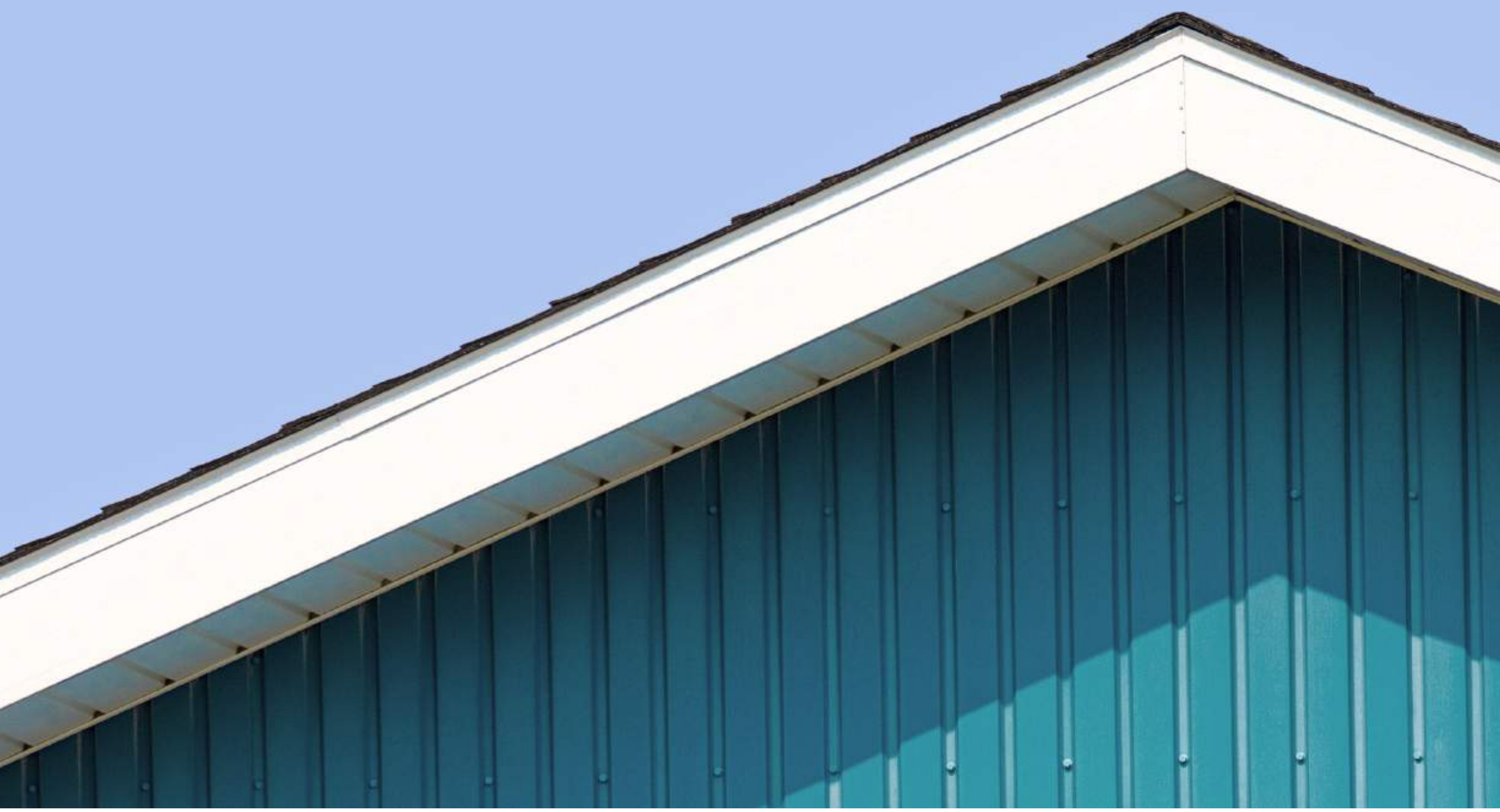
Are Homeownership Costs Hindering Other Financial Goals?

A 2021 Hometap Report



hometap

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Between record-breaking housing prices and the temporary-to-permanent closures of nearly one-third of all U.S. small businesses due to the COVID-19 pandemic, it's an understatement to say that the last several years have been tumultuous. A widespread increase in home values has led to record amounts of equity as sales paused, supply dropped, and demand grew. Job losses, shifts in living situations, and health issues also negatively impacted homeowners' finances and caused many to tighten their budgets.

Many of those struggling to keep up with mortgage payments and other home-related expenses are more house-rich, cash-poor than ever, and may be overlooking their largest asset for achieving financial goals: their homes.

Hometap wanted to understand how the pandemic has affected homeowners' finances, what financial goals homeowners hope to achieve in the next year, and whether homeownership helps or hinders their ability to achieve these goals.

We conducted a survey of 1,000 American homeowners in August 2021 to explore these themes and understand how the financial technology industry can support, educate, and prepare them for the challenges of homeownership and to achieve other financial goals.

The results? Many homeowners are unaware of the amount of equity in their home, and many more don't see their home as an asset from which they can access cash. When we drilled down into demographic groups of age, race, and ethnicity, some of these findings were exacerbated, presenting a clear opportunity for more education, awareness, and financial literacy around home equity.

Executive Summary

EXECUTIVE SUMMARY

46.5%
of homeowners have been negatively impacted financially by the pandemic.

1 in 4 homeowners (26%)
plan to maintain a tighter budget until they recover financially from the pandemic.

52%
of U.S. homeowners spend at least 16% of their monthly income on their mortgage.

1 in 3
millennials spends more than 26% of their income on their mortgage.

Only 37.8%
of homeowners felt very prepared for additional homeownership costs beyond mortgage payments.

51.6%
of homeowners don't view their home as an asset that they can take cash out of as needed.

Homeowner Finances in the COVID Era

Months before the global pandemic took shape in 2019, Hometap conducted a survey that revealed that many homeowners were already worried about their housing costs and other debts growing at a faster pace than their income and preventing them from accomplishing important life goals. Then, the COVID-19 pandemic hit, compounding these existing fears.

More than three-quarters of homeowners surveyed have some sort of debt or financial liabilities. Mortgage, credit card, and auto loan debt topped the list for most homeowners.

