WHITE PAPER

Star potential? How home equity could power the US mortgage market in 2025 and beyond

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December 2024

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US mortgage originations are in the doldrums, but a "silver tsunami" may provide a growth opportunity for lenders in the home equity market in 2025 and beyond

Amid higher borrowing costs, US home sales have trended well below their long-term average over the past two years, leaving some mortgage providers struggling. But one product group that has bucked the negative trend is home equity, through which owners give up stakes in their properties in return for loans or capital injections. In 2025 and beyond, there is likely to be continuing high demand for home equity products, led by a group that owns an incredible 60% of residential homes across the country - seniors aged 65 or over.

Rising senior home ownership is a long-term trend, reflecting both increased longevity and a demographic shift toward an ageing population – the so-called "silver tsunami". Prior to 2010, seniors accounted for about 12% of the US population, but the proportion has risen steadily to reach 18%[2]. Seniors own more than 50 million US housing units and over 40% have lived in their homes for more than 20 years, according to real estate company Redfin[1]. In addition, the number of residences owned by seniors living alone has grown by more than 60% since 2000 to 13 million, or 15% of the total[2].

For tax or other reasons, many seniors are not interested in selling and moving to another home. Additionally, many cannot afford assisted living, as the cost is prohibitive in nine out of 10 cases, according to Harvard's Joint Center for Housing studies. Thus, the majority "age in place"[2]. That fact, and limited incomes, means seniors are uniquely motivated to draw on the equity in their homes - helping finance projects such as home renovations or releasing cash for discretionary spending. And senior demand for home equity is growing. In 2004, seniors accounted for just 19% of total outstanding loans, but by 2023, the proportion had more than doubled to 44%[3].

1. Homeowners Today Stay in Their Homes Twice As Long As They Did in 2005, Driven Largely By Older Americans Aging in Place, Redfin, February 2024. Homeowners Today Stay in Their Homes Twice As Long As They Did in 2005, Driven Largely By Older Americans Aging in Place :: Redfin Corporation (RDFN).
2. Majority of Adults 50-plus Want to Age in Plance, But Policies and Communities Must Catch Up, AARP, December 2024. New AARP Report: Majority of Adults 50-plus Want to Age in Place, But Policies and Communities Must Catch Up - Tuesday, December 10, 2024.
3. Source: Federal Reserve Bank of New York – Center for Microeconomic Data. CMD Data Bank - FEDERAL RESERVE BANK of NEW YORK.

More Than $18 Trillion in Tappable Equity

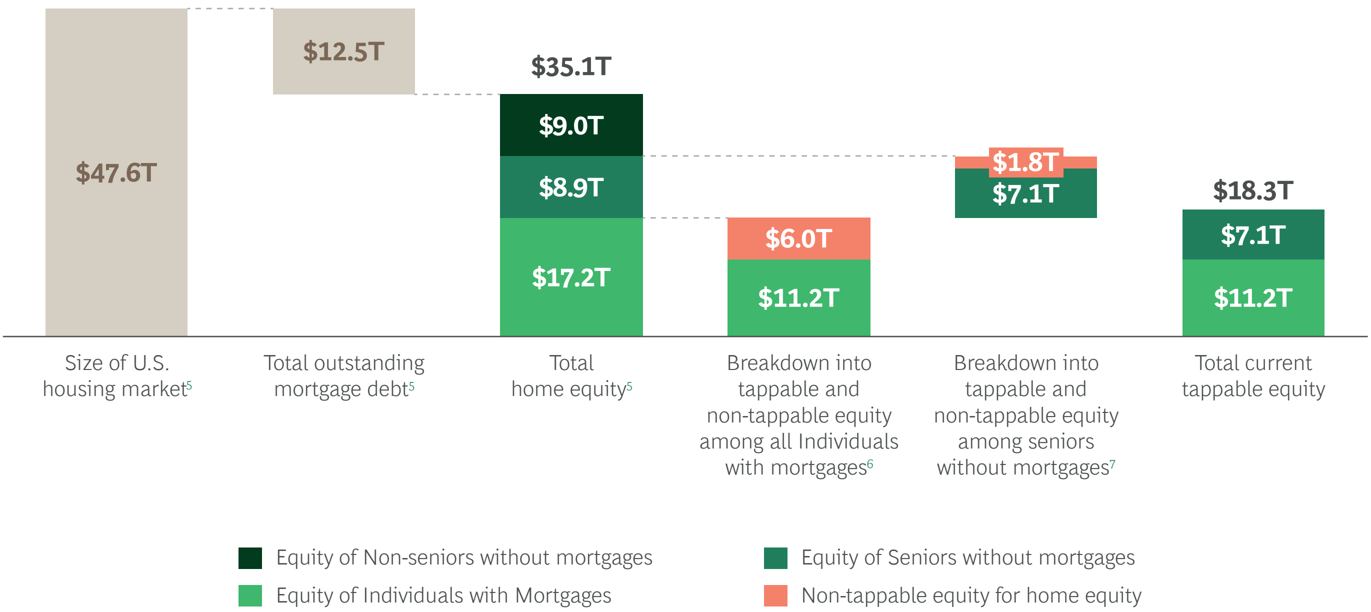
In the third quarter of 2024, home equity lines of credit (HELOC) expanded 11% year on year, while credit card debt rose just 3%[4]. The positive HELOC trend reverses a multi-year period of decline and offers lenders a welcome positive story in a generally gloomy business environment. Industry reports show Bank of America, Citizens, Huntington, PNC, and US Bank have been the most active banks for home equity originations over the past year.

