State of home equity report

Why easy access to home equity has never been more essential

Summer 2024

Introduction

Through extensive research and analysis of our proprietary Home Equity Line of Credit (HELOC) data – which represents over 100,000 households who have successfully unlocked over $10 billion in equity from their homes – Figure has analyzed key macro trends impacting homeownership in America today.

The report is the inaugural installment of what will be a periodic look at the state of home equity in the United States. Specifically, we will assess:

- **The big picture** of home equity across the country and changes over time
- **How** homeowners are accessing their equity
- **Why** they're generating liquidity.

Historically, young people have purchased a starter home with the idea of building up equity and eventually selling and trading up for a bigger forever home. Today, however, the housing world looks very different. High interest rates, increasing property taxes, and rising insurance premiums are locking Americans into their current homes — while home equity is becoming an increasingly significant percentage of homeowners' net worth. As these trends accelerate, the accessibility, efficiency, and safety of tapping into home equity is increasingly defining how American homeowners manage their finances, fund their most important purchases and plan for major life events.

Homeownership in 2024: Increasingly expensive and immobile

Homeownership has become an increasingly expensive proposition for Americans due to a number of factors. Interest rates are at their highest levels in 20 years, and the inflation index has continued to rise 0.4% for the fourth consecutive month. According to Freddie Mac, 6 out of every 10 homeowners are locked in at a 4% rate or less, leading to what is known as the "rate-lock effect." Homeowners, in an effort to avoid higher mortgage rates, are choosing not to put their homes up for sale, resulting in low levels of inventory and a decrease in home sales. Low inventory in turn has caused home prices to increase. According to Redfin, as of April 2024, the median price of homes was $434,00–the highest on record.

Meanwhile, the costs associated with owning a home have increased substantially, an average of $6,663 a year in the fourth quarter of 2023, up 8.3% from a year earlier, according to home-improvement company, Thumbtack. Home insurance premiums, driven in part by inclement weather and climate change, rose 11.3% in 2023, according to S&P Global. The cost of utilities has also increased. In 2023, residential electricity prices rose 6.2%, according to the U.S. Energy Information Administration.

