

Embedded Strategy: Unlocking Opportunity in Home Equity

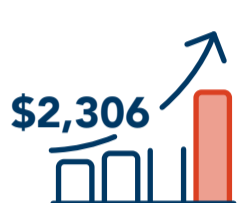
Leveraging HELOCs as a stable source of home improvement loan opportunities



The Home Equity Line of Credit (HELOC) has been a fixture in home improvement lending for decades. While this loan class saw slow growth due to low interest rates over the past few years, high home values and equally high risk aversion among lenders are both contributing to a significant rise in home equity loans. HELOCs can be used for a variety of home improvement projects, including major upgrades, sustainable energy improvements, and basic repairs.

Because of their collateralized nature, HELOCs are also **naturally lower risk** than traditional unsecured loans, providing lenders a **diverse but risk averse lending option**. In addition, HELOCs are historically more resistant to market fluctuations and are well suited for today's homeownership landscape which—due to heightened prices, low real estate supply, and rising rates—encourages homeowners to renovate rather than buy anew.

The need, by the numbers



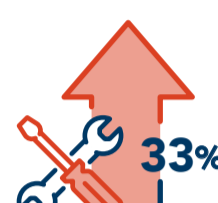
The average for monthly mortgage payments hit its highest level ever at \$2,306 in July 2023.¹



The median home price of a single-family home has increased by over \$100,000 since 2020.²

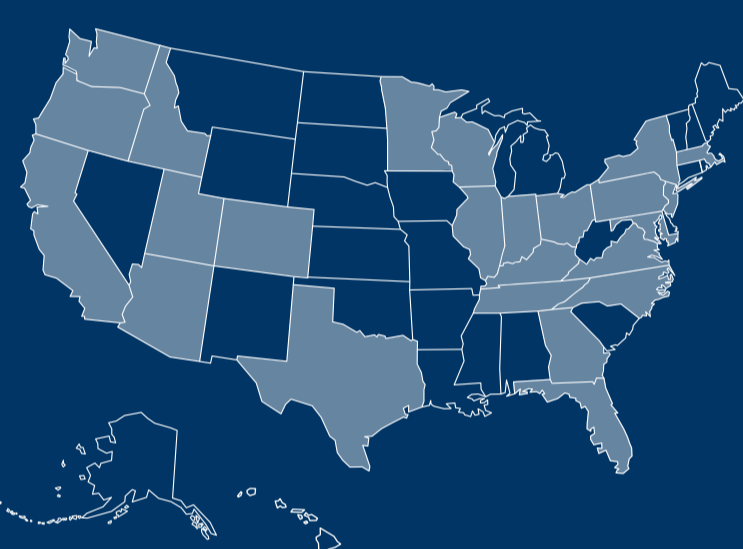


Home equity in the US has seen a significant rise from \$9 trillion in 2012 to \$29.31 trillion in 2022.³



Home improvement job quotes are increasing as material costs have risen 33% from 2019-2022.⁴

Who should enter this category?



Above are highlighted the top 25 states with the highest number of home improvement loans in 2023—the top five being California, Florida, Pennsylvania, Ohio, and New York.⁵ While home improvement is a prevalent need in every state, these states may present a greater opportunity for lenders who are interested in offering HELOCs within the renovation segment.

In addition to those states representing outsized home improvement demand, lenders in states with high amounts of home equity also face an even more compelling opportunity to offer HELOCs.

Regardless of geographic region, HELOCs are advantageous for lenders who are looking to lower their risk threshold while still maintaining a strong presence in the home improvement loan segment.

Why is this beneficial for lenders?

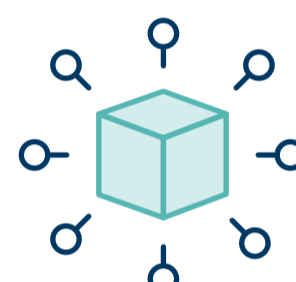
Lower Risk Level

Capitalizing on HELOCs allows lenders to mitigate default risk through the secured nature of these loans, which provide a safety net with the underlying collateral of the home.



Portfolio Diversification

Offering HELOCs allows lenders to diversify their loan portfolio, reduce dependency on unsecured loans and auto loans, and spread risk across a variety of assets.



Borrower Insight

HELOCs provide a unique opportunity for lenders to deepen their understanding of borrowers and their needs, as the revolving nature of these credit lines offers insights into their financial behaviors and trends over time.



New Customer Segments

Introducing HELOCs and integrating them into financing programs for home improvement empowers institutions to diversify their customer base among homeowners and generate new depositors over time by offering complementary products.



Competitive Advantage

Lenders who proactively embrace HELOC solutions as part of their embedded lending program have the opportunity to demonstrate their institution's responsiveness and commitment to innovation in responding to customer needs.



How does LoanStar support HELOC lending?

LoanStar's MerchantLinQ platform **facilitates collaboration between local lenders, contractors and homeowners**, simplifying the HELOC application and utilization process. This enables lenders to provide highly personalized and flexible HELOC terms, ensuring homeowners can access funds precisely how and when they need them. For contractors, LoanStar's support extends to integrating HELOC applications at the point of sale, in order to fortify customer experience and support continued business growth.

More than a technology provider, LoanStar is a true partner. We work with each lender to strategically develop a HELOC program that aligns with current market conditions and meets the evolving expectations of their customer community. Together, our MerchantLinQ platform and supportive partnership enable lenders to unlock the full potential of HELOCs while benefiting their contractors, consumers, and local communities.

For more information, contact us at lenders@loanstartech.com.

1. <https://www.forbes.com/advisor/mortgages/real-estate/housing-market-predictions/>
 2. [https://cdn.nar.realtor/sites/default/files/documents/hai-q3-2023-quarterly-housing-affordability-2023-11-09.pdf?_gl=1*1g4h0sj*_gc*_au*MTM1ODU5MDYxMC4xNzAzMDA1ODE2](https://cdn.nar.realtor/sites/default/files/documents/hai-q3-2023-quarterly-housing-affordability-2023-11-09.pdf?_gl=1*1g4h0sj*_gc*_au*MTM1ODU5MDYxMC4xNzAzMDA1ODE2-2023-11-09.pdf?_gl=1*1g4h0sj*_gc*_au*MTM1ODU5MDYxMC4xNzAzMDA1ODE2)
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 4. <https://www.nahb.org/blog/2022/04/building-materials-prices-start-2022-with-8-percent-increase>
 5. <https://constructioncoverage.com/research/cities-investing-most-in-home-improvements>

