Everything's Coming up Equity:

Why You Should Lend NOW

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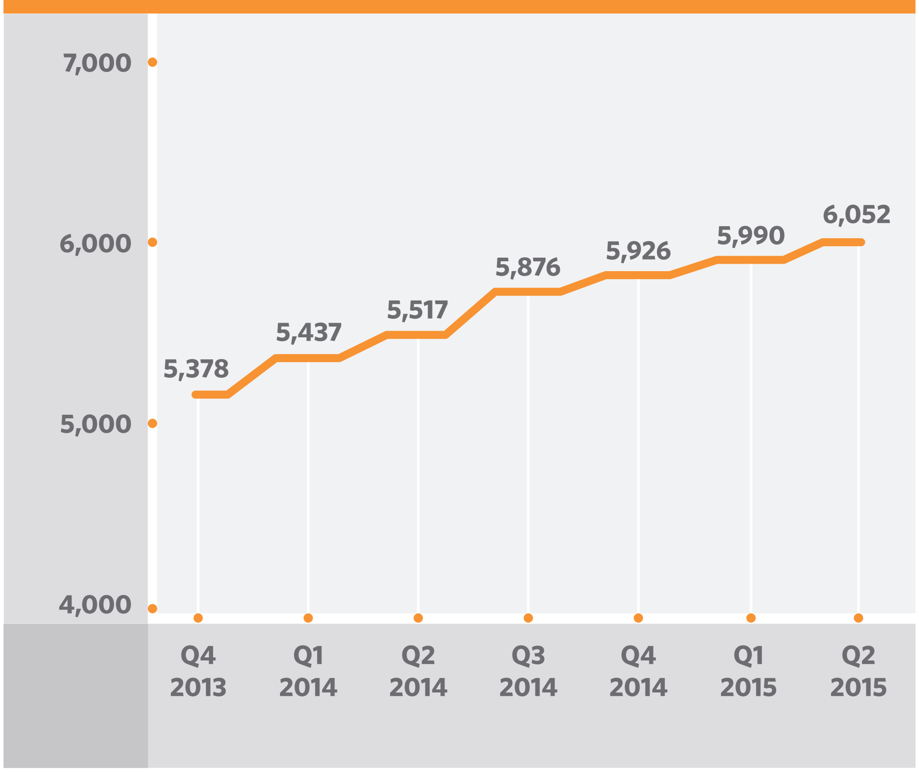
Equity lenders who are trying to get a read on potential for the remainder of 2014 should be encouraged by recent economic data. Despite the headwinds of higher interest rates and a geographically uneven recovery, current trends suggest a continuation of the upswing experienced throughout 2012 and 2013.

Upward trends in new home sales, existing home sales and median home prices bode well for 2014 home equity lending.

There are upward trends in new home sales, existing home sales and median home prices, all of which could bode well for home equity lending in 2014.

According to the Mortgage Bankers Association (MBA), new and existing home sales for the fourth quarter of 2013 rose to almost 5.4 million homes on an annualized basis, up significantly from 4.8 million in the fourth quarter of 2012. The MBA also forecasts the quarterly figures for 2014 to be in a tight range from 5.7 million to 5.9 million units. They project strong mortgage loan demand into 2015.[1]

New and Existing Home Sales
(in thousands)



