69 and 70.
- ²⁴ Fogliano and Morgan, “The Borrower Divide,” 70.
- ²⁵ Peter Miller, “Private Lending Goes Public,” ATTOM Data Solutions, April 2018.
- ²⁶ Exhibits 14 and 16 in EHPG (2025) show that private lending represents only a very small percentage of credit provided to single-family speculative home builders, with almost all the funding still coming from banks.
- ²⁷ See, for example, “Project Funding Crisis: How Top Builders Secure Money When Others Can’t,” National Association of Home Builders blog, September 3, 2025, <https://www.nahb.org/blog/2025/09/project-funding-crisis-how-top-builders-secure-money>. Although beyond the scope of this report, some private lenders now offer larger loans to developers of single-family communities. See “Anchor Envisions Construction-Loan Boom | Asset Backed Alert Article Reprint,” Anchor Loans, accessed March 18, 2026, <https://www.anchorloans.com/blog/anchor-envisions-construction-loan-boom-asset-backed-alert-article-reprint>; Arixa Capital, “Arixa Capital Announces Record \$1.4 Billion in 2024 Loan Originations,” news release, February 12, 2025, <https://www.arixacapital.com/featured-press/arixa-capital-announces-record-14-billion-in-2024-loan-originations-welcomes-sujit-govindraj-as-chief-revenue-officer>; and “Homebuilding/BTR Loans,” Genesis Capital, accessed March 18, 2026, <https://genesiscapital.com/loan-programs/build-to-rent>. These loans to finance subdivision development are more likely to represent a market-share shift out of the banking sector.
- ²⁸ In fact, this legacy of being a funding source for real estate speculators or investors seeking a capital gain persists in the nomenclature RTL lenders still use today. Even as residential transition lending has evolved to include

ground-up construction, lenders still generally refer to their borrowers as “investors” rather than as “builders” or “developers.”

- ²⁹ Jennifer Young, “Trust Deed Investing vs. Fund Structures: Unlocking Efficiency and Scalability,” Fortra Law blog, July 29, 2025, <https://fortralaw.com/trust-deed-investing-vs-fund-structures/>.
- ³⁰ “Limited partners” for limited partnerships, and “members” for limited liability companies.
- ³¹ Young, “Trust Deed Investing.”
- ³² Alt-A, in particular, was a flush source of funding for speculators purchasing non-owner-occupied residences (Albanesi 2018). The share of mortgages to real estate investors had grown to nearly 30 percent from 2004 to 2007, principally in the Alt-A and subprime sectors. The number was likely even higher than that because of the documented high prevalence of occupancy fraud in the mortgage sector precrisis (Elul and Tilson 2016).
- ³³ Before the 2008 crisis, most flips were financed. But by 2010, 80 percent of flips were being self-funded. See Miller, “Private Lending Goes Public.” Even today, two-thirds of fix-and-flips are not financed. See ATTOM Team, “Home Flipping Declines and Investor Profits Stumble Across U.S. During Third Quarter of 2024,” ATTOM, December 11, 2024, <https://www.attomdata.com/news/most-recent/q3-2024-home-flipping-report/>.
- ³⁴ “Warehouse financing” provides money to lenders to make loans and hold them for a month or two, pending their eventual sale. This financing allows lenders to aggregate or “warehouse” a pool of loans and then sell them in a bulk sale transaction to an investor.
- ³⁵ A flow relationship is one in which a lender agrees to sell the investor a steady flow of their loan production.
- ³⁶ For example, the lender Stormfield Capital has elected to remain independent and unlevered but has become a registered investment adviser managing the RTLs and business-purpose loans it originates for an investor base that includes more institutional investors. See Kevin Kim, host, season 5, episode 11, *Lender Lounge with Kevin Kim*, podcast, “The Benefits of Balance Sheet Lending Featuring Wes Carpenter,” October 14, 2025, <https://podcasts.apple.com/us/podcast/the-benefits-of-balance-sheet-lending-featuring/id1541749549?i=1000731811168>.
- ³⁷ Revolving structures are common in other securitization asset classes, such as short-term commercial real estate collateralized loan obligations.
- ³⁸ For an overview of RTL securitizations, see Gonzalez et al. (2024). For analysis of some of the tax considerations relating to RTL securitizations, see Haukur Gudmundsson, Darius J. Horton, Russell E. Nance, and Ross E. Butler, “Flipping Out: The Evolution of Residential Transition Loan Securitization,” Mayer Brown, June 29, 2023, <https://www.mayerbrown.com/es/pdf/insights/publications/2023/06/flipping-out-the-evolution-of-residential-transition-loan-securitizations>.
- ³⁹ The structures incorporate various other protective features, such as prefunded accounts, overcollateralization requirements, and triggers that prompt early amortization. The deals also include an opportunity for the issuer to redeem the notes when the pool dwindles to a certain size. For more detailed explanations of the structures, see Gonzalez et al. (2024) or any of the credit rating reports published by Morningstar DBRS on individual RTL securitizations.
- ⁴⁰ Morningstar DBRS, “DBRS Morningstar Finalizes New Methodology and Two New Exhibits for Residential Transition Loans,” press release, August 31, 2023, <https://dbrs.morningstar.com/research/420109/dbrs-morningstar-finalizes-new-methodology-and-two-new-exhibits-for-residential-transition-loans>.
- ⁴¹ Toorak Capital Partners, “Toorak Capital Partners Completes First Rated Residential Transition Loan Securitization,” news release, March 1, 2024, <https://www.businesswire.com/news/home/20240228260079/en/Toorak-Capital-Partners-Completes-First-Rated-Residential-Transition-Loan-Securitization>.
- ⁴² A retail lender provides loans directly, whereas a wholesale lender works through mortgage brokers who engage with the borrower. A table funder is a lender that provides the funds for a loan at the closing table, allowing the

