2022

THE YEAR OF HOME EQUITY

Sales Boomerang

THE TIGER

In the Chinese zodiac, 2022 is the Year of the Tiger – but in the U.S. mortgage market, experts say it will be the Year of Home Equity. Learn why tappable home equity is at an all-time high in the United States and what this opportunity means for consumers and mortgage lenders.

THE STARS HAVE ALIGNED

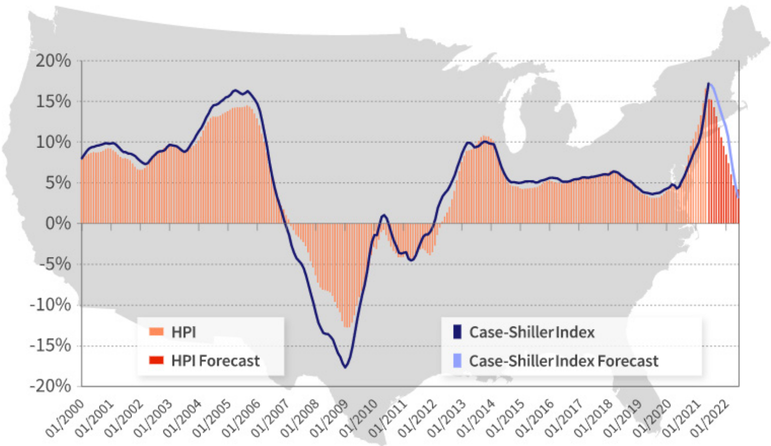
Why Tappable Equity Is at an All-time High

Tappable equity in the United States has reached unprecedented levels, with the average mortgage holder's equity stake improving by nearly $58,000 since Q3 2020[1]. According to Black Knight, the average available equity per homeowner is just under $178,000, or roughly 50% of the current median home price nationwide. In all, tappable equity has risen 32% over the past year, an increase of $2.3 trillion since Q3 2020.[2]

HOME PRICE APPRECIATION IS THE BIGGEST DRIVER

U.S. home prices have grown explosively over the last several years, thanks to limited for-sale home supply and increased demand associated with new household formation, investor purchases and pandemic-related factors. Though the rate of home price appreciation has begun to slow on a month-over-month basis since peaking in April 2021, year-over-year home price appreciation remains at a record-high 18% according to the Case-Schiller Index. For single-family detaches houses, the rate of appreciation is closer to 20% nationwide.

While the exact rate of home price appreciation varies from state to state and ZIP Code to ZIP Code, not one single state has experienced an annual decline in home prices, and some states posted home price appreciation much higher than the national average.



Source: Case-Shiller Index Forecast data provided by Moody's Analytics

TOP 5 STATES FOR HOME PRICE APPRECIATION

State Change	YOY Change
Arizona	28.8%
Idaho	28.7%
Utah	24.5%
Florida	24.4%
Nevada	24.2%

COVID HAS MADE HOMEOWNERS CAUTIOUS

Another reason for the historic tappable equity? The ongoing COVID pandemic has left homeowners feeling cautious, and as a result, many have left equity resources largely untapped. According to Moody's Analytics, Americans have saved an addition $2.7 trillion in less than two years — or nearly 12% of the nation's GDP.

[1] https://www.corelogic.com/press-releases/homeowners-gained-over-3-2-trillion-in-equity-in-q3-2021-corelogic-reports/

[2] https://investor.blackknightinc.com/press-releases/news-details/2021/Black-Knight-Tappable-Equity-Surges-254-Billion-in-Q3-to-All-Time-High-of-9.4-Trillion-as-Cash-Out-Refinance-Borrowers-Pull-Largest-Quarterly-Volume-of-Equity-in-14-Years/default.aspx

THE FUTURE IS BRIGHT

Equity Unlocks New Opportunities for Consumers

1 REDUCE MONTHLY PAYMENTS BY REMOVING MIP/PMI PREMIUMS

Any time a borrower puts less than 20% down on an FHA loan, they are required to pay mortgage insurance program (MIP) premiums on top of their monthly principal and interest payments. The cost can be significant; someone with a $250,000 FHA loan can expect to pay about $30,000 in mortgage insurance premiums over the life of the loan.

In addition, many borrowers who put less than 20% down on a conventional loan are required to carry private mortgage insurance (PMI). The cost of PMI varies based on credit score and loan-to-value ratio and is generally paid in installments that are tacked on to monthly principal and interest payments.

In 2022, many mortgage holders will have gained enough equity via home price appreciation to get rid of MIP or PMI early by refinancing into a conventional loan with no PMI. In many cases, they will even be able to refinance at a lower interest rate than their original loan due to today's outstanding conventional loan rates. If the new loan remains a 30-year loan, the borrower will see a noticeable reduction in monthly payment.

