# Home equity: The new fundamentals for growth

***This ebook was written in partnership with Nazare Advisors. Nazare Advisors provides strategic advice for financial services and technology companies to meet the demands of 21st-century consumers and businesses. They provide valuable insights which support underserved markets with technological discontinuity and help build new capabilities to address real market challenges.***

In this ebook, you will learn about long-term patterns in the market, changes in consumer behavior that are here to stay, the increasingly competitive landscape — and how all of this culminates in new challenges and opportunities for home equity lenders.

We'll unpack what's getting in the way of some lenders' ability to build profitable home equity strategies that set the stage for lasting relationships, then how to take steps to improve performance.

By the end, you'll understand strategies your organization can adopt to win over consumers and positively influence the borrower journey — from consideration to application and through utilization.

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# Setting the stage

## A recipe for consumer confidence

### Elevated home prices

Long-term patterns of increasing home values have raised levels of home equity, creating a continuously strong market for home equity products. Moments in time when values hit peaks — for example, the 2006 housing boom or 2021's record-breaking numbers[1] — are clear opportunities for action.

### Home renovation boom

With a fundamental change in the way we work,[2] Americans are spending more time in their homes — and many are electing to stay put. This paradigm, in partnership with elevated home prices, has led consumers to feel more comfortable investing in their homes. Spending on home improvement and repairs is trending upwards, with significant growth in 2020 and 2021.[3]

### Consumer confidence

As the US economy recovers from the 2020 recession[4] job growth and higher wages have contributed to rising consumer confidence in their ability to repay loans, buoying the willingness to borrow.

> ***With high home prices, consumers looking to invest in their homes, and a rise in consumer confidence, the demand for consumer borrowing has increased.***

# Consumer behavior and competitors: A changing landscape

With higher demand and competition with advanced digital capabilities, it's helpful for lenders to pay close attention to how consumers go about searching for a loan.

## Consumer behavior

Consumers are more proactive than ever, and it's showing in the way they shop for loans. 88% of consumers[5] begin their search for a home equity line of credit before receiving any communication from a lender. And 45% of consumers[6] said they considered multiple lenders before making a decision. What matters to these consumers during the decision-making process?

Beyond repayment terms and lender reputation, consumers weigh quick application and approval processes, the ability to talk to a representative via phone, and digital capabilities as important factors in lender selection.[7]

## Market competition

Financial services firms are not only competing with similar organizations instituting digital change, they are also up against disruptors. These digitally-born competitors, including neobanks and tech companies offering consumer lending and banking products, are unencumbered by legacy technology and costs of maintaining branch locations.

As a result, they are able to pass on some of these efficiencies and cost savings to consumers, offering fast servicing, attractive interest rates, and cost-effective banking.[8]

This, coupled with the ability to deliver the convenient experiences that matter to modern consumers, is contributing to these firms gaining market share each year. The global neobanking market size is expected to grow at a compound annual growth rate of 47.7% from 2021 to 2028.[9]

***Consumers are actively searching for seamless digital experiences, and there are lenders that can deliver. Where does your organization stack up?***

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02

# Formulating a home equity strategy for lasting relationships

As we've covered so far, there's a higher demand for consumer borrowing, but consumer behavior is changing, and so is the competition. How are financial services firms faring now, and how can they meet existing gaps to grow their customer base and form profitable, long-term relationships? We've identified a three-pronged approach to address common challenges lenders are facing.

## Developing — and maintaining — high-value relationships

| Current state | Solution |
|---|---|
| 1. Limited understanding of borrower purposes and behaviors | **Cultivate an understanding of HELOC borrower behavior and develop enhanced segment-based targeting strategies.** |
| 2. Low usage of and lack of borrower education about HELOC products | **Engage and educate borrowers on the range of uses and financial benefits surrounding HELOC products.** |
| 3. Subpar experience especially in comparison to other consumer banking products | **Deliver — and become known for — a great digital end-to-end experience.** |

## 1. Limited understanding of borrowers → Develop segment-based targeting strategies

**Periodic borrowers** use home equity lines of credit for big-ticket purchases. They typically carry high balances and are generally profitable for lenders.

**Revolvers** borrow frequently, often for the purpose of cash management. They are usually profitable for lenders.

**Emergency only borrowers** open home equity lines of credit just in case, using funds only on a contingency basis. They are usually not profitable for lenders.

**Paydown borrowers** access funds to pay down a former large credit balance they had, but then don't borrow or borrow infrequently after that. They can be somewhat profitable for lenders.

It's helpful for lenders to understand the different behavioral segments for home equity line of credit products. Once lenders get signal about their consumer base, they can identify those who show behaviors aligned with periodic and revolver borrowers. Informed segmenting can then enable lenders to focus targeting and outreach on these groups. These types of strategies can increase activation and utilization to significantly improve home equity portfolio performance.