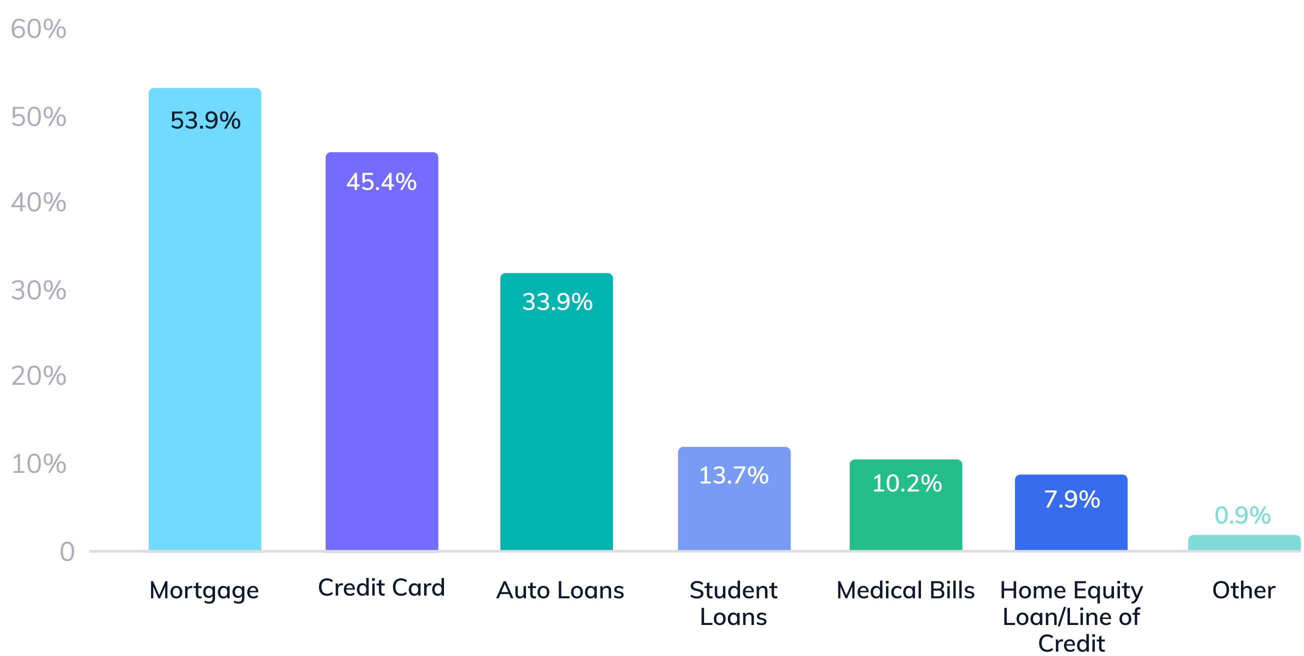
STATE STANDOUT

61.9% of Ohio homeowners surveyed reported having mortgage debt; **45.2%** had auto debt.

77.3%
have some form of debt

22.7%
have no debt

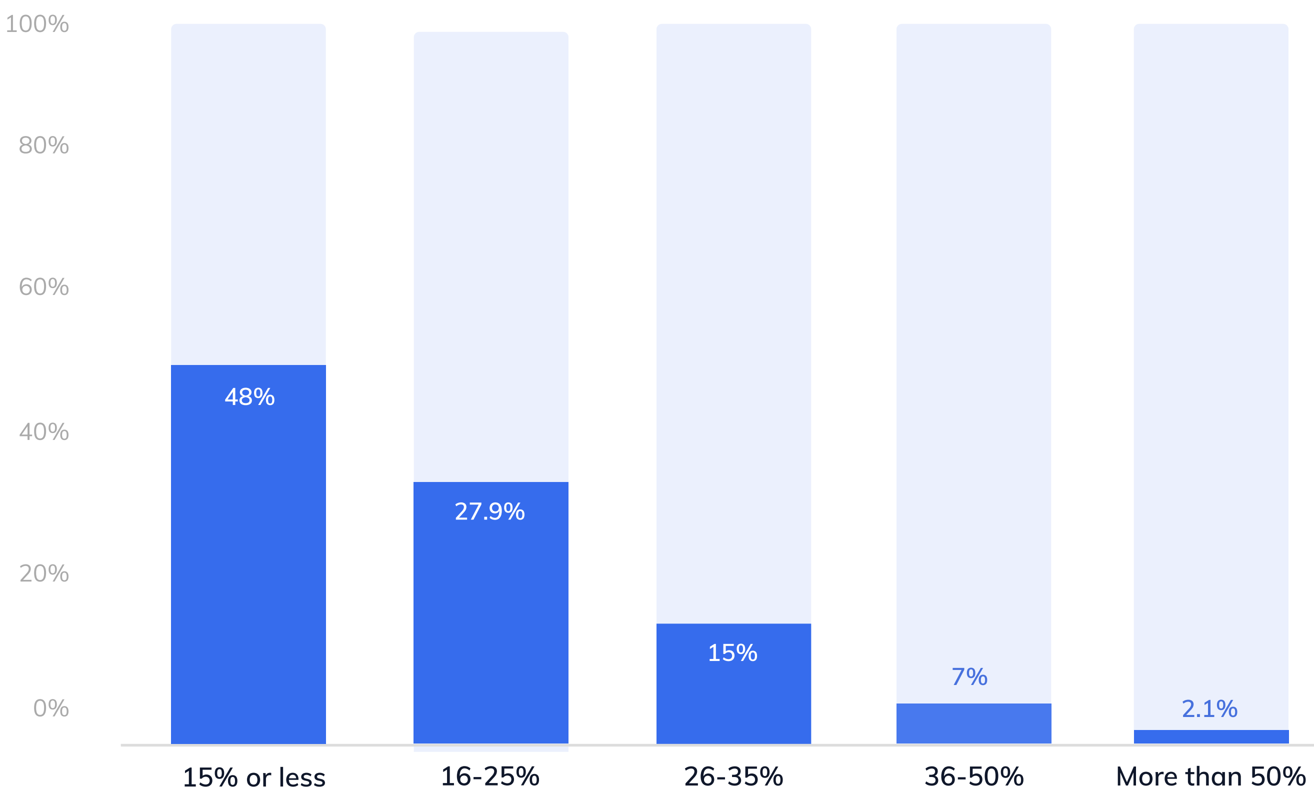
Question: What kinds of debts or financial liabilities do you have?



