



FEDERAL RESERVE BANK *of* NEW YORK

# Home Prices, Housing Wealth and Home Equity Extraction

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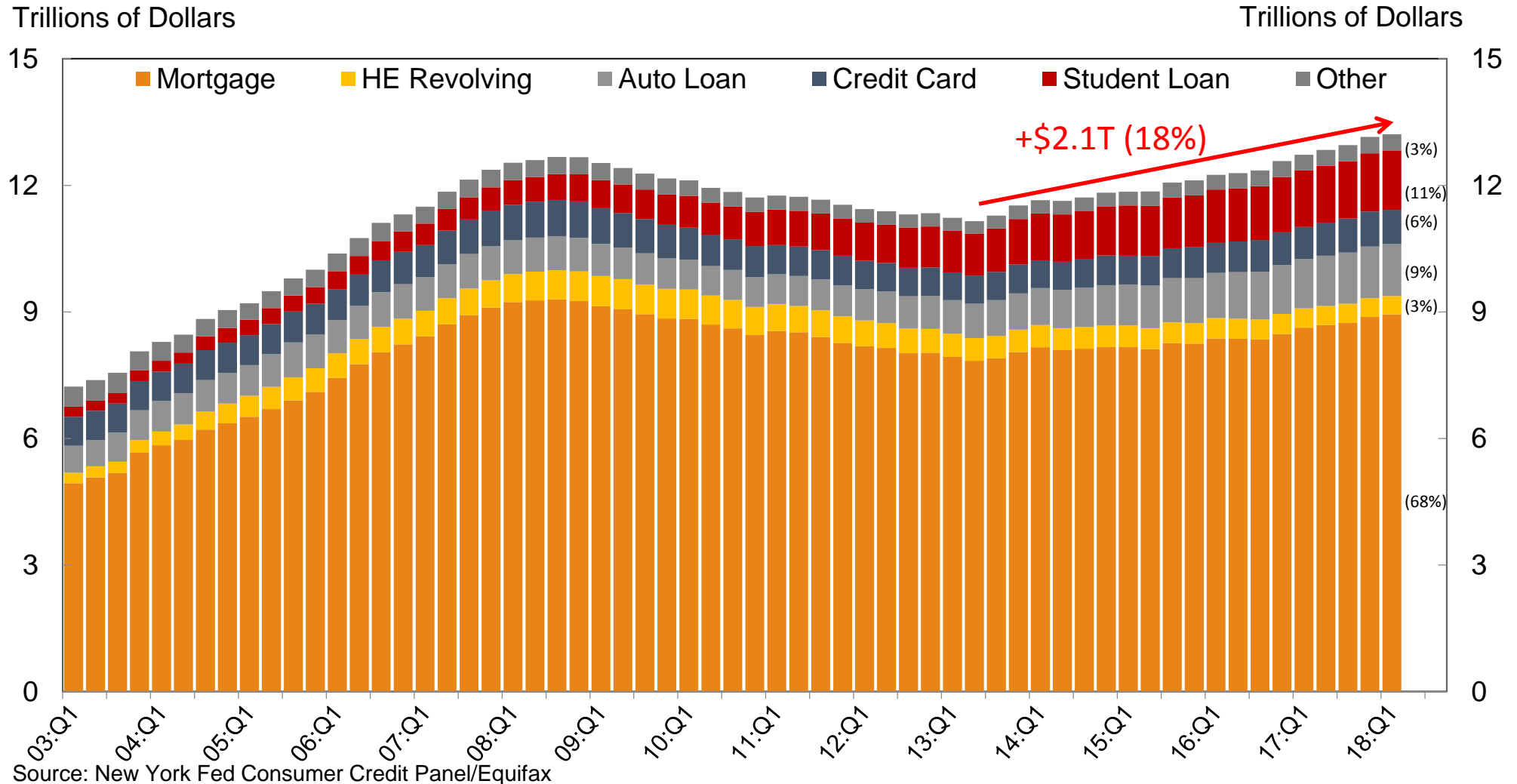
# Outline of Today's Material

- 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

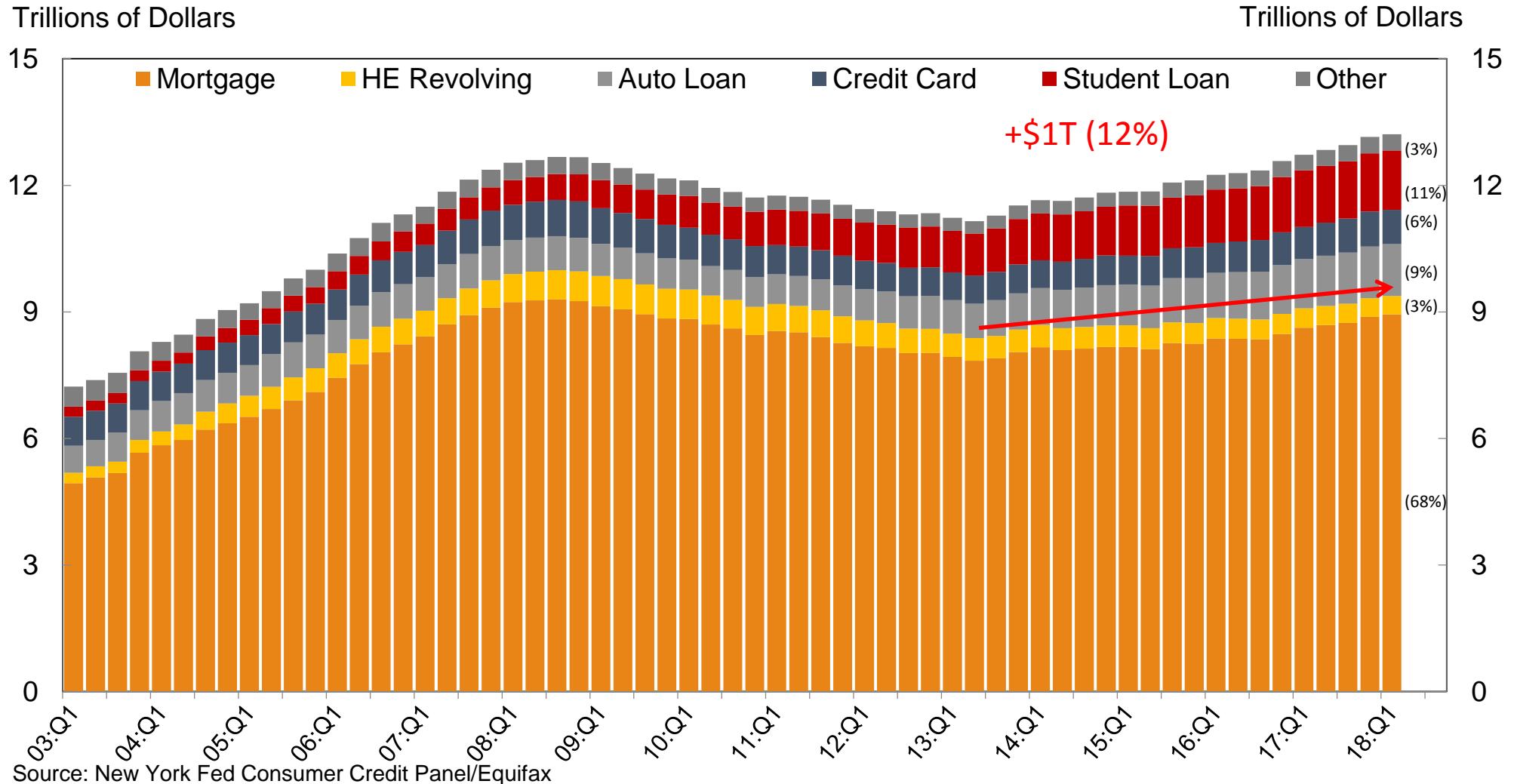
## Total debt balance and its composition





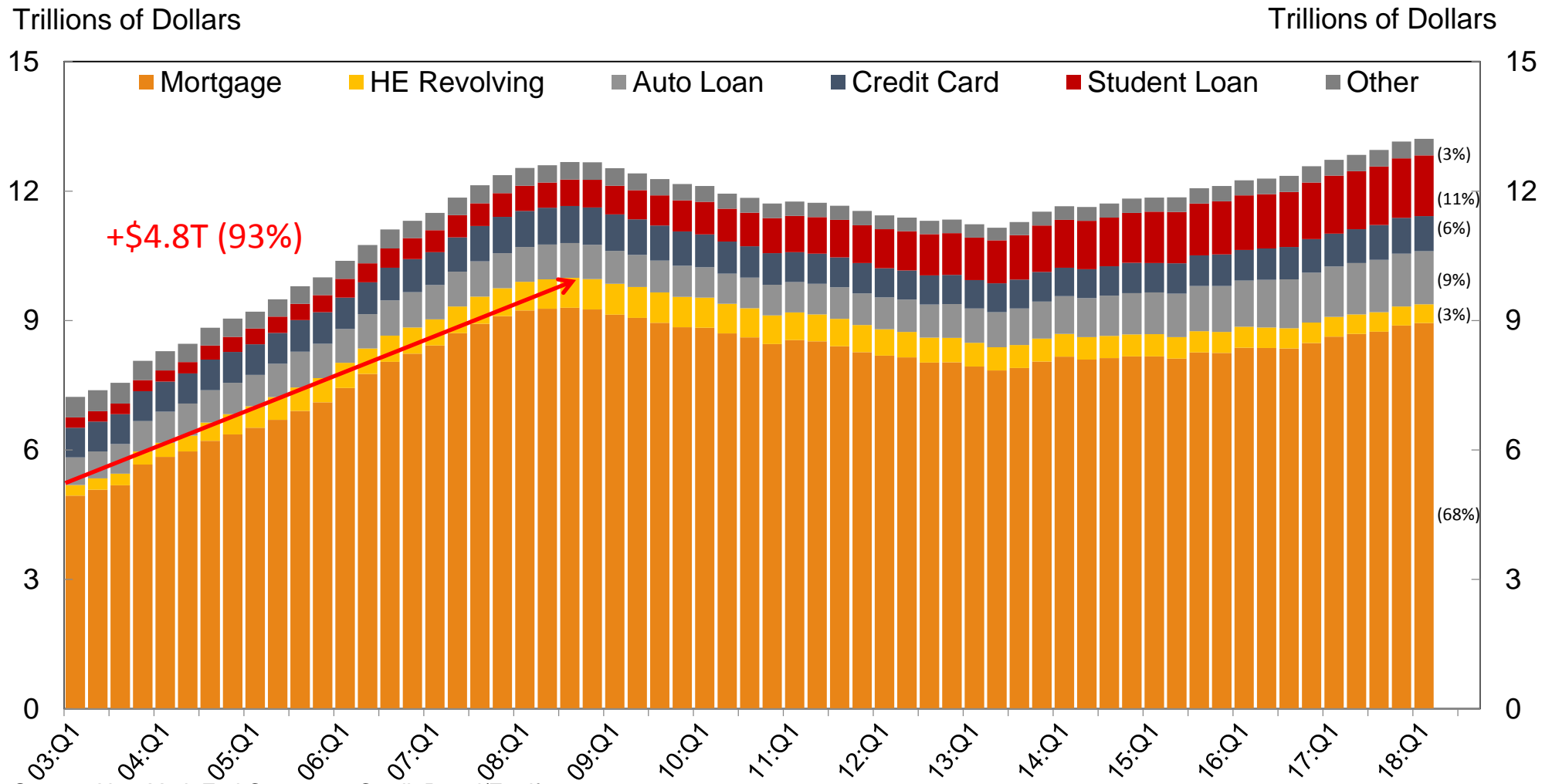
# Total debt is rising, but more slowly this time

## Total debt balance and its composition



# Total debt is rising, but more slowly this time

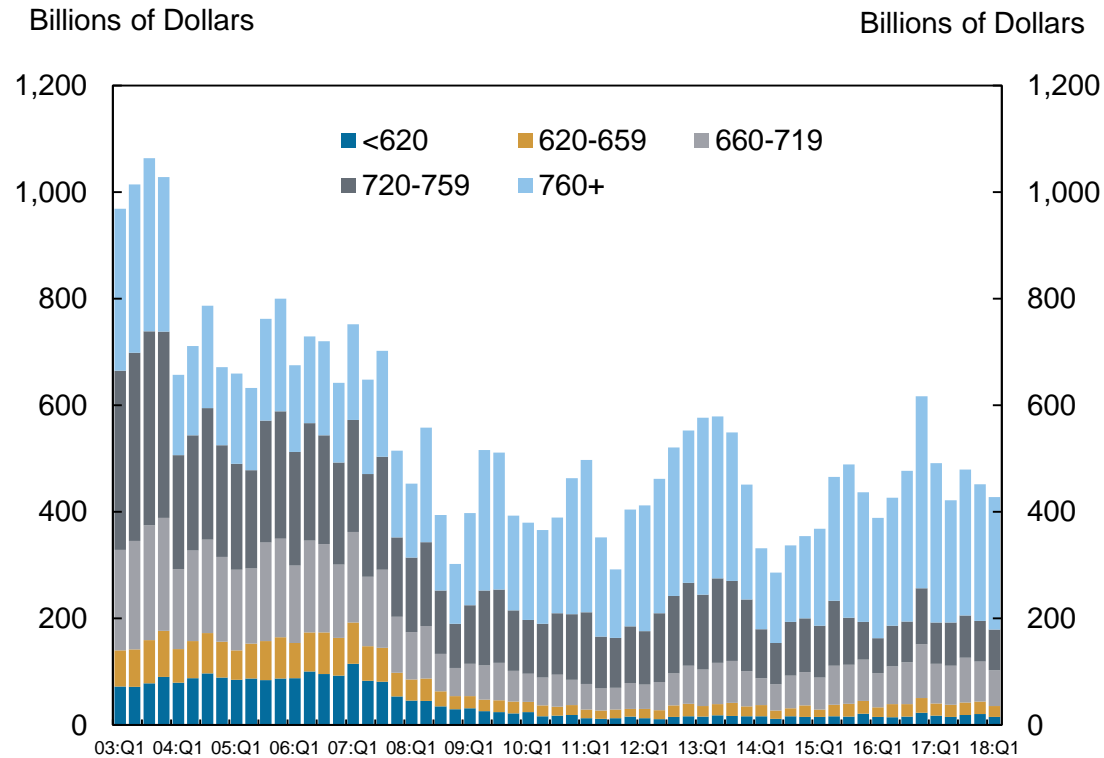
## Total debt balance and its composition