## 2. Low usage and lack of borrower education → Engage and educate borrowers

Some borrowers are unsure of how to best utilize home equity loans and lines of credit, which can limit usage. As a borrower realizes a need for funds, lenders can proactively engage and orient them as they look for personal financing options. Freeing team members from manual tasks so they can provide this level of personal touch is an important component of this strategy.

One area of approach can be educating borrowers on the differences between secured and unsecured lending. Since home equity loans and lines of credit are secured, they offer more desirable rates than other products such as credit cards and personal loans. Loan teams may want to note borrower sensitivity surrounding securing a loan with their home and emphasize credit availability within a responsible context.

They can also work with borrowers to determine how home equity may be used in their unique financial situation to help them reach their individual goals. This could include non-housing-related uses such as college tuition and auto finance. For home equity lines of credit in particular, other uses include cash management and event-based borrowing, and lenders can help educate borrowers on how to use HELOC products in these ways.

More specifically, lenders can engage borrowers with the benefits of their specific home equity products. For example, fixed-rate options are particularly attractive in rising rate environments and can offer peace of mind. Additionally, product incentives or discounts and credit line increases can motivate ongoing utilization.

### 3. Subpar experience → Deliver a great digital end-to-end experience

A delightful digital experience is more impactful when it's end-to-end. From the moment a consumer begins an application, lenders can meet them where they are with a self-serve interface complete with cross-channel support.

A streamlined application with clear steps and minimal manual tasks can help speed the process along and get borrowers to the finish line. Avoiding surprises like multiple document requests for the same information helps ensure a smooth journey for the borrower. After application submission, lenders can offer reassurance and transparency by staying in touch and updating borrowers until their loan is approved.

Finally, time to funding is important to borrowers. Reducing lengthy turn times so borrowers get the funds they need faster can help lenders deliver a home equity experience on par with the other product experiences consumers are accustomed to.  Ending the home equity process on this high note can solidify a lasting, primary relationship between lender and borrower.

***The three solutions we've outlined above can help you develop a successful home equity strategy. Let's explore how you can apply these solutions at each stage of the home equity customer journey.***

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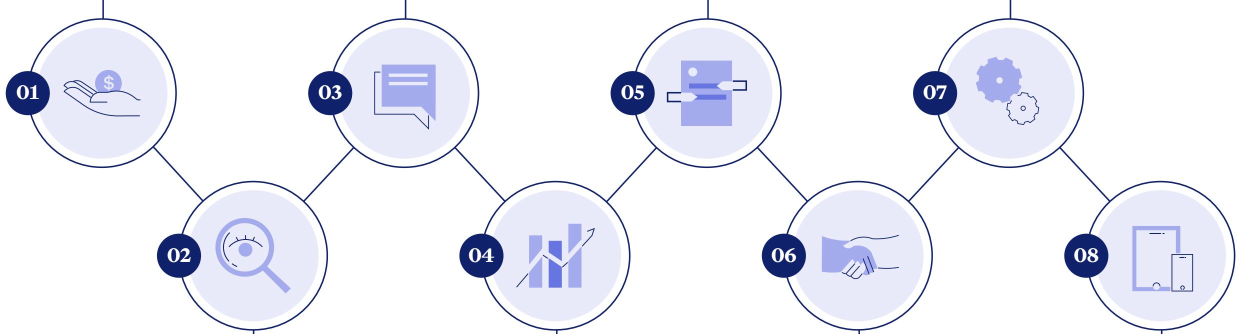
03

# Applying your home equity strategy across the customer journey

## Home equity customer journey




### Consideration

While consumers recognize their need for funds and assess multiple lenders and product options, reputation plays a big role. Lenders can begin to develop an understanding of the different borrower segments.

### Evaluation

Consumers are digging into lenders' differences. Digital capabilities and a seamless experience across channels can help lenders stand out.

### Education

As consumers look for further information on their options, lenders can begin to target and engage attractive borrower segments. They can also provide insight into the uses for home equity loans and lines of credit and the benefits of secured lending.

### Sales and marketing outreach

**Lenders are actively contacting consumers as they make their choice, offering details about the features of their products including rates, values, and discounts. A cloud banking platform that integrates with a lenders' CRM can help loan officers track prospects and customers.**

### Application

**This is the time for lenders to begin a seamless end-to-end digital journey. An intuitive application powered by automation and bolstered by inline guidance can help borrowers reach "submit" faster and increase conversions. As an added bonus, lenders can enable team members to react in real-time to applicants' questions.**

### Closing

**Lenders who end on a high note in the form of an on-time and painless closing are setting the stage for a lasting relationship with their customers. Digital solutions that take consumers on a speedy journey from application to close can win customers for the long haul.**

### Initial utilization

Information and advice provided during the education stage and reinforced throughout the application process can help lenders set a strong foundation for initial utilization.