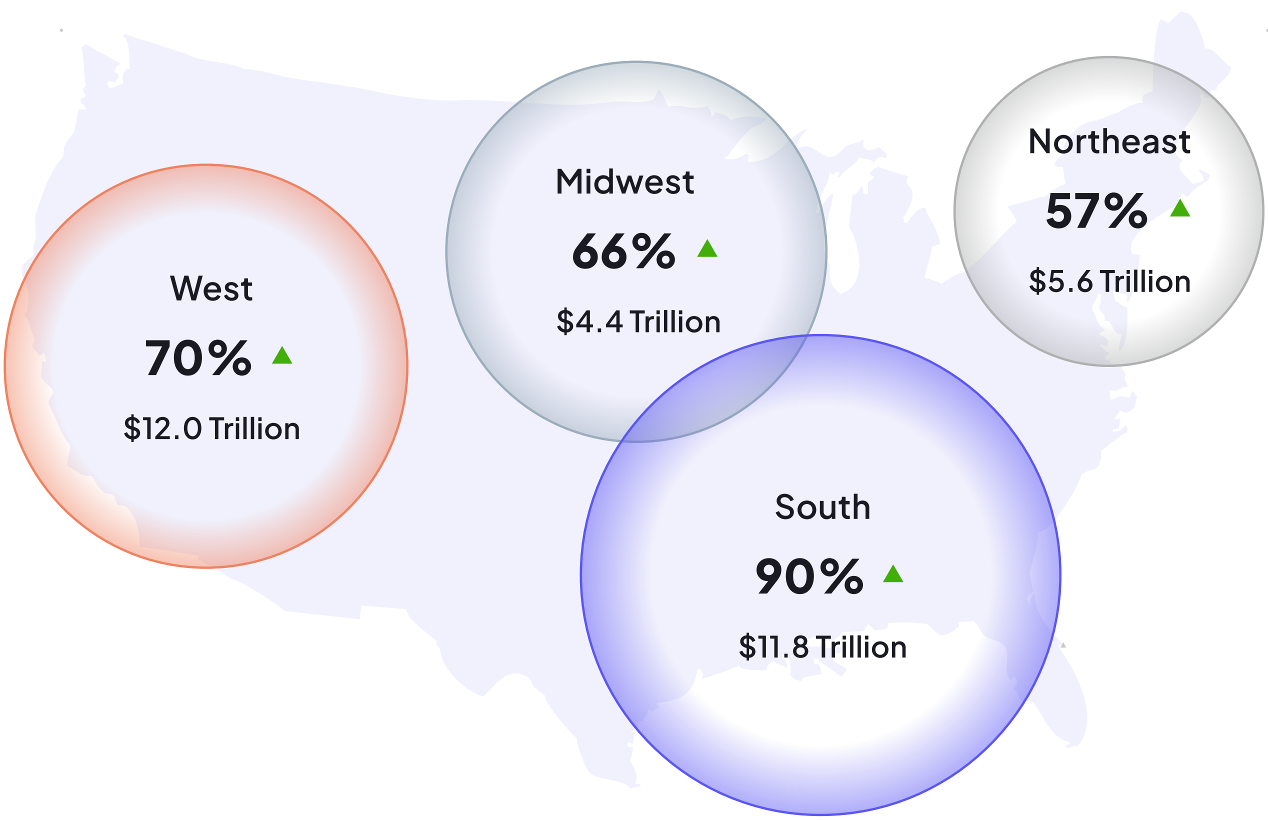
At the same time, consumer prices continue to rise. Faced with soaring costs, homeowners are forced to grapple with budgeting decisions that in some cases require them to forgo even essential expenses; others have taken second jobs or sold assets in order to cover costs and pay their mortgage, according to a CBS report.

Tapping into home equity through HELOCs can enable homeowners to combat rising costs and increase home value–from funding solar panel installation to upgrading to energy efficient appliances, windows and utility systems.

In addition, for "rate-locked" homeowners seeking to bolster their quality of life and increase their property value, HELOCs can be viewed as a more affordable liquid financing option to fund Accessory Dwelling Units (ADUs). Data shows that the surge in ADU growth is attributed to many factors, from greater interest in multi-generational living to cost sharing.

The state of home equity

Even as Americans are experiencing a lock-in effect and many are unable to move into a larger home, the value of American homes is increasing drastically.



