Q+A: SARAH KONG on Finding Opportunity in the $13trn Mortgage Market

While much of today's housing conversation centers on affordability and supply, a less visible but growing part of the mortgage market is the evolving landscape of residential credit. This area of the U.S. mortgage market is attracting renewed investor attention, so we sat down with Sarah Kong, Managing Director in Pretium's Residential Credit business, to find out what's driving these trends, how Pretium is positioned around them, and where she sees opportunity ahead.

What's the state of the average American homeowner right now?
Overall, homeowners are in a very strong equity position. Mortgage delinquency rates are around 2.8%, and homeowners have record levels of equity — close to $35 trillion across the country. The majority of first lien mortgages are locked in below 4.5%, which has insulated them from the impact of higher mortgage rates.

But that strength has created a "lock-in" effect. Because refinancing would mean giving up a 4% mortgage for one higher than 6%, many homeowners are staying put. That's reduced housing mobility and kept the supply of existing homes tight. It's good news from a stability standpoint and has the added benefit of creating compelling investment across a range of mortgage products.

How can homeowners tap equity without giving up their first mortgage?
For a lot of households, it's about flexibility. People have seen their home value rise dramatically over the last few years, and they're sitting on significant equity — but no one is jumping to refinance an existing loan at 3-4% into one at 6.5%, even to get more cash.

Second lien products allow homeowners to access that equity while keeping their low-rate first lien mortgage intact. It's a segment that's been relatively dormant for years, but now it's seeing renewed demand as families look to fund renovations, education, or debt consolidation without losing their low-rate first mortgage.

This consumer demand has created an opportunity for non-bank lenders and investors to meet those needs. For us, it fits squarely within Pretium's broader housing ecosystem. We understand the credit, the collateral, and the borrower dynamics. And we have confidence to lend in a disciplined way.

What kinds of risks or challenges do you see in second lien lending and how you approach them?
It's all about underwriting discipline and data. The key is to know exactly where the combined loan-to-value ratio sits and how resilient the borrower's balance sheet is. Today's potential second lien borrowers look very different from those pre–Global Financial Crisis: they have much stronger credit profiles, much more equity, a different purpose for that second lien and far less leverage overall.

We're also able to use much more granular data than in past cycles to assess true credit quality — everything from local home price trends to borrower-level cash flows. That data-driven approach, combined with conservative underwriting, helps ensure that second lien lending grows in a healthy, sustainable way.

Let's turn to another end of the spectrum that is benefiting from the record level

equity—seasoned mortgage loans in some form of stress. What's changing there?
We're starting to see more activity in stressed loans, but the dynamics are very different from what we saw after the Global Financial Crisis. Today, most borrowers who fall behind on payments have built up substantial home equity, and that changes everything.

During the Global Finance Crisis, stressed mortgages often involved deeply underwater borrowers, meaning borrowers owed more on their home than the property was actually worth. This is drastically different from today's profile. Now, even when someone faces hardship — a job loss, health issues, etc. — there's likely still meaningful equity in the home. That creates more options for both the borrower and the investor, whether through restructuring of the loan, sale, or resolution. From an investment standpoint, it's a fundamentally different risk profile, one where the borrower and investor are aligned.

What's driving that pickup in stressed loan opportunity, and how is Pretium engaging in the space?
Several factors are at play. You have some natural credit normalization as the economy softens and pandemic-era stimulus fades. You also have rising consumer debt levels and higher interest costs starting to filter through. The costs of owning a home have increased a lot particularly for property taxes and insurance. This is causing borrowers in the weakest part of the credit spectrum to struggle, which could lead to higher delinquencies in this part of the credit curve. But compared to prior cycles, the system is far less levered, and loan-to-value ratios remain very conservative, so although the borrowers in this bucket may be stressed, the asset itself is not.

For Pretium, this is an area where our housing and credit expertise intersect. We've been active in residential credit for more than a decade, and we have the asset management infrastructure to work directly with our in-house mortgage servicer, assess collateral, and manage outcomes responsibly. We're not just buying loans; we're managing them in a way that preserves value and helps homeowners stay in their homes whenever possible or capture their equity if not possible.

These two products are distinctly different. Is there a common thread from your perspective?
The common thread is really about the evolution of housing finance — how Americans access, protect, and sustain home equity. Whether it's providing liquidity through a second-lien loan or helping stabilize a borrower who's fallen behind, it's about enabling homeownership to remain a source of stability, not stress.

Pretium's view of housing is holistic. We operate across single-family rental, multifamily, mortgage credit, real estate debt, and structured finance. That breadth allows us to see connections others might miss and to deploy capital in ways that are both risk-aware and impactful.

Ultimately, what ties it together is the idea that U.S. housing — even amid higher rates and tighter credit — remains a durable, resilient asset class. The structure of the market has changed dramatically since 2008, and that's created opportunities for thoughtful investors to support both stability and innovation.

Finally, what gives you the most confidence looking ahead?
The fundamentals. Homeowners have record equity, national housing market fundamentals are still solid, and lending standards are disciplined. Housing still faces supply challenges, but that's exactly why it remains such a vital and investable sector.

We're entering a period where housing credit will look more diverse — different products, different providers — but the underlying asset is as solid as ever. That's what gives us conviction, and that's what keeps us focused on building platforms that can adapt and thrive across cycles.