National Mortgage News

Mortgage borrowers lost a record amount of equity in 3Q

The home equity buffer that the mortgage industry is counting on to help sustain loan performance experienced a record drop in the third quarter.

Homes collectively lost $1.3 trillion or 7.6% of their equity during 3Q, according to Black Knight.

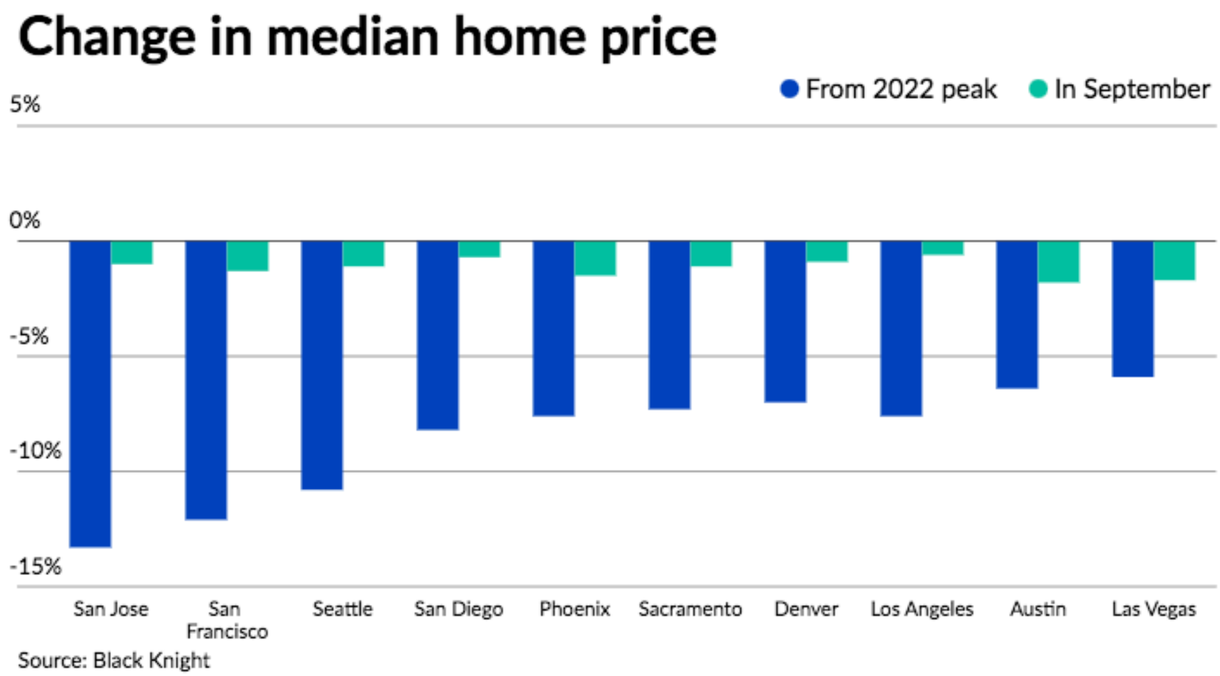
These declines represent the largest quarterly drop in dollar volume ever and the biggest falloff on a percentage basis since 2009, said Ben Graboske, president of Black Knight's data and analytics division.

"While hitting a record high in Q2, total homeowner equity peaked mid-quarter in May and has been pulling back ever since," Graboske said in a press release issued Monday. "All in, equity in mortgaged properties is now down nearly $1.5 trillion since that point."

While the declines were noteworthy, they've by no means yet depleted the equity buffer built up during the 2020-2021 housing boom.

Overall, at the end of the third quarter, the 50 largest housing markets still had valuations 19% to 66% higher than they were when the pandemic began in 2020.

But the speed at which high rates have been eroding the past two years' gains has been notable, with some areas seeing equity reductions of 10% or more since the market peaked.



In California, for example, median home prices in San Jose and San Francisco respectively fell by 13.3% and 12.1% in the third quarter. In Seattle, they dropped by 10.3%.

Also, home price declines have more than doubled the number of borrowers who had mortgages that outweighed the value of their houses since the market peaked, Black Knight noted. However, because on a net basis the home price gains from the last two years have remained largely intact, just 0.84% or less than 500,000 homeowners were under water in the company's latest research.

Black Knight's Monitor Monitor report, which does a deeper dive into trends reported earlier, also found that, while loan performance has remained historically strong, Hurricane Ian has put 355,000 homes at elevated risk for property damage and delinquencies.

Also of note in the report was a finding that cash-out prepayments have fallen to lows last seen in 2018, the last cycle in which rates rose. While rates and declining equity have considerably disincentivized cash-out activity, a modest increase in fees these loans could see in the government-sponsored enterprise market starting in February could prompt some borrowers to act before the price change arrives.

Meanwhile, with the decline in cash-out activity, housing turnover has increasingly influenced prepayment speeds. Black Knight found that 60% of prepayments were driven by that factor, and therefore likely to be increasingly subject to market swings.

"In a typical year, housing turnover related prepayments decline seasonally by roughly 30% from September through February," Black Knight noted in its report. "Given that home sale related prepayments now make up nearly two thirds of all prepayments, such downward seasonal pressure on home sales alone could cause prepayment speed to dip by another 20% in coming months on top of other interest rate related declines."

October's prepayment speeds for loans backed by government-sponsored enterprises Fannie Mae and Freddie Mac fell by 16% to 17%, according to a Barclays report released Monday.