Certainly, there is a lot to play for. With US housing leverage at a forty-year low, there is $35.1 trillion of equity locked into residential properties, about $18.3 trillion of which we estimate is tappable through home equity products. Put another way, the addressable market amounts to 52% of total home equity in US homes or 65% of US 2023 GDP. (See Exhibit 1).

ICE, a leading mortgage technology company, publishes a frequently referenced tappable equity number of $11.2 trillion, but its estimate only includes the equity of homeowners with a mortgage. Our estimate also takes in unmortgaged equity of seniors, 76% of whom don't have a mortgage.

In 2025 and beyond, we expect the home equity stars to align, with growing demand for home equity matched by rising institutional interest in funding products that offer diversification and loan duration opportunities.

Exhibit 1 - The home equity market offers an $18.3T opportunity



Sources: U.S. Census, Bureau of Labor Statistics. Assumes 80% of total equity is tappable following same methodology employed by ICE.

4. Source: BAC PNC, CFG, USB quarterly reports for major players in the home equity space.
5. ICE (https://ir.theice.com/press/news-details/2024/ICE-Mortgage-Monitor-Record-Levels-of-Tappable-Equity-Fed-Rate-Cuts-Could-Spur-Resurgence-in-Home-Equity-Withdrawals/default.aspx).
6. ICE – assumes total size of tappable equity is 80% of total equity and housing debt for individuals with mortgages ($17.2T+12.5T).
7. Assumes Of the ~33.8M seniors in the U.S., 79% own a home, of which 76% do not have a mortgage leading to ~20.3M seniors. Assumes an average home price of $440k.

Three Personas Will Drive Demand for Home Equity Products

Demand for home equity products can be driven by a range of factors and borrower types, but three demographics, or personas, account for most of the market:

1. **The upgrader** is someone looking to finance home renovations (or other life upgrades) leveraging their home as an asset. This includes seniors choosing to age in place who decide to renovate.

