Credit Union Times

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What Makes Now the Time to Get Back in the Home Equity Loan Game?

An increase in home equity loan demand is being fueled by rising home prices and lower inventories of houses on the market.

By **Traci Mottweiler and Kathleen Ayer** | October 18, 2018

Take advantage of home equity loan demand.

In past years, lenders haven't always received the best news when surveying the home equity market. This year, when asked if they wanted the good news or bad news first, financial institutions were pleasantly surprised when choosing good news – home equity demand is on the rise.

The demand for loans has increased significantly over the last few years, from a low of 19% in 2015 to 21% just last year. In fact, according to the research study from Raddon, 28% of consumers in the market today anticipate taking out a loan in the next 12 months.

This increase in demand is being fueled by rising home prices (up by one-third since 2009) and lower inventories of houses on the market.

However, there are still a few factors holding potential borrowers back – including rising interest rates and tax code changes.

Current Mortgage Interest Rates

With interest rates higher than they were a year ago, and lending still relatively tight, there aren't very many incentives for borrowers to refinance their homes right now. An increasing number of homeowners looking to take cash out of their homes are now turning to home equity loans, rather than refinancing their primary mortgages and subsequently losing their rock-bottom rates, according to CNBC's real estate reporter, Diana Olick.

Effect of Tax Code Changes

Due to The Tax Cuts and Jobs Act enacted in December 2017, there were some concerns that home equity loan volumes would be affected. The IRS published a news release, "Interest on Home Equity Loans Often Still Deductible Under New Law," which addresses these concerns and establishes that, in most instances, interest paid on home equity loans will still be deductible. However, we still highly recommend that you review all of these changes in detail with your tax experts, as there are several new stipulations that may affect some borrowers.

In order for your financial institution to successfully compete in the current lending landscape and be prepared to best service your consumer, it's important to emphasize to them that despite current mortgage interest rates and tax code changes, now's the time for borrowers and lenders alike to get into the home equity market.

How to Prepare to Best Serve Your Accountholders

To make sure that your financial institution maintains a competitive edge in today's marketplace, you want to ensure that your home equity guidelines are attractive to potential borrowers.

One of the biggest draws to your consumers would be the ability to lend up to 100% loan to value, rather than the industry standard of 80% LTV. By doing this, lenders are often able to close 15% to 20% more loans. Second, it's recommended that you review your underwriting guidelines for your home equity lines of credit. Are your current guidelines turning away borrowers that could have otherwise completed a home equity loan with you?

In order to avoid turning away potential borrowers, you want to ensure that your lending guidelines are written to approve prime and near-prime loans, rather than non-prime loans, which could put your institution at risk for borrower default.

Finally, it's a good idea to have a host of loan options available to your accountholders, such as home equity loans, home equity lines of credit and secured/unsecured home improvement loans.

By evaluating your LTV limitations (aiming for up to 100% LTV), expanding underwriting guidelines and offering a host of loan options, you'll put yourself in the best position to retain and attract mortgage loan opportunities.

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