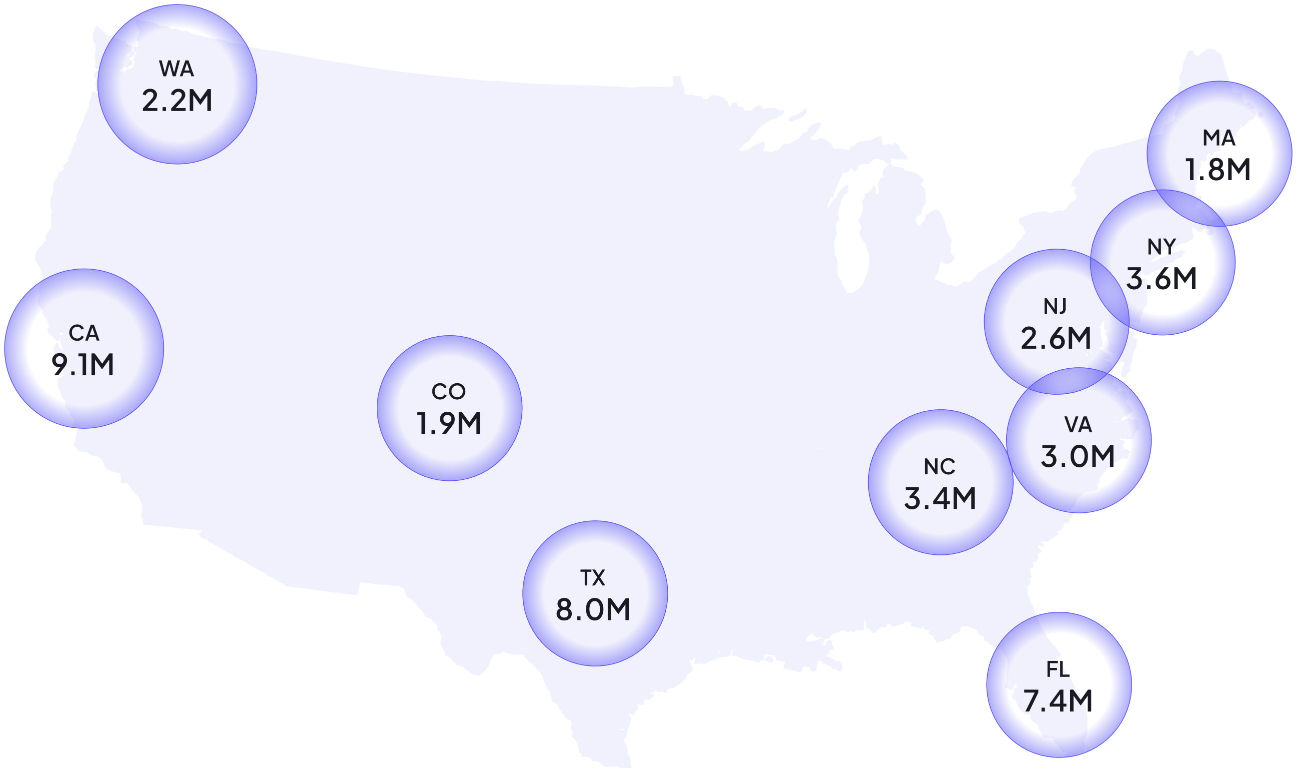
Total equity % change from 2019 to 2024

$19.5T ⟶ **$33.8T**

▲ ~73%

Source: CoreLogic

According to CoreLogic as of May 2024, estimated total home equity stood at ~$33.8 trillion, compared to ~$19.5 trillion in 2019, representing 73% growth. Regardless of which region homeowners live, their average equity has increased significantly over the five year period.



Total owned property % change from 2019–2024

~88.0M → **~93.6M**

▲ ~6.33%

	State	2019 total properties	2024 total properties	
1	CA	8.8M	**9.1M**	▲ 3.74%
2	TX	7.1M	**8.0M**	▲ 12.54%
3	FL	6.9M	**7.4M**	▲ 7.55%
4	NY	3.5M	**3.6M**	▲ 2.25%
5	NC	3.2M	**3.4M**	▲ 7.53%
6	VA	2.7M	**3.0M**	▲ 11.14%
7	NJ	2.6M	**2.6M**	▲ 0.67%
8	WA	2.0M	**2.2M**	▲ 5.44%
9	CO	1.7M	**1.9M**	▲ 8.39%
10	MA	1.8M	**1.8M**	▲ 1.64%

Source: CoreLogic

According to Figure data:

- The average age of its customers has decreased from 51 to 49 over the past four years
- More borrowers are female – accounting for ~34% of borrowers YTD 2024 vs ~32% in 2020

Accessing liquidity amidst debt burdens

Consumers are constantly seeking cost-efficient solutions to accessing liquidity. In lower rate environments, homeowners had the option to refinance their mortgage. For example, during the lower interest rate environment of 2021 and 2022, mortgage refinances comprised ~60% of total home loan originations. Today, with interest rates now as high as 7% on many mortgages, the number of mortgage refinancings has declined significantly.

In this current rate environment, traditional liquidity options are more costly to consumers, who are dealing with significant debt burdens:

- Non-mortgage debt owed by homeowners increased 13% year-over-year to $779 billion.
- Credit card, student loan and other consumer debt balances continue to climb, in tandem with the interest rates on this debt. Credit card rates stand at ~21.5%, according to the Fed.
- According to the National Association of Realtors, close to a quarter of all home buyers and ~37% of first-time buyers have student loan debt.