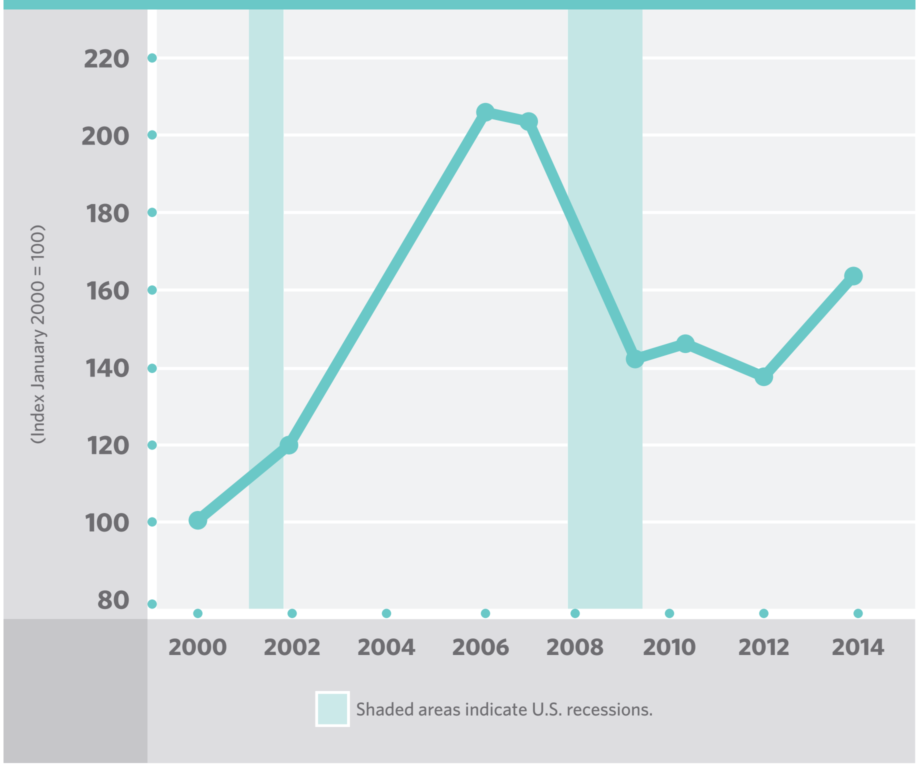
Source: Mortgage Bankers Association, *Mortgage Finance Forecast*, February 2014

[1] Mortgage Bankers Association, *Mortgage Finance Forecast*, March 2012- February 2014

Rising Home Values Rejuvenating Loan Growth

The S&P Case-Shiller 20-City Home Price Index hit 165.80 for its January 28, 2014 reporting date. The index is well below the 200+ peak it reached in 2006, but a far cry from the sub-140 reading registered in early 2012. After recording a 13 percent year-over-year gain for 2013, the index is expected to gain another six percent in 2014, according to Erkan Erturk, S&P Structured Finance research analyst. Higher mortgage rates will significantly reduce refinance activity, but Erturk expects moderate growth in mortgage originations for home purchases.[2]

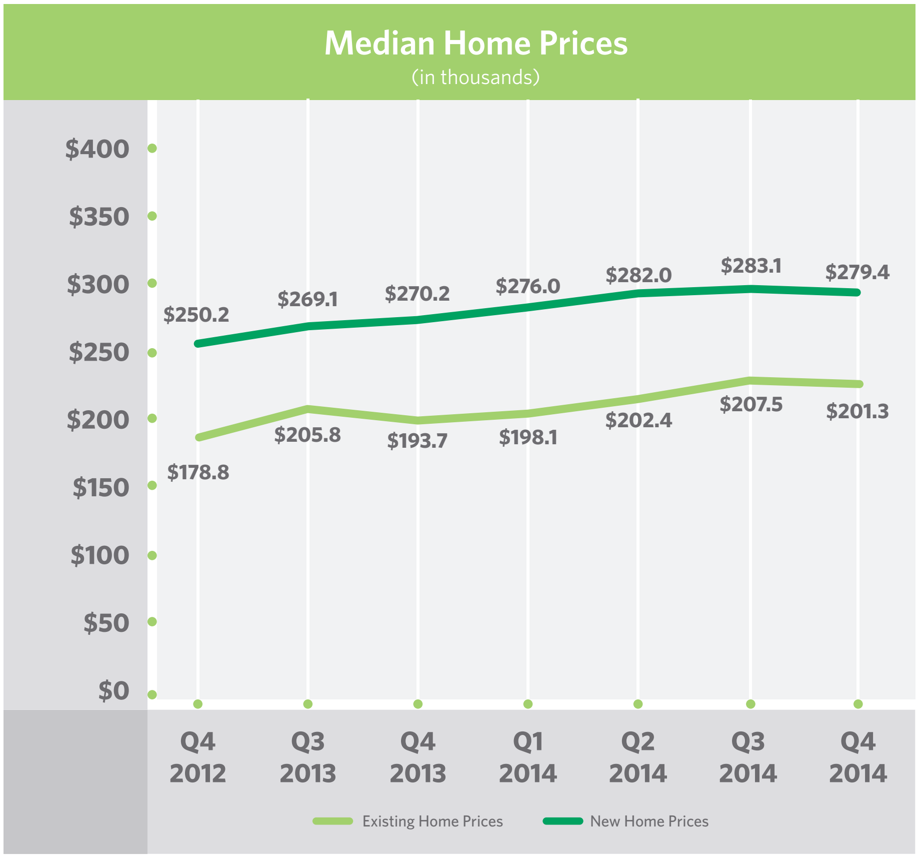
S&P Case-Shiller 20-City Home Price Index (SPCS20RSA)