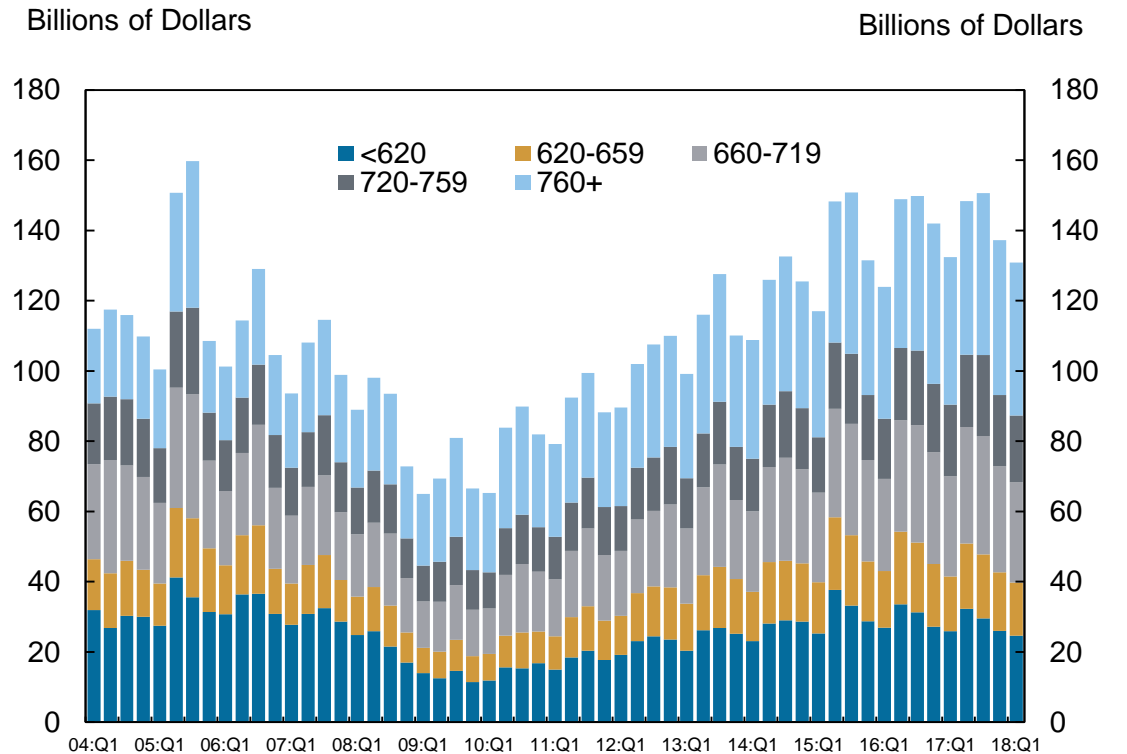
Source: New York Fed Consumer Credit Panel/Equifax

# Tight mortgage standards part of the story

## Mortgage Originations by Credit Score\*

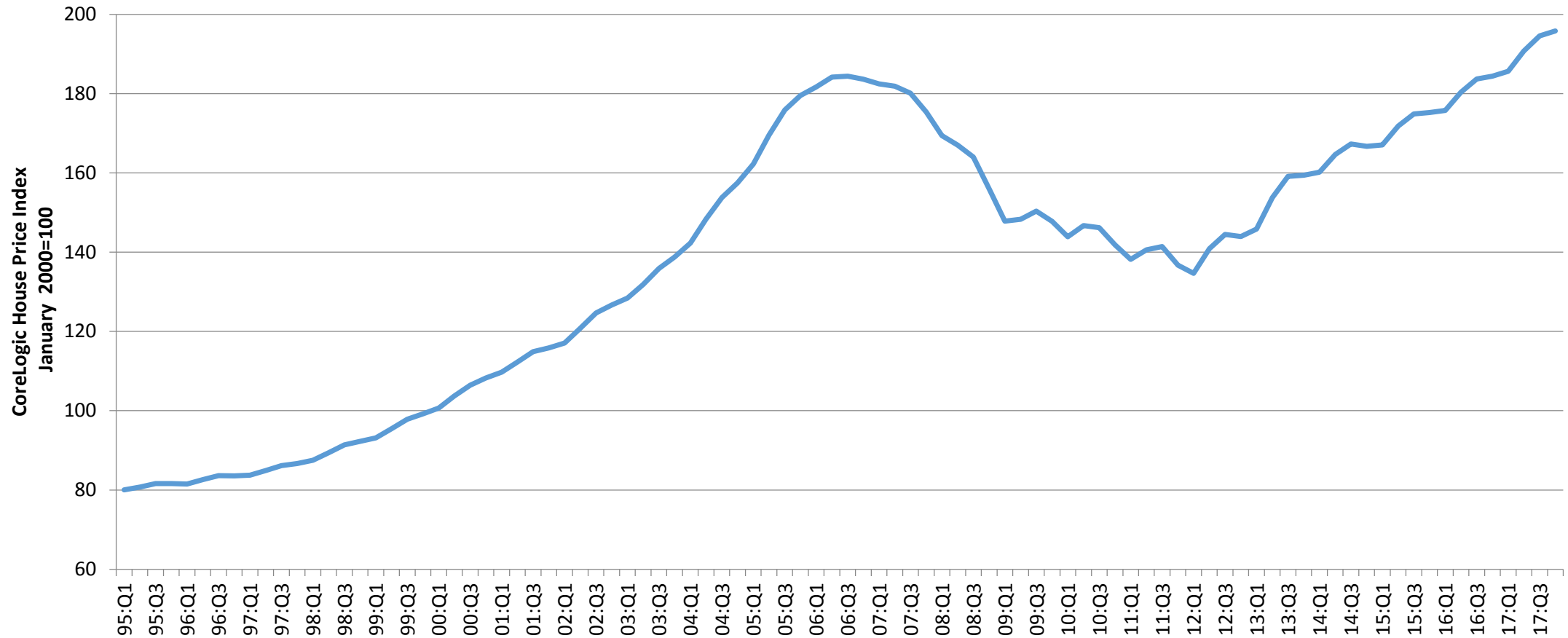


## Auto Loan Originations by Credit Score\*



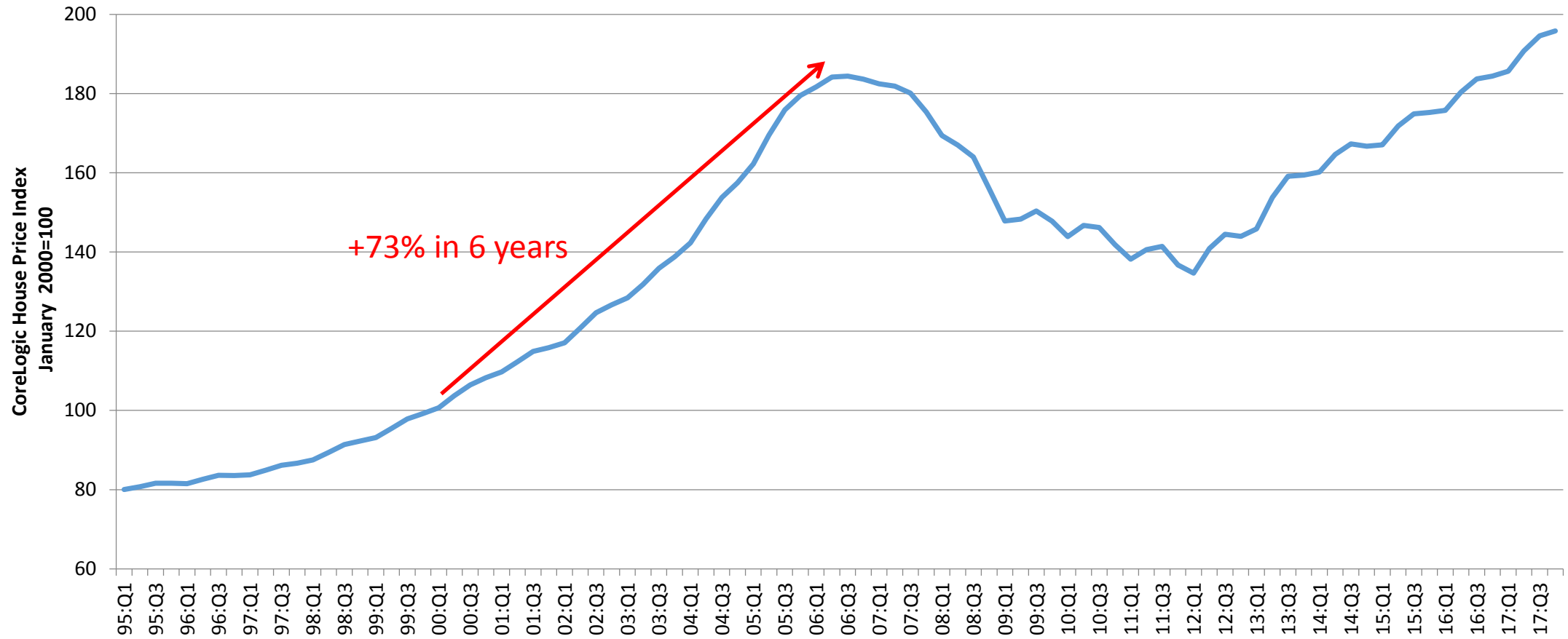
Source: New York Fed Consumer Credit Panel/Equifax  
 \* Credit Score is Equifax Riskscore 3.0