A 2021 Federal Reserve report found that total consumer debt increased to almost $14.6 trillion at the end of 2020, a jump largely driven by mortgage debt, which surged $486 billion, surpassing the $10 trillion mark for the first time ever.

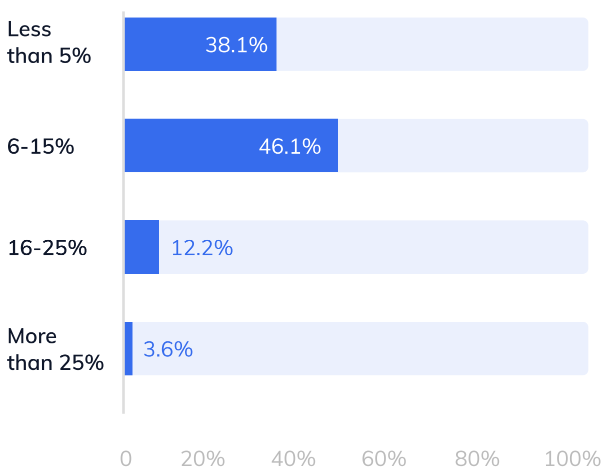
Still, mortgage payments make up a fairly small amount of overall homeowner spending for the majority of homeowners surveyed by Hometap. **The largest cohort of homeowners spend 15% or less of their gross monthly income on their mortgage.**

Question: What percentage of your gross monthly income is spent on your mortgage payment?

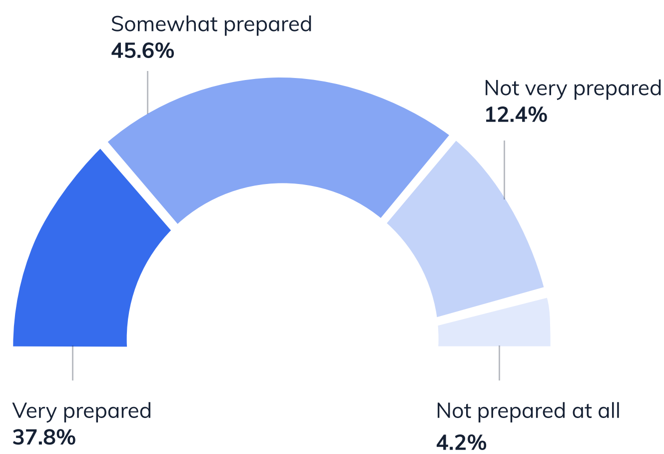


Then there are the other costs of homeownership, like repairs, maintenance, taxes, and insurance, to consider — 84.2% of homeowners spend 15% or less of their gross monthly income on these additional costs. **Only 37.8% of homeowners surveyed felt "very prepared" for these costs when they became homeowners.**

Question: How much of your gross monthly income do you spend on other homeownership costs (repairs, taxes, insurance, etc.)?



Question: How prepared were you for homeownership costs outside of your mortgage after purchasing a home?



DID YOU KNOW

The average American has **$25,000** in non-mortgage debt.

Source: Forbes / Experian

On the other hand, though they may have been initially unaware of the expenses homeownership would entail, that's not the case when it comes to their current standing with debt. The survey data revealed that overall, **91.5% of homeowners are somewhat (if not fully) aware of how much debt they owe today.**

Question: Which of the following statements best describes your understanding of how much total debt you owe?

- **46.7%** I know how much I owe, down to the dollar
- **44.8%** I think I know; I have a general sense
- **5.3%** I'm not sure; I'd be estimating
- **3.2%** I don't know how much I owe

"We continue to see debt hindering many Americans from having the financial freedom to make other important decisions in their lives."

Christian Mitchell
Executive Vice President and Chief Customer Officer at Northwestern Mutual

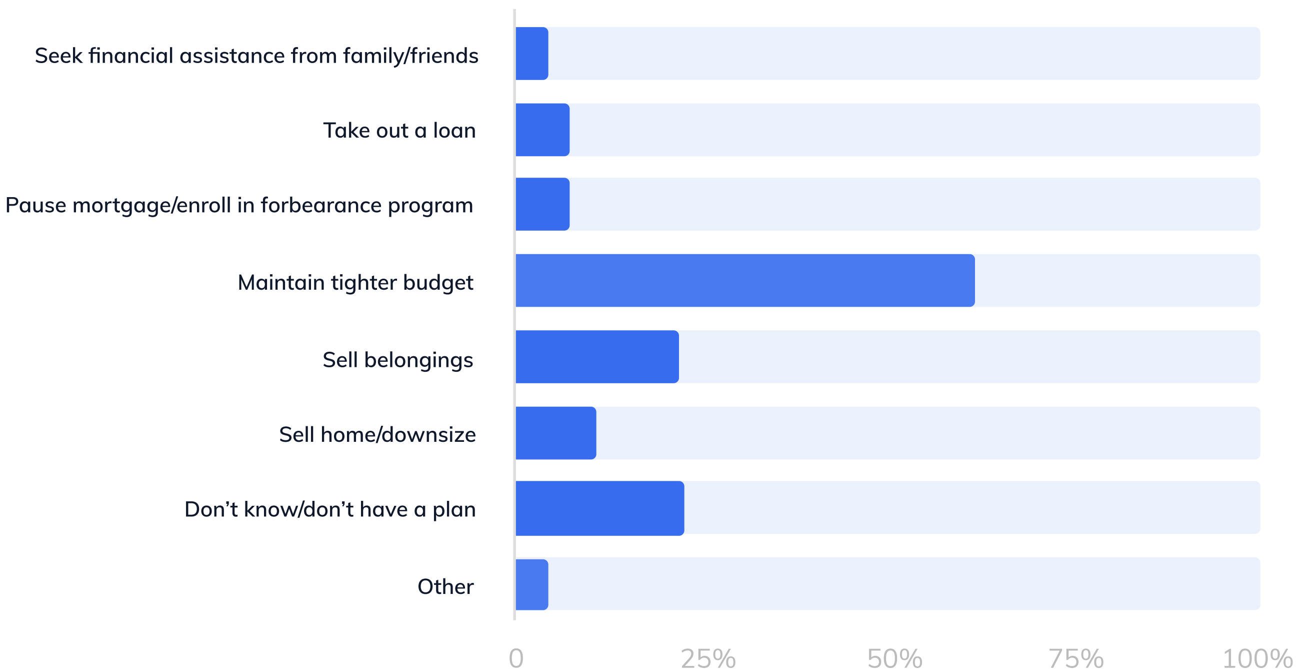
An August 2021 study from Northwestern Mutual actually discovered that outside of mortgage debt, other consumer debts have been on the decline in recent years, dropping 20% since 2019, but there is still progress to be made.

