

Homeowners take advantage of big gains in home equity

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Homeowners are cashing in on years of home equity gains, even as mortgage rates remain elevated.

The trend sent cash-out home refinancing activity to a nearly three-year high in the April-June quarter, according to data from home loan data tracker ICE Mortgage Technology.

In a cash-out refinance, a homeowner takes out a loan for more than they owe on their mortgage and then pockets the difference.

The funds are often used to consolidate debt, finance home improvement projects and pay for big-ticket purchases.

The average cash-out refinance in the second quarter resulted in the homeowner pulling \$94,000 in home equity, increasing their monthly payment by \$590. On average, they also raised the interest rate on their home loan by 1.45 percentage points, according to the report.

To qualify for a cash-out refinance, homeowners must have at least 20% home equity, have owned the home for at least six months and have at least a 620 credit score, among other criteria. Borrowers who got a cash-out refinance in the second quarter had an average credit score of 719, ICE noted.

Years of rising home values have made tapping their home equity a tempting option for many homeowners. The median price of a previously occupied U.S. home climbed to an all-time high of \$435,500 in June. That's a 48% increase from just five years ago.

Total homeowner equity in the U.S. hit an all-time high of \$17.8 trillion in the second quarter, with \$11.6 trillion of available for homeowners to draw upon by refinancing, ICE said.

All told, cash-out refinances accounted for roughly 60% of all home loan refis in the second quarter.

A cash-out refinance can give a borrower more financial flexibility, especially if they can reduce their mortgage rate and use the funds to lower higher-interest debt. However, the borrower is signing up for a larger loan, possibly at a higher interest rate than they previously had, and they're often extending the loan repayment term by several years.

That can be risky, because if a borrower can't pay back the loan, they may not have enough equity left to avoid foreclosure.

Often, a home equity line of credit, or HELOC, may be a better option for homeowners, as they generally come with lower interest rates and the borrower isn't giving up their equity, just borrowing against it.

Stubbornly high mortgage rates have helped keep the U.S. housing market in a sales slump since early 2022, when rates started to climb from the rock-bottom lows they reached during the pandemic. Home sales sank last year to their lowest level in nearly 30 years.

The market has remained in a slump this year, and while prices have kept rising nationally, the rate of growth has been slowing or falling in many metro areas, including Atlanta, Austin and Tampa, Fla.

The slower pace of home price appreciation, especially for homes in Sunbelt and Western markets, have led to home equity growth slowing by its lowest rate in two years, ICE said.

As a result, tappable equity has dropped by at least 5% in nearly one-quarter of U.S. markets. And about 1% of homeowners with a mortgage, or roughly 564,000 borrowers, now owe more than their homes are worth, ICE said.