Source: S&P Dow Jones Indices LLC

Projections by MBA and Zillow Real Estate Research, outlined in the next chart, show a slow but steady rise in home prices throughout 2014.

[2] Standard & Poors, *CreditMatters TV*, January 14, 2014



Source: Mortgage Bankers Association Source: Zillow, Real Estate Research, August 2013

Rising home values, of course, create more home equity against which to borrow. More than 62% of homeowners now have Loan-to-Value ratios under 80 percent, increasing the potential market for home equity products.[3]

While the recovery has been uneven, there are pockets where home prices are going up. In fact, homeowner equity has risen $3.4 trillion or 55 percent since late 2011.[4]

This rise in home values provides a good foundation for homeowners to be able to tap into the equity in their homes.

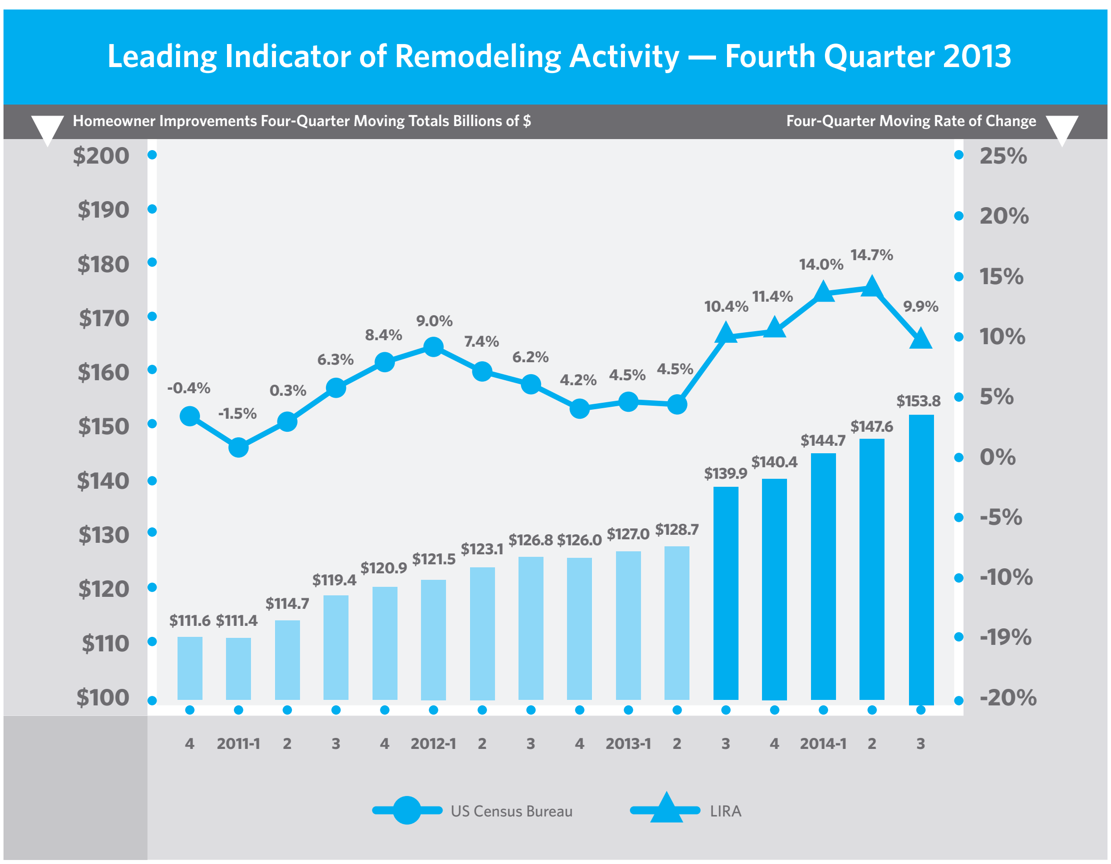
Increasing Home Equity Opens the Door for Improvements