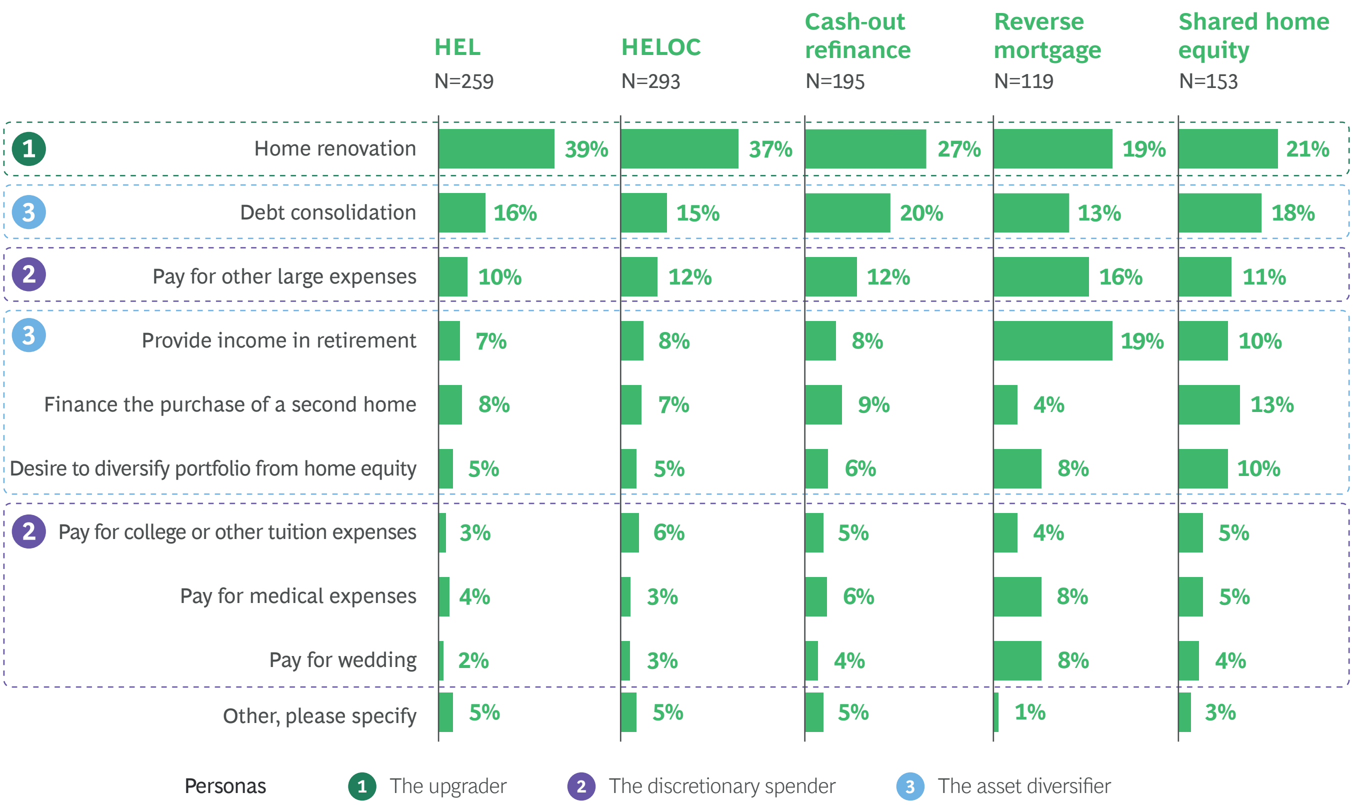
2. **The discretionary spender** is willing to use their home to get cash for large expenses such as medical bills, college tuition, or events such as weddings.

3. **The asset diversifier** has significant equity in their home and is looking to diversify - for example, into the stock market or another property to de-risk or change exposure and achieve a return on investment.

In a BCG survey on the intended use of proceeds of different home equity products, respondents highlighted home upgrades and asset diversification as being the most common (See Exhibit 2).

Exhibit 2 - Survey results on primary reason for using home equity products – home renovation, debt consolidation, and large expenses most common

Q: You mentioned that you recently considered buying these products.
What was the primary reason that you considered each of these products?



Sources: BCG home equity survey (June 2022); Market participant interviews; BCG analysis.

An Emerging Player and Product Landscape

Home equity loans are not a new idea. In fact, they can trace their origins back to as long as a century ago. But they became more widespread after the Tax Reform Act of 1986, which made mortgage-related debt the most tax-efficient of loan products. At its peak in 2009, the market was valued at nearly $700 billion, but after the 2007-2008 financial crisis, banks de-emphasized the products and loan volumes fell by two-thirds. Only in the past six months have balances started to rise again. In fact, in the third quarter of 2024, home equity lines of credit expanded at their fastest pace in almost twenty years[8].

Looking to 2025, the most popular products are likely to be a mix of old and new, ranging from traditional home equity lines of credit (HELOC) and home equity loans (HEL) to cash-out refinancing, reverse mortgages, and shared home equity (SHE). (See Exhibit 3).