### Ongoing utilization

Lenders can engage with consumers on a continual basis, encouraging usage with different product incentives such as promotional or discount rates and payment schedules.

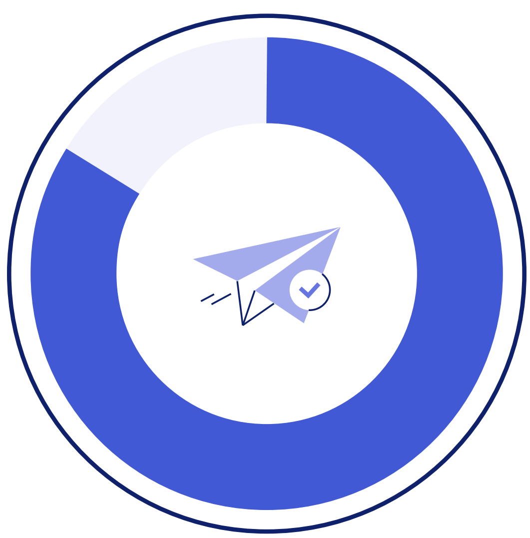
Section
04

# Nailing the application experience — and beyond — with a cloud banking platform

With improved servicing and a better customer experience, lenders can form a new competitive advantage to capture profitable market share without having to compete on price. Investing in a cloud banking platform to transform the application and closing stages can provide value across the entire home equity customer journey. This helps you impress borrowers from consideration all the way through ongoing utilization.

## Blend Home Equity in action

Blend's cloud banking platform helps financial services firms modernize the home equity process with a frictionless application and streamlined closings so borrowers can hit "submit" faster and lenders can drive higher pull-through.



**84%**

Customers can see up to an 84% submission rate on HELOC loans

# With Blend, lenders can...

### Offer personalized experiences.

Single sign-on and prefilled applications help put borrowers at ease by showing them you understand their borrowing needs and interests.

### Increase pull-through with higher quality loan files.

Improve information accuracy by allowing borrowers to connect to their asset and payroll accounts through a simple and trustworthy experience.

### Provide tailored, cross-channel support.

Guided steps throughout the application process are bolstered by loan teams' ability to transparently assist borrowers and answer questions from anywhere at any time with Blend Co-pilot.

### Extend the digital experience.

Capture electronic consent and digitally manage initial and closing disclosures. Blend's turnkey solution enables remote online notarization, hybrid, and traditional closings so borrowers can choose what works best for them.

### Fund loans sooner.

Blend speeds up the home equity process so customers can use their loans or lines of credit faster and lenders can improve capacity.

## Blend's impact across the customer journey

Blend is present in the customer journey primarily in the application and closing stages, but this impact is felt by financial services firms throughout every step of the journey. A strong home equity experience can serve as the platform from which banks build primary relationships and win customers for the long haul.

As consumers consider their options and evaluate different institutions, Blend can help lenders stand out to those who emphasize seamless digital experiences in their decision-making process.

Speed is crucial to borrowers. Lenders that present borrowers with the right offer and get it approved and funded quickly win over borrowers. Blend shortens home equity loan cycles to get borrowers to closing faster.

And after a borrower closes on their loan or line of credit, the trust and transparent relationship loan teams have been able to build with the help of Blend can have lasting effects as borrowers move to utilize the product.

elements FINANCIAL

With Blend, Elements Financial Credit Union delivered funds to members faster. Average application to fund time decreased by 19 calendar days.

*"Blend helps us deliver a positive member experience for mortgage and home equity."*

**Ron Senci**
EVP, Sales and Lending, Elements Financial Credit Union

Section
05

# Cement growth and meaningful relationships with a new home equity strategy

Demand for consumer borrowing is high, but consumer behavior is changing and competition is strengthening. There is a clear opportunity for growth in home equity, but this doesn't come without challenges. Lenders are faced with an incomplete understanding of borrower purposes and behavior, a lack of borrower education surrounding home equity products, and experiences that don't stack up to other products.

Lenders who look at the customer journey holistically in order to rectify these issues can cultivate home equity growth and engender long-term loyalty with borrowers. This entails strategically targeting borrowers, providing education on the benefits of equity products and how to use them, and delivering excellent digital experiences so borrowers are supported from the moment they recognize their need for funds all the way through their ongoing utilization of the solution they end up choosing. Blend's cloud banking platform can provide the borrower experiences that bolster lenders' ability to tackle these challenges.

## Powered by Blend

Blend helps lenders maximize their digital agility. We streamline the journey from application to close for any banking product across every channel. Our Digital Lending Platform is used by Wells Fargo, U.S. Bank, and over 285 other leading financial institutions to acquire more customers, increase productivity, and deepen customer relationships.



### Sources

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