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Home equity borrowing down dramatically since housing crash

Equity lending dropped 55% from 2007 to 2018, from $1.1 trillion to $500 billion.

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What's up with mortgage rates? Jeff Lazerson of Mortgage Grader in Laguna Niguel gives us his take.

Rate news summary

From Freddie Mac's weekly survey: The 30-year fixed rate averaged 3.49%, 9 basis points lower than last week and the lowest rate since October 2016. The 15-year fixed rate averaged 3.0%, down 6 basis points from last week.

For the third week in a row, the Mortgage Bankers Association reported a decrease in loan application volume from the previous week, this week down 3.1%.

Bottom line: Assuming a borrower gets the average 30-year fixed rate on a conforming $484,350 loan, last year's payment was $294 higher than this week's payment of $2,172.

What I see: Locally, well-qualified borrowers can get the following fixed-rate mortgages without points: A 15-year FHA (up to $431,250 in the Inland Empire, up to $484,350 in Los Angeles and Orange counties) at 3.0%, a 30-year FHA at 3.25%, a 15-year conventional at 3.125%, a 30-year conventional at 3.375%, a 30-year FHA high-balance ($484,351 to $726,525 in L.A. and Orange counties) at 3.375%, a 15-year conventional high-balance (also $484,351 to $726,525) at 3.375%, a 30-year conventional high-balance at 3.75%, a 15-year jumbo (over $726,525) at 4.25% and a 30-year jumbo is at 4.0%.

What I think: This week, the Mortgage Bankers Association released a bombshell study showing a dramatic drop in recent home equity borrowing habits compared with the pre-mortgage meltdown days.

Outstanding home equity mortgage debt peaked at $1.1 trillion in 2007, but was little over $500 billion at the end of 2018, according to the study.

Yet, home equity soared during a similar time frame increasing from $6 trillion during the Great Recession to over $15 trillion at the end of 2018.

The study includes open-end revolving lines of credit (HELOC's) in which the amount of available credit can be altered by the lender due to changing circumstances.

The study also includes closed-end fixed-rate term loans named home equity loans (HE's) involving a single advance received in full at closing.

"Many households are not tapping the equity in their homes, despite the significant rise in home equity since the Great Recession, wage growth and low unemployment," said Marina Walsh, MBA's vice president of industry analytics.

What gives? Why aren't homeowners breaking into their equity piggybanks?

Change in consumer sentiment and willingness to tap equity since the Great Recession, aging baby boomer generation reducing debt exposure as retirement approaches and consumer confusion about tax deductibility were some of the points cited.

Under the new tax code, HELOC's and HE's are tax deductible for owner-occupied and second homes as long as the total mortgage interest (including first liens) does not exceed $750,000, according to Warren Hennagin, CPA and partner at Marcum LLP.

You must use the funds for home improvements to deduct interest payments from your taxes, Hennagin said.

Perhaps even more confounding is just 50% of HELOC applicants and 40% of HE applicants decided to fund their loans compared with 72% of first mortgages that pulled through. And, the HELOC utilization rate was just 33% of the maximum dollar amount extended in 2018.

Black Knight recently reported equity available to borrow against hit an all-time high of $6.3 trillion in the second quarter of 2019.

There is a vast menu of exotic HELOC and HE loans available, in addition to the more traditional bank menus.

HELOC's can go all the way to 95% combined loan-to-value for owner-occupied loans, and non-owner HELOC's can fund to $250,000.

HE loans can go to 100% cash-out. And, there is an 85% loan-to-value instrument in which deposits from 24 months of bank statements can be used to calculate income as an alternative to traditional income documentation.

I recommend having a HELOC on your home in case of emergency. Well-qualified borrowers can easily find no-cost HELOC's. These loans may come with an annual maintenance fee of about $75. Other than that, you don't get charged if you don't tap the equity.

If you do have an emergency or the economy becomes an emergency, you must pull that money out before the lender freezes your HELOC – a common event during the mortgage meltdown days.