



An Interview with Joe Chappell:

The State of the Home Equity Market and Covius' New Home Equity Solution

1. Recently Covius announced a new home equity solution for lenders. Before we get into the details, Joe, maybe you could give us some color on what you are seeing in the home equity market?

The home equity market just continues to solidify and become a key channel for Covius, overall. I just saw a statistic from TransUnion showing the industry originated approximately 500,000 HELOCs and HELs in Q1, and that's on top of the 50% year-over-year gain that the MBA reported for 2021 and 2022.

The forces behind this growth are pretty clear...Americans are sitting on near-record levels of home equity. Black Knight put the number at \$10.5 trillion in tappable equity in June, roughly \$200,000 per homeowner. And more than 90% of all mortgage holders have been able to refinance their current rates so that they have first mortgage rates below 6%, 61% below 4%. To tap that equity, they are not going to refi at today's rates which are in the high 6's or low 7's depending on the day. So, home equity loans and lines are the right products for the moment, and for the foreseeable future if the Fed continues to hold rates where they are.

For Covius, home equity is a critical channel that plays well to our operational strengths: operational discipline, efficiency and compliance. Our core clients tend to be small to mid-sized credit unions and lenders for which we serve either as a direct provider of critical settlement services or through intermediaries and middleware providers that are tied into a major LOS. Probably the best example of one of these industry platforms would be Black Knight's Exchange. We've engaged heavily with Black Knight on the loss mitigation side of the business.



2. Can you speak to the challenges that some equity lenders face in terms of the economics?

Strategically, home equity assets help lenders replace some of the volume that they've lost in the first mortgage side of their business while allowing them to meet customer demand and deepen relationships. Embracing home equity transactions is a good defensive move that still generates some money for the lender and creates "stickiness" with their portfolios. Having said that, home equity transactions, in general, tend to be smaller in terms of dollar volume. While they are simpler than first mortgage transactions, they still require many of the same settlement services: credit, valuation, title or some form of ownership review, flood and tax search. So, they're almost as much work but without the margins of a refinance or purchase transaction. Also, since many HELOCs are no- or low-cost for the borrower; the lender bears much of the cost burden of a home equity transaction, so it's critical that they find the most efficient way to process these loans.

3. What does it take to be competitive in today's home equity landscape?

Speed is the "Holy Grail" in a home equity transaction. The new standard everyone is shooting for is "can you close in five days?" To do that, you've got to be very efficient on both the title and valuation side. Our new Home Equity Solution will allow bank and credit union clients to offer a modern, streamlined origination experience that will meet that standard. For example, title and tax reports that used to take three or more days are now delivered in hours on 25% of the loans we're seeing. This means our clients can close in as fast as 5 days, as opposed to the industry average of 20-plus days.

The new solution also features Covius Loanscape HE, a separate point-of-sale component for lenders that provides critical property and consumer insights in fewer than 45 seconds. This report reveals title, valuation and credit information that enhances a lender's loan origination workflow, coupled with expedited decisioning and abbreviated closing timelines. What this means is that in seconds Covius Loanscape HE allows lenders to determine if the loan qualifies for an expedited clear-to-close. Sharing this information at the point of sale empowers lenders to set borrower expectations more accurately, better prioritize orders and improve overall pipeline performance. Likewise, lenders will know that a lead on a property will not meet criteria before ordering full credit, valuation or other third-party products, saving underwriters from spending days on an application that could subsequently be declined. This is especially valuable with home equity origination, where, as we've discussed, many costs are absorbed by the lender.



4. In addition to title, where else can Covius help lenders in home equity transactions?

Valuation is a critical component of any home equity decision. Depending on the client's overall risk profile and the lender's guidelines, automated valuation models (AVMs) are often used in home equity evaluation, and our Covius Loanscape includes an AVM. For larger HELOCs, lenders will often order an appraisal and we can handle these orders nationally through Service 1st, our appraisal management company (AMC).

Today, it's pretty common for lenders to use multiple service providers for home equity, just as they do for first mortgages. For example, service provider A for title, service provider B for valuation, service provider C for tax searches and D for recordation. But at the end of the day, is this really a best practice? As an old LEAN Sigma guy, I'd argue, it's not. In terms of efficiency, handoffs are the enemy and the more fragmented and the more handoffs you have throughout a process, the more waste and cost you generate. If you're using multiple vendors throughout that process, the burden of managing those handoffs falls to you as the lender.

But we're ready to meet the market wherever it is. So, while we're always going to advocate for consolidated solutions, we are also able to engage throughout the lifecycle of the transaction depending on how our clients want to configure their workflows.



Joe Chappell, EVP, Covius Settlement Services, has decades of experience in financial services driving transformational change through operational discipline and value-based strategic alignment. At Covius, he has led the digitization of borrower-facing and lender/servicer-facing, tech-enabled solutions that improve the client's experience while reducing waste and improving compliance and operational efficiencies. Among these are Covius' recent integrations with Flueid, Stavvy and Black Knight for title optimization and enhanced digital borrower experience.