Real Estate eNews

Equity Rises

In its second quarter "Flow of Funds" statistical report, the Federal Reserve announced that homeowners' net equity holdings have increased from $5.9 trillion during the first quarter of 2009 to just under $7 trillion through the second quarter of 2010 (ended June 30). What does an increase of nearly one trillion dollars (over 15 percent) in homeowner equity really mean?

This report is considered good economic news for several reasons. This statistic is considered a bellwether measure of the national housing market. Negative equity rates are barometers of neighborhoods experiencing high rates of default, foreclosure and walkaways. Communities with single-digit or less negative equity rates tend to have lower rates of walkaways and foreclosures. It is estimated that 75 to 80 percent of homeowners who miss one mortgage payment will eventually go on to experience foreclosure. Borrowers with even slight positive equity, on the other hand, are far less likely to do so.

This statistic compares favorably to the first two quarters of last year, when nearly 25 percent of homeowners were in a negative-equity situation, owing more on their mortgages than the estimated market value of their homes.

Home mortgage debt fell at an annual rate of 2¼ percent, compared with a 4¼ percent drop in the previous quarter. While lower home mortgage debt is considered a positive sign, much of the lowered debt came as a result of home foreclosures.

However, last year's first-time buyer's tax credit lured buyers into the market, and larger down-payments added to the overall higher-equity picture. Some homeowners are also paying down mortgage burden when they refinance, in order to qualify for Freddie Mac loans. (Freddie Mac was chartered by Congress in 1970 with a public mission to stabilize the nation's residential mortgage markets and expand opportunities for home ownership. Freddie Mac is now operating under a conservatorship that began on September 6, 2008, conducting business under the direction of the Federal Housing Finance Agency (FHFA). Freddie Mac's participation in the secondary mortgage market includes providing credit guarantees for residential mortgages originated by lenders, as well as investing in mortgage loans and mortgage securities.)

In some cases, price appreciation has pushed up homeowner-equity in some areas of the country; while home improvements and remodeling have also helped owners add equity. And some buyers entered the market willing and able to purchase a home with cash.

Reflecting on consumer debt, the Federal Reserve noted that household debt contracted at an annual rate of 2¼ percent in the second quarter, the ninth consecutive quarterly decline. Consumers have been cutting debt steadily since the recession began.

The Federal Reserve figures are derived from reports issued by bank and non-bank lenders, as well as a variety of private and governmental sources.