"The latest numbers show steps in the right direction compared to previous years, but we continue to see debt hindering many Americans from having the financial freedom to make other important decisions in their lives," Christian Mitchell, Executive Vice President and Chief Customer Officer at Northwestern Mutual, said. "Having a plan of action to manage debt and stay on top of payments is critical to achieving future financial goals."

The homeowners surveyed by Hometap who were negatively financially impacted by the COVID-19 pandemic appear to agree, with **60.7% reporting that they plan to tighten their budget or lower their spending until their debts are paid off.**

Question: How do you plan to recover financially from the COVID-19 pandemic?

Answers shown are from homeowners who answered that they do feel they need to recover



STATE STANDOUT

58.8% of California homeowners surveyed said their finances were negatively impacted by the COVID-19 pandemic, compared to **46.5%** nationally.

Varying Perceptions of Home Equity

Understanding how homeowners view their equity proved to be insightful — and opened a window into making sense of other financial behaviors. More than half of homeowners surveyed (57%) are aware of how much equity they have in their home. However, of the 43% who don't know how much equity they have in their home, 47.2% said it's simply because they don't know how to calculate it, and 30% believe that they don't need to know, with explanations ranging from "I don't care" to "I have no reason to."

In general, the equity-aware group tended to be more informed about their personal debt amount and were increasingly focused on longer-term financial goals like growing their retirement savings.

Homeowners that know how much equity is in their home:

60% Know how much debt they have down to the dollar

Biggest financial goals:

- Grow retirement savings **(47%)**
- Pay off credit card debt **(36%)**

60.5% Consider their home to be a tappable asset

42% have home values between **$250,000 - $499,000**

Homeowners that <u>don't</u> know how much equity is in their home:

27.8% Know how much debt they have down to the dollar

Biggest financial goals:

- Pay off credit card debt **(43%)**
- Increase disposable income **(31%)**

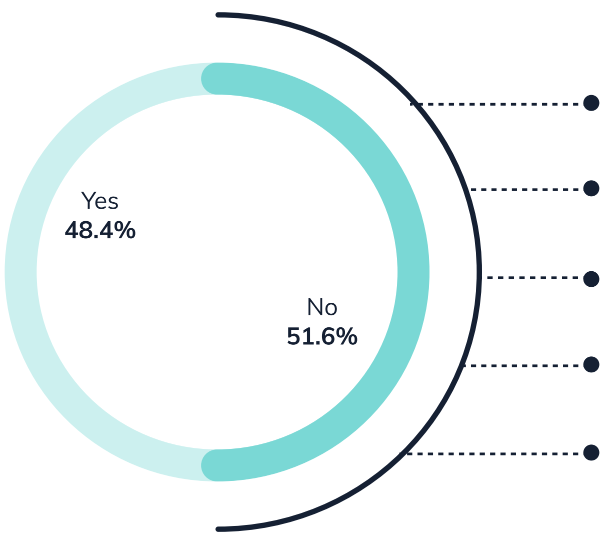
67.7% Don't consider their home to be a tappable asset

40% have home values between **$100,001 - $249,000**

Untouchable Asset or Untapped Opportunity?

With home prices on the rise, breaking records, and still predicted to grow 16% by the end of 2022, equity is higher than ever. **Homeowners are increasingly "house-rich, cash-poor,"** often with hundreds of thousands of dollars tied up in their properties while struggling to handle day-to-day expenses. Regardless of whether they know how much equity they have, the majority of homeowners still don't view their homes as a source of capital.

Question: Do you consider your home to be an asset that you can take cash out of when needed?



Why not?

50.6%	I don't view my home as a liquid asset, therefore haven't considered this as an option
24.2%	I don't want to sell my home/take out a loan and those are the only ways I know how to access equity
9.7%	I don't know how to turn my home equity into cash
9.5%	I wouldn't qualify for a home equity loan, HELOC, cash-out refinance, or reverse mortgage
6%	Other

"I consider my home equity to be an 'untouchable' asset that I won't use until well into retirement."

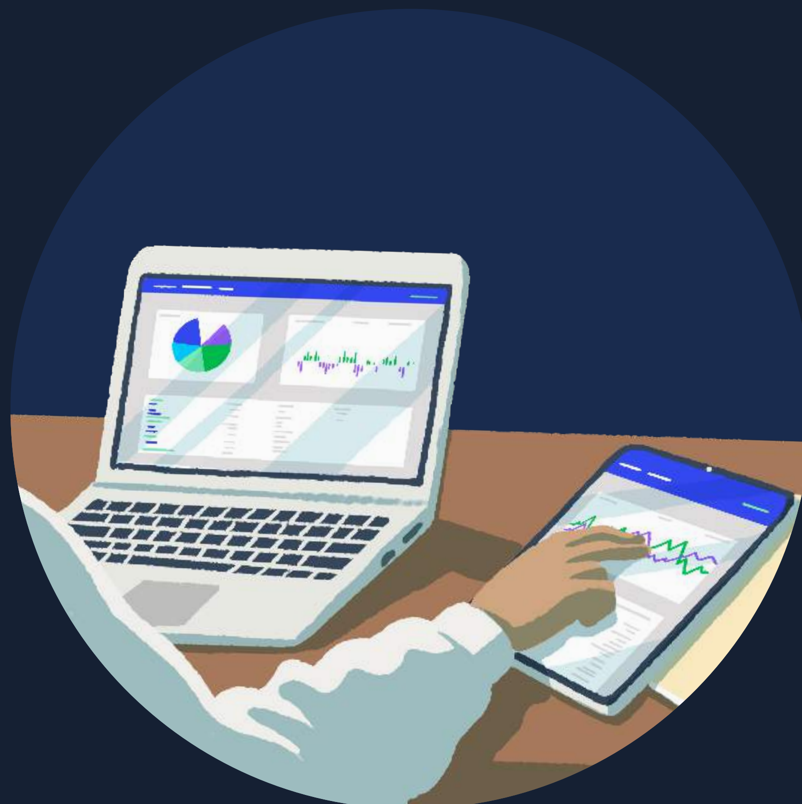
Anonymous survey participant

It's no surprise, then, that a relatively low percentage of homeowners surveyed have explored traditional financing options: just 13.7% of respondents have considered or applied for a home equity loan, and 13.5% have considered or applied for a home equity line of credit (HELOC).

