The Federal Savings Bank
Co. NMLS# 411500
Member FDIC

Ted Rood
Mortgage Banker, Homesite Mortgage LLC
NMLS #543290
2299 Technology Drive, Suite 2A5 O Fallon, Missouri

Office: 3147400004
Mobile: 314-740-0004
ted_rood@yahoo.com

A Message from Ted Rood:

"Rates may be up a little, but equity is up a lot! Seeing more folks use theirs to simplify their finances and ditch revolving debt. Sure beats paying double digit interest!"

More Homeowners Cashing in on Their New Housing Wealth

Homeowners are opening their favorite piggy bank again — their homes.

As home values rise faster than expected, that increased homeowner wealth suddenly seems more enticing. It's showing up in big **remodeling growth** and higher profits for retailers like Home Depot and Lowe's, but it also serves as a warning sign.

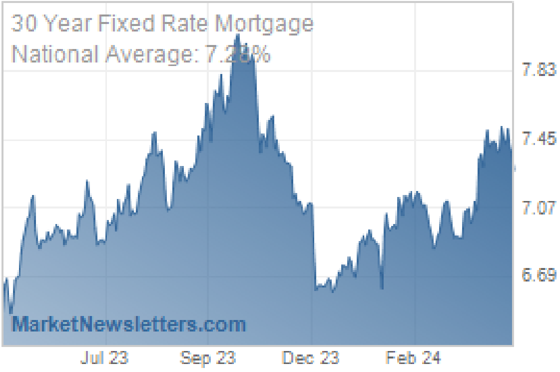
Ever since the epic housing crash at the end of the last decade, homeowners have been **extremely conservative** with their home equity. Even those who had money in their homes kept it there, fearing another downturn in prices. Now, as millions of borrowers come up from underwater on their home loans and many more see their home values jump sizably on paper, borrowing more is back in favor.

Home equity lines of credit, known as **HELOCs** and often serving as second loans, allow homeowners to pull cash out of their homes when they need it. HELOC volume is now up 21 percent in the past two years, to the highest level since 2008, according to Fitch Ratings. It is still nowhere near its housing boom level, when many people treated their homes like ATMs, but the trajectory is definitely pointing higher.

"The more second liens that people take out, it adds a risk that comes from the rising home prices. The fact that people are leveraging their homes more than before makes things **more risky**," said Peter McNally, senior analyst at Fitch.

Borrowers are also putting **smaller down payments** on home loans now, starting with less home equity either to save cash or because they can't afford anything more. To put it in perspective, before the last housing boom, the median down payment was just over 7 percent. It then dropped to 3 percent during the height of the boom, as lenders offered all kinds of "creative" loan products that required little to no down payment.

National Average Mortgage Rates



	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.28%	-0.09	0.00
15 Yr. Fixed	6.75%	-0.07	0.00
30 Yr. FHA	6.70%	-0.12	0.00
30 Yr. Jumbo	7.48%	-0.07	0.00
5/1 ARM	7.35%	-0.07	0.00
Freddie Mac			
30 Yr. Fixed	7.22%	-0.22	0.00
15 Yr. Fixed	6.47%	-0.29	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.24%	+0.11	0.66
15 Yr. Fixed	6.75%	+0.11	0.64
30 Yr. FHA	7.01%	+0.11	0.94
30 Yr. Jumbo	7.45%	+0.05	0.56
5/1 ARM	6.64%	+0.12	0.87

Rates as of: 5/3

Recent Housing Data

		Value	Change
Mortgage Apps	Apr 24	196.7	-2.67%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%

		Value	Change
Builder Confidence	Mar	51	+6.25%

After the crash, much of that lending became **illegal** and new rules made low down-payment loans more expensive to produce. As a result, down payments rose back above 7 percent again during the recovery. At the end of 2016, the median down payment had fallen to 6 percent, according to ATTOM Data Solutions, and it appears to be headed lower, as lenders offer more low down-payment products.

One wrench in the run to grab equity is the fact that interest **rates are rising**. That makes loans more expensive and consequently takes the shine off low down-payment loans, which require added mortgage insurance. The fourth quarter of 2016 brought the first significantly higher mortgage rates in more than three years.

"Rising interest rates did seem to have a chilling effect on homebuyers using financing, as evidenced not only by the drop in purchase loan originations but also a corresponding rise in the share of cash buyers, drop in FHA buyer share and a rise in the average down-payment percentage in the fourth quarter compared to the previous quarter," said Daren Blomquist, vice president at ATTOM.

Homeowners are **clearly** leaning toward more leverage, but they are doing so in a far different environment than in 2006. Mortgage underwriting is far stricter, especially for home equity loans, and borrowers must prove their ability to repay loans, including all financial documentation. Home equity continues to rise steadily, according to the Federal Reserve Board, and it is still rising faster than borrowers are withdrawing it.

The **caution** comes amid a growing concern that home prices are overheating. Tight supply, rather than income growth, is pushing prices, and that is not a sustainable scenario. While it is unlikely that home prices will fall nationally, the gains will inevitably shrink, and some of the hottest markets could see sizable retreats, putting pressure once again on the amount of housing wealth.