# Home prices have recovered previous peak . . .

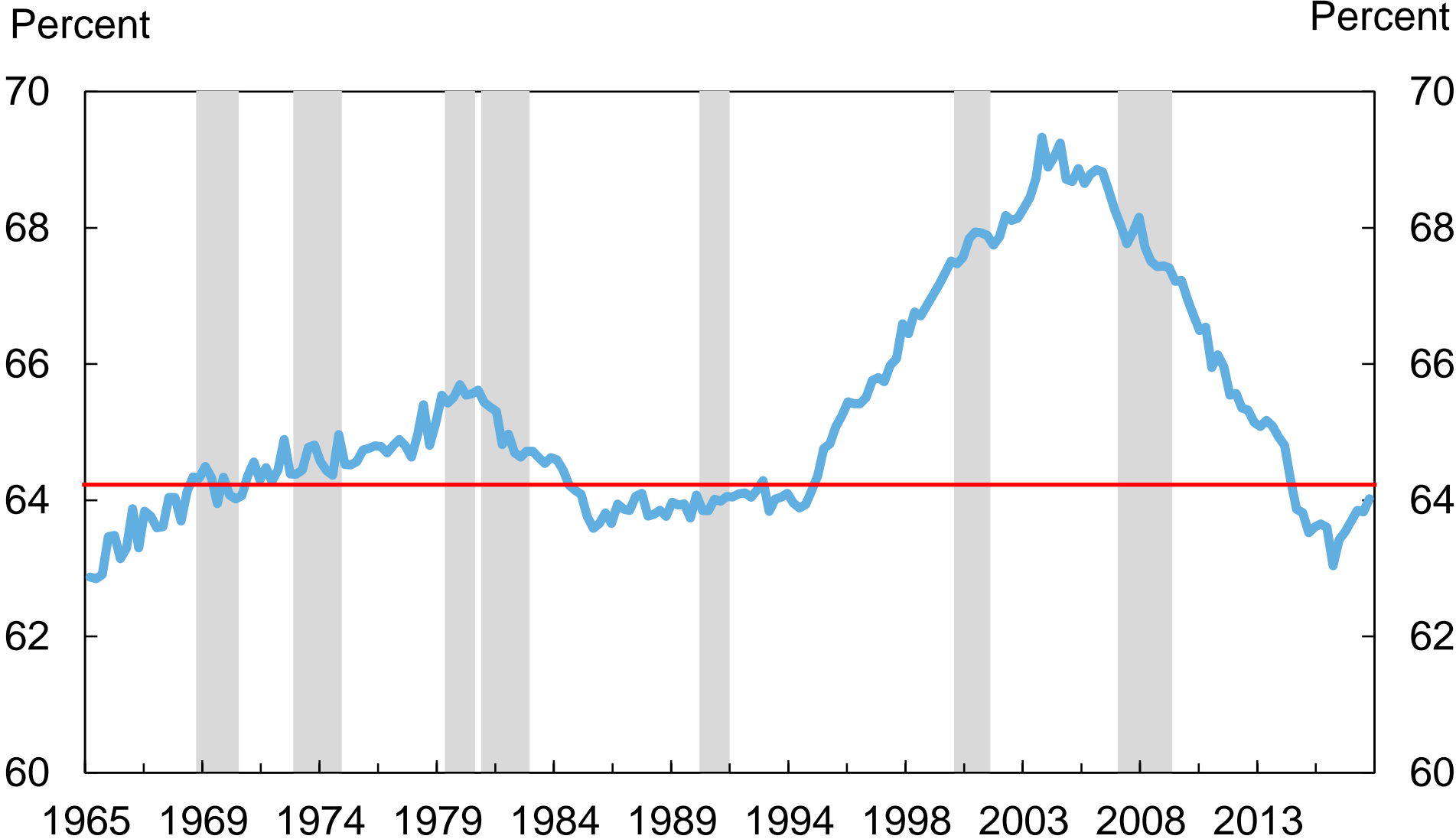




... but this recovery has been notably slower



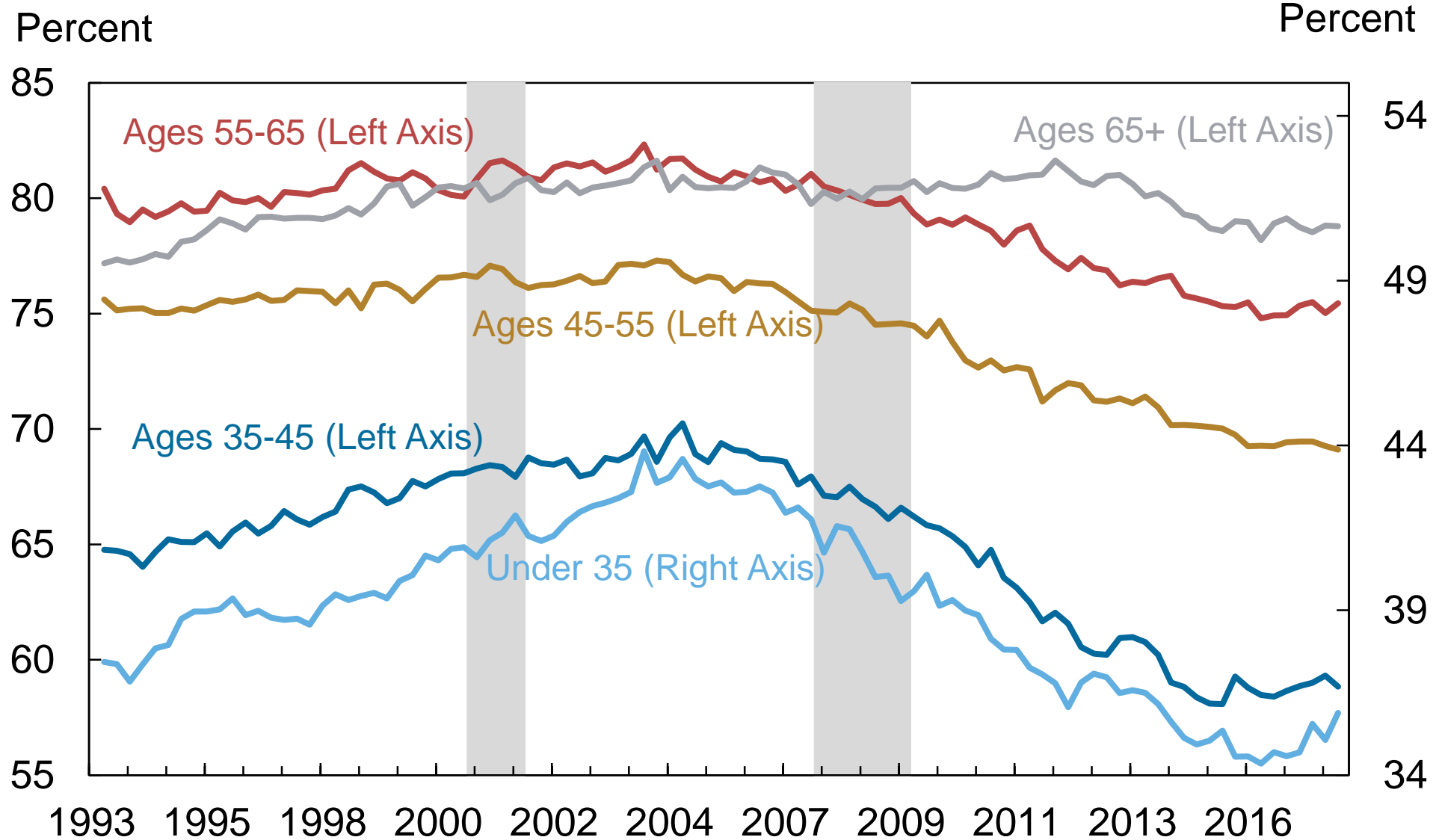
# Homeownership rate returning to normal



Source: Census Bureau via Haver Analytics

Note: Shading shows NBER recessions.

# Homeownership varies by age



Note: Shading shows NBER recessions.  
Homeownership rate is seasonally adjusted.

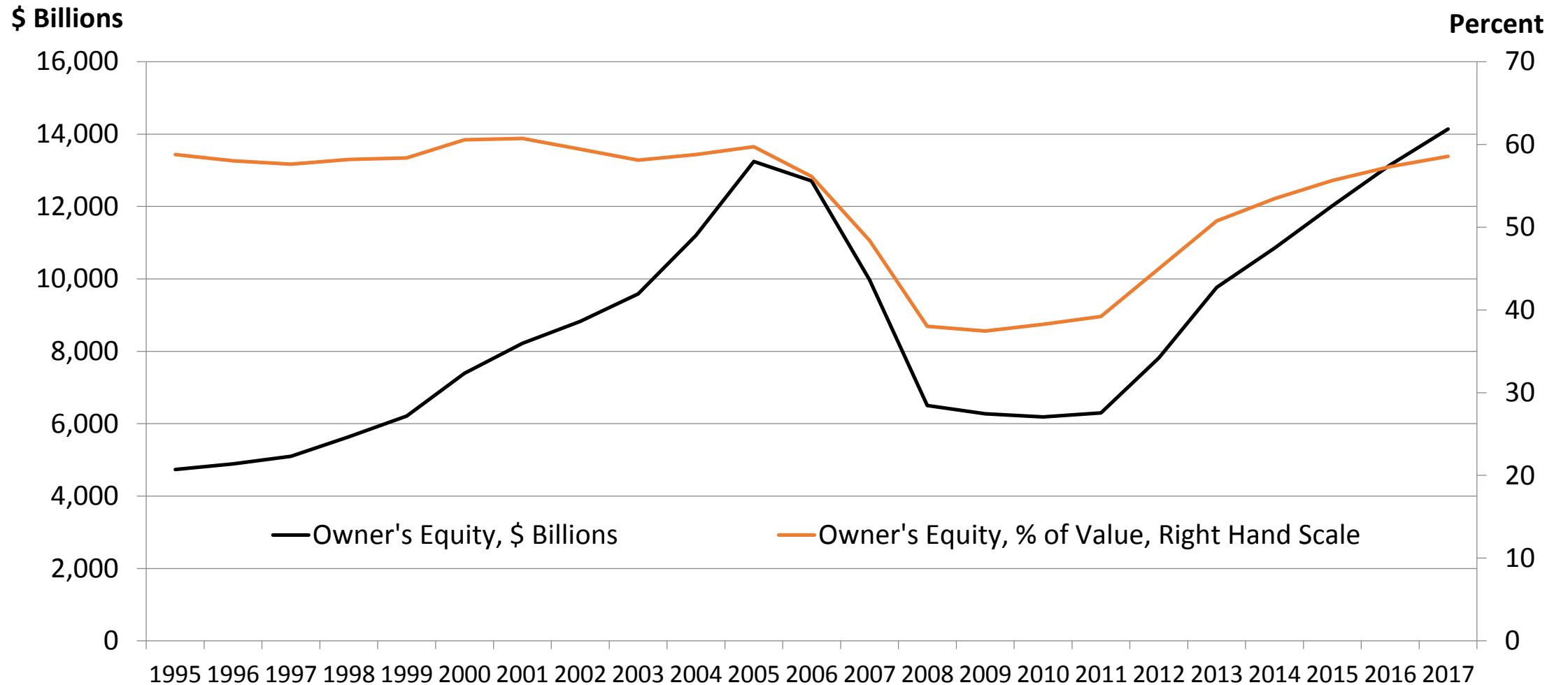
Source: Census Bureau via Haver Analytics

# 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

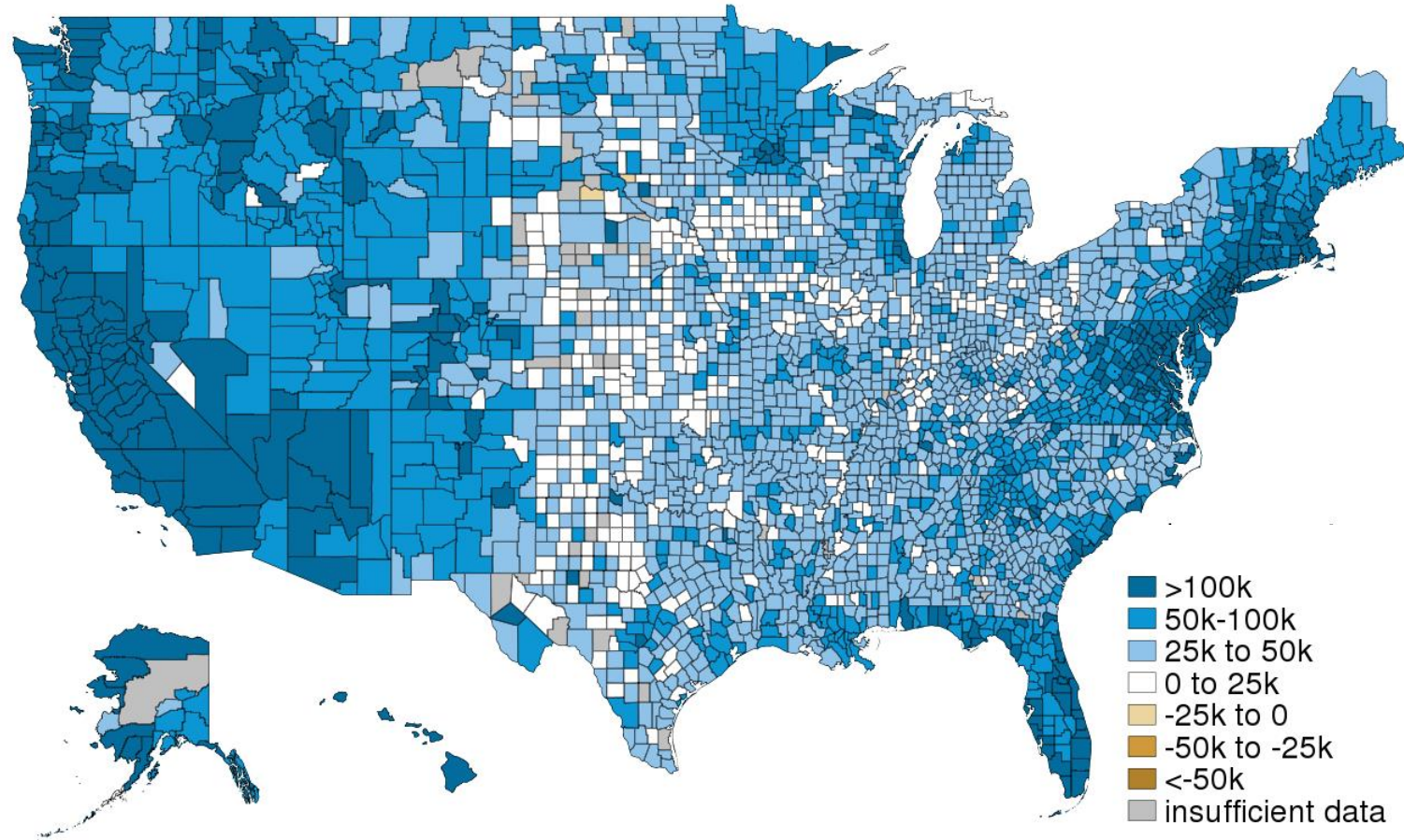
# Aggregate housing wealth has recovered . . .