Exhibit 3 - Consumers have multiple options to monetize home equity

	Debt products				Equity product
	HELOC	**HE Loan**	**Cash-out refinance**	**Reverse mortgage**	**Shared Home Equity Investment**
Description	Revolving LOC secured by your home that you can access as you choose; interest applied on the funds drawn	A lump sum loan amount borrowed leveraging your home equity and repaid via fixed monthly payments	Refinancing your existing mortgage balance at a higher mortgage amount, decreasing your home equity and increasing LTV	Lender pays you in exchange for equity and interest, to be paid back at time of sale; no monthly loan payments	You sell a percentage of home equity that can realize future appreciation without being required to make monthly payments
Typical Conditions	• Up to 85% of home equity • Avg. variable interest rates ~4–5% • 680–700+ FICO scores	• Borrow up to 80% of home equity • 680+ FICO scores • 5–20-year repayment term • Avg. fixed interest rates ~6–7%	• Must have minimum 20% home equity • Debt to income <50% • 15–30-year repayment term • 620+ FICO scores	• All homeowners must be 62 years or older • Avg. variable interest rates ~6–7% • No minimum credit score requirement	• Sell ~10–40% of home value, capped at home equity % • May include interest caps of ~15–25% • 500+ FICO scores

8. Source: Federal Reserve Bank of New York – Center for Microeconomic Data. CMD Data Bank - FEDERAL RESERVE BANK of NEW YORK.

Home Lines of Credit, Equity Loans, and Cash-out Refinance Products

For the most part, HELOC are offered by banks to their premium customers, of which about 44% are seniors, who tend to be asset-rich and have relatively strong credit profiles. Still, many banks have only recently come back into the business, so underwriting standards remain tight. Several institutions, including J.P. Morgan and Wells Fargo, have exited. Still, non-banks are becoming more active. Leading new entrants include Rocket, which has steadily built interest in its closed end second mortgage product, and Aven, a Founders Fund and General Catalyst-backed start-up, which offers credit cards backed by homeowner equity. Figure Technologies, backed by Apollo and Morgan Creek, sells private-label HELOCs[9].

Government sponsored enterprises are also starting to get involved. In June 2024, the Federal Housing Finance Agency (FHFA) announced a $2.5 billion pilot program to allow Freddie Mac to offer loans based on the purchase of some single family closed-end second mortgages - a product currently mainly offered by private markets or held on bank balance sheets. The assumed rationale was that Freddie Mac could lower costs for consumers. In addition, it could foster a securitization market, which has been lacking in scale to date, with most loans going to private credit buyers. In turn, this could attract insurance companies and pension funds, which are often restricted to buying rated securities and are motivated to find new yield and duration plays[10].

In the near term, a key driver of demand will be the interest rate environment. During periods of relatively high rates, HELOCs and home equity loans become more desirable because borrowers can refinance only part of their outstanding mortgage balances at the higher rate. Conversely, when mortgage rates fall below borrowers' current rates, cash-out options are more in demand, enabling lower monthly interest payments and access to equity.

Reverse Mortgage Products

To fully appreciate the emerging home equity space, it is helpful to understand the history of the reverse mortgage market. The majority of reverse mortgages are backed by the Federal Housing Administration through the Home Equity Conversion Mortgage (HECM) product. Customers over the age of 62 can use HECMs to access equity in their homes or pay off an existing mortgage without making monthly payments - instead negatively amortizing the debt over time. In other words, the HECM is a mortgage in reverse.

While the HECM industry is now tightly regulated, that wasn't always the case. Indeed, reverse mortgages are saddled with reputational damage from the more aggressive underwriting days of the past – a practice that came home to roost in the 2007-2008 financial crisis, when foreclosures soared after borrowers ran through released funds too quickly. (See Exhibit 4).