Homeowners who would have normally refinanced their mortgages–and oftentimes used “cash out refinances” to also pay down additional debt–are increasingly choosing to stay with their mortgages originated during a period of low interest rates. Cash-out refinances allow the borrower to take out a larger loan than the loan they are refinancing, thereby withdrawing home equity, which is often used to pay down other higher-interest debts.

With the higher rates, these types of refinances are impractical, because the borrower has to give up their lower interest rate loan. As an example, just based purely on averages, if today's homeowner refinanced their mortgage to generate additional liquidity, it would result in a theoretical increase of ~47% in their monthly mortgage payment.

	Rate	Monthly Payment(1)
Fixed rate average 2021	3.12%	$1,921.91
Fixed rate average 2023	6.99%	$2,824.57

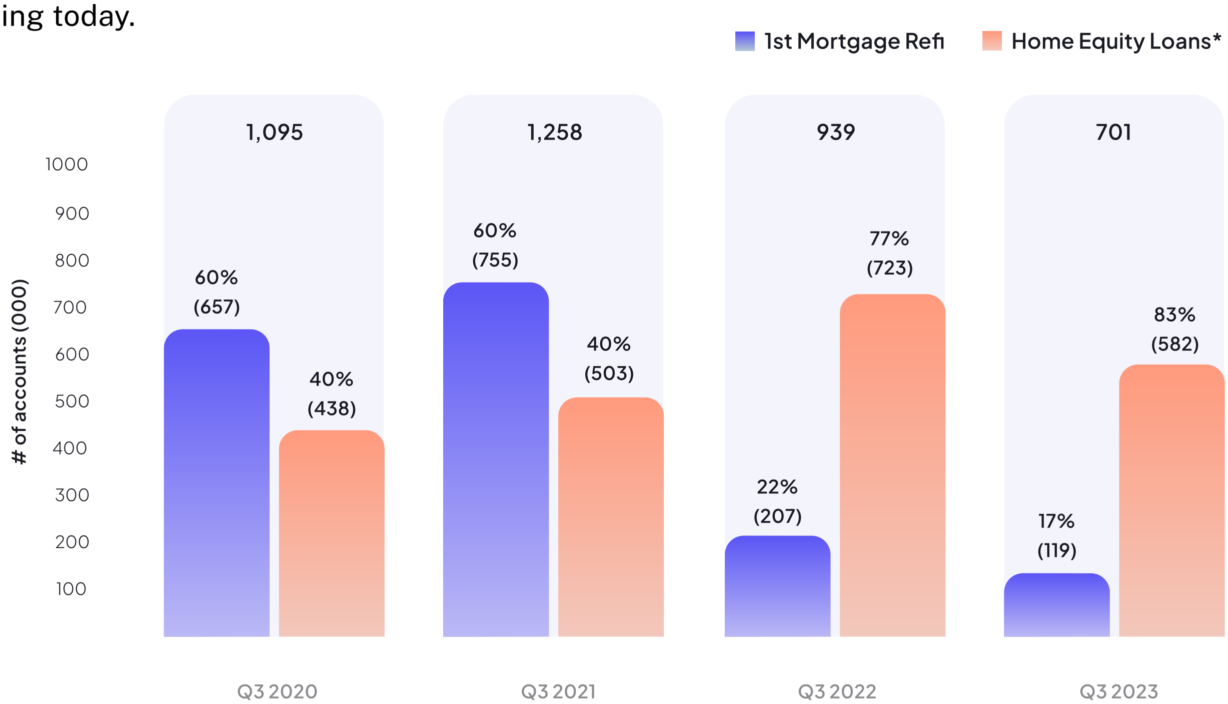
% Increase in monthly payment 46.97%

(1)Assuming $400K mortgage, 30-year term

Instead of giving up their low rates, homeowners are seeking cheaper ways of accessing liquidity.