Source: Federal Reserve Board of Governors

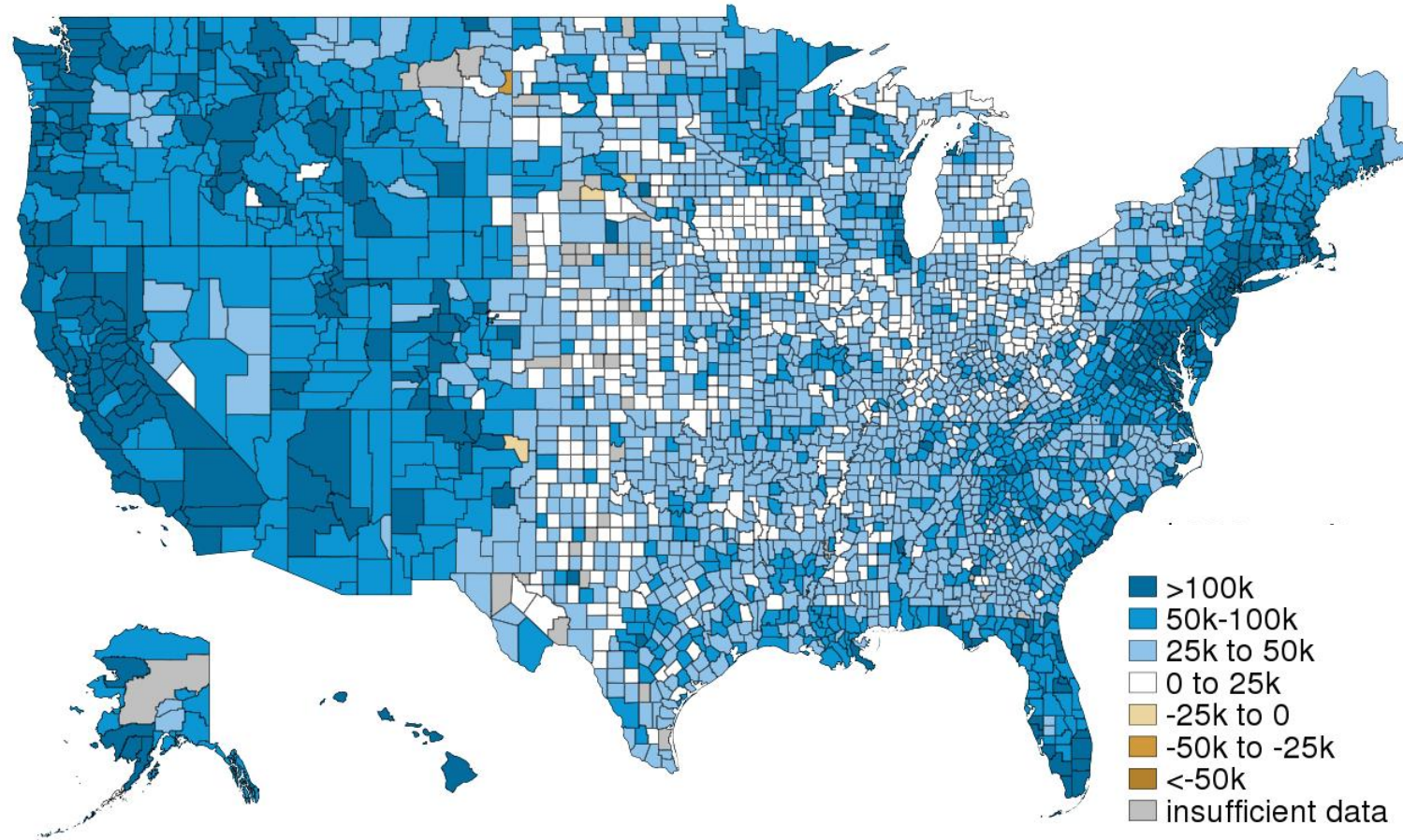


# Median Borrower Equity by County, 2006 (\$)



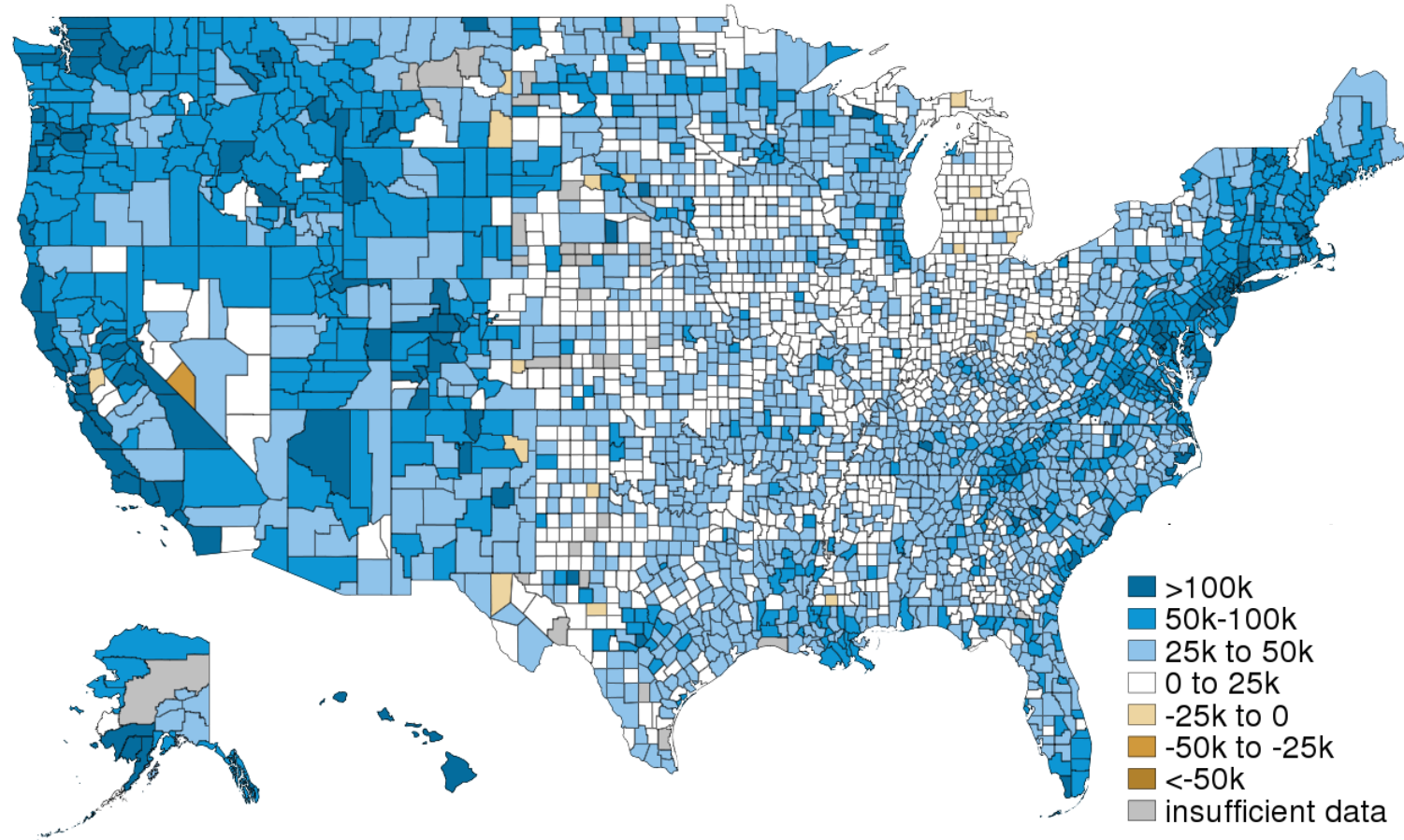
Source: Fuster, Guttman-Kenney and Haughwout, 2016, updated

# Median Borrower Equity by County, 2007 (\$)



Source: Fuster, Guttman-Kenney and Haughwout, 2016, updated

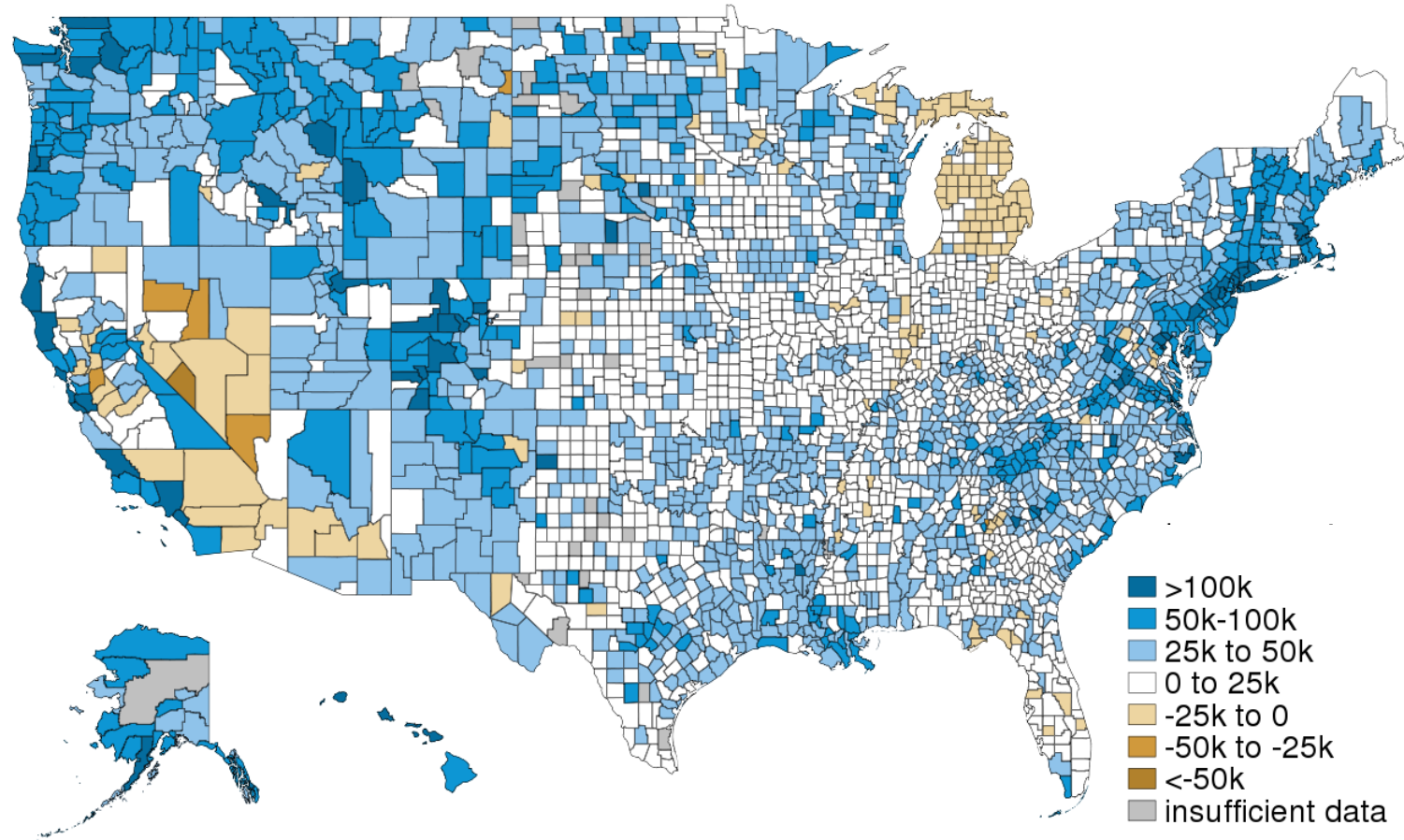
# Median Borrower Equity by County, 2008 (\$)



Source: Fuster, Guttman-Kenney and Haughwout, 2016, updated

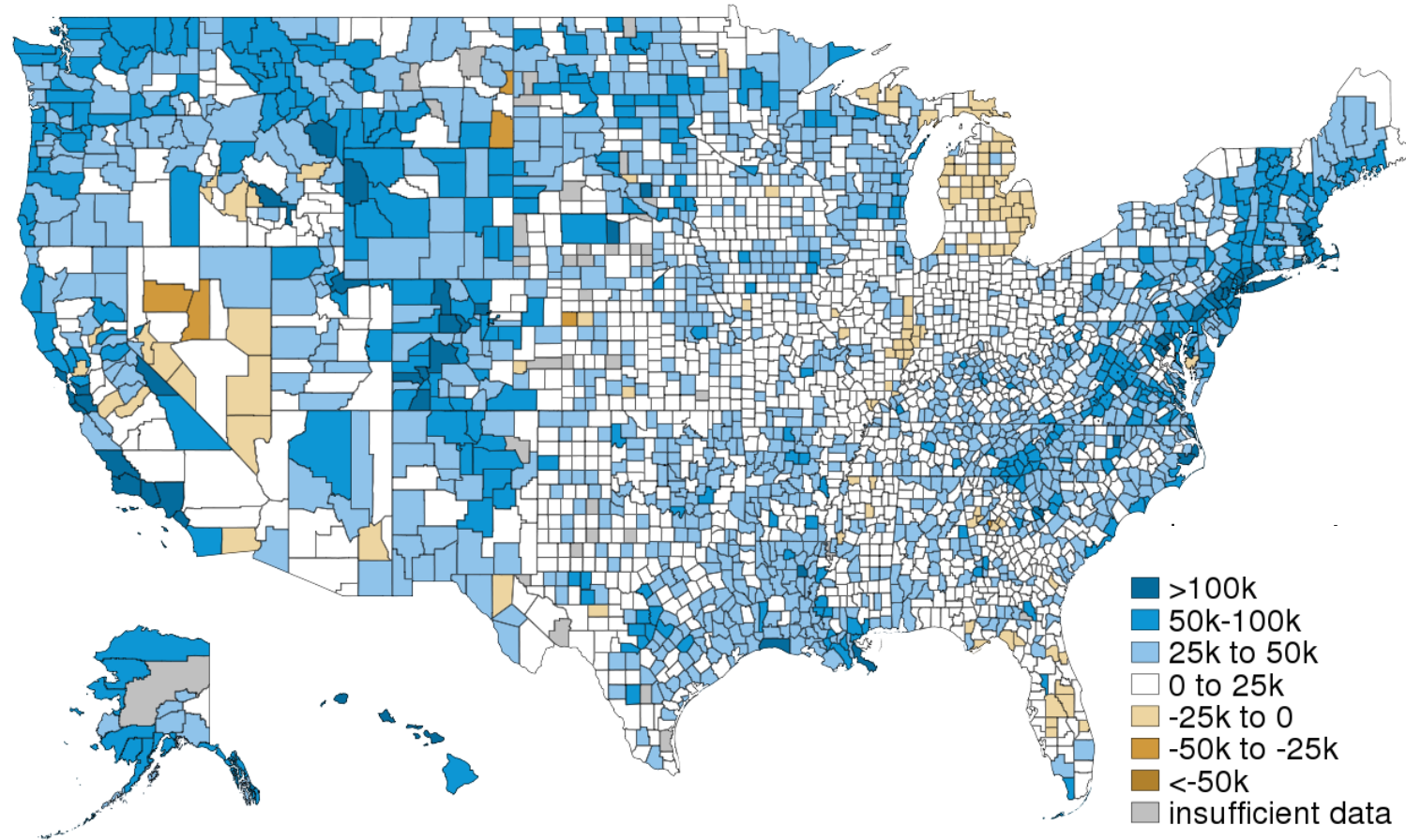


# Median Borrower Equity by County, 2009 (\$)



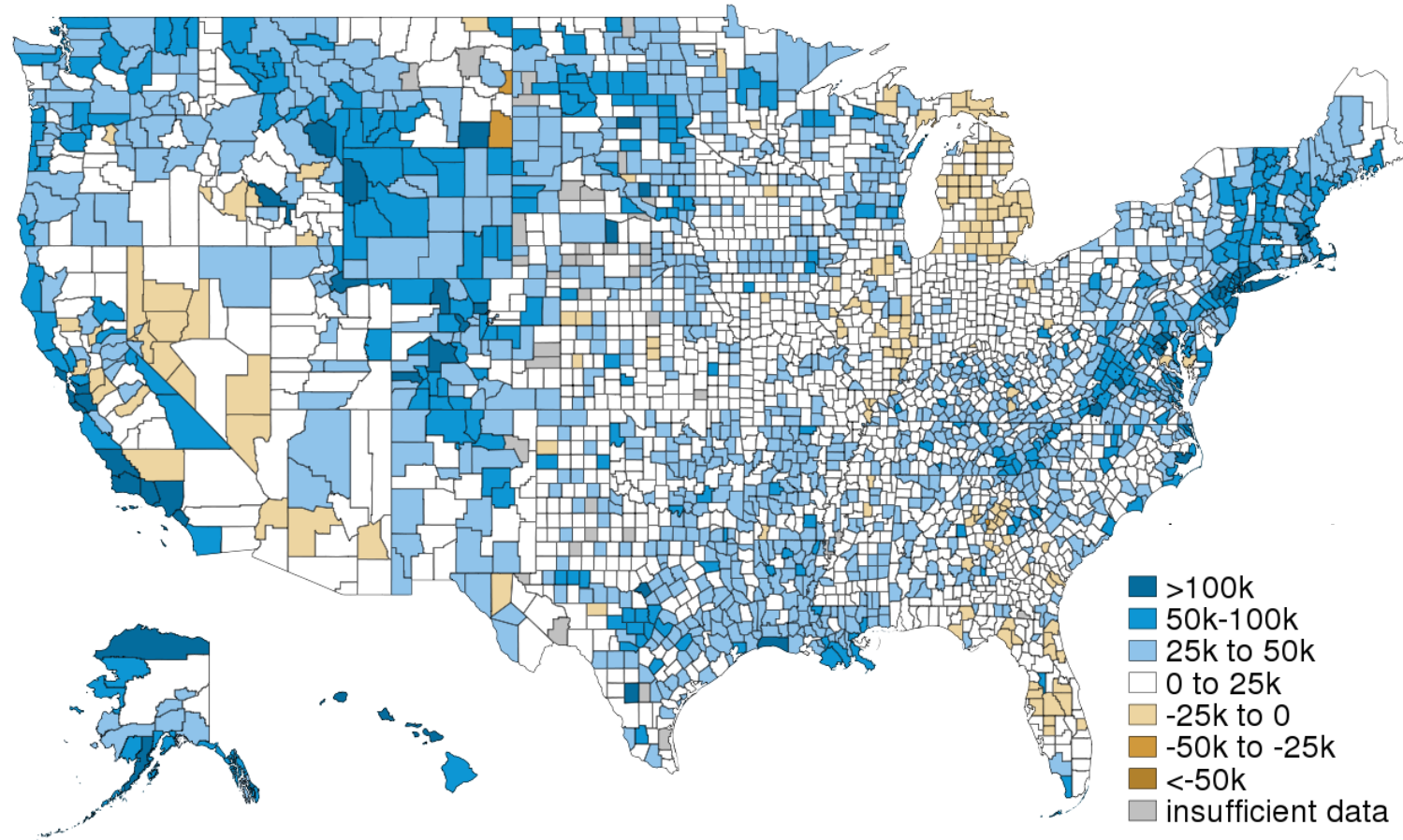
Source: Fuster, Guttman-Kenney and Haughwout, 2016, updated

