Home Prices, Housing Wealth and Home Equity Extraction
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Outline of Today’s Material

I. Recent developments in household credit, home prices and homeownership

II. Growth & change in housing wealth, aka home equity

III. Home equity extraction:
   A. How much?
   B. Who?
   C. Why?
I. Household Debt, Home Prices and Homeownership
Total debt is rising, but more slowly this time

Total debt balance and its composition

Source: New York Fed Consumer Credit Panel/Equifax

+$2.1T (18%)
Total debt is rising, but more slowly this time.

Total debt balance and its composition.

Source: New York Fed Consumer Credit Panel/Equifax
Total debt is rising, but more slowly this time

Total debt balance and its composition

Source: New York Fed Consumer Credit Panel/Equifax
Tight mortgage standards part of the story

Mortgage Originations by Credit Score*

Source: New York Fed Consumer Credit Panel/Equifax
* Credit Score is Equifax Riskscore 3.0
Home prices have recovered previous peak . . .
... but this recovery has been notably slower
Homeownership rate returning to normal

Source: Census Bureau via Haver Analytics

Note: Shading shows NBER recessions.
Homeownership varies by age

Source: Census Bureau via Haver Analytics

Note: Shading shows NBER recessions.
Homeownership rate is seasonally adjusted.
Summary of Part I

• Household debt continues to grow and has surpassed previous peak
  • But growth has been sluggish

• Tight mortgage standards a crucial part of the story
  • No significant revival of subprime in mortgage, unlike auto

• Home prices have now recovered after an unprecedented rise and fall

• Homeownership followed a similar path, diverging from its history

• Rise and fall of homeownership especially strong among young
II. Growth & Change in Housing Wealth
Aggregate housing wealth has recovered . . .

Source: Federal Reserve Board of Governors
Median Borrower Equity by County, 2006 ($)

Source: Fuster, Guttman-Kenney and Haughwout, 2016, updated
Median Borrower Equity by County, 2007 ($)

Source: Fuster, Guttman-Kenney and Haughwout, 2016, updated
Median Borrower Equity by County, 2008 ($)

Source: Fuster, Guttman-Kenney and Haughwout, 2016, updated
Median Borrower Equity by County, 2009 ($)

Source: Fuster, Guttman-Kenney and Haughwout, 2016, updated
Median Borrower Equity by County, 2010 ($)

Source: Fuster, Guttman-Kenney and Haughwout, 2016, updated
Median Borrower Equity by County, 2011 ($)

Source: Fuster, Guttman-Kenney and Haughwout, 2016, updated
Median Borrower Equity by County, 2012 ($)

Source: Fuster, Guttman-Kenney and Haughwout, 2016, updated
Median Borrower Equity by County, 2013 ($)

Source: Fuster, Guttman-Kenney and Haughwout, 2016, updated
Median Borrower Equity by County, 2014 ($)

Source: Fuster, Guttman-Kenney and Haughwout, 2016, updated
Median Borrower Equity by County, 2015 ($)

Source: Fuster, Guttman-Kenney and Haughwout, 2016, updated
Median Borrower Equity by County, 2016 ($)

Source: Fuster, Guttman-Kenney and Haughwout, 2016, updated
Median Borrower Equity by County, 2017 ($)

Source: Fuster, Guttman-Kenney and Haughwout, 2016, updated
Housing wealth shifting to older borrowers . . .

Source: Fuster, Guttman-Kenney and Haughwout, 2016, updated
... and to higher credit score borrowers

Tappable Equity (LTV ≤ 80)

Source: Fuster, Guttman-Kenney and Haughwout, 2016, updated
Summary of Part 2

• Home price recovery and slow debt growth have produced record high in housing wealth, aka home equity

• Tight credit standards and reduction in homeownership, especially for the young, have contributed to a shift in housing wealth toward older, higher credit score borrowers

• Home equity is crucial form of collateral, meaning that young people’s access to low cost credit is affected
III. Home Equity Extraction
Trends in home equity extraction

- Two ways to extract equity without moving: cash-out refis and junior liens
- Home equity extraction was a significant upward force on mortgage balances during the boom, but has been mixed since 2010:
  - Impact of cash out refinances is boosting balances, but slowly
  - Junior lien activity has remained a net-negative force on housing balances since 2010
Cash out refis increase slightly

Source: New York Fed Consumer Credit Panel / Equifax
Junior lien equity being repaid on net

Home Equity Extraction
(annual change)

Billions of Dollars

Source: New York Fed Consumer Credit Panel / Equifax
Aggregate equity extraction remains low

Home Equity Extraction
(annual change)

Billions of Dollars

Source: New York Fed Consumer Credit Panel / Equifax
Mortgage underwriting remains tight, especially for equity extraction

Median Credit Score at Origination

Source: New York Fed Consumer Credit Panel / Equifax

Credit score is Equifax Riskscore 3.0
Since 2009, extraction has been dominated by highest score borrowers

**HELOC Originations**
(Initial Pledge Amount)

- <620
- 620-659
- 660-719
- 720-759
- 760+

**Cashout Refinances**

Billions of Dollars

Source: New York Fed Consumer Credit Panel / Equifax

Credit score is Equifax Riskscore 3.0
Borrowers are much older than in the past

- Only 13% of borrowers in 2006 were over 60

- 28% of borrowers who extracted equity in 2017 were over 60 years old

- Only 25% of borrowers who extracted equity in 2017 were under 45

Source: New York Fed Consumer Credit Panel / Equifax
Reasons for new HELOCs or cashout refinances

• **Piggyback**: Originated concurrently with a first mortgage, often to avoid PMI or to finance a down payment

• **Consolidate**: Pay off other types of debt balances and consolidate to more favorable rate

• **Spend**: Finance a large expense (home renovation, equipment purchase, vacation)

• **Refi**: Refinance existing housing debt to more favorable term or rate
Equity withdrawals are smaller than they used to be

Source: New York Fed Consumer Credit Panel / Equifax;
HELOC draw is reported as balance in 3rd quarter of loan life
The use of piggyback HELOCs has declined since the boom.

Share of HELOCs Originated as Piggyback

Source: New York Fed Consumer Credit Panel / Equifax
Debt Consolidation

• We study the changes in credit card debt and student debt among HELOC originators

• Comparing 2006 and 2017 HELOC Originators:
  – 2006 originators were primarily levering up, with a small decline in average credit card balances, and piggybacks a large share
  – 2017 originators’ credit reports show evidence of credit card and student loan consolidation
Debt consolidation is more common among recent borrowers

Credit Card
Yearly percent growth in avg bal
2006 2017
everyone else originators
5% 7% -5% -10%

Student Loan
Yearly percent growth in avg bal
2006 2017
everyone else originators
23% 12% 5% -5%

Source: New York Fed Consumer Credit Panel / Equifax
Home prices have recovered, but homeownership has not, especially for younger Americans, compounded by tight underwriting.

Housing wealth has shifted toward older, more creditworthy borrowers, limiting asset growth and collateral growth.

Equity extraction is relatively low now, considering potential uses to borrowers and high levels of tappable equity. Post-recession tight underwriting and lack of equity have resulted in lower issuance of collateralized credit to younger borrowers. Older, more credit-worthy borrowers have seen a larger share of recently extracted equity. Equity extraction for credit consolidation is more common recently than in past years.

Home equity is an important form of wealth and access to low-cost borrowing, and we will continue to monitor its behavior.