originator to fund in its own name but not have an independent source of funding. A correspondent lender originates and funds loans with its own source of funds but has one or more relationships to quickly sell those loans to a larger lender. See NPLA (2023) or other glossaries of mortgage terms available from mortgage trade associations, regulators, and lenders.

- ⁴³ See the website for KBRA at <https://www.kbra.com/>.
- ⁴⁴ Paul Nikodem et al., “A Brief Introduction to RTLs,” Nomura Global Market Research, September 16, 2016. To be sure, a few originators offered ground-up construction loans, but it was not a significant part of the overall market.
- ⁴⁵ For example, a 2020 web article by one private lender, Lima One Capital, stated, “With the limited number of investable properties and intense competition in most markets, we’re seeing many clients who were once exclusively light fix-and-flip investors diversifying their businesses into deeper rehabs, tear downs, ground-up construction, and rental properties.” See “Fix and Flip Financing Trends for 2020,” Lima One Capital, accessed March 19, 2026, <https://www.limaone.com/fix-and-flip-loan-trends-2020/>.
- ⁴⁶ “Products/Services,” Toorak Capital Partners, accessed March 19, 2026, <https://www.toorakcapital.com/products-services/>; “New Construction Financing / Infill Loans,” accessed March 19, 2026, <https://www.kiavi.com/loans/new-construction-infill/>; and “Loan Programs,” RCN Capital, accessed March 19, 2026, <https://rcncapital.com/loan-programs>.
- ⁴⁷ “Build Smart, Rent Strong: Mastering New Construction Investment Strategies,” Kiavi, October 23, 2025, <https://www.kiavi.com/webinar/build-smart-rent-strong>; and “Anchor Envisions Construction-Loan Boom,” Anchor Loans.
- ⁴⁸ Kiavi, “Kiavi Expands Leadership Team to Further Bolster Construction Lending Growth,” press release, July 7, 2025, <https://www.kiavi.com/press/kiavi-expands-leadership-team-to-further-bolster-construction-lending-growth>.
- ⁴⁹ The American Association of Private Lenders and the National Association of Private Lenders.
- ⁵⁰ Including Fortra Law, Geraci LLP, and LHR&G LLP.
- ⁵¹ Including Forecasa, SFR Analytics, and ATTOM Data, as well as larger more diversified data firms such as Cotality, ICE Mortgage Technology, and First American.
- ⁵² Including John Burns Research and Consulting and Planet Management Group.
- ⁵³ Including Baseline Software and Mortgage Automator.
- ⁵⁴ Including Sitewire, Truepic, and Rabbet.
- ⁵⁵ Including Nomura, Churchill Real Estate, Wells Fargo, and Western Alliance Bancorp.
- ⁵⁶ Including Selene Diligence, Resolute Diligence Solutions, Clayton Services, SitusAMC Group, and Consolidated Analytics.
- ⁵⁷ Mark Jury, “Unlock Your Access to Bank Lines of Credit,” American Association of Private Lenders, February 5, 2025, <https://aaplonline.com/articles/operations/unlock-your-access-to-bank-lines-of-credit/>; and “Creative Financing and Tailored Program Allow Private Money Lender to Meet Growing Capital Demand,” Enterprise Bank & Trust, December 5, 2023, <https://www.enterprisebank.com/inisghts/creative-financing-and-tailored-program-allow-private-money-lender-to-meet-growing-capital-demand>.
- ⁵⁸ Fogliano and Morgan, “The Borrower Divide.”
- ⁵⁹ Alex Kaddah, “Market Update: Capital Sources,” American Association of Private Lenders, March 6, 2024, <https://aaplonline.com/articles/market-trends/market-update-capital-sources/>.
- ⁶⁰ Kaddah, “Market Update.”