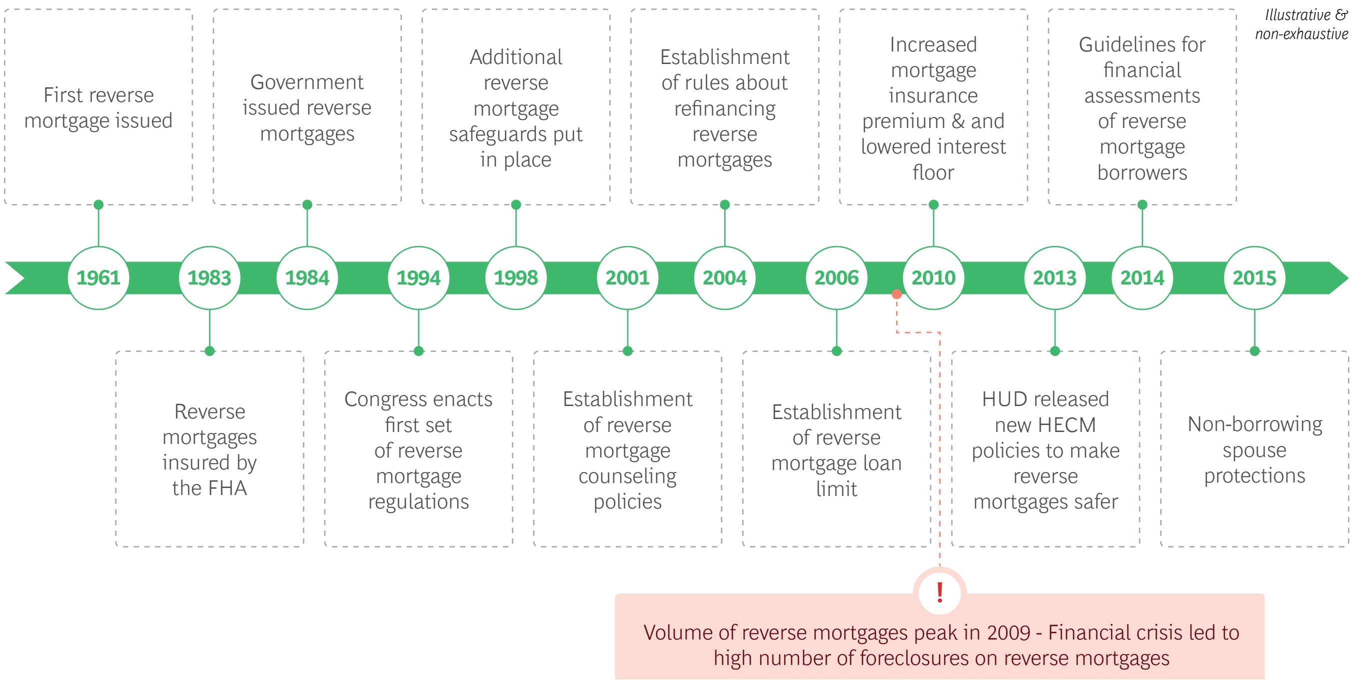
Given its past challenges, the HECM market remains tiny compared to the trillions of dollars of equity in US homes. The largest operator, Finance of America, has a 40% market share and originated just $1.7 billion in 2023 and $5 billion in 2022. The total value of reverse mortgages in 2023 amounted to just over $4 billion. Finance of America has stated that its long-term goal is to generate $3.6 billion annually[11].

9. Source: Federal Reserve Bank of New York – Center for Microeconomic Data. CMD Data Bank - FEDERAL RESERVE BANK of NEW YORK.

10. FHFA Announced Conditional Approval of Freddie Mac Pilot to Purchase Second Mortgages, Federal Housing Finance Agency, 21 June 2024. FHFA Announces Conditional Approval of Freddie Mac Pilot to Purchase Second Mortgages | FEDERAL HOUSING FINANCE AGENCY.

11. Finance of America annual reports and quarterly earnings transcripts

Exhibit 4 - Brief history of the reverse mortgage market



Not surprisingly, the reverse mortgage space has seen many corporate failures (most recently, Reverse Mortgage Funding filed for bankruptcy in late 2022). Meanwhile, many larger banks, including Bank of America and Wells Fargo, pulled out after the global financial crisis. And without large numbers of bank origination engines, the market has struggled to achieve critical mass. Still, some non-bank players are gaining ground, with companies including Mutual of Omaha, Goodlife Home Loans, Fairway Independent Mortgage Corp., and Longbridge Financial at the vanguard.

