ICE: Tappable Homeowner Equity at All-Time High

By Erin Delaney | Special to Banker & Tradesman | Aug 5, 2024 | Reprints | Unlock Link | Print

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Total and tappable homeowner equity set new records in June, lowering overall market leverage even though outstanding mortgage debt is at an all-time high, according to the August ICE Mortgage Monitor report based on the company's mortgage, real estate and public records data sets.

Although the ICE Home Price Index (HPI) has shown a general slowdown in the rate of home price growth through June, mortgage holders' equity levels continue to hit new heights. Rising home prices have surpassed growth in mortgage debt, which is significantly increasing the amount of equity held by homeowners with mortgages.

Even as outstanding mortgage debt hit an all-time high of $13.8 trillion in June, mortgage holder equity met a new record high of $17.6 trillion in the second quarter of 2024, according to ICE.

“Outstanding mortgage debt, including both first and second liens, hit an all-time high in June, but growth in home prices has outpaced that gradual rise in debt,” Andy Walden, vice president of research and analysis, said in a statement. “Total cumulative debt leverage – essentially a loan-to-value ratio for the entire mortgage market – is equivalent to 44.1% of underlying home values, the third lowest leverage ratio we’ve seen in the past 20-plus years.”

Of the $17.6 trillion of homeowner equity, $11.5 trillion is tappable, the portion available to borrow against while keeping a healthy 20 percent equity cushion. This is a 4 percent increase from the first quarter and a 9.2 percent increase year over year.

Nine out of every 10 mortgage holders (48.5 million nationwide) have some degree of tappable equity available to borrow against while retaining that 20 percent cushion, ICE said. Three in 5 mortgage holders have at least $100,000 in tappable equity and 4.6 million have at least $500,000.

“Home equity lending has been sluggish since interest rates began their climb higher early in 2022,” Walden said. “As the Fed raised short-term lending rates, accessing equity became more expensive for homeowners, evidenced by the anemic growth in such lending despite record levels of available, tappable equity.”

Higher equity holders tend to have lower first lien interest rates, as those borrowers, on average, were able to capitalize on record low interest rates while also buying into the market earlier at lower prices.

The average first lien rate of borrowers without tappable equity is approximately 5.5 percent, nearly a full percentage point above those with up to $50,000 available to borrow against (4.45 percent).

Borrowers with $50,000 to $199,000 to borrow against have average first lien rates of just above 4 percent, while those with $500,000 or more to borrow against have average rates of around 3.75 percent.

“Industry expectations that the Fed will soon begin easing short-term rates could gradually change that dynamic, given the more direct impact short term rates have on home equity rate offerings, and lenders would do well to prepare,” Walden said. “The ability to originate and service home equity loans alongside first lien mortgages will be key – to say nothing of using data-driven portfolio analysis to identify potential second lien customers.”

The increase in tappable equity raises the possibility mortgage companies, credit unions and banks will be able to grow their relatively paltry refinance businesses if interest rates fall.

Mortgage lenders across Massachusetts saw their refinance businesses collapse under the weight of the Fed’s rate-hike campaign that began in 2022. According to data from The Warren Group, publisher of Banker & Tradesman, that record-breaking run of rate hikes from late 2022 to mid-2023 led to a 68.71 percent decrease in refi value from $24.77 billion in the first half of 2022 to $7.75 billion in the first half of 2023. There was also a 65.23 percent decrease in number of refinance mortgages from 52,004 in 2022 to 18,080 in 2023 in Massachusetts.

However, there was a 1.75 percent increase in refi loan volume from $7.75 billion in the first half of 2023 to $7.89 billion in the first half of 2024, and only a 2.22 percent decrease in number of refinanced mortgages in Massachusetts.

At the national level, negative equity remains essentially a non-issue.

Fewer than 325,000 homeowners are underwater with their mortgages nationwide, putting just 0.60 percent of active loans in a negative equity position, with another 4.2 percent holding less than 10 percent equity in their homes, according to ICE.