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- ⁶¹ Kim, “The Benefits of Balance Sheet Lending.”
- ⁶² “YOY Data Points to Industry’s ‘Shrinking Pie,’” American Association of Private Lenders, April 30, 2025, <https://aaplonline.com/articles/market-trends/yoy-data-points-to-industrys-shrinking-pie/#>.
- ⁶³ Fogliano and Morgan, “The Borrower Divide.”
- ⁶⁴ These distinct features of the RTL sector will likely prompt an evolutionary divergence from the other main prong of the private lending market: DSCR loans. These are typically 30-year loans dependent on a secondary market exit. Larger players are gaining greater share in this space, and the securitization market is also growing more rapidly. Accordingly, DSCR is migrating away from smaller local private lenders. In the first three quarters of 2024, only 15 percent of private lenders outside of the top 100 originated a single DSCR loan. See Michael Fogliano and Sean Morgan, “DSCR: Conventional Lenders Edging Out Private Market,” *Private Lender*, Winter 2005, https://issuu.com/aapl/docs/plm-2025q1?fr=xKAE9_zU1NQ.
- ⁶⁵ Some Florida markets where property values are declining are experiencing significantly higher RTL delinquencies. See “Easy-Money Loans Backfire on Rookies in the Home Flipping Market,” Bloomberg, February 8, 2026, <https://www.bloomberg.com/news/features/2026-02-08/private-credit-loans-are-driving-foreclosures-in-the-home-flipping-market>.
- ⁶⁶ Huang, “February Sets New Record.”
- ⁶⁷ Quint, “Top Posts.”
- ⁶⁸ Women and minorities remain underrepresented in real estate development. See “There Is a Representation Crisis in the Real Estate Development Industry,” Grove, accessed March 19, 2026, <https://reports.groveimpact.org/breaking-the-glass-bottleneck/representation-crisis/>; and Theodos et al. (2025). For data and analysis of Hispanic overrepresentation in the construction trades but underrepresentation in development, see Barajas et al. (n.d.).
- ⁶⁹ RTLs, as business-purpose loans, are not subject to many of the federal mortgage reforms such as the Dodd–Frank ability-to-repay rules. But their securitization is nevertheless subject to the Dodd–Frank 5 percent risk retention requirement to ensure some skin in the game.
- ⁷⁰ One popular strategy among real estate investors is the BRRRR method: buy, rehab, rent, refinance, repeat. Some fraudsters have abused this strategy to obtain large cash-out refinances of RTLs into DSCR loans based on fake repairs, inflated appraisals, and inflated rent levels. Although the RTL is paid off in this fraud, the DSCR lender is often the same lender and bears the loss.
- ⁷¹ “Fraud Alert: Some Non-QM Lenders Excluding Loans Involving Certain Appraisers, Borrowers,” National Mortgage Professional, July 15, 2025, <https://nationalmortgageprofessional.com/news/fraud-alert-some-non-qm-lenders-excluding-loans-involving-certain-appraisers-borrowers>.
- ⁷² “Understanding and Combating Mortgage Fraud in the Private Lending Industry,” TaliMar Financial, May 15, 2025, <https://www.talimarfinancial.com/understanding-and-combating-mortgage-fraud-in-the-private-lending-industry/>; and Lender Link, *The Baltimore DSCR Rental Loan Fraud Scheme*, 2025, 32:10, <https://www.youtube.com/watch?v=Xa7Q39FeZ6E>.
- ⁷³ A UK private lender has been accused of double-pledging. See Simon Goodley, “FCA Investigates Collapsed Lender FMS amid £1.3bn Mortgage Scandal,” *Guardian*, March 20, 2026, <https://www.theguardian.com/business/2026/mar/20/fca-investigates-mfs-mortgage-lender>.
- ⁷⁴ A Northern California–based private lender is facing commingling accusations. See Jeff Quackenbush, “State Suspends Novato Lender’s License amid Probe into Handling of Investor Funds,” *The Press Democrat*, last updated March 20, 2026, <https://www.pressdemocrat.com/2026/03/19/pacific-private-money-marin-california-license-suspended/>.

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