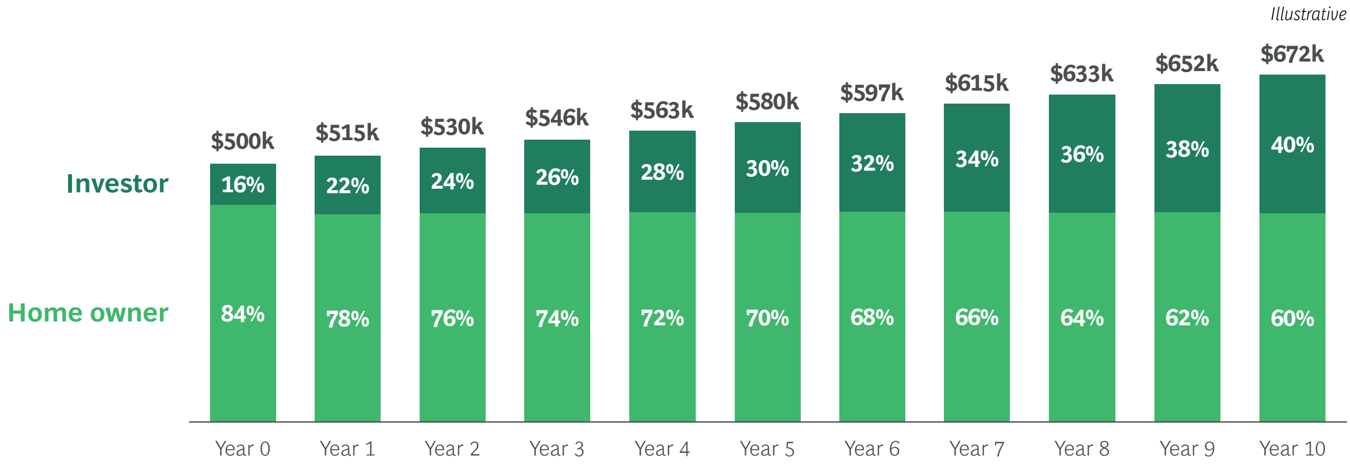
Shared Home Equity (SHE) Products

Over recent years, a dozen or so companies have invested in revitalizing and growing a home equity product known as shared home equity (SHE). Often backed by private equity, providers are developing a range of variations based on the key underlying principle that the product is “not a loan” (although what qualifies as a loan varies from state to state). Unlike with reverse mortgages, there is no age limit and the collateral value of the home, rather than the homeowner’s credit score, determines qualification and approval. Most SHE companies operate direct-to-consumer models and target the middle to lower segment of the housing market, amid rising investment interest. Since August 2024, four companies have raised over $1 billion in equity capital, and over the past year or so, there has been more than $1 billion of securitizations, each with improving advance rates and spreads[12].

An example of SHE in action: A homeowner with an appraised home value of $500,000 sells an equity stake in their home for an upfront $80,000, or 16% of the value. Most companies that buy equity stakes underwrite an upfront 20% discount on the value of the house (to protect their downside) and charge an annual management fee amortized over the term. After 10 years, the equity share investor owns 40% of the ending value of the home. At that point, the homeowner can either buy out the investor, sell the home and divide the proceeds, or roll the SHE into a new contract. (See Exhibit 5).

12. Source: Public news announcements and registered SEC filings.

Exhibit 5 - With SHE products, the homeowner's and investor's positions change over time



Note: Assumes $80k advance for a house valued at $500k that is underwritten at a 20% discount, 3% annual housing value increase, and an annual ~10% management rate that enables the investor to increase equity considering the discounted house value of $400k.

Potential risks

While home equity products are growing in popularity, they also come with a number of risks. Below we highlight four key areas that providers will need to monitor and manage:

Regulation: While the mortgage industry is highly regulated, the SHE industry is not. The segment today is small but rapidly growing – and is likely to get political backing because it can provide financial relief to millions of asset-rich but cash-poor homeowners.

Bad Publicity: Home equity has been out of the mainstream for the past 16 years and consumers have only recently started to give it more attention. As a result, activity is picking up. For example, Rocket, a top originator of closed-end second mortgages, is on pace to originate over $5 billion in 2024 and has not spent a dime on advertising. Still, as companies accrue more private growth capital, marketing to homeowners will likely increase. And as products become more mainstream, the chance of negative outcomes and bad publicity will rise.

Investor sentiment and liquidity risk: There are currently two primary channels for non-bank home equity funding: private credit and sovereign investment funds. As the rated securitization market grows, insurance companies are likely to become large buyers. Insurers have enormous liquidity and appetite for consumer loans, but that could change if there is a spate of credit defaults, onerous regulation, or bad publicity.