# Median Borrower Equity by County, 2010 (\$)



Source: Fuster, Guttman-Kenney and Haughwout, 2016, updated

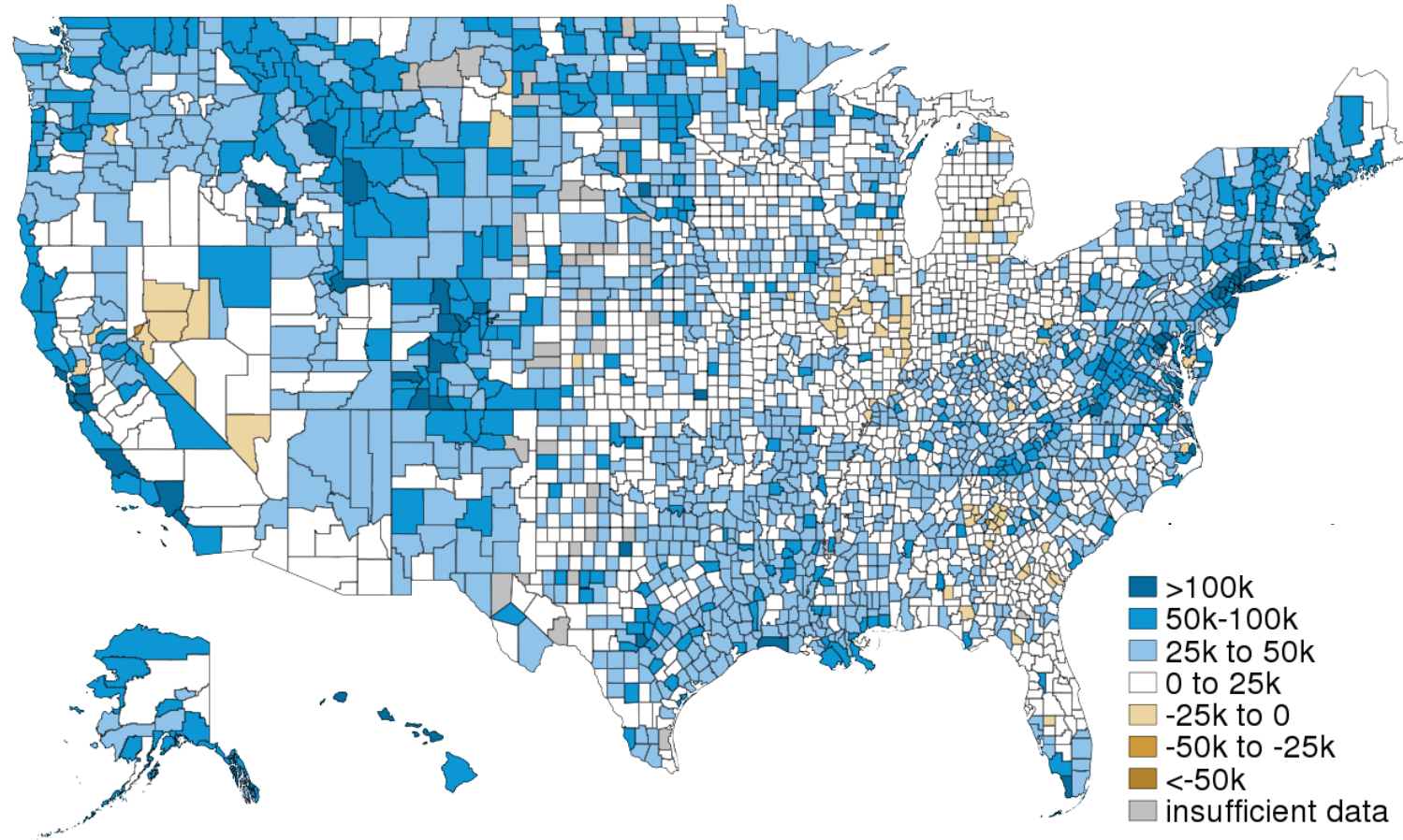
# Median Borrower Equity by County, 2011 (\$)



Source: Fuster, Guttman-Kenney and Haughwout, 2016, updated

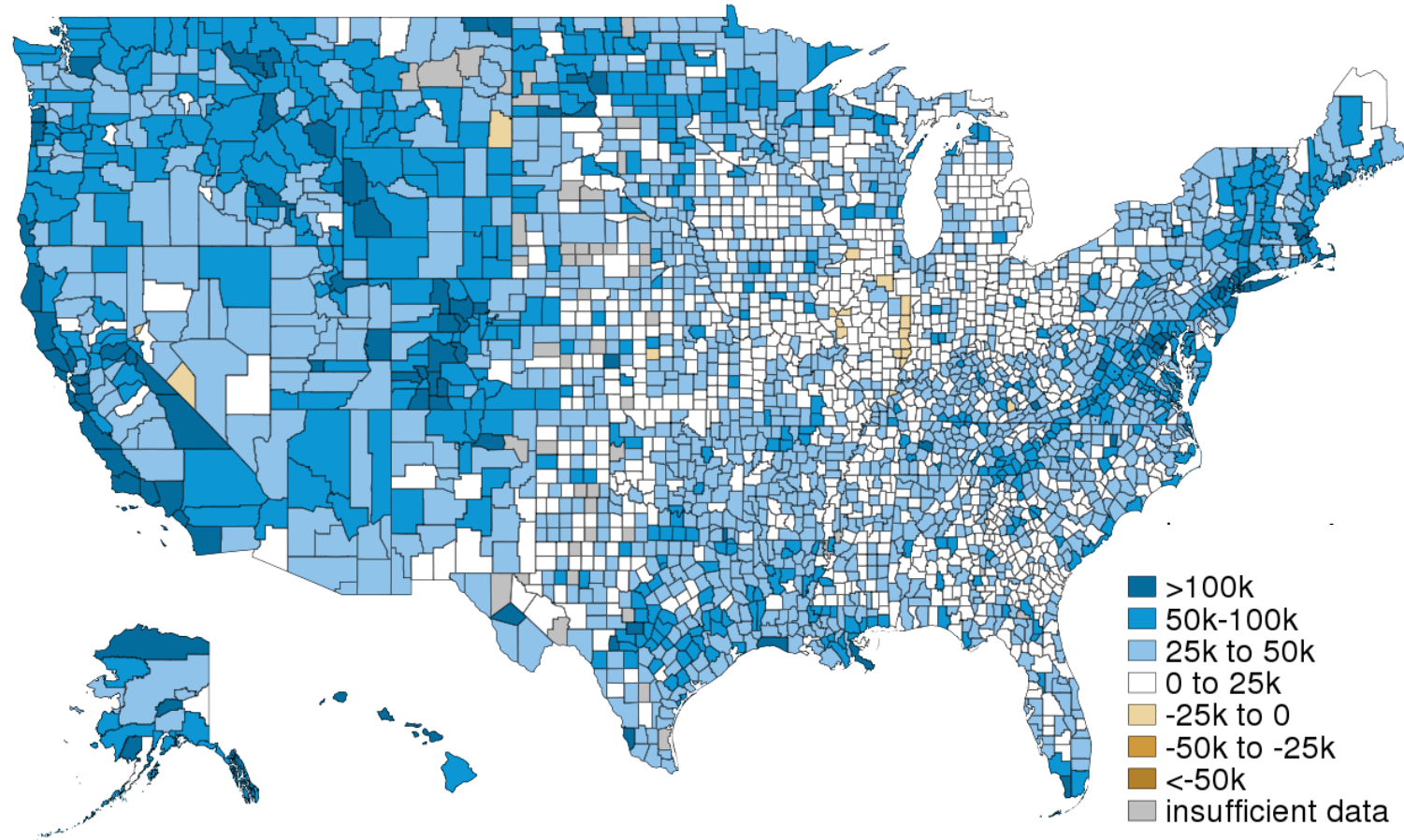


# Median Borrower Equity by County, 2012 (\$)



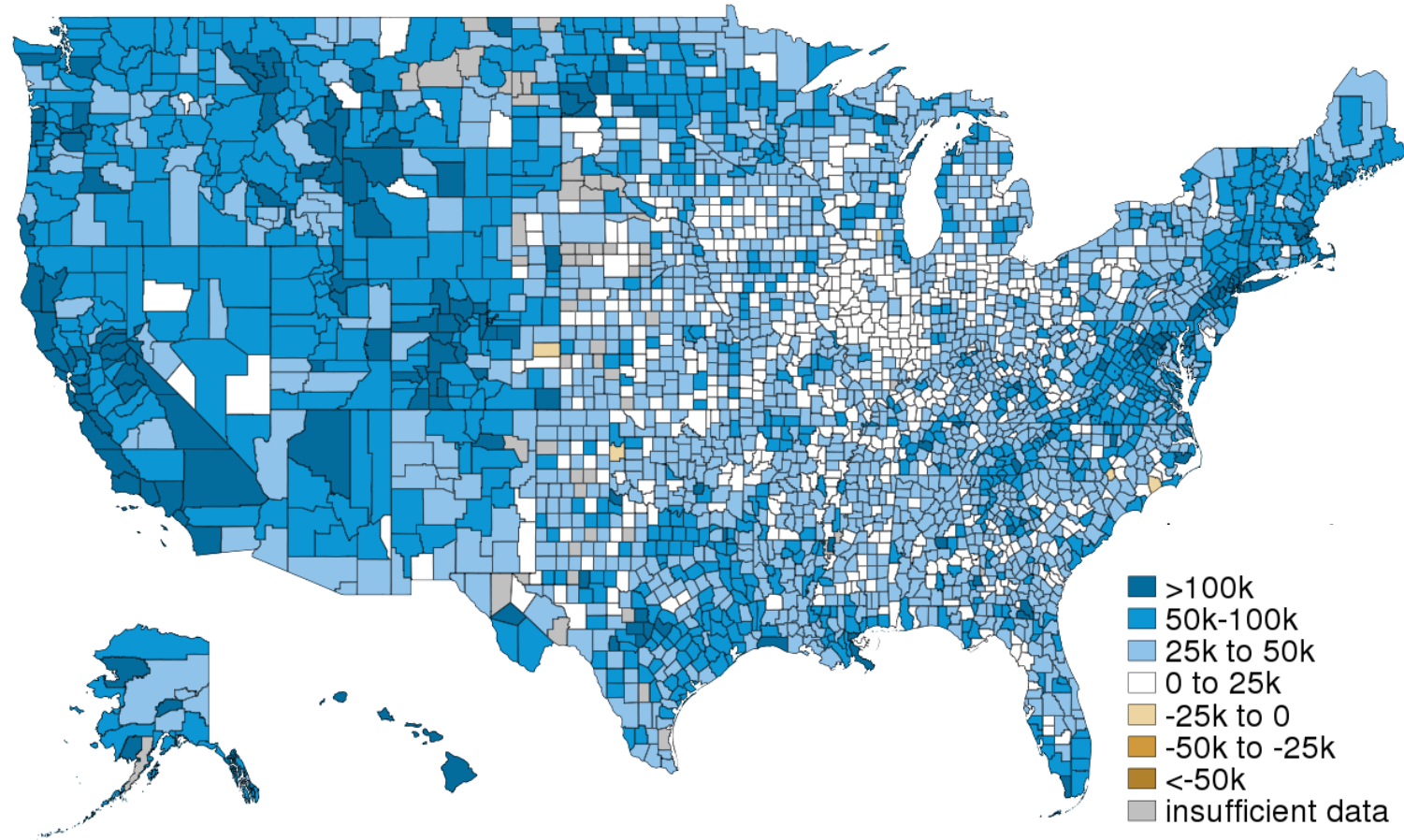
Source: Fuster, Guttman-Kenney and Haughwout, 2016, updated

# Median Borrower Equity by County, 2013 (\$)



Source: Fuster, Guttman-Kenney and Haughwout, 2016, updated

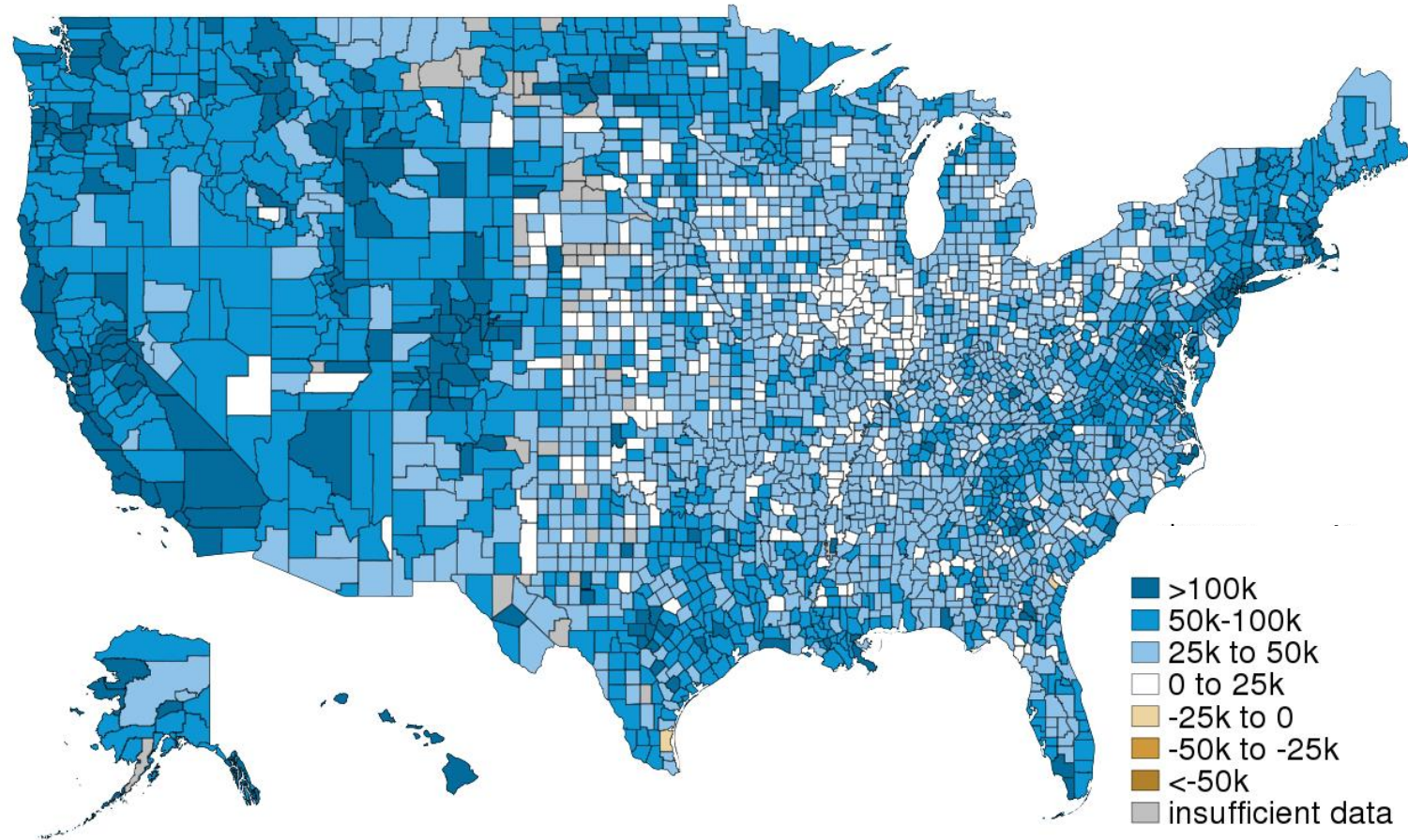
# Median Borrower Equity by County, 2014 (\$)



