BLACK KNIGHT

Press Release

For more information:

Michelle Kersch
904.854.5043
michelle.kersch@bkfs.com

Mitch Cohen
704.890.8158
mitch.cohen@bkfs.com

Black Knight's Mortgage Monitor: Tappable Equity at All-Time High, But Tax Code Changes Could Impact Homeowners' Utilization

- As of Q3 2017, approximately 42 million homeowners with a mortgage have nearly $5.4 trillion in equity available to borrow against, assuming a maximum 80 percent total loan-to-value ratio
- Over 80 percent of all mortgage holders now have available equity to tap via a first-lien cash-out refinance or home equity line of credit (HELOC)
- Under the recently passed tax reform plan, interest on HELOCs is no longer deductible, increasing the post-tax expense of such products for those who itemize
- HELOCs have been an attractive option for borrowers to utilize available equity without sacrificing low first-lien interest rates; with interest on these products no longer deductible, the value proposition has changed
- In many cases, for borrowers with high unpaid principal balances (UPB), taking out low-dollar lines of credit, the math still favors HELOCs
- However, for low-to-moderate UPB borrowers taking out larger amounts of equity – assuming interest on cash-out refinances remains deductible – the post-tax math may now favor such products instead, even if it results in a slight increase to first lien interest rates

JACKSONVILLE, Fla. -- Jan. 8, 2018 -- Today, the Data & Analytics division of Black Knight, Inc. (NYSE:BKI) released its latest Mortgage Monitor Report, based on data as of the end of November 2017. This month, Black Knight finds that tappable equity – the amount of equity available for homeowners to borrow against before reaching a maximum 80 percent total loan-to-value (LTV) ratio – is at an all-time high. However, as Black Knight Data & Analytics Executive Vice President Ben Graboske explained, recent changes to the U.S. tax code may have implications for homeowners' utilization of that equity.

"As of the end of Q3 2017, 42 million homeowners with a mortgage now have an aggregate of nearly $5.4 trillion in equity available to borrow against," said Graboske. "That is an all-time high, and up more than $3 trillion since the bottom of the market in 2012. Over 80 percent of all mortgage holders now have available equity to tap, whether via first-lien cash-out refinances or home equity lines of credit (HELOCs). We've noted in the past that as interest rates rise from historic lows, HELOCs represented an increasingly attractive option for these homeowners to access their available equity without relinquishing interest rates below today's prevailing rate on their first-lien mortgages. However, with the recently passed tax reform package, interest on these lines of credit will no longer be deductible, which increases the post-tax expense of HELOCs for those who itemize. While there are obviously multiple factors to consider when identifying which method of equity extraction makes more financial sense for a given borrower, in many cases, for those with high unpaid principal balances who are taking out lower line amounts, the math still favors HELOCs. However – assuming interest on cash-out refinances remains deductible – for low-to-moderate UPB borrowers taking out larger amounts of equity, the post-tax math for those who will still itemize under the increased standard deduction may now favor cash-out refinances instead, even if the result is a slight increase to first-lien interest rates.

"As rates continue to rise and the cost associated with increasing the rate on an entire first-lien balance rises as well, the benefit pendulum will likely swing back toward HELOCs. Even so, the change could certainly impact HELOC lending volumes and loan amounts in the coming months and years. To a certain degree, the same question holds true for cash-out refinances, since tax debt for homeowners who will no longer itemize becomes generally more expensive without mortgage interest deduction in the equation. These refinances will likely be an attractive source of secured debt in the future, but increased post-tax costs may have a negative impact on originations. That said, it still remains to be seen whether and to what extent tax costs will impact borrower decisions in terms of either HELOCs or cash-out refinances. At this point, only time will tell."

The increase in equity, driven by rising home prices, has also continued to shrink the population of underwater borrowers who owe more on their mortgages than their homes are worth. The number of underwater borrowers declined by 800,000 over the first nine months of 2017, a 37 percent decline in negative equity since the start of the year. Only 2.7 percent of homeowners with a mortgage (approximately 1.36 million borrowers) now owe more than their home is worth, the lowest such rate since 2006. Though still elevated from pre-recession levels, the negative equity rate continues to normalize. Even so, home prices in large portions of the country remain below pre-recession peaks. While 36 states and 70 percent of Core Based Statistical Areas (CBSAs) have now surpassed pre-recession home price peaks, 43 of the nation's 100 largest markets still lag behind.

As was reported in Black Knight's most recent First Look news release, other key results include:

Total U.S. loan delinquency rate:	4.55%
Month-over-month change in delinquency rate:	2.54%
Total U.S. foreclosure pre-sale inventory rate:	0.66%
Month-over-month change in foreclosure pre-sale inventory rate:	-3.15%
States with highest percentage of non-current* loans:	MS, FL, LA, AL, WV
States with lowest percentage of non-current* loans:	MT, MN, OR, ND, CO
States with highest percentage of seriously delinquent** loans:	MS, FL, LA, TX, AL

*Non-current totals combine foreclosures and delinquencies as a percent of active loans in that state.
**Seriously delinquent loans are those past-due 90 days or more.
Totals are extrapolated based on Black Knight's loan-level database of mortgage assets.

About the Mortgage Monitor
The Data & Analytics division of Black Knight manages the nation's leading repository of loan-level residential mortgage data and performance information on the majority of the overall market, including tens of millions of loans across the spectrum of credit products and more than 160 million historical records. The company's research experts carefully analyze this data to produce a summary supplemented by dozens of charts and graphs that reflect trend and point-in-time observations for the monthly Mortgage Monitor Report. To review the full report, visit: http://www.BKFS.com/CorporateInformation/NewsRoom/Pages/Mortgage-Monitor.aspx

About Black Knight
Black Knight (NYSE:BKI) is a leading provider of integrated software, data and analytics solutions that facilitate and automate many of the business processes across the homeownership lifecycle.

Black Knight is committed to being a premier business partner that clients rely on to achieve their strategic goals, realize greater success and better serve their customers by delivering best-in-class software, services and insights with a relentless commitment to excellence, innovation, integrity and leadership. For more information on Black Knight, please visit http://www.blackknightinc.com/.

# # #

SOURCE: BLACK KNIGHT, INC.