

2018 Houzz & Home Study: Role of Secured Financing in U.S. Home Improvement in Collaboration with Bank of America

Houzz and Bank of America explored homeowners' understanding and use of secured financing methods – like home equity lines of credit (HELOCs), cash-out refinances and home equity loans – to pay for home renovations. The study found that one in seven homeowners paid for renovations last year using some form of secured financing. While homeowners were likely to use a credit card to fund smaller home improvements, the study shows that homeowners were more likely to use secured financing for larger renovation projects.

Report Highlights

- **One in seven uses secured financing to pay for home renovations:** One in seven surveyed homeowners on Houzz paid for 2017 renovations with secured financing (15 percent), such as HELOCs (7 percent), cash-out refinance (5 percent) and home equity loans (4 percent). A typical (median) homeowner with secured financing spent \$32,000 on 2017 renovations, three times more than a typical renovator paying with only cash (\$13,000).
- **Gen-Xers drive borrowing:** Renovating homeowners 35 to 54 years old were more likely to pay with secured financing (17 percent) than those 25 to 34 years old (10 percent) and 55 and older (15 percent). Among the borrowers, a typical (median) 35- to 54-year-old homeowner financed \$12,800 to \$22,200 of the overall renovation spend, a far greater amount than other generations (\$10,000 to \$19,000).
- **Secured financing is key for larger projects:** Homeowners spending \$50,000+ on renovations were three times more likely to pay for renovations with secured financing (31 percent) than those spending \$5,000 to 14,999 (10 percent). Larger projects command relatively larger loans and longer payoff schedules.
- **Many advantages of HELOCs:** Promotional low-interest financing is a commonly reported feature of HELOCs (61 percent), home equity loans (58 percent), and cash-out refinance (47 percent). While low cost is by far the leading reason for choosing cash-out refinance (39 percent) or home equity loans (33 percent), HELOCs' usage is motivated by ease of use (39 percent), low cost (38 percent), quick funds (30 percent) and tax deductions (29 percent).
- **Perceptions deter some from using secured financing:** One in seven renovating homeowners who used only cash to pay for renovations gave secured financing at least some consideration (16 percent), with 27 percent choosing not to use financing due to perceived high costs.

Borrowing Options for Home Improvement

While DIY and smaller home improvements can often be covered by cash or a credit card, secured financing typically offers lower-cost options for larger home improvement projects, such as kitchen and bathroom remodels, which accommodate changing household needs, increase comfort and add value to a home. In addition to personalizing a home and increasing its value, major home improvements can be a great alternative to moving.

The secured financing options available to homeowners are:

- **A home equity line of credit (HELOC),** which allows homeowners to borrow against their home's available equity (the difference between the home's value and mortgage balance). HELOCs provide a line of credit that homeowners can access as needed. While remodeling is the most common use, HELOCs can be used for a variety of things, such as consolidating other higher-interest rate debt, education expenses or as an emergency fund that is accessible when and if it's needed.
- **A home equity loan,** which allows homeowners to borrow against their home's equity. However, instead of receiving a revolving line of credit like a HELOC, homeowners receive a lump sum, most often for a one-time expense such as a kitchen renovation or room addition.

- **Cash-out refinance**, which pays off a homeowner's existing first mortgage. This results in a new mortgage loan, which may have different terms than the original loan. When a homeowner closes their refinance loan, they will receive a lump sum, which will be used first to pay off the existing mortgage. Any remaining funds are then available for use as they wish.

Is a HELOC the Right Option?

Of the secured financing options, a HELOC can be a cost-effective way to fund a major renovation project; however, some homeowners hesitate to use one because many do not fully understand what a HELOC is or believe that it will be too costly. Determine if a HELOC is right for you:

- **Evaluate your home's worth:** According to research, home equity reached a record \$8.3 trillion among homeowners with mortgages.¹ To qualify for a HELOC, you need to have available equity in your home, meaning that the amount you owe on your home must be less than the home's value. You can typically borrow up to 85 percent of the value of your home minus the amount you owe. A HELOC gives you the flexibility of a revolving credit line that you can access as needed and typically offers more attractive interest rates than other financing options.
- **Consult professionals:** Before applying for a HELOC, understand how much equity you have in your home, determine how much you need to borrow, and confirm that you can comfortably afford to make the payments on time. It's a good idea to consult with a contractor and real estate agent to be sure your planned improvements fit your neighborhood and will truly add value to your home. It's also important to consider how much you should borrow without affecting your other financial plans.
- **Understand the costs:** You've probably got a good sense of how much your home project will cost. Now you need to look carefully at what it will cost to finance your improvements. Not only are HELOCs one of the most cost-effective financing options, but many borrowers also enjoy their ease of use, quick access to funds, and potential interest tax deductibility, among other benefits. It's important to look at each piece of this puzzle before making a decision.

Learn more about HELOCs at www.bankofamerica.com/home-equity/.

Methodology

- Houzz is a leading platform for home remodeling and design. Our large and engaged user community provides unprecedented insights on the latest market trends based on users' home improvement activity. The Houzz research team aggregates and shares these insights with the community to give people greater confidence in the choices they make for their homes and to give home professionals greater insights into their clients' wants and needs. With these goals in mind, Houzz conducted an online quantitative survey of registered Houzz users regarding trends in home improvement and design, fielded between March 5 and April 16, 2018. The annual Houzz & Home Study is the largest survey of residential remodeling, building and decorating activity conducted. The final sample consists of 146,486 respondents in the U.S. The current report relies on a subset of responses, i.e., U.S. homeowners on Houzz who renovated their primary residence in 2017 (n=72,384) and U.S. homeowners on Houzz who renovated their primary residence in 2017 and paid with secured financing (n=10,301). For more information about the approach, survey, completes, qualifications, sampling and weighting, see the 2018 Houzz & Home Study.
- Collaboration with Bank of America: In an effort to shed light on the overall usage behavior of secured payment methods among renovating homeowners, the Houzz research team collaborated with Bank of America to add new questions to the 2018 Houzz & Home Study, working together to interpret and position these additional insights.

¹ CoreLogic Home Equity Reports for Q4 2017, Q4 2016, Q4 2015, Q4 2014, Q4 2013, Q4 2012 and Q4 2011 (<https://www.corelogic.com/news/corelogic-reports-homeowner-equity-increased-by-908-billion-in-2017.aspx>)