Interestingly, this finding isn't a first. A 2016 Accenture survey revealed that **just 54% of homeowners were aware they could use a home equity loan for "non-home purposes."** There's clearly a knowledge gap — and opportunity — when it comes to helping homeowners make the connection between their largest asset and its potential to be a useful source of funding.

"We knew anecdotally, from our own experiences working with homeowners, that there's often a lack of understanding about how exactly home equity can be used, but it was eye-opening to see just how widespread the issue is. We in the fintech community clearly have an opportunity to provide resources that will educate and empower homeowners to reach their financial goals."

Jonathan MacKinnon
VP of Product Strategy & Business Development, Hometap

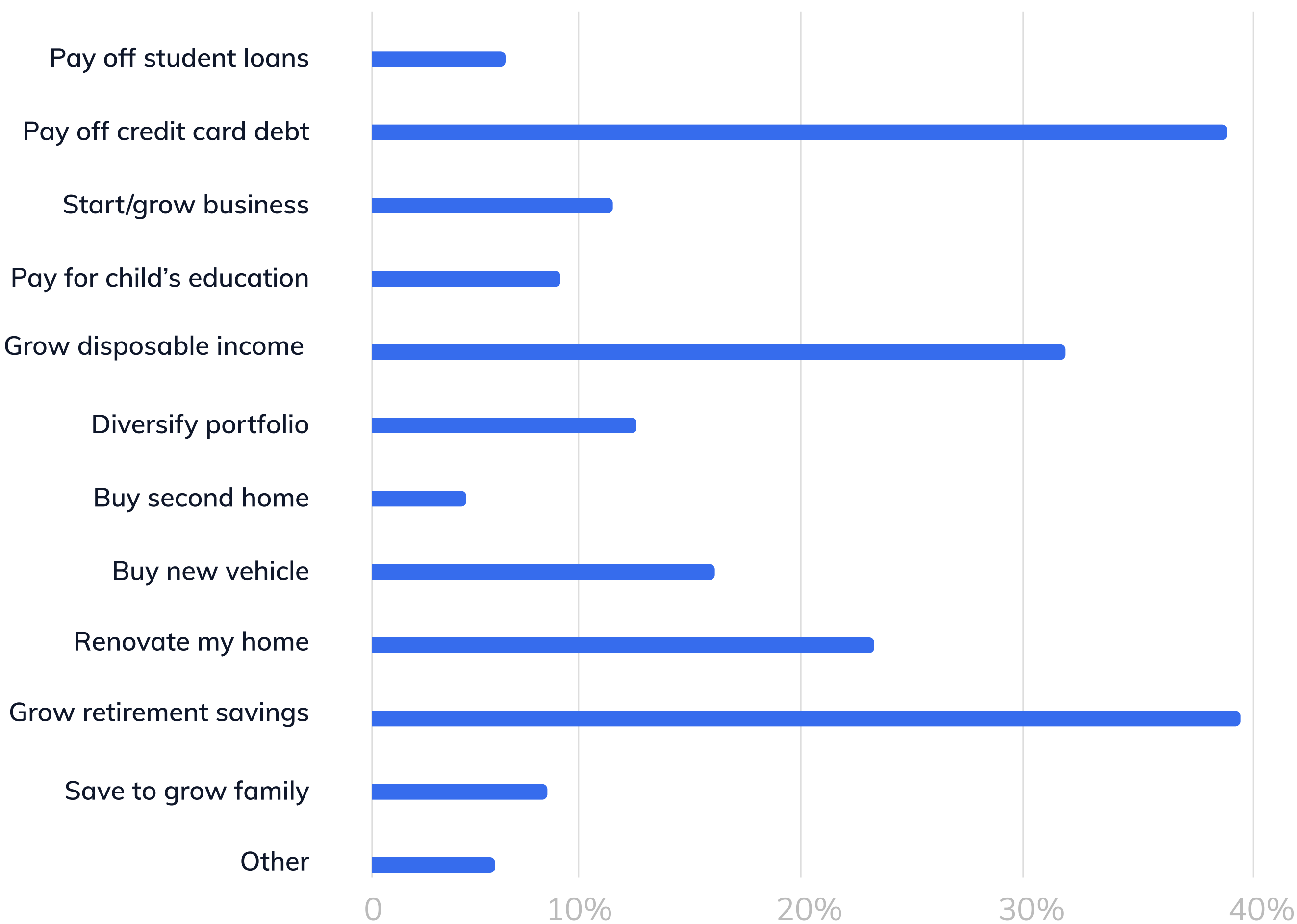


Ambitious Financial Goals

On its face, unutilized home equity isn't necessarily a bad thing, but it frequently comes at the expense of homeowners who are burdened by debt and unable to achieve important financial goals and milestones. As homeownership costs and other debts rise, financial achievements fall even further out of reach for many homeowners.

From the list of 12 goals below, of which homeowners could select as many as were applicable, individuals averaged 2.1 goals. **Almost 40% hope to grow their retirement savings, and paying off credit card debt and increasing disposable income follow closely behind.**

Question: What financial goals are you prioritizing in the next year?