Trending liquidity solutions

First mortgage refinances, specifically "cash out" refinances, are no longer the big driver of homeowner liquidity they once were. More recently, HELOANs (home equity loans) and HELOCs have become a growing source of liquidity and comprise a significant portion of home equity lending today.



Source: Transunion US consumer credit database. *Includes Home Equity Loans and Home Equity Lines of Credit

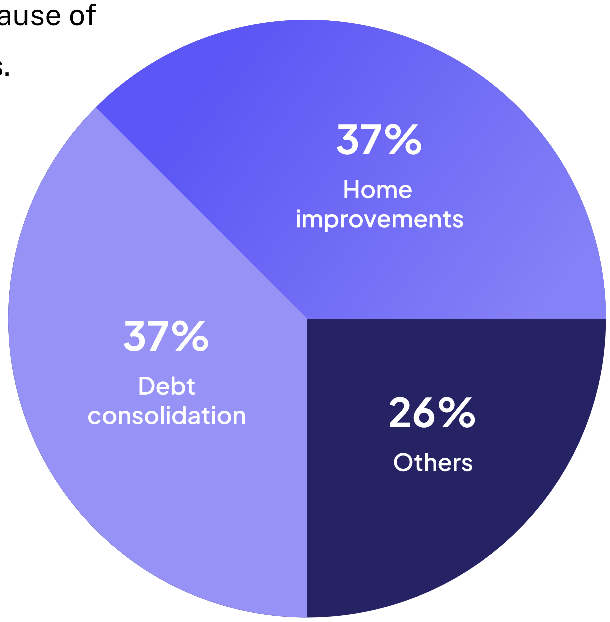
Second lien loans, such as HELOCs, are originated against a homeowner's home equity while leaving the primary mortgage intact. Importantly, the interest payments on these second lien mortgages may be tax deductible if the proceeds are used to buy, build, or otherwise substantially improve a current property. They are therefore viable solutions to liquidity that come with significant incentives, particularly in the current rate environment. According to Transunion, in Q3 2023 HELOCs, together with HELOANs, comprised the overwhelming majority of home equity originations in the 10 largest states by population.

In an economic environment defined by rising costs and interest rates, homeowners can and should continue to turn to second mortgages liens. If they can't generate liquidity through the sale of their property, then tapping into their home equity is a viable alternative, especially as mortgage refinances have become increasingly inefficient in the current rate environment.

Interestingly, while home prices continue to soar, substantially increasing home equity, homeowners are still not unlocking this compelling source of liquidity. According to Transunion, home equity loan originations returned to pre-pandemic levels, declining ~32% from the prior year. We expect to see this trend reverse as consumer debt continues to climb and interest rates remain higher for longer.

