

## Banks tighten, even freeze, home equity lines of credit

By Sue McAllister  
Mercury News

Article Launched: 02/12/2008 06:09:23 PM PST

Bay Area residents accustomed to treating their homes like piggy banks could be in for unpleasant surprises as home prices decline in many areas. Not only are banks less willing to issue popular home equity lines of credit, but some of the nation's biggest lenders are freezing existing loans.

Countrywide Home Loans, for example, has sent letters to at least 122,000 homeowners nationwide informing them that they can no longer draw on their home equity lines of credit. Many homeowners rely on these pay-as-you-use-them loans to finance things like remodeling or college tuition, or to use for emergency expenses.

Morgan Hill homeowner Kelly Urbina received a letter from Countrywide two weeks ago telling her she can no longer access the credit line that she says the lender encouraged her to get when she bought her three-bedroom home in 2006.

"I still have a substantial amount of equity in my property, so I was surprised to get a letter that just said 'we're going to suspend your line,' " said Urbina, who works as an underwriter for Opes Advisors, a mortgage banking and wealth management firm in Palo Alto. She knows the value of her property has dropped somewhat, but not "significantly," as Countrywide claimed in the letter.

She and her husband used some of the equity line to remodel their kitchen two years ago, but otherwise have reserved it for emergency use.

Urbina said she was surprised the lender didn't simply lower the amount of her line of credit, rather than suspend it. "I would have felt that was a very fair thing to do," she said.

Chase and Washington Mutual also have frozen the home equity lines of a much smaller number of customers in response to falling home values, said officials with the two banks. Wells Fargo said it "has not made large-scale decisions to restrict line of credit access for all customers in markets with declining real estate," but is reviewing its home equity customers' accounts more frequently than in past years.

"Everybody's going to have to do it," said Guy Cecala, publisher of Inside Mortgage Finance. "We're just at the beginning of this trend of lenders freezing home equity lines of credit."

Countrywide, which is being acquired by Bank of America after incurring huge losses because of its subprime lending, would not specify in which states or areas homeowners were most likely to have received the letters.

Because median home prices in Silicon Valley have held up better than in many parts of California, it's unlikely that a large chunk of the letters went to local homeowners. But mortgage experts say plenty of Bay Area homeowners potentially could get the same kind of news from their lenders if their equity lines of credit were generous and they did not have much equity in their homes to begin with. Or if home values in the valley drop more steeply.

"It very much could hit people up here - whether it be Countrywide or another lender - where values have come down," said John Conover, president of Borel Private Bank in San Mateo. "This is a significant issue for people who expect to be able to borrow on their loans."

Advertisement

TARGET WEB COUPON

EXPIRES 3/8/08

# FREE Twenty 4x6" basic prints

photo

Offer available at Target One-hour Photo Labs. Go to Target.com/photo for the location nearest you. One-hour service limited to machine capacity. Limit one item or offer per coupon. Offer not available for prints made on the Kodak Picture Kiosk. Void if copied, transferred, purchased, sold or prohibited by law. No cash value. Maximum retail value \$4.40 for combined free offer.



9856-0113-2647-5849-0376-5806-89

Print Powered By  FormatDynamics™

# The Mercury News

MercuryNews.com

Nationwide, homeowners borrowed \$355 billion worth of home equity loans and lines of credit in 2007, down from \$430 billion in 2006, according to Inside Mortgage Finance. California borrowers make up 20 to 25 percent of the market.

Equity is a property's market value minus the owner's mortgage debt. So, for a home worth \$700,000 where the owner has a \$500,000 mortgage, he or she has equity of \$200,000, or about 29 percent.

Until recently, some lenders were willing to make a combination of mortgages and equity lines of credit up to 100 percent of the home's value. So the homeowner in the example above could have gotten a home equity line of \$200,000 in addition to the \$500,000 mortgage, bringing the debt obligation up to \$700,000.

But with home values falling and credit markets still crunched, lenders have narrowed their lending criteria. Few will extend credit past 80 percent of a home's value now. That would cut that homeowner's equity line to \$60,000, resulting in a total of \$560,000 in mortgage debt.

Lenders' changes amount to a sort of hedge against the possibility of further price declines.

"Across the board, every lender has been tightening up their guideline with regard to home equity lines," said Mike Gallagher, president of mortgage broker Avantis Capital in Morgan Hill.

Countrywide cited falling property values as the reason for shutting off so many customers' access to their equity, though lenders can also restrict borrowers' access to their credit lines for other reasons, such as deteriorating credit scores.

Experts called Countrywide's mass mailing to freeze home equity lines unusual, but noted that in a declining market lenders need to protect themselves from avoidable losses.

Susan McHan, president of Opes Advisors and homeowner Kelly Urbina's employer, said her company has at least two clients in the East Bay who have received the letters from Countrywide. In both cases, she said, the homeowners dispute that their home values have fallen sharply, and they are working with Countrywide to try to re-open their credit lines. "They had plans that they were going to be using the loans for," McHan said.

Her company has notified other clients of the new climate in home equity lending.

"Anybody who had an equity line of 90 percent or above, we definitely sent letters warning them" that their lenders might suspend their credit lines in the future.

As for Urbina, she was not counting on using her equity line soon, but she likes having one. "What if I did have an emergency and I needed the line?" she said.

Contact Sue McAllister at [smcallister@mercurynews.com](mailto:smcallister@mercurynews.com) or (408) 920-5833 .

Advertisement

TARGET WEB COUPON

EXPIRES 3/8/08

## FREE Twenty 4x6" basic prints

photo

Offer available at Target One-hour Photo Labs. Go to [Target.com/photo](http://Target.com/photo) for the location nearest you. One-hour service limited to machine capacity. Limit one item or offer per coupon. Offer not available for prints made on the Kodak Picture Kiosk. Void if copied, transferred, purchased, sold or prohibited by law. No cash value. Maximum retail value \$4.40 for combined free offer.



9856-0113-2647-5849-0376-5806-89

Print Powered By  FormatDynamics™