Streamlining Home Equity Lending, Eliminating the Risks

In a good first mortgage purchase/refinance market, home equity lending competes with first lien originations from an appraisal, title and servicing aspect. Yet appraiser shortages, staff burnout and fatigue, especially in the real estate market, are very real. In addition, borrowers lose jobs, get divorced or pass away and loans become delinquent. These life events are all things even the best underwriter cannot foresee.

This seller's market is frenetic, with homes selling quickly. That is pushing a lot of new homeowners to tap into their home equity to make improvements. As a result, home equity loans are a hot commodity. In 2020, the refinancing share of the mortgage industry's total performance jumped to 63%, up from 34% in 2019.[1] This will only increase into 2022.

For lenders, it means that maintaining a solid product offering without taking on too much risk just became harder. As more consumers look for home equity products, more lenders are challenged to provide competitive products and services without taking on too much risk. Because borrowers – even those who are stable financially – can and do default.

MAKING HOME EQUITY LOANS EASY FOR THE BORROWER AND THE LENDER

NFP's Equity Protection Program allows lenders to increase home equity volume by increasing the maximum loan-to-values they offer. The program allows up to 100% CLTV and up to 133% for secured Home Improvement loans. The broadening of your CLTVs in itself will drive in new loan volume. The program also allows lenders to streamline the appraisal process by allowing an Automated Valuation Model (AVM) in lieu of a formal appraisal. This can save your borrowers money as these are less costly than a formal appraisal. AVMs require less employee oversight and are much quicker to obtain. EPP insures the entire loan/line being originated. This feature allows lenders to not be as concerned with rising home prices (often referred to as a housing bubble). The same is true for title work. The program allows for Current Owners Search in lieu of formal title insurance. EPP saves the borrower and the lender costs and time. All while making things easier on your most valuable asset, your employees.

STREAMLINING HOME EQUITY LOAN SERVICING

Home equity loans and lines are generally in second lien position. The most likely servicing situation that a lender will find is from a collections standpoint. And no lender wants to be in this position. The good news is that there is a way for lenders to increase business and take on more loans without the threat of default. The NFP Equity Protection Program insures lenders against borrower default. The policy triggers when a claim is made. That typically happens after the lender has attempted to collect, often within a 90-day period. Once the loan is deemed uncollectible, the lender can then file a claim.

Because the policy will pay off the balance of the loan, there are no foreclosure proceedings. The lender assigns the mortgage and note to NFP, and is reimbursed for the entire loan balance.

And with no foreclosure required to file a claim, you eliminate the 12 – 24 months of REO costs from a servicing perspective. There is no property upkeep, no taxes, no winterization or other maintenance. Likewise, there is no need to list the property for sale, make it sellable or spend any additional resources on the defaulted property.

NFP Equity Protection Plan allows you to streamline your origination process along with the servicing of home equity loans. Lenders can:

- Use our product in conjunction with AVMs
- Know that the loan is insured, this takes appraiser/value risk out of the equation when using AVM, which speeds up transaction time and generally costs less than an appraisal
- Use a current owners search, lien position insurance as alternatives to formal title work options, speeding the transaction, thus lowering costs
- Simplify transactions and reduce employee oversight with AVMs and current owner search options
- Streamline the servicing of home equity lending
- Simplify the collection process — after collection attempt of 90 – 120 days, a claim is filed and paid, foreclosure is avoided, and the lien is remove from the lender's books

From origination to servicing, Equity Protection Plan helps lenders throughout the loan lifecycle. Lenders save time, money and administration. That results in a better lending experience for borrowers.

With NFP's expanded loan-to-value ratios and product offering, lenders can realize an average 15% – 20% risk-free increase in loan volume.

THE ADDED BENEFIT

There is another benefit to using the Equity Protection Program product: competition. Because the loan market is full of opportunities, being able to offer more loans, having that protection from default allows lenders to lend more and improve their portfolio and financial outcomes. The additional interest income could be a game changer, especially in a highly competitive lending environment.

Another benefit: the cost of the Equity Protection Program is passed on to the borrower in the form of a slightly higher interest rate. This allows the lender to secure coverage without absorbing any direct costs for the policy's protection.

PROTECTION AND GROWTH POTENTIAL, STREAMLINED

With the ability to mitigate their most pressing risks, lenders are now able to grow business organically and do so easily. Using the protection of NFP's Equity Protection Program, lenders can increase business, eliminate default risk, and bypass the lengthy, costly foreclosure process.

The competitive advantage gained by increasing the lender's ability to secure more loan business, and the ability to get the protection for little or no cost, puts lenders in a position to redefine their business goals and improve results going forward.

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Source

1 https://www.mba.org/2021-press-releases/april/imb-production-volumes-and-profits-reach-record-highs-in-2020