After the 2008 recession, many homeowners were frustrated by their inability to finance home improvements. When real estate values dropped in 2007-2008, a good number saw their mortgages exceed their home values. Others had such little home equity that they weren't able to borrow against it. They had needs, but they didn't have the equity to finance those needs. Now, with home prices going up, there are consumers who will be able to borrow again.

[3] Zillow, *Negative Equity Report*, Q4 2013
[4] U.S. Department of Housing and Urban Development/U.S. Department of the Treasury, *The Obama Administration's Efforts to Stabilize the Housing Market and Help American Homeowners, December 2013*

There are other residual effects of the recession playing a part in equity lending. The recession has had a long-term effect on the psyche of the consumer. Instead of moving up to bigger and better houses, some consumers decided to remain in their current homes. These individuals may not be ready for significantly higher mortgage payments, but they see home values appreciating and may decide to make home improvements.

Harvard University's Leading Indicator of Remodeling Activity (LIRA) provides an outlook on homeowner remodeling activity and identifies turning points in the home improvement industry's business cycles. According to recent data, remodeling spending is slated to increase in the first and second quarters of 2014. While the rate of change is expected to decline in third quarter 2014, it would still be higher than at the same time in 2013. So, it appears that homeowners are feeling somewhat more confident about the value of their homes and are willing to borrow to make additional improvements to increase that value.

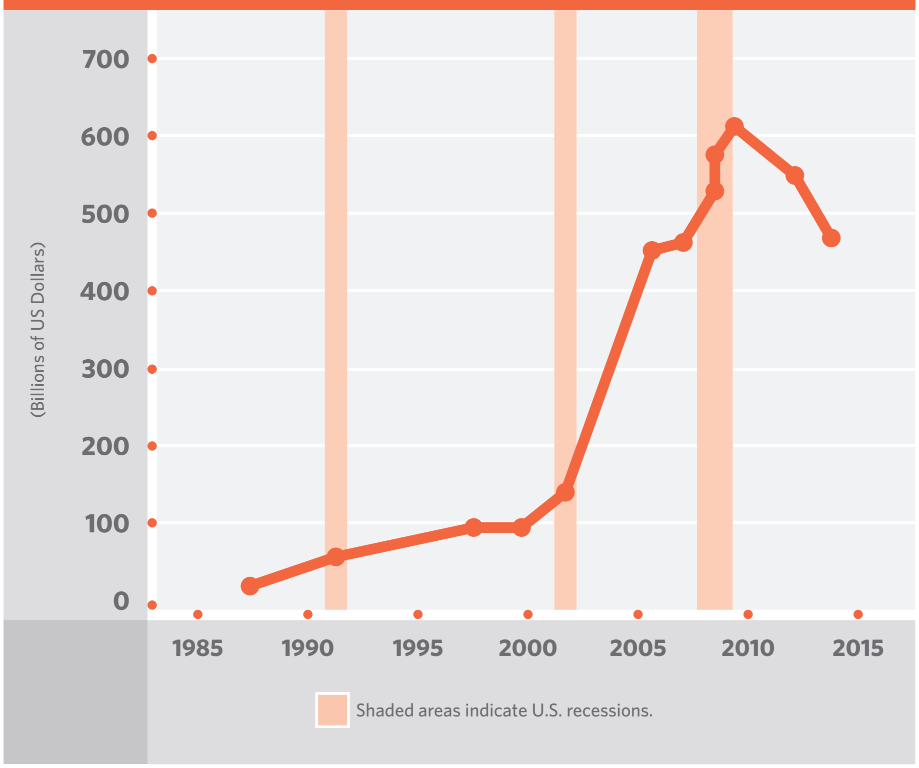


Source: Joint Center for Housing Studies of Harvard University.
Note: Third quarter 2013 estimate does not include Census Bureau data, because third quarter data collection for home improvement spending was affected by the October 2013 government shutdown.