2 SWITCH TO A SHORTER LOAN TERM WITHOUT INCREASING MONTHLY PAYMENTS

The combination of today's sky-high home equity levels and rock-bottom interest rates makes it possible for borrowers to become debt-free years earlier— without being saddled with a massive monthly mortgage payment. By refinancing borrowers into a 15-year loan with little or no increase in overall monthly payment, lenders can help borrowers pay off their homes much sooner. Some lenders even offer customizable loan terms between 15 and 30 years to help borrowers strike the perfect balance between loan length and monthly payment.

3 TAP HOME EQUITY FOR OTHER USES AT A HISTORICALLY LOW INTEREST RATE

Another option for Americans with tappable equity is, well, to tap it. With a cash-out refi, consumers can reap all the benefits previously discussed — such as removing MIP/PMI, securing a lower interest rate, and moving to a shorter loan term — while also taking a portion of their home's equity out as cash.

Fort a conventional cash-out refinance, borrowers can take out a maximum of 80% of the value of their home (after subtracting the amount they owe on their current mortgage). But consumers do not have to take out the maximum; borrowers may also choose to cash out just the amount of equity they need, leaving the rest untouched.

4

DRAW ON HOME EQUITY TO SUPPLEMENT RETIREMENT SAVINGS

Older borrowers have another useful option in the form of a home-equity conversion mortgage (HECM), otherwise known as a reverse mortgage. This HUD-insured home-equity product allows homeowners age 62 or older to receive a percentage of their home equity as fixed cash payments over time or an available line of credit. Like a typical mortgage, the HECM can be structured with a fixed rate or an adjustable rate. Fixed-rate HECM loans are disbursed to the borrower as a single lump-sum payment. For adjustable-rate HECMs, borrowers can choose to receive a monthly payment or a line of credit.

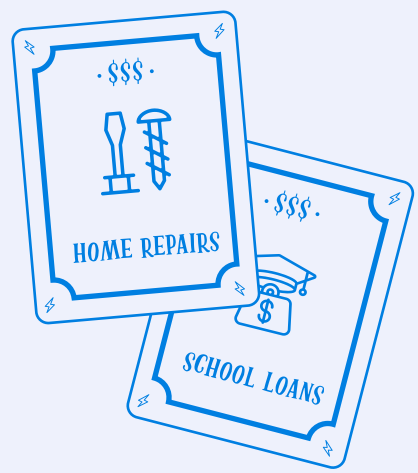
Unlike a typical mortgage, a HECM requires no monthly mortgage payment from the borrower. As long as borrowers maintain the home as their primary residence and keep their property taxes, homeowner's insurance and any homeowner association fees current, the HECM does not have to be repaid until the borrowers die or move out of the home.

WHEN DOES A CASH OUT REFI MAKE SENSE?

Some well-known financial advisors (e.g., Dave Ramsey) tend to steer their followers away from cash-out refis on the premise that taking on additional debt is always a bad idea. While we wouldn't suggest a borrower take cash out to buy something frivolous that they could save up for instead, there are times when a cash-out refi could make good financial sense.

One example might be if the borrower has a time-sensitive need to make home improvements they can't otherwise afford, like repairing a leaky roof or remediating a basement moisture problem. If they don't have the cash on hand to make these kinds of repairs debt-free, tapping into home equity at a historically low interest rate may be one of the most affordable options at their disposal. Another example might be using low-interest home equity to pay off a higher-interest debt such as a revolving line of credit or a student loan.

Every consumer situation is different. Lenders have a responsibility to help borrowers consider all available options so they can weigh the pros and cons of each.



SEE OPPORTUNITIES COMING

Sales Boomerang Helps Lenders Read the Tea Leaves

With so much opportunity in the air, it can be hard to keep an eye on every contact's equity position, let alone all the other borrower intelligence data points that could inform a lender's offer of credit. Fortunately, with Sales Boomerang, mortgage advisors never have to wonder when is the right time to strike up a conversation with a prospect or past customer about their accumulated home equity.

Sales Boomerang offers a full suite of more than a dozen opportunity alerts based on real-time borrower and market data. In the Year of Home Equity, lenders should enable these five alerts:

EQUITY ALERT

A customer or prospect's home equity has increased. For the average lender, 8.02% of contacts will trigger this alert each quarter.

CASH-OUT ALERT

A borrower is credit qualified and has built sufficient equity to tap into the cash in their home. For the average lender, 4.31% of contacts will trigger this alert each quarter.

DEBT ALERT

A borrower is credit qualified and can benefit from paying off other debts with the equity in their home For the average lender, 1.73% of contacts will trigger this alert each quarter.

FHA MI REMOVAL ALERT

An FHA borrower has exceeded 20% equity and can remove mortgage insurance (MI). For the average lender, 7.27% of contacts will trigger this alert each quarter.

NEW!

REVERSE MORTGAGE ALERT

A borrower would be a good candidate for a reverse mortgage based on their age and current level of accrued home equity.