End-of-contract dynamics: The loan-to-value ratio (LTV) of a homeowner's total mortgage debt will determine how much, if any, optionality they have at the end of the contract. In the event that they are at or close to 80% LTV, the only options are to pay off the loan or shared equity stake or sell the home and divide the proceeds. Where the homeowner cannot roll the loan or home equity stake, there is effectively a "hard out" in which the homeowner must sell. This could convert a long-time homeowner into a long-term renter who has depleted their largest or only asset.

How Should Mortgage Industry Stakeholders Respond?

Given the significant total addressable market, growing demand, and recent investment in home equity products, we believe this presents opportunities for stakeholders across both the mortgage and housing industries. Below we gather a few thought starters, reflecting our recent work and discussions with senior industry decision makers.

Mortgage lenders should review their product mix and go-to-market approach to target the right borrower segments at the right moments and develop their capabilities. Some potential actions include:

- *Refresh product portfolios* - Reconfigure borrower segmentation (demographics coupled with behaviors) to align home equity needs with product features. Conduct scenario analysis of the full product suite to avoid or manage cannibalization. For example, borrowers may pay their credit card balances with the proceeds from a home equity product.

- *Adapt risk models for home equity products* - Upgrade risk models (e.g., portfolio risk, product risk, liquidity risk) to account for unique cashflow and credit features. Look to develop asset and liability management strategies to guide decisions on securitization. Lastly, define your risk-reward appetite to guide product feature design.

- *Develop prospecting and lead channels* - Develop propensity models for communications timing and channels (at the macro level within a cycle and at a micro level considering customer touchpoints). Invest in consumer education and awareness (including potential partnerships) to promote adoption.

- *Build long-term support for home equity offerings* - Rethink your organizational structure and operating model to address home equity market needs through the mortgage cycle. Within your organizational structure, focus on upskilling in key roles, the most critical being sales, operations, and risk. Where making technology investments and re-designing processes to enhance your operating model, focus on reducing end-to-end cycle time to drive cost efficiencies.

Mortgage servicers should move quickly to scale while aiming to achieve a competitively low cost to serve. This will require them to:

- *Invest in critical enablers*, including technology enhancements to drive automation, and to utilize GenAI and risk model upgrades to service home equity products at scale and at a low cost to serve.

- *Form strategic partnerships* with originators to increase volumes and achieve scale faster.

Given their critical role in the US mortgage market, *Government sponsored entities (GSEs)* could mobilize and scale pilot programs to serve as catalysts for lenders to invest. Additionally, they could:

- *Set standardization guidelines* for underwriters across a range of home equity products to promote transparency and consumer confidence.

- *Invest in key data and technologies* to drive efficiencies in securitization and upgrade risk mitigation tools (e.g., risk models, credit risk transfers).

- *Rapidly train and upskill* key internal personnel (especially risk management) on home equity products to meet expected demand.

Current and potential investors in the home equity space should keep in mind the following points:

- *Non-banks* can be an attractive proposition given how fast some have moved into home equity origination. Private credit funds have lined up to make forward purchase agreements and there is over $60 billion sitting in business development companies (BDC) searching for yield products[13].

- *Traditional banks* that rapidly pivot their operating models, product mixes, and go-to-market approaches can still win in the home equity space, producing a higher return on equity. But there will also be slow movers that lose share.

- *Financial institutions operating or creating conduits* could commence home equity securitization and become an attractive opportunity, reflecting the chance to expand revenue streams in a fiercely competitive space that has recently seen narrowing margins.

- *Investors can achieve first mover advantage* in SHE by establishing price, underwriting requirements, and product features that resonate with customers.

- *Investors can create or scale pass through vehicles* for SHE products, providing alternative securitization paths.

Retailers in the home building/renovations space should:

- *See the emergence of home equity as a major opportunity* for potential customers to procure funds for desired home renovations.

- *Partner with home equity originators* to reach customers directly using home equity products to fund renovations.

Through these potential steps, stakeholders across the mortgage markets have an opportunity both to access a growing revenue opportunity and create a competitive impetus that sets them apart from their peers in 2025 and beyond.