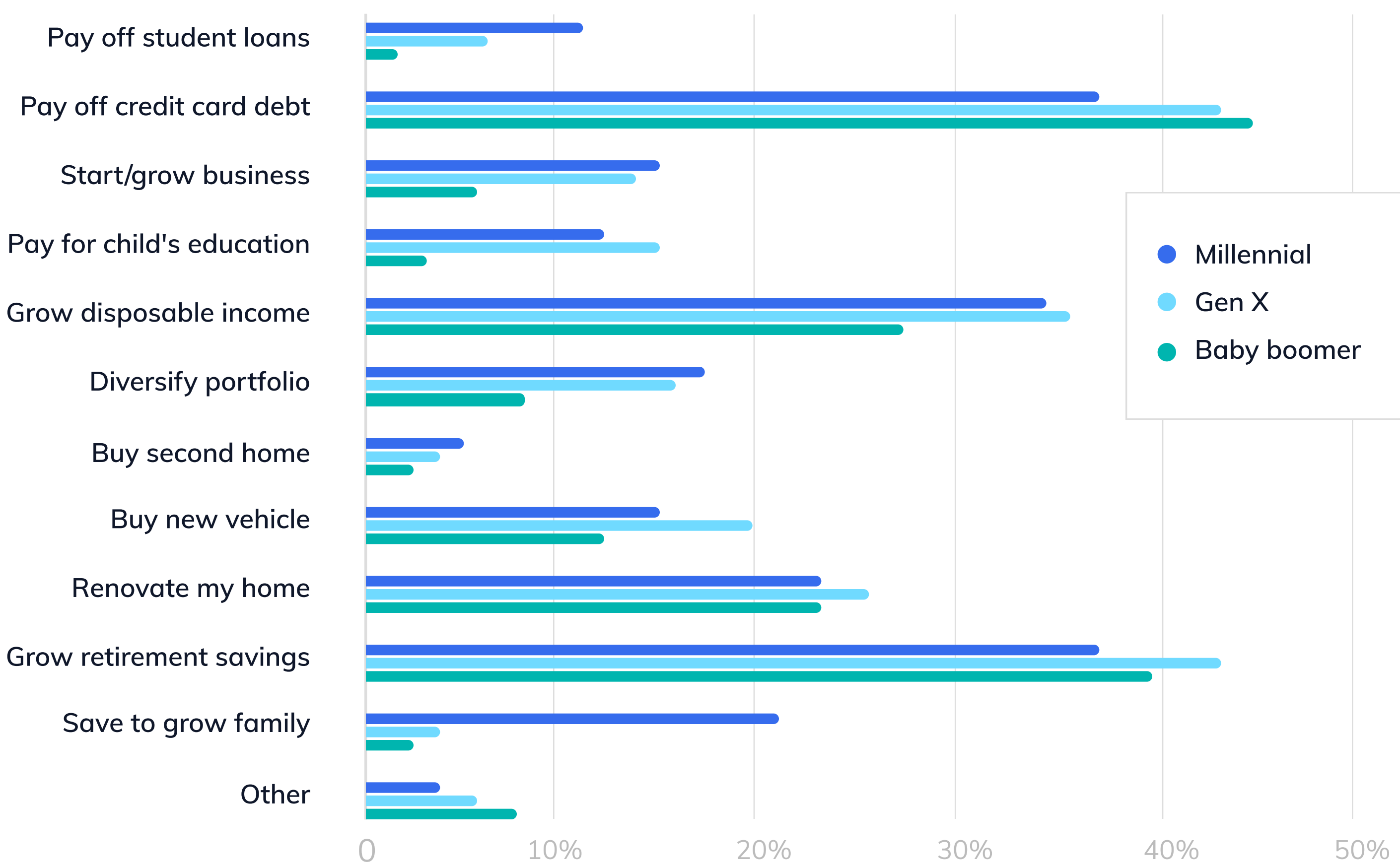


How Generations Compare

Anecdotally, we can make some assumptions about certain generational trends and disparities. For example, millennials have a higher likelihood of having student debt because they faced higher tuition costs and have had less time to pay it off; baby boomers have the least mortgage debt because they've been in their homes the longest. But analyzing generational trends has also brought to light some less predictable insights, and can indicate how historical events impact and influence behavior.

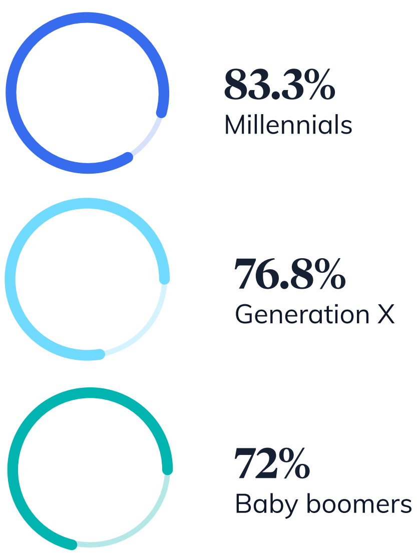
Financial goals remain fairly consistent across age groups, with all setting their sights primarily on growing their retirement savings, paying off credit card debt, and increasing their disposable income.

Question: What financial goals are you prioritizing in the next year?

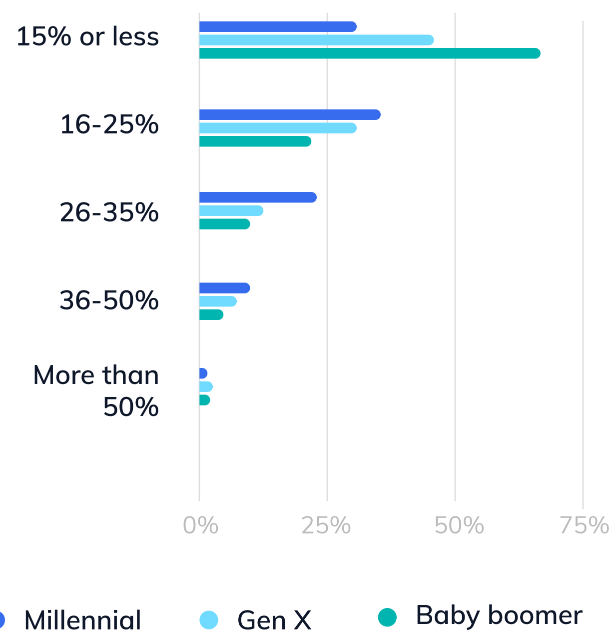


It's when comparing debt that the disparities between generations become most evident: **millennials lead the pack when it comes to debt,** and while they have many financial goals, they're also at the biggest risk of becoming house-rich and cash-poor due to a combination of factors. More than two-thirds spend 16% or more of their gross monthly income on their mortgage payment.

Percentage of homeowners with some form of debt



Percentage of monthly income spent on mortgage



DID YOU KNOW?

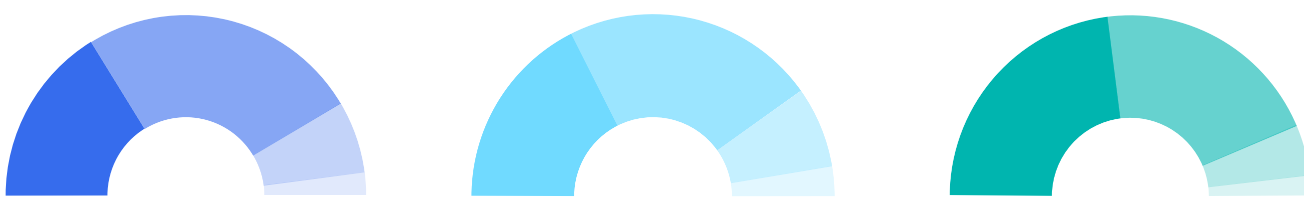
The average millennial has **$255,527** in home loans as of 2021.