Source: Fuster, Guttman-Kenney and Haughwout, 2016, updated

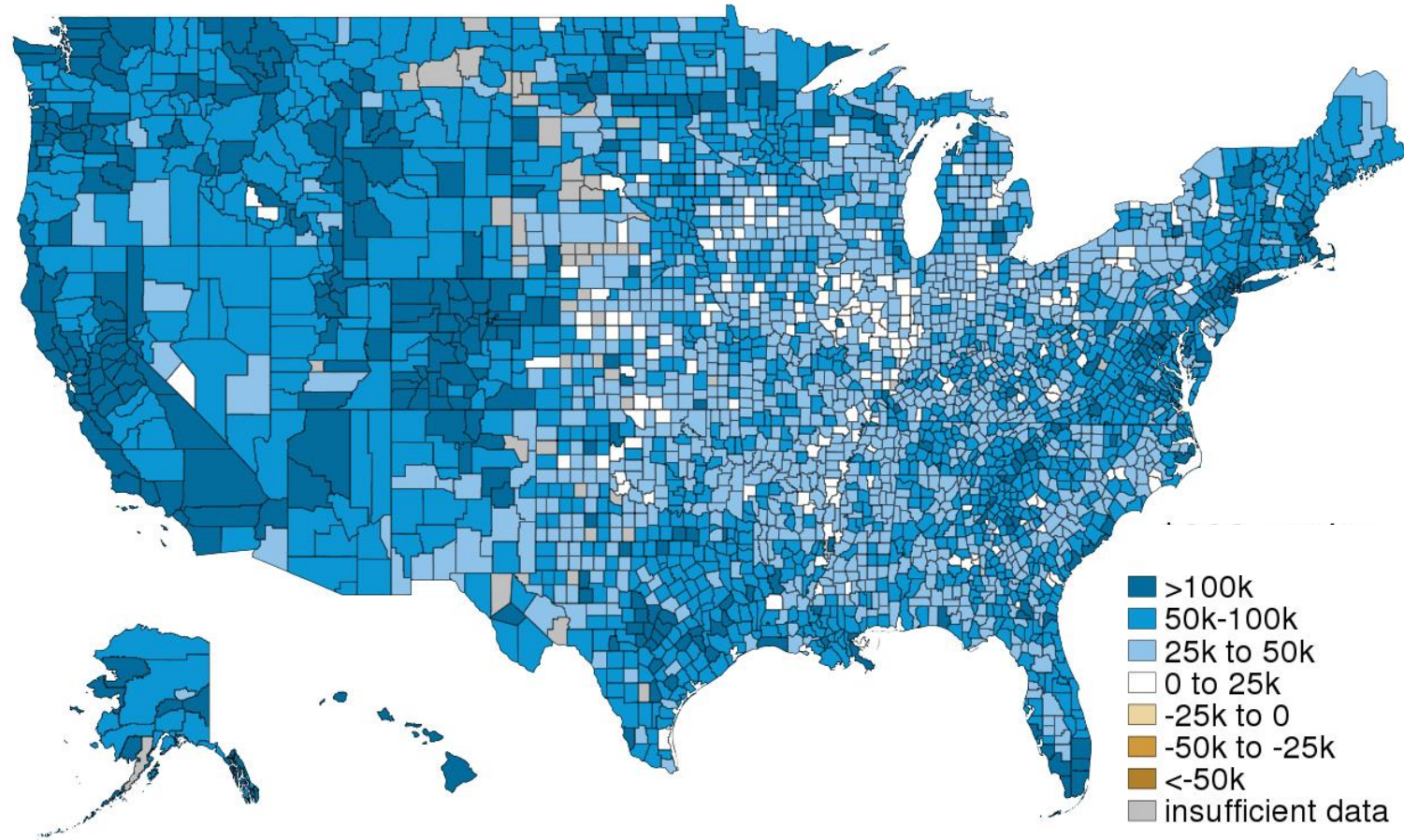


# Median Borrower Equity by County, 2015 (\$)



Source: Fuster, Guttman-Kenney and Haughwout, 2016, updated

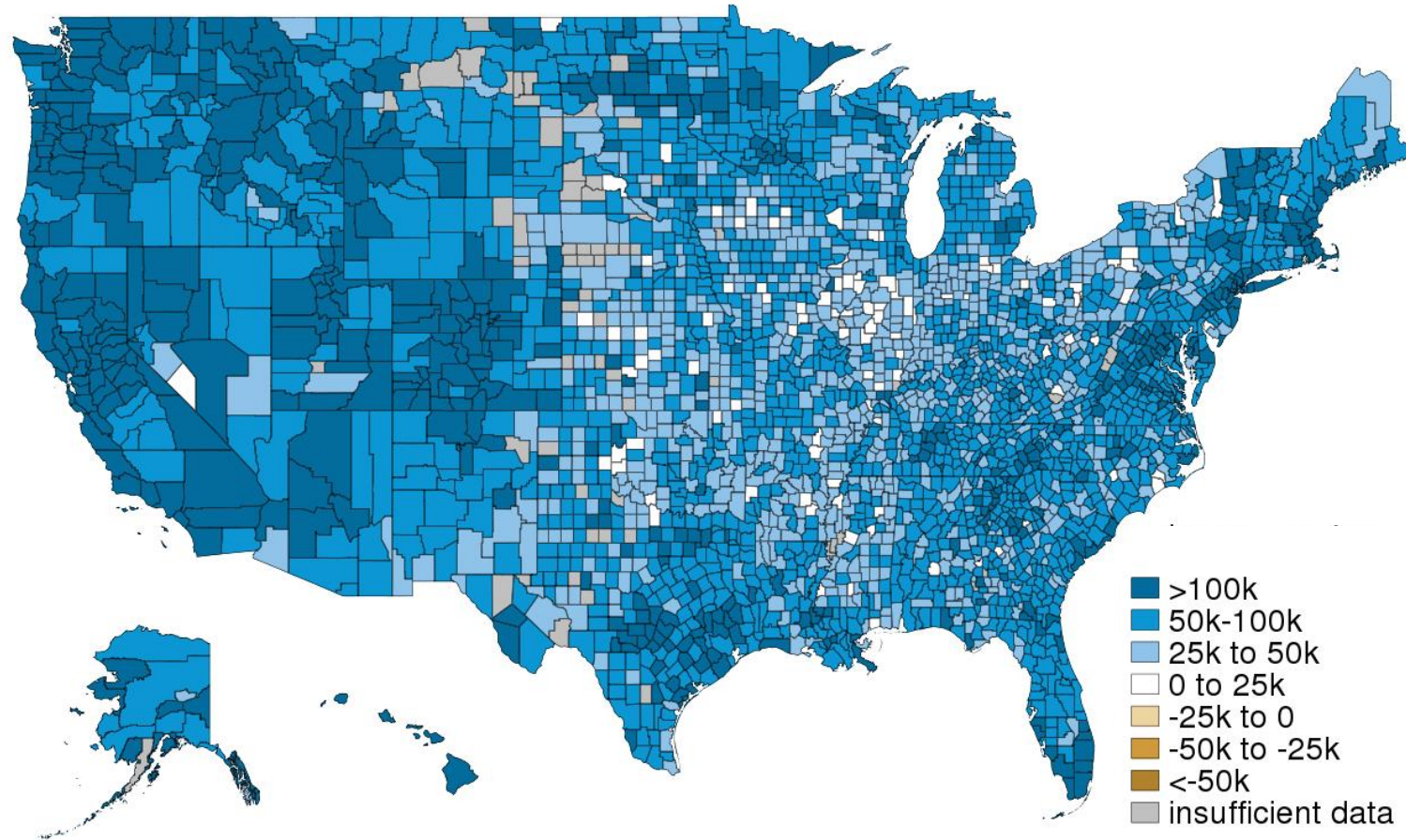
# Median Borrower Equity by County, 2016 (\$)



Source: Fuster, Guttman-Kenney and Haughwout, 2016, updated



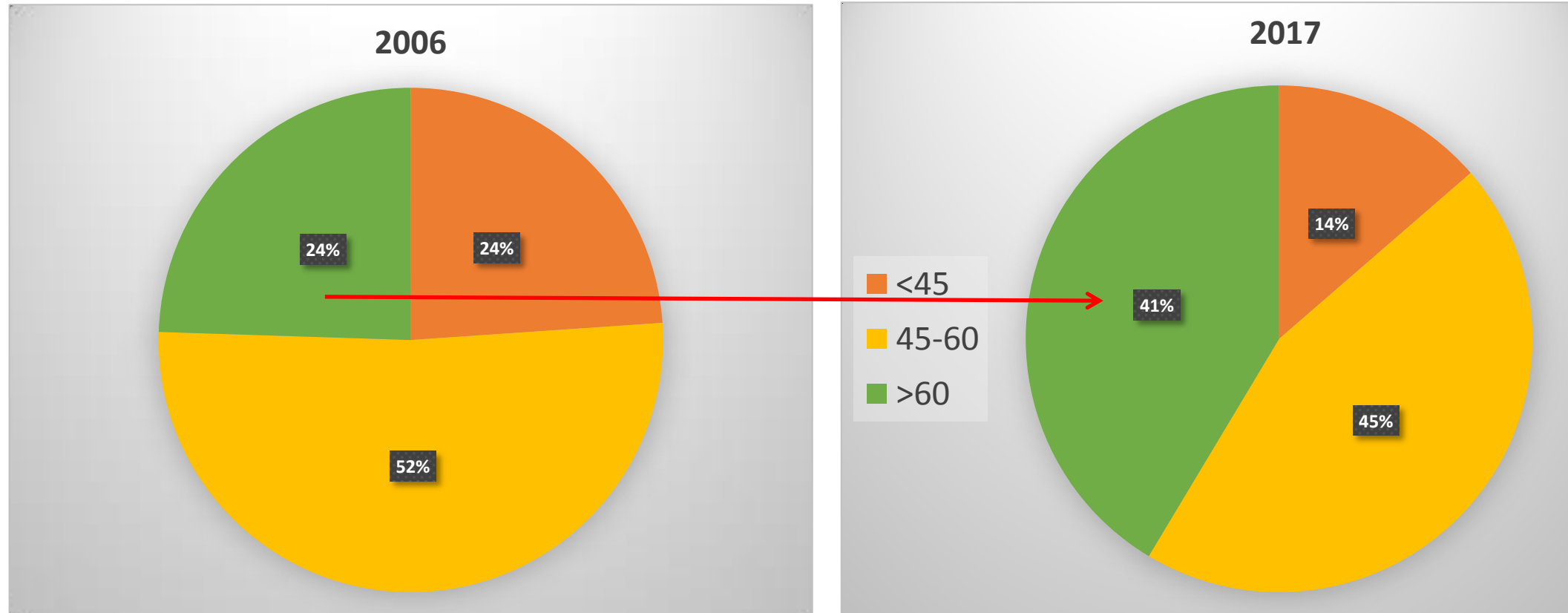
# Median Borrower Equity by County, 2017 (\$)



Source: Fuster, Guttman-Kenney and Haughwout, 2016, updated



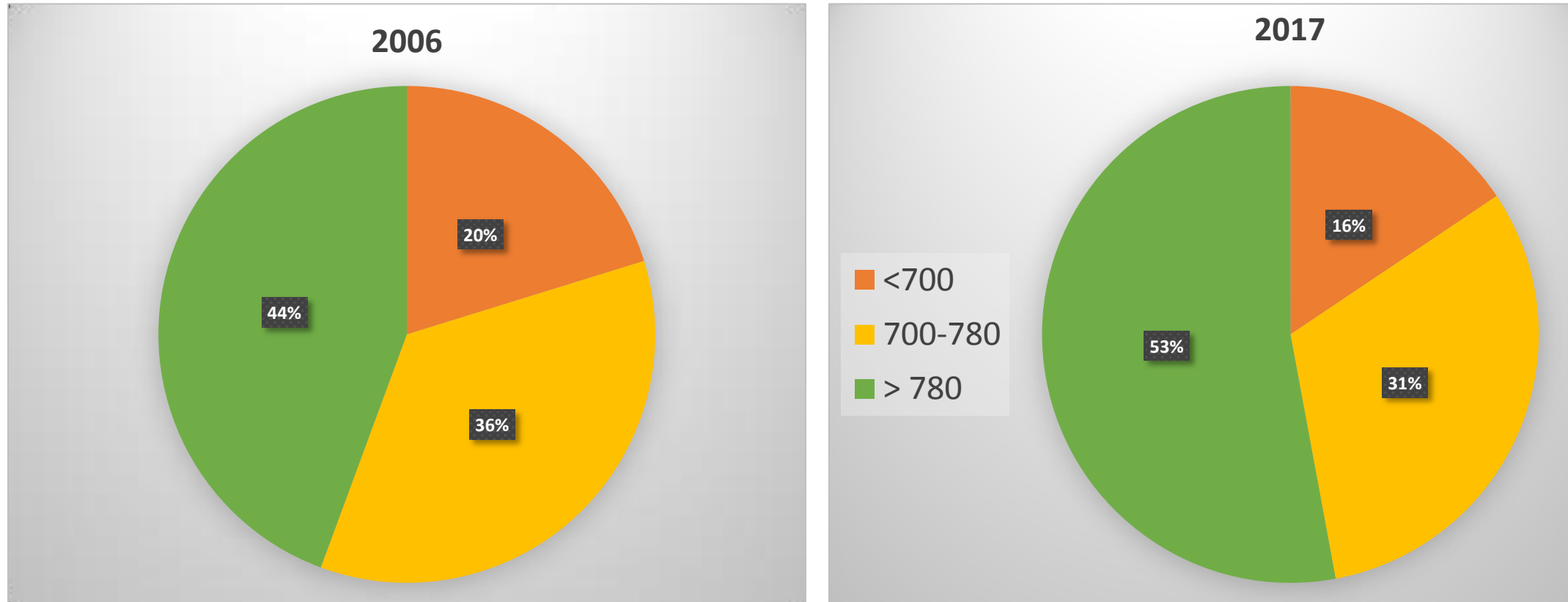
# Housing wealth shifting to older borrowers . . .