Homeowners Like the Flexibility of Equity Credit Lines

Once homeowners decide to renovate, they look for ways to finance their home improvements. Consumers are looking to leverage their increasing home values through equity financing. A home equity line of credit is the most common, convenient way to do that. Since 2009, revolving home equity loans have been originated at a rate of roughly $500 billion to $600 billion per year.[5]

Real Estate Loans: Revolving Home Equity Loans, All Commercial Banks (SPCS20RSA)



Source: Board of Governors of the Federal Reserve System

The beauty of the line of credit is the flexibility it provides. The account holder gets a line of credit based on the equity in the home, which they can draw against in varying amounts. Typically, it's at a variable rate of interest that fluctuates with prime. Financial institutions can offer a fixed rate on a portion of the credit line. So, for example, a $20,000 credit line might have a $5,000 fixed rate component – offering a level of flexibility to the lender as well.

The beauty of the home equity line of credit is its flexibility.

A credit line also provides the account holder with a source of credit that can be used as needed. They appreciate the flexibility

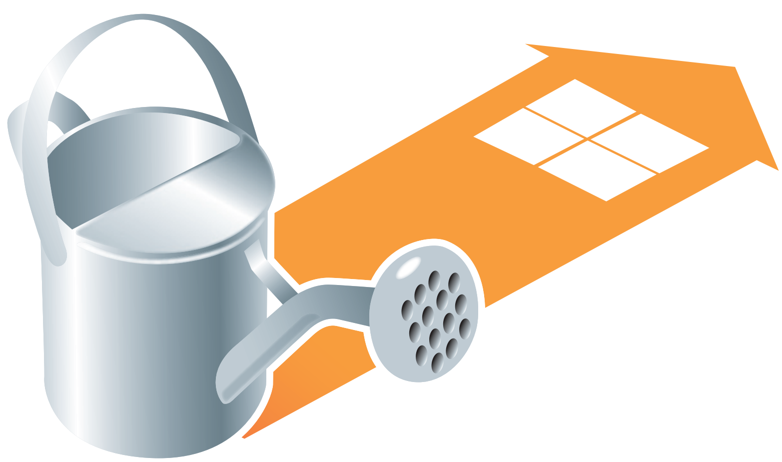
[5] Federal Reserve, Real Estate Loans: Revolving Home Equity Loans, All Commercial Banks, 2014

of keeping the line open for a period of time. So do financial institutions. Unlike mortgages, for which financial institutions are challenged to retain the account holder once the loan is repaid, home equity lines of credit can be refinanced when it’s time for repayment – thereby extending the banking relationship.

Rising home values — and consumer interest in further increasing those values — offer a timely opportunity for financial institutions to grow their equity lending portfolios. If you are interested in identifying and targeting account holders who are in the market for equity loans, call **1.800.351.3843**,
visit **harlandclarke.com/insight/LoanAcquisition**
or **ContactUs@harlandclarke.com**

Home equity lines of credit can extend the banking relationship once the mortgage loan is repaid.

Douglas Roman is a Senior Strategist specializing in Financial Services marketing at Harland Clarke. In this role, Douglas compiles and analyzes research to develop strategic, data-driven, multi-channel client marketing programs. He has more than 18 years of combined direct response marketing experience in Retail Banking, Credit Card and Wireless Communications. Prior to joining Harland Clarke, Douglas was a Vice President at Wachovia/Wells Fargo, where he led the Direct Marketing unit that supported the bank’s various retail lines of business including deposits, consumer lending, electronic banking, debit and credit card, small business and investments services.



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