Source: Forbes

Daniel McCue, Senior Research Associate at the Harvard Joint Center for Housing Studies, told CNBC that if this percentage creeps up to 30%, it can start to spell trouble. “In order to pay for housing, people spend a third less on food and two-thirds less on health care,” he explained.

Millennials are also the least likely generation to feel “very prepared” for the costs of homeownership beyond mortgage payments. A 2021 Bankrate survey revealed that 64% of millennial homeowners have at least one regret about buying their home, with the 21% citing lack of preparedness for additional and often hidden costs like maintenance. Finally, the majority of millennial homeowners surveyed by Hometap do not know how much equity they have in their home, compared with 45.6% of Gen-X and only 31.3% of baby boomers.

Question: How prepared were you for homeownership costs outside of your mortgage after purchasing a home?



MILLENNIALS

- Very prepared - **32.4%**
- Somewhat prepared - **50.6%**
- Not very prepared - **13%**
- Not at all prepared - **3.9%**

GENERATION X

- Very prepared - **35%**
- Somewhat prepared - **45.3%**
- Not very prepared - **14.4%**
- Not at all prepared - **5.3%**

BABY BOOMERS

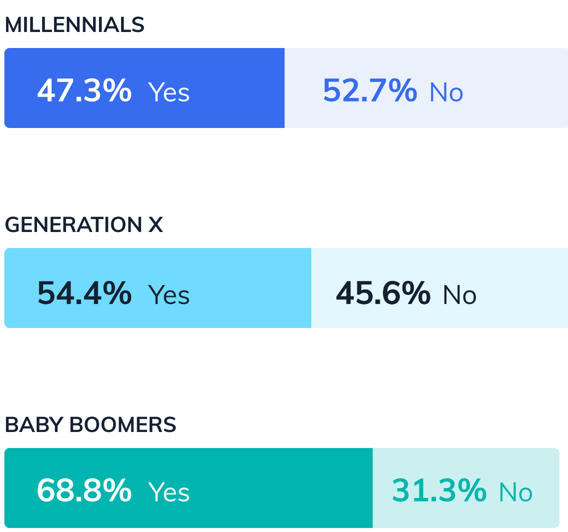
- Very prepared - **45.7%**
- Somewhat prepared - **41.4%**
- Not very prepared - **9.2%**
- Not at all prepared - **3.6%**

**Survey results were rounded to the nearest tenth of a percentage. As such, totals may not always be equal to 100%*

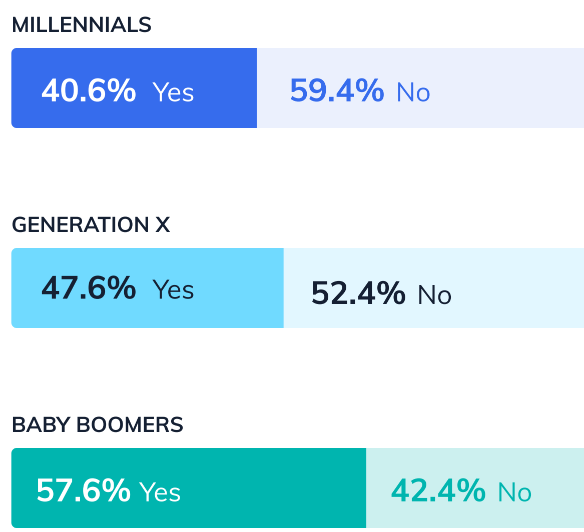
Millennials also currently have the lowest rate of homeownership to begin with: in 2020, that figure was 47.9% according to the U.S. Census Bureau, while 69% of Gen X and 77.8% of baby boomers owned their homes. Forbes attributes this to several events, including rising housing costs, stagnant earnings, and the residual challenges of coming of age in the aftermath of both 9/11 and the Great Recession of 2008.

Finally, the youngest generation surveyed was also the least likely to consider their home an asset that they can take cash out of as needed.

Question: Do you know how much equity you have in your home?



Question: Do you consider your home to be an asset you can take cash out of when needed?



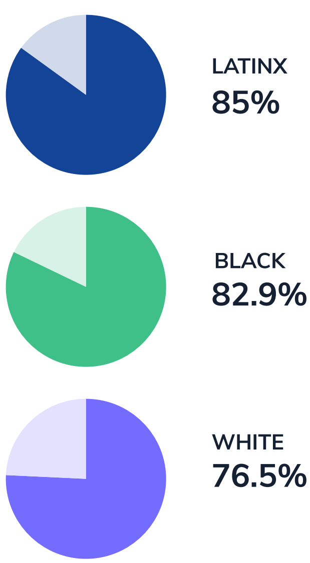
**Survey results were rounded to the nearest tenth of a percentage. As such, totals may not always be equal to 100%*

Racial & Ethnic Disparities in Equity, Debt Awareness

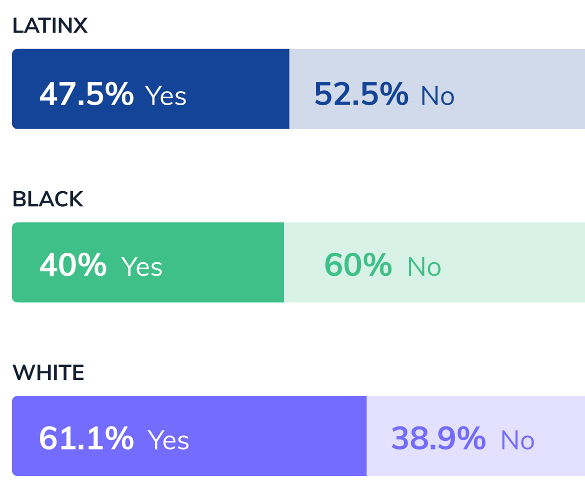
Following a long history of racial and ethnic inequality in the United States — coupled with financial disparities across races — White homeowners surveyed reported higher home values, less debt, more knowledge of both the debt they owe and the equity in their home, and a lower percentage of their gross monthly income spent on their mortgage.

When it comes to debt, the survey results indicate that Latinx and Black homeowners have more debt, and have less awareness of how much they owe, compared to their White counterparts. This trend continued when looking at equity.

