

Tapping Home Equity Becomes Tougher for Many Americans 2

THE WALL STREET JOURNAL.

Tapping Home Equity Becomes Tougher for Many Americans

By Orla McCaffrey

958 words

19 June 2020

The Wall Street Journal

J

B1

English

Copyright 2020 Dow Jones & Company, Inc. All Rights Reserved.

Millions of Americans are out of work. But for many, tapping their home equity isn't an option.

New home-equity lines of credit dropped 19% from March through May compared with the same time last year, according to preliminary data from credit-reporting firm Equifax Inc.

Many lenders are getting stricter about offering the credit lines, known as Helocs. Both JPMorgan Chase & Co. and Wells Fargo & Co. have temporarily stopped accepting new Heloc applications, and other lenders have tightened standards.

Banks are trying to protect themselves from the big losses they suffered in the 2008 crisis, when borrowers who had been using their homes as ATMs defaulted as housing prices unexpectedly tanked. But the lenders' caution means that in many cases borrowers who thought they would be able to fall back on their home equity in a crisis can't do so now.

U.S. banks' holdings of home-equity lines of credit were down more than 9% from a year earlier as of early June, the largest decline on record, according to Federal Reserve data. Originations of home-equity loans, another popular way for borrowers to pull cash out of their homes, fell 43% from March through May, according to Equifax.

The amount of equity Americans have in their homes has been rising for almost a decade, boosted by resilient home price growth. Some homeowners remember the financial crisis and are wary of relying too much on home equity. But out-of-work borrowers and others who could benefit from Helocs might be locked out by lofty lending requirements, economists said.

"These homeowners may be the ones that no longer qualify because they've suffered an economic injury like a job loss," said Ralph McLaughlin, chief economist at Haus, a home-finance startup.

The logistics of lending in a pandemic might also be muting Helocs. For example, they sometimes require an appraisal, which can be harder to execute under stay-at-home orders.

There are a few ways that borrowers can pull cash out of their homes, often using the money for luxuries such as home renovations and necessities including medical bills.

Helocs are somewhat similar to credit cards: Borrowers can apply for them and then use when needed. Though getting a Heloc now might be difficult, homeowners who already have one should be able to tap into it.

Home-equity loans, on the other hand, are generally lump-sum payments with a fixed repayment schedule.

Helocs have been losing popularity for over a decade, in part because low interest rates made cash-out refinancings more popular. The average rate on the 30-year fixed mortgage fell to 3.13% on Thursday from 3.21% last week, according to mortgage-finance giant Freddie Mac.

In a cash-out refi, a borrower generally refinances an existing mortgage with a new one that has a higher principal balance. That allows the homeowner to pay off the old mortgage and still have cash left over.

When Matthew Worner logged on to the website of Navy Federal Credit Union last week, he learned that it had temporarily stopped accepting applications for Helocs.

Mr. Worner shelved the renovation plans for his kitchen, which hasn't been updated since just before Neil Armstrong reached the moon. He is hoping that the credit union will start offering Helocs again and that he will be able to apply for a \$15,000 line of credit soon.

Navy Federal said it paused all home-equity applications in March when near-zero interest rates prompted a surge in refinance applications. The credit union decided to shift 95% of its home-equity employees to the mortgage department, said Sean Murphy, the credit union's assistant vice president of equity lending. "We've had to make some tough choices in order to best serve our members, and hope to resume Equity Lending as soon as we can," Mr. Murphy said in a statement.

Jeff Taylor, managing partner of Digital Risk, a **technology** and risk firm that consults with mortgage lenders, said the availability of home-equity lines and cash-out refis has declined. "In the last 60 days, lenders have tightened the box dramatically," he said.

Less than 4% of consumers had an existing Heloc in the first quarter of this year, according to a report by the Federal Reserve Bank of New York, compared with about 8% in the years leading up to the financial crisis. About 9% of consumers in the highest-income ZIP Codes had tappable lines, about three times the rate as those in the lowest-income areas, according to the New York Fed.

The dollar value of home-equity lines on banks' balance sheets jumped in mid-March during the first wave of pandemic layoffs, according to Fed data.

"Every indication pointed to people tapping into home equity lines," said Sri Thanabalasingam, a senior economist at TD Bank.

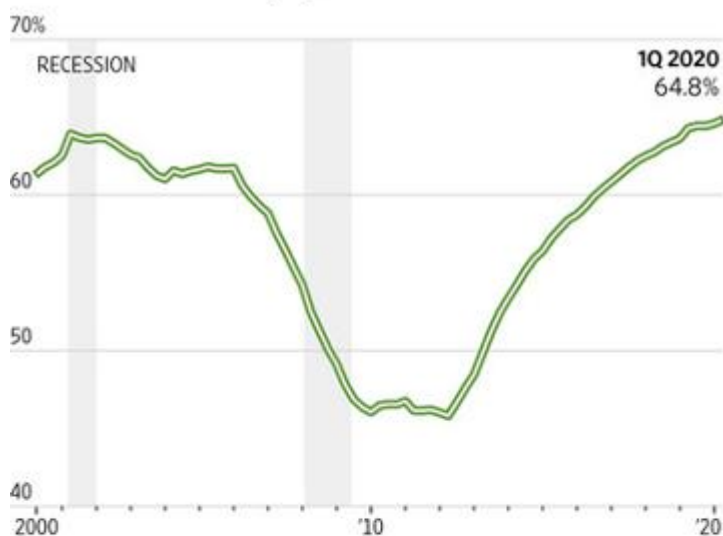
But in April, JPMorgan and Wells Fargo said they would temporarily stop accepting new Heloc applications. JPMorgan cited high unemployment rates and projections that housing prices would fall.

