PROGRESS IN LENDING ASSOCIATION™

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It’s Time To Bring Back HELOCS

February 28, 2022 John Hutchison

Over the past two years, the industry has been so busy writing refinance mortgage loans and new loans with lower interest rates that many other loan products have fallen by the wayside. It was difficult to get loan officers excited about writing home equity lines of credit, for instance, when higher balance loans were falling into their laps. Those days are over.

With the Mortgage Bankers Association’s (MBA) data showing that rising interest rates will reduce the refinance share of the industry’s volume to 33% by year’s end and increased competition for purchase money loans, lenders are looking for new ways to shore up their lost volume.

the industry we are observing trends now that tell us home equity will be a significant opportunity for lenders in 2022.

3 Trends Making HELOC Look Good Now

We've already mentioned the first trend that is driving lenders toward new products. MBA's January mortgage market forecast projected that total purchase and refinance loan originations will fall to $2.6 trillion in 2022, down from $3.9 trillion last year and $4.1 trillion in 2020.

Lenders are overstaffed and have excess capacity that they'll need to direct to other lending opportunities this year, if they are to have any hope of retaining their teams. There are a number of opportunities they could capitalize on, including reverse mortgages, Non-QM or home equity. The next trend points to the superior alternative.

Rising home prices have put historic levels of home equity into homeowner's real estate piggy banks. Earlier this month, ATTOM released its fourth-quarter 2021 U.S. Home Equity & Underwater Report, showing that 41.9% of mortgaged residential properties in the United States were considered equity-rich, meaning that the combined estimated amount of the loan balances secured by those properties was no more than 50% of their estimated market values.

Last December Black Knight released its third quarter 2021 data, showing the amount of home equity available to mortgage holders rose by more than $254 billion during the quarter. The company put the total amount of tappable equity at that time at $9.4 trillion. It's more by now.

In the past, borrowers would have taken advantage of falling mortgage interest rates and opted for a cash-out refinance. With rates rising, this option is available to fewer borrowers. But more borrowers are finding themselves in need of that cash, which is our third trend.

According to the latest report by the Federal Reserve Bank of New York, total household debt rose by $333 billion (2.2%) to environment where inflation is rising and lingering COVID-related health concerns create uncertainty, homeowners can become stressed.

According to Fannie Mae’s latest Home Purchase Sentiment Index, more prospective home buyers in January 2022 — especially younger consumers — reported a greater sense of macroeconomic pessimism. When that happens to homeowners, they are more likely to turn to their home equity as a source of needed cash.

More good news for HELOC originators

Traditionally, depositories have originated the bulk of home equity loans and lines of credit and held them in portfolio for their customers or credit union members. But a fair amount of our work over the past year has involved working with larger banks and mortgage aggregators who have developed an appetite for these assets and need someone to perform due diligence on the sellers and their product.

Not only do these assets perform well and provide good revenue streams in a rising rate environment, but they have also attracted a cadre of willing investors making them a suitable asset to bundle into securitizations for institutions seeking liquidity from the capital markets.

This means that originating HELOCs can be a hedge originators can use in case they need to sell off production for any reason and a profitable asset for securitizers.

Finally, these loans are easier to originate than larger balance loans as there are fewer compliance requirements. TRID does not apply and only 7 states currently have high-cost loan requirements in place for HELOC transactions. They typically do not require a full appraisal, which means they can be originated much more quickly.

Because we take an institutional platform approach to our business, we work with clients on both the buy and sell side. What we’re seeing is more lenders beginning to take home

2022.

John Hutchison

John Hutchison is Chief Operating Officer at Infinity IPS. John has over 25 years of experience in the financial markets (including managing such areas as due diligence, deal and transaction management, compliance, fraud, originations, collections, loss mitigation, foreclosure, and bankruptcy); he understands that market volatility continues to make fixed income securities an attractive option. He knows that escalating occurrences of mortgage fraud, the emergence of new loan products, and an increasingly intricate and complex compliance landscape have made comprehensive risk analysis a necessary component to any secondary market acquisition.