Percentage of homeowners with some form of debt



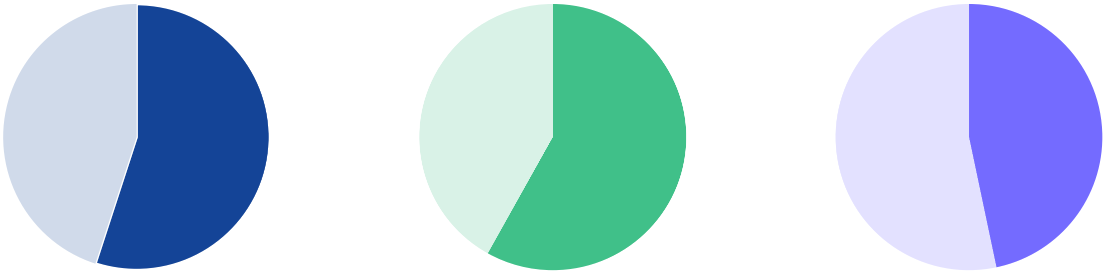
Question: Do you know how much equity you have in your home?



RACIAL & ETHNIC DISPARITIES IN EQUITY, DEBT AWARENESS

Despite this, less than half (47%) of White homeowners view their home as an asset they can take cash out of as needed, in comparison to Black homeowners (58%) and Latinx homeowners (55%). Half of White homeowners who don't consider their home to be an asset explained that they don't see it as a liquid asset and never thought about it as an option, and 25% believe that selling their house or taking out a loan are the only ways to access their equity.

Question: Do you consider your home to be an asset you can take cash out of?



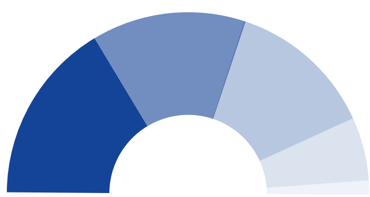
LATINX
Yes - **55%**
No - **45%**

BLACK
Yes - **58.1%**
No - **41.9%**

WHITE
Yes - **46.7%**
No - **53.3%**

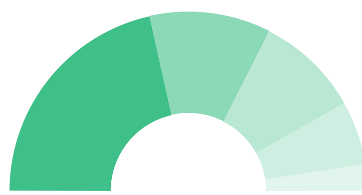
More than half (51%) of White homeowners spend less than 15% of their gross monthly income on their mortgage, but this percentage drops to 42.9% for Black homeowners and 32.5% for Latinx homeowners.

Question: What percentage of your gross monthly income is spent on your mortgage payment?



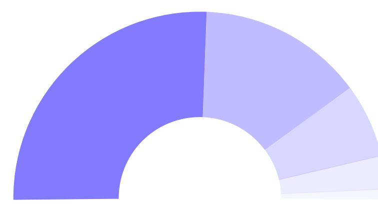
LATINX

- 15% or less - **32.4%**
- 16-25% - **27.5%**
- 26-35% - **26.3%**
- 36-50% - **11.3%**
- more than 50% - **2.5%**



BLACK

- 15% or less - **42.9%**
- 16-25% - **21.9%**
- 26-35% - **19%**
- 36-50%-**11.4%**
- more than 50% - **4.8%**



WHITE

- 15% or less - **51%**
- 16-25% - **28.6%**
- 26-35% - **12.6%**
- 36-50% - **5.9%**
- more than 50% - **1.9%**

These findings only reiterate bigger, documented systemic issues in real estate as it relates to race. The homeownership rate gap remains wide between Black and White families — 44% vs. 73.7% respectively, according to a 2020 Redfin study.

Opportunities for the Fintech Industry

In analyzing the results of this survey, a few major themes emerged amongst homeowners:

1. Debt is extremely common across all demographic groups, and continues to act as a major blocker to the achievement of homeowners' financial goals.

2. There's a marked lack of awareness and understanding when it comes to knowledge about the amount of equity individuals have amassed in their homes, as well as how they can access and use it through both traditional and alternative financing options to handle debt and move closer to their financial goals. This is an especially critical and timely knowledge gap, given that home equity is at an all-time high, and still growing.

3. Millennials, many of whom have faced a number of challenges in purchasing their first homes to begin with, continue to struggle even after becoming homeowners, with one-third spending more than a quarter of their gross monthly income on their mortgage and feeling generally unprepared for the additional costs of homeownership.

4. When it comes to racial and ethnic disparities, while White homeowners are generally more aware of their home equity and of their debt, they're less likely to view their home as an asset. The inverse is true for both Black and Latinx homeowners — though they are less likely to know how much equity is in their home or how much debt they have, they're more likely to consider their home an asset from which they can pull cash when needed.

Today's financial technology companies have more resources than ever — and more channels to communicate — to provide not only new financing solutions to meet the needs of modern homeowners, but also the objective educational information to empower them to make sound financial decisions based on their individual needs and goals.

With an increased understanding of both their personal home equity, as well as equity-based home financing options, homeowners will have a greater opportunity to find the option that's right for them and take steps toward financial independence.

> "I'm a big believer that financial literacy has to be where all sectors of society come together and make it a priority...if we could bring all sectors in — the government, the state, the school systems, families, workplace, nonprofits — we could move the needle."
>
> **_Carrie Schwab-Pomerantz, CFP_**
> *President, Charles Schwab Foundation*
> *Source: Worth.com*

DID YOU KNOW?

It's estimated that a lack of personal finance knowledge cost the average American $1,600 in 2020.

Source: National Financial Educators Council

Survey Methodology

In the survey, 1,000 participants, all United States residents between the ages of 25-75 years old, were presented with questions about their debt, home equity, and financial goals. All are homeowners with home values that range from less than $100,000 to more than $750,000.

Survey respondents represented all 50 U.S. states and a myriad of racial and ethnic backgrounds. To maintain a margin of error of plus or minus 10 percentage points, any cohorts with population sizes too small to maintain this margin are not represented in this report.

About Hometap

Hometap is a smart new loan alternative for tapping into home equity without taking on debt. Homeowners receive debt-free cash by selling a percentage of the equity in their homes to Hometap. They can use the cash for anything, from paying off credit-card debt to starting a business to buying a second home. When the home sells or the homeowner settles the investment, Hometap is paid out an agreed-upon percentage of the sale price or current appraised value.

Learn more at www.hometap.com.