13. Party Like It's 1994! Part IV: The Seemingly Insatiable, Potentially $60 Billion Plus Loan Demand From BDCs, Meredith Whitney Advisory Group, 2024. Davydiuk, Tetiana and Marchuk, Tatyana and Rosen, Samuel, Market Discipline in the Direct Lending Space (November 12, 2020). Available at SSRN: https://ssrn.com/abstract=3729530 or http://dx.doi.org/10.2139/ssrn.3729530.

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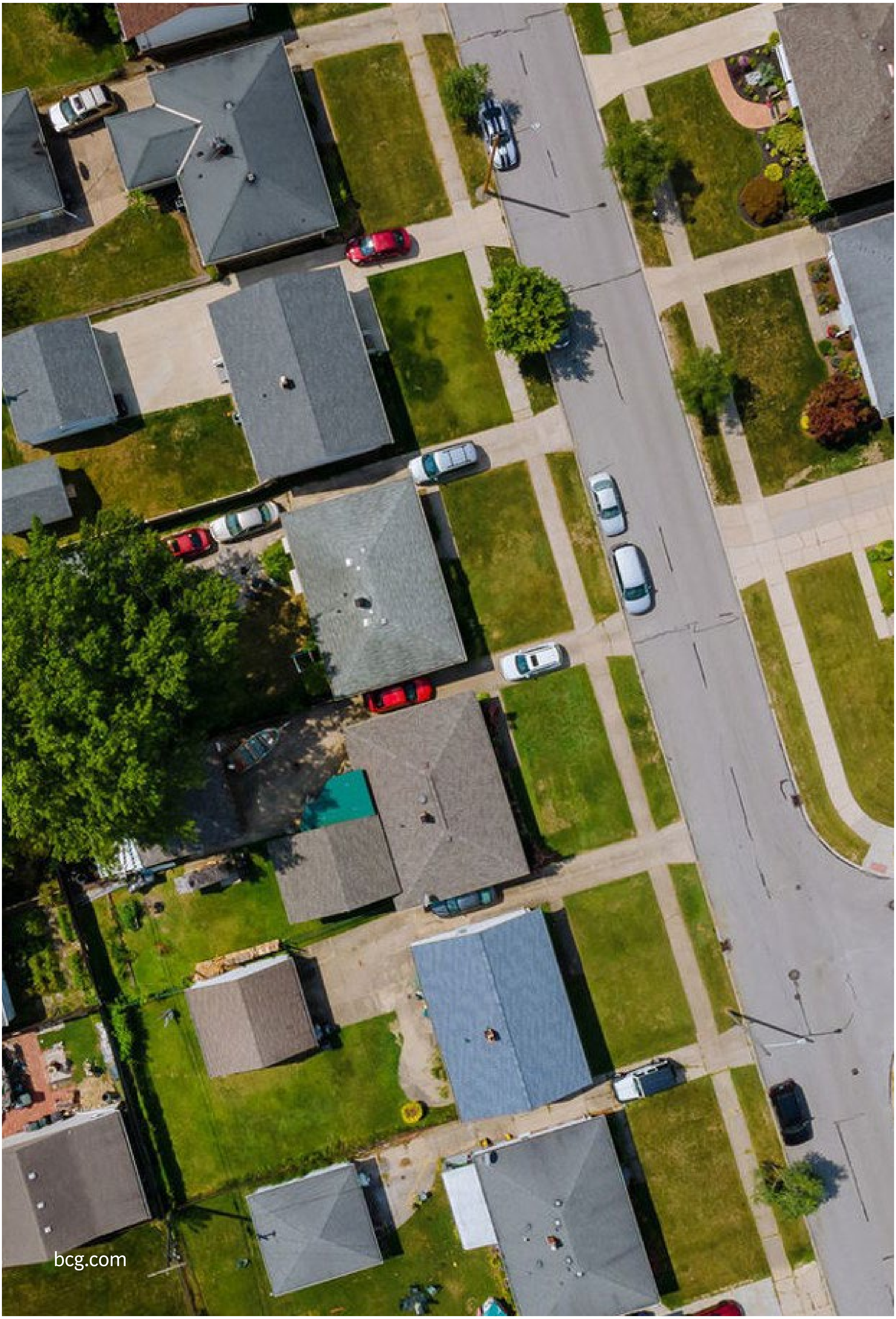
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