Other lenders are raising credit-score requirements or decreasing the amount they are willing to lend relative to a home's value. "You had to have stellar credit to get one beforehand, and now you need really stellar credit," said Amy Crews Cutts, an economist and president of AC Cutts & Associates.

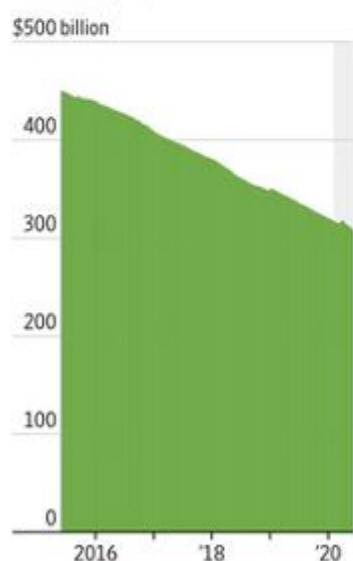
Multiple lenders, including Fifth Third Bancorp and Santander Bank, have limited home-equity applications to existing customers.

Banks are wary of extending home-equity products in part because of their second-class status if the borrower defaults. The lender that holds a home's mortgage usually has the first shot at recouping what is owed.

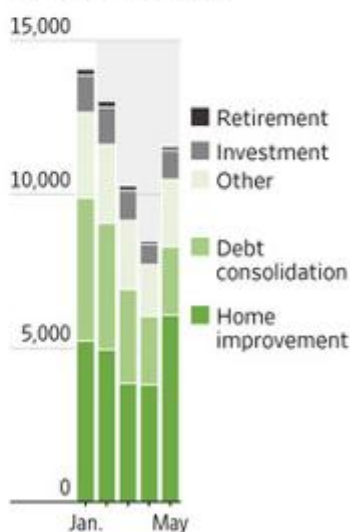
Share of homeowner equity in real estate



Home-equity lines of credit*



Home-equity loan applications, by use†



*Seasonally adjusted. Include home-equity lines on the balance sheets of U.S. commercial banks.
†Data include all home equity loan applications submitted via a single online lending marketplace.
Sources: Federal Reserve via St. Louis Fed (home-equity share, lines); LendingTree (use)

Document J000000020200619eg6j00016

Search Summary

Text	(technology OR "AI" OR fintech OR "digital banking" OR "cloud computing" OR blockchain OR cybersecurity OR "machine learning" OR "data analytics" OR "big data" OR "predictive analytics" OR "cloud migration" OR "edge computing" OR "5G banking" OR "API banking" OR "open banking" OR "data governance" OR "data monetization" OR "digital transformation" OR "quantum computing" OR "AI-driven banking" OR "AI in compliance" OR "AI-powered fraud detection" OR "AI in customer service" OR "AI in investment banking" OR "conversational AI" OR "generative AI" OR "robo-advisors" OR "natural language processing" OR "algorithmic trading" OR "automated risk assessment" OR "AI regulatory challenges" OR "embedded finance" OR neobanks OR "Banking as a Service" OR "BaaS" OR regtech OR suptech OR "decentralized finance" OR DeFi OR "cryptocurrency adoption" OR "Central Bank Digital Currencies" OR CBDCs OR tokenization OR "real-time payments" OR "Buy Now Pay Later" OR BNPL OR "cyber resilience" OR "Zero Trust security" OR "identity verification" OR "fraud detection" OR "insider threats" OR "AI-driven cybersecurity" OR "financial data breaches" OR "data privacy laws" OR GDPR OR CCPA OR "operational risk management" OR "regulatory compliance technology" OR KYC OR "Know Your
------	---

	Customer" OR AML OR "Anti-Money Laundering" OR "hyper-personalization in banking" OR "customer-centric banking" OR "omnichannel banking" OR "digital wallets" OR "contactless payments" OR "voice banking" OR "biometric authentication" OR "wearable banking" OR "banking UX/UI innovations" OR "financial inclusion technology")
Date	04/01/2020 to 06/30/2020
Source	The New York Times Or The Wall Street Journal Or The Economist Or Forbes
Author	All Authors
Company	Wells Fargo & Company
Subject	All Subjects
Industry	All Industries
Region	All Regions
Language	English
Results Found	1
Timestamp	5 March 2025 3:07 PM GMT