Tappable Equity (LTV ≤ 80)

Source: Fuster, Guttman-Kenney and Haughwout, 2016, updated

# ... and to higher credit score borrowers



Tappable Equity (LTV ≤ 80)

# 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

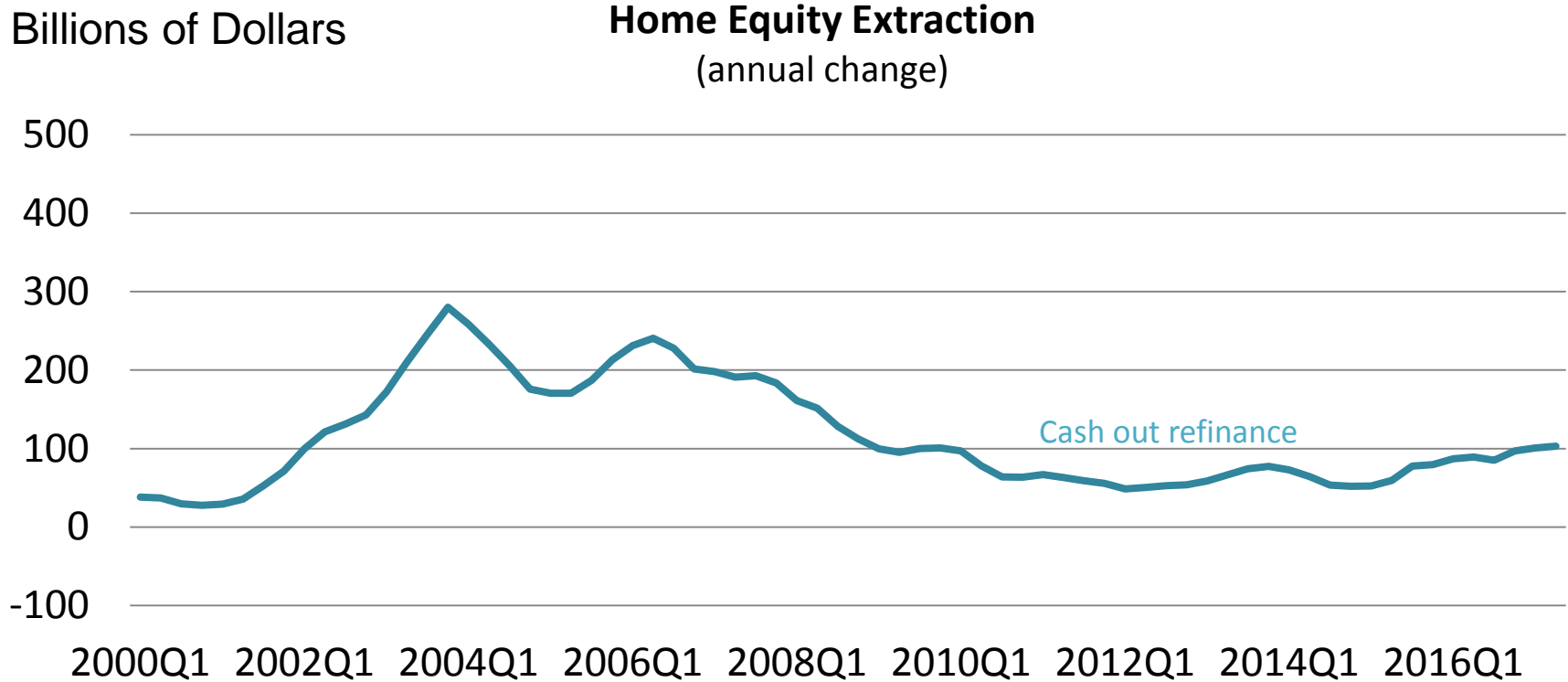
# III. Home Equity Extraction

# 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

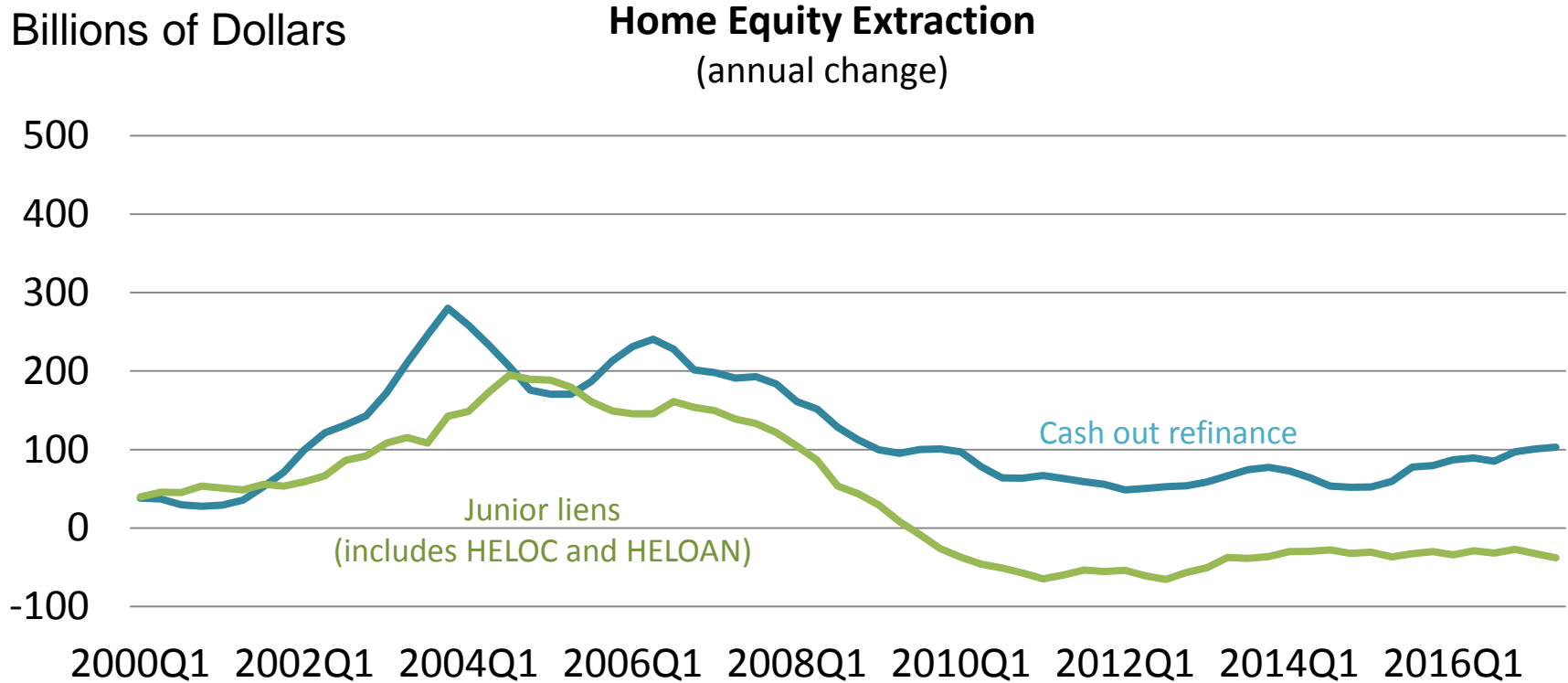


# Cash out refis increase slightly

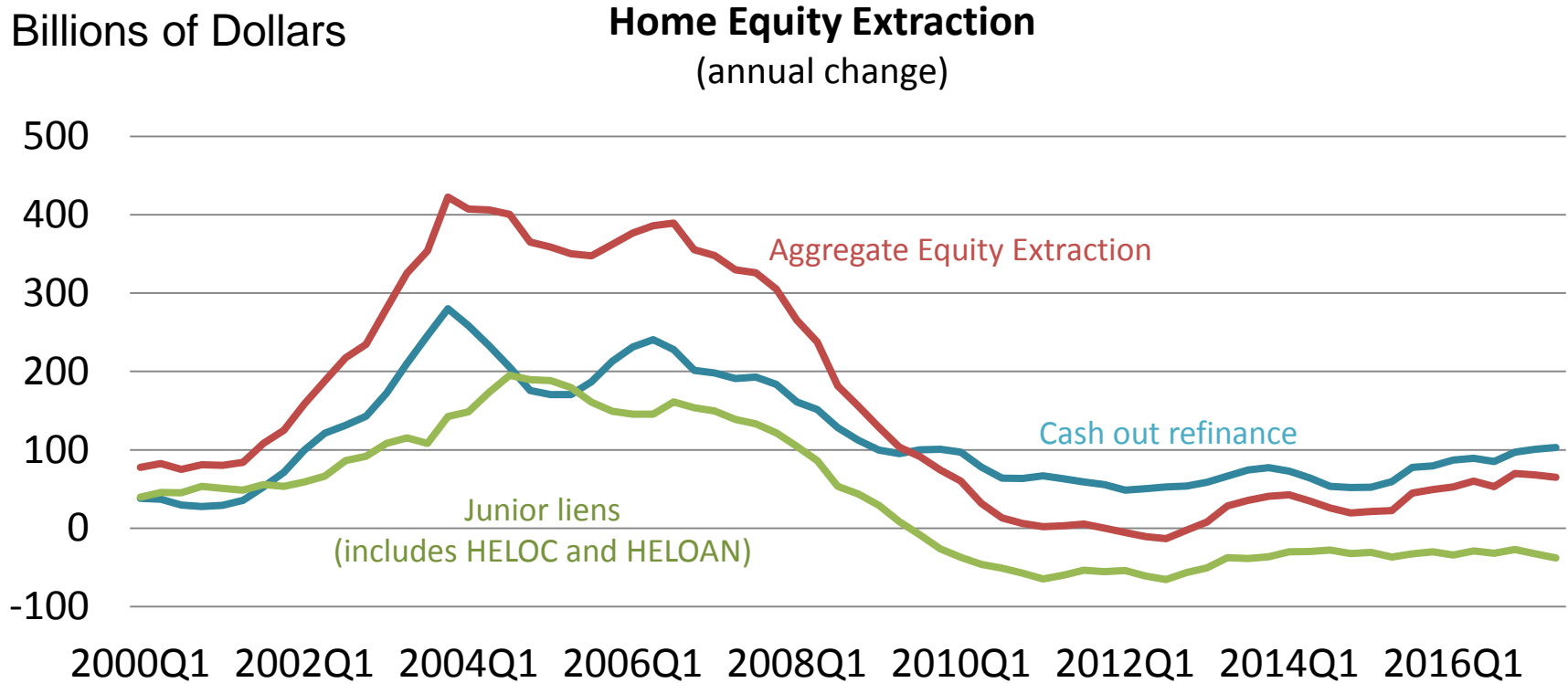


Source: New York Fed Consumer Credit Panel / Equifax

# Junior lien equity being repaid on net

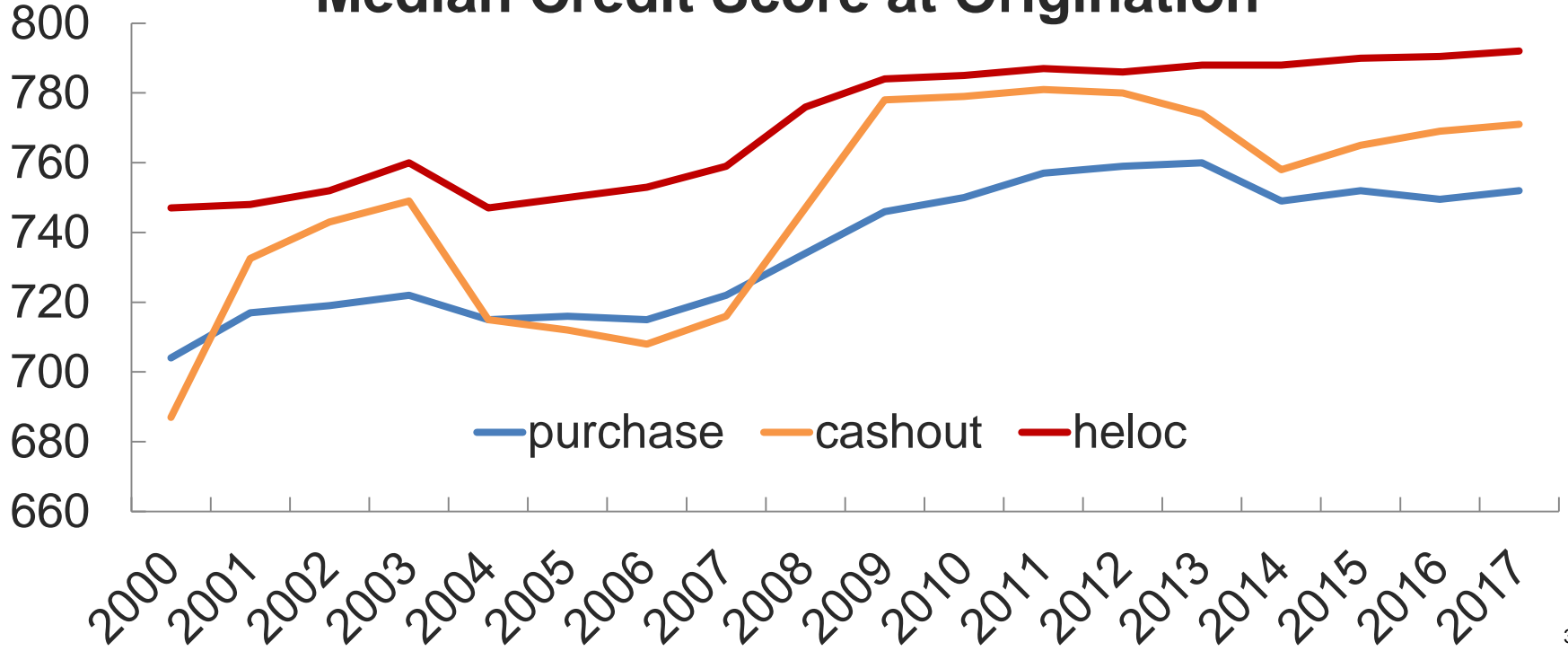


# Aggregate equity extraction remains low



# Mortgage underwriting remains tight, especially for equity extraction

## Median Credit Score at Origination

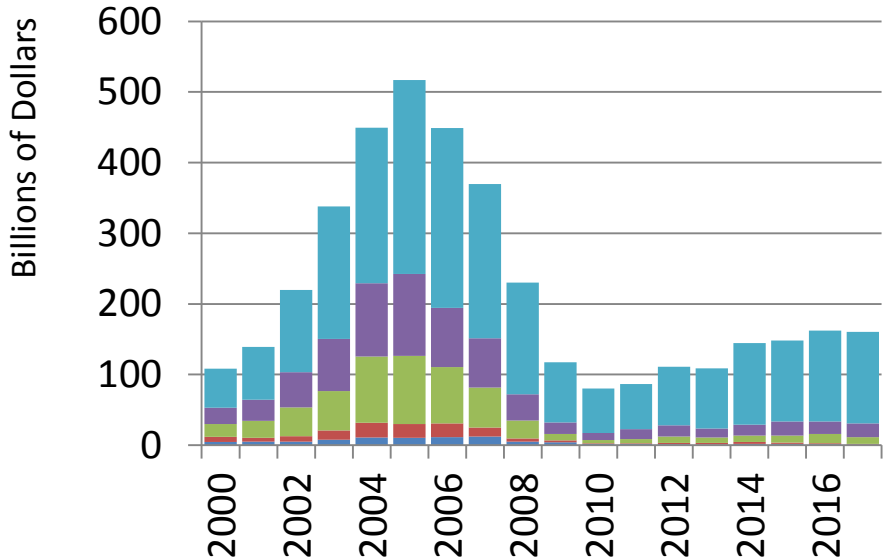


# Since 2009, extraction has been dominated by highest score borrowers

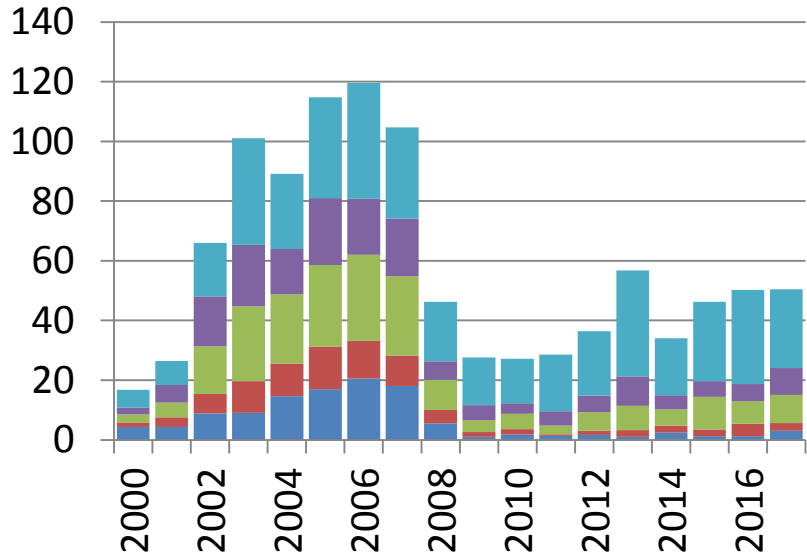
## HELOC Originations

(Initial Pledge Amount)

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