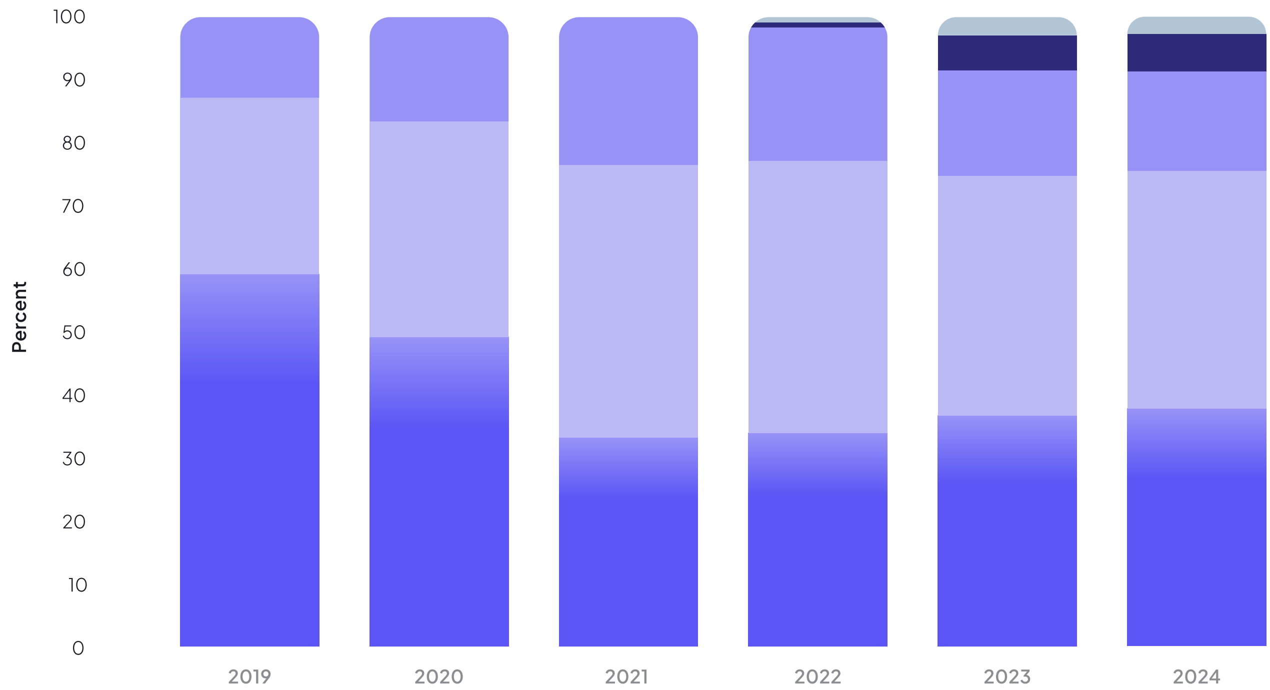
According to Figure's data, 37% of homeowners stated their Figure HELOC proceeds would be used for debt consolidation. An equal number said they'd pay for home improvements, likely because of the tax advantages associated with second lien mortgages.

Proceeds have also gone towards costs associated with a range of life needs, including caring for family members, education, healthcare and medical costs, IVF and adoption fees, small business formation, discretionary purchases, travel, retirement, and solar installment or energy efficient alternatives.



Source: Figure

Loan purpose



	2019	2020	2021	2022	2023	2024
Debt consolidation	59.3%	49.5%	33.2%	33.8%	37.9%	37.4%
Home improvement	28.5%	34.0%	43.6%	43.5%	38.3%	37.6%
Major/other purchase	12.2%	16.5%	23.2%	21.6%	16.7%	17.5%
Small business	-	-	-	0.3%	5.0%	5.2%
Other purposes (education, caring for family, health/ medical, retirement, travel)	-	-	-	0.6%	2.2%	2.3%

Source: Figure

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Conclusion

The Federal Reserve recently decided to keep rates steady at their current elevated level. So long as rates remain relatively high, Americans will continue to stay in their homes, inventory will remain tight, and prices will continue to rise, further boosting home equity values. HELOCs have the ability to provide homeowners with the liquidity they need to cover the cost of living and owning a home. Moreover, given the untapped potential in American home equity, we expect homeowners will increasingly be turning to these instruments to access liquidity.

About Figure

Figure Technology Solutions, Inc. (“Figure”) is a developer and distributor of technology that streamlines and standardizes private capital market lending. Figure’s pioneering technology is designed to optimize efficiency and lower transaction costs to simplify the loan purchasing and loan origination processes for borrowers and lenders, respectively.

Through its suite of technology solutions, Figure distributes its technology to some of the top independent mortgage banks, brokers, credit unions, and loan originators in the world, including CMG Financial, CrossCountry Mortgage, Fairway Independent Mortgage, Guaranteed Rate, The Loan Store, Movement Mortgage, Synergy One, and others. By leveraging technology and standardizing the execution process, Figure has reduced the administrative and other costs of HELOCs by a significant margin. Whereas the costs can reach $3,000 for an average HELOC at other providers, Figure’s cost as little as $500.