The goal of every lender is simple: balance the portfolio, maintain a good spread of risk across several different product types and make sure the risks that are taken on are calculated risks with known exposures. Yet managing that perfect balance is anything but simple.

Especially in a real estate market in which home prices are up 11.3% over 2020 and home equity loan totals equal $63 billion in the US in Q2 2020, balancing portfolio risk while managing customer retention and growing business is made that much more difficult to achieve. The auto market too has put pressure on lenders as low inventory has pushed used car prices higher — the average transaction price for a used car in 2021 was nearly $5,000 more than pricing in Q2 of 2020. Add to that an economy in which job loss during 2020 was prevalent, and it is a situation rife with potential loss as you move toward a more balanced portfolio.

**CONCENTRATION RISK**

Since early 2020, first mortgage refinances have been a focal point of most lenders, as has auto lending. As a result this has caused some lenders’ portfolios to get out of balance and be heavily concentrated in these two loan types. Even if the lender does not retain the first mortgage loans, the amount of volume in the past 18 months had most lenders focused on one or two loan types while other loan types were not a top priority. Thus you should evaluate your portfolio to see if it has become somewhat unbalanced.

The Equity Protection Program has several loan programs centered around home equity and home improvement lending. Our traditional HELOC/Home Equity program allows you to expand your current HELOC/Home Equity program by increasing loan-to-value ratios up to 100% CLTV. Our secured and unsecured home improvement loan program has been a primary focus for us in the past 18 months. Both lending programs can help dilute loan concentration issues.

**HOUSING BUBBLE RISK**

Any lender in the marketplace the last two years has firsthand experience with home prices. They have steadily and rapidly increased over this time period. This was also the case back in 2007 – 2009. The latter brought a new term from a default perspective. That term was Strategic Defaults. This was where borrowers were so far underwater with their mortgage balance compared to the value of the home, they just stopped paying their home loan and home equity loan. The Equity Protection Program eliminates this risk with regard to home equity lending due to the fact the entire home equity balance is covered in any type of default situation.
**CREDIT RISK/REO RISK**

2022 will be the year that the refi market will slow down as the federal government has indicated they will be raising interest rates. Many lenders will be looking for ways to increase loan volume. That will be done through the addition of home equity lending. The EPP eliminates credit risk as covered loans are insured for the entire loan/line balance. Part of credit risk is REO costs. The EPP does not require a lender to go through the lengthy foreclosure process. This process is taking almost 2 years to complete in the current environment. That’s 2 years of costly expenses that you do not need to incur. Simply file a claim at 120 days of delinquency, and within 30 days the loan is paid in full and off your books.

**GEOGRAPHIC RISK**

Most lenders do not like to lend outside of their “footprint” location. The fear is they don’t know that market and think of the challenges of going through a foreclosure in a market they’re not familiar with. This program covers the lender in case of a default. Without the fear of going through a foreclosure eliminated, the lender can open up new markets which will drive in new business.

**COMPLIANCE RISK**

Most lenders can speak to the regulatory governance in the lending department. This governance increases when lending over 80% CLTV. This program allows you to explain that your loans are fully covered against default. This additional coverage can give regulators a better comfort level when examining this subset of higher LTV loans.

**PROTECTING AND GROWING THE PORTFOLIO**

Fortunately, there is a way for lenders to take on more loan business without expanding these risk exposures. NFP’s Equity Protection Program (EPP) gives lenders coverage for loan default for 100% of the loan balance. The EPP alleviates the risks from a home equity perspective, and helps protect against geographically concentrated losses. That can allow a lender to expand their offerings into different regions, increasing the ability to grow business without increasing the loss exposures. EPP allows lenders a risk-free way to compete with other lenders.

The program enhances your current loan offerings through expanded LTV positions. It can also give lenders the ability to accept lower credit scores without the repercussions associated with default.

EPP comes with other benefits, as well.

- When lenders are able to present more product offerings to their customers, they are able to compete effectively with other lenders in the market.
- Lenders can retain more loans, improving their interest income results.
- EPP costs can be passed on to the borrower in the form of a slightly higher interest rate.

With this kind of protection, lenders can lend confidently and grow business safely.

For more information, please contact Rick Hughes at rick.hughes@nfp.com or Kent Staudmyer at kent.staudmyer@nfp.com.