## Cashout Refinances

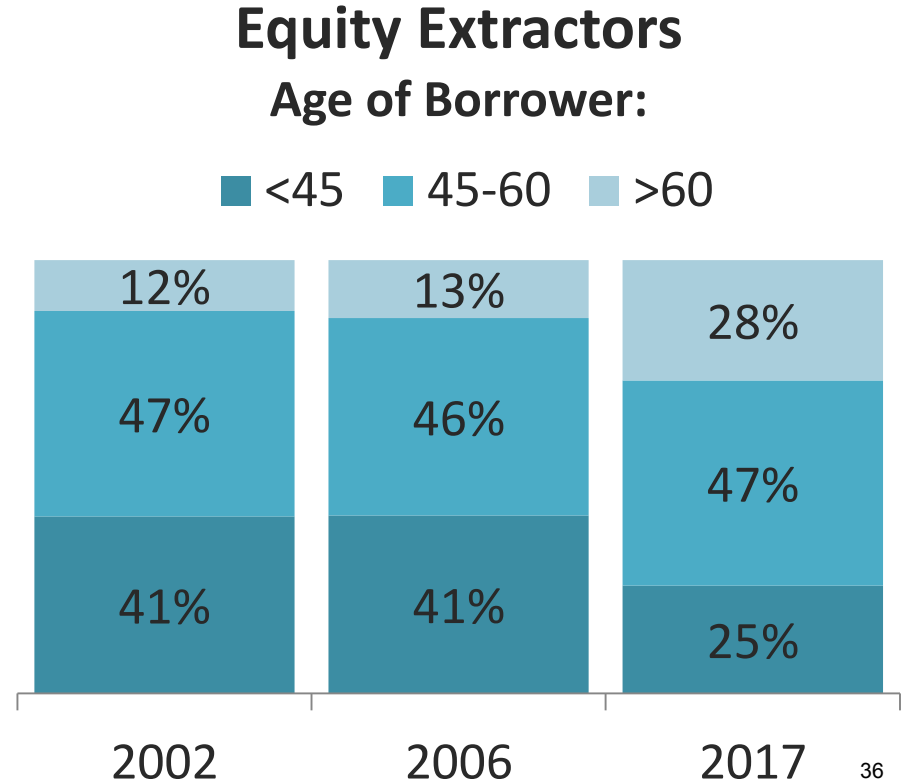


Source: New York Fed Consumer Credit Panel / Equifax

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

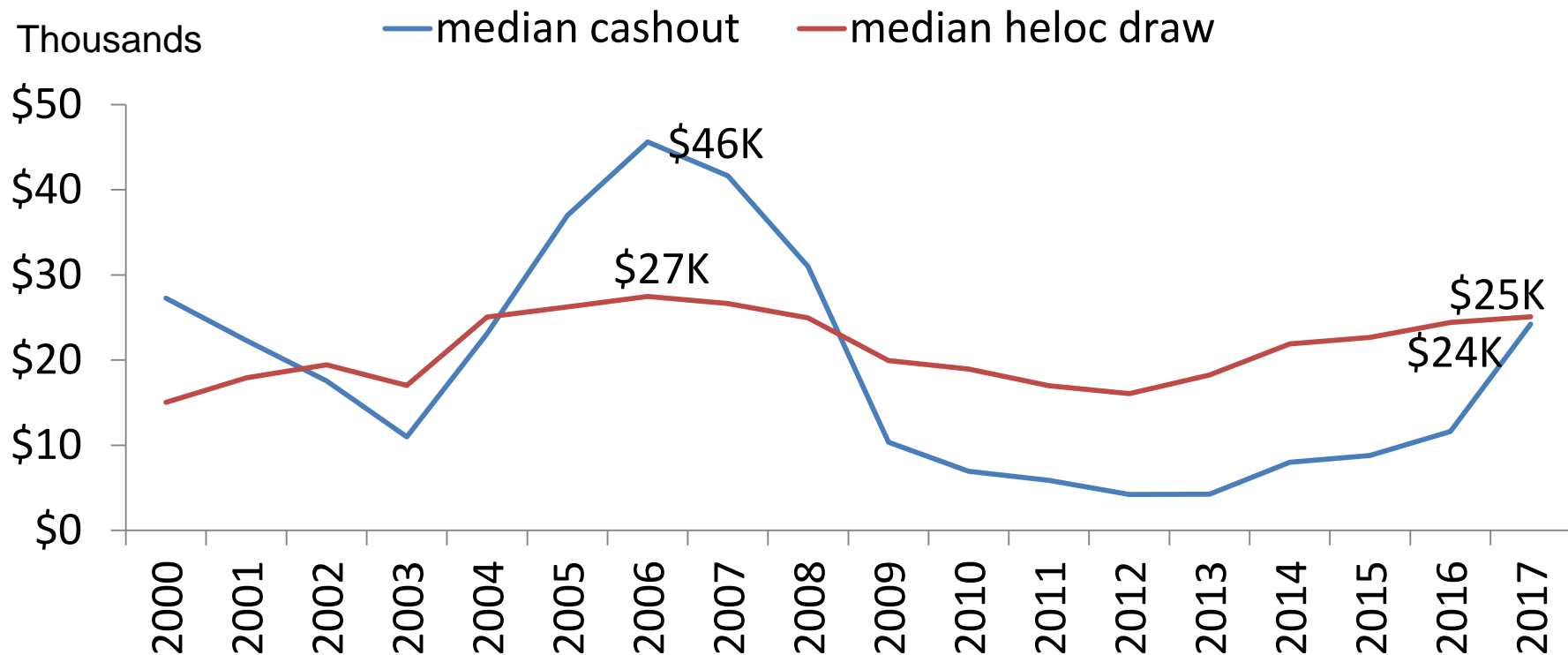




# Reasons for new HELOCs or cashout refinances

- **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

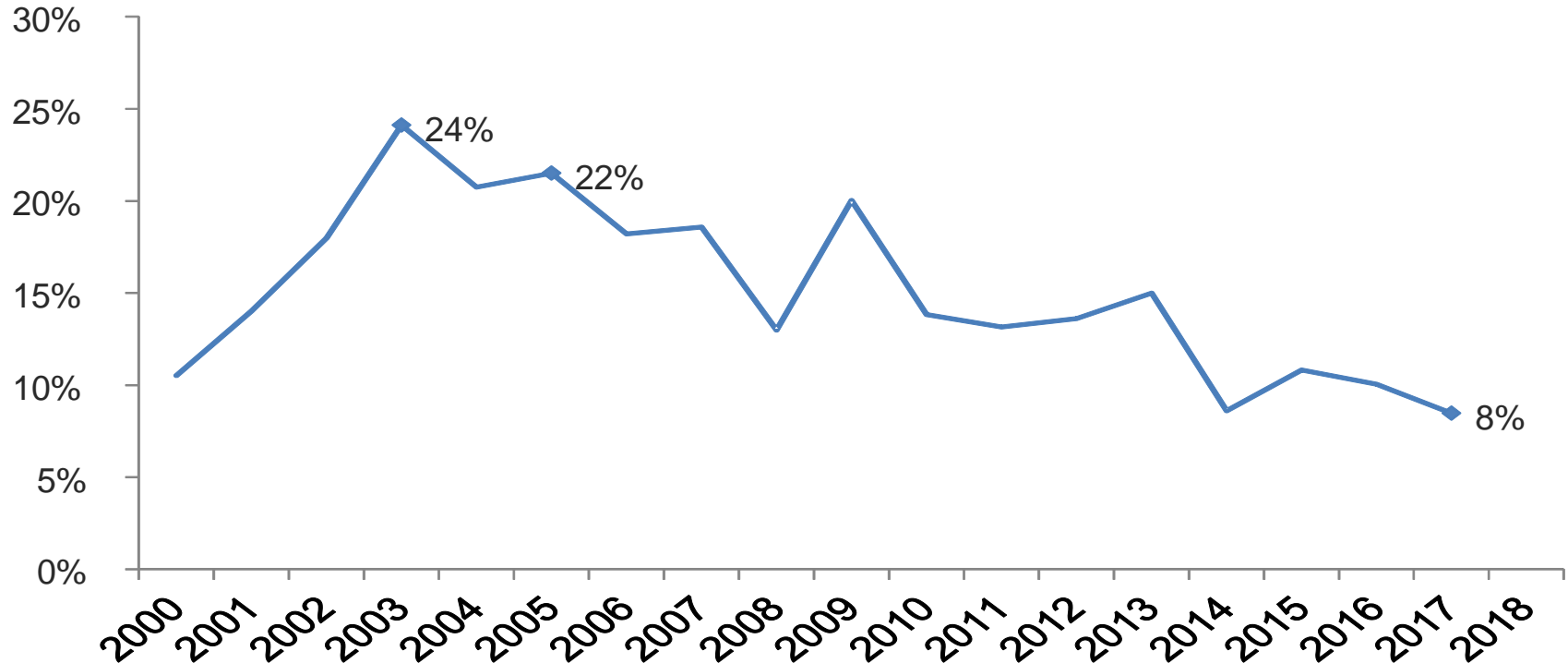
# Equity withdrawals are smaller than they used to be



Source: New York Fed Consumer Credit Panel / Equifax;  
HELOC draw is report as balance in 3<sup>rd</sup> 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 leveraging 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

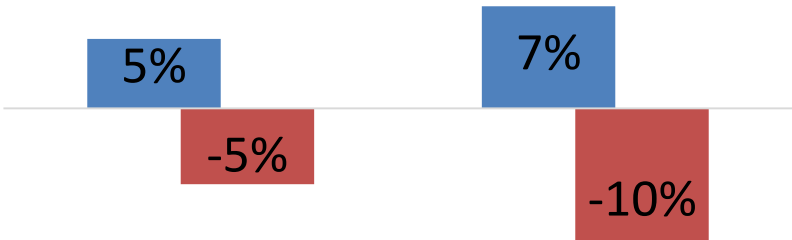
## Credit Card

Yearly percent growth in avg bal

2006

2017

■ everyone else   ■ originators

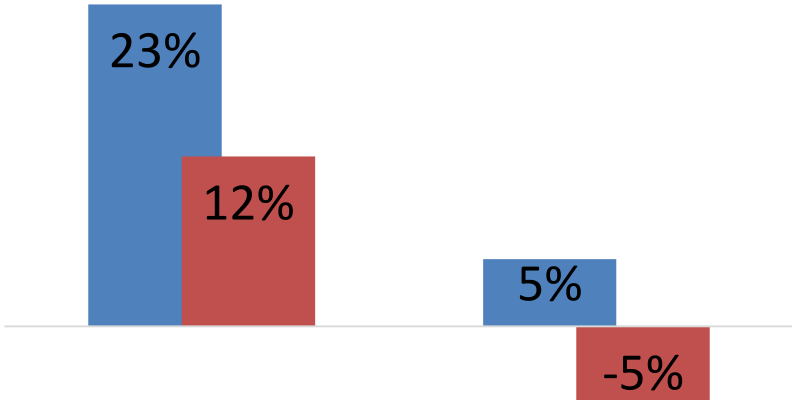


## Student Loan

Yearly percent growth in avg bal

2006

2017



Source: New York Fed Consumer Credit Panel / Equifax

# Wrapping Up

- 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