2018

ROLE OF SECURED FINANCING IN U.S. HOME IMPROVEMENT

Prepared in Collaboration
With Bank of America

Big Ideas

Homeowners with mortgages have seen their home equity more than double since 2011, increasing to a record-setting $8.3 trillion in 2017. Consistent with this increase, the volume of home equity lines of credit (HELOCs) and cash-out refinance originations has also more than doubled since 2011 to $157 billion and $70 billion in 2017, respectively. Home improvement will continue to be the top use of secured financing, with recent changes to the tax code preserving the tax deductibility of interest when used for this purpose.

HOUZZ SURVEY SHEDS LIGHT ON SECURED FINANCING USAGE AND MOTIVATIONS

- **1 in 7 uses secured financing to pay for home renovations**
  One in seven surveyed homeowners on Houzz paid for 2017 renovations with secured financing (15%), such as HELOCs (7%), cash-out refinancing (5%) and home equity loans (4%). A typical (median) homeowner with secured financing spent $32,000 on 2017 renovations, more than double a typical renovator paying only cash ($13,000).
- **Gen Xers drive borrowing**
  Renovating homeowners 35 to 54 years old were more likely to pay with secured financing (17%) than those 25 to 34 years old (10%) and 55 and older (15%). 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 to larger projects**
  Homeowners spending $50,000 or more on renovations were three times as likely to pay for renovations with secured financing (31%) than those spending $5,000 to $14,999 (10%). 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%), home equity loans (58%) and cash-out refinancing (47%). While low cost is by far the leading reason for choosing cash-out refinancing (39%) or home equity loans (33%), HELOCs' usage is motivated by ease of use (39%), low cost (38%), quick funds (30%) and tax deductions (29%).
- **Perceived high costs deter cash payers 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%), with a quarter choosing not to use financing due to perceived high costs (27%).

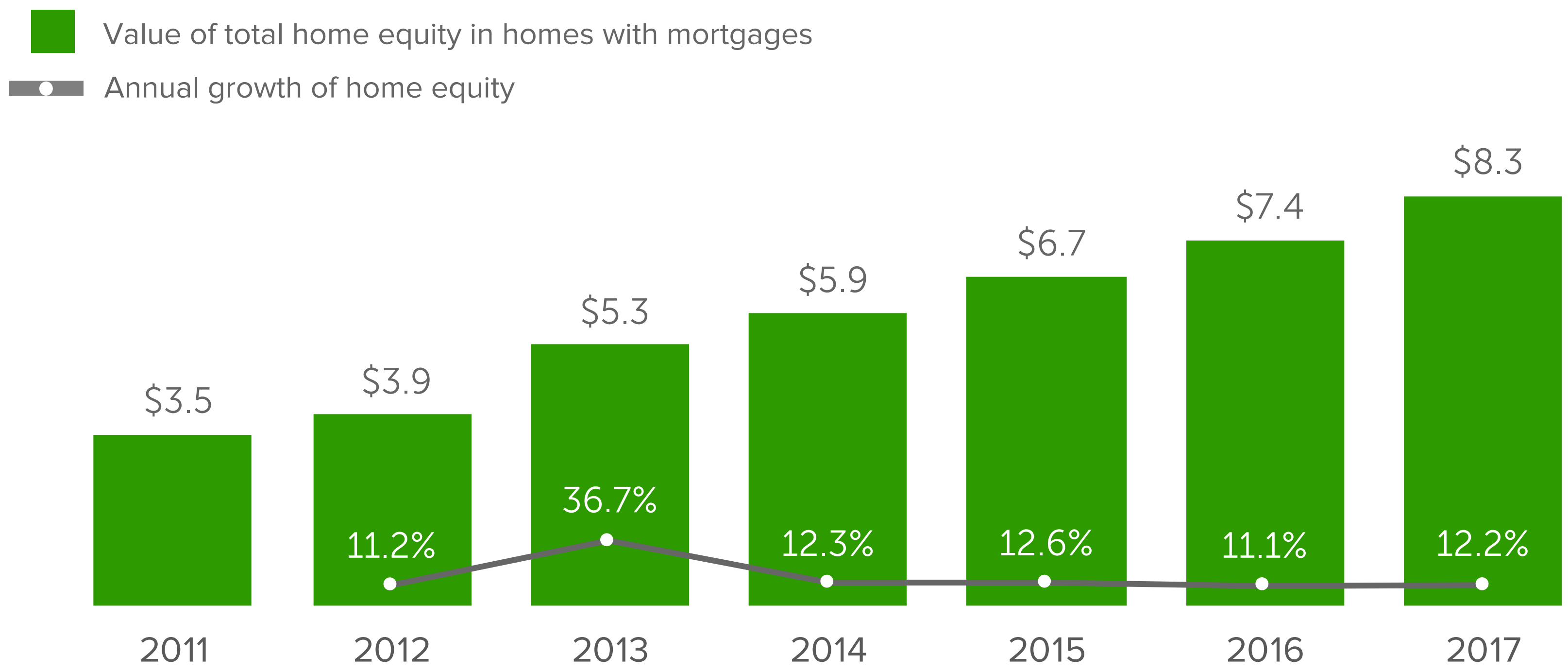
Contents

SECURED FINANCING MARKET TRENDS

Home Equity More Than Doubles Since 2011

Homeowners with mortgages, who represent 63% of all residential properties, have seen their equity more than double between 2011 and 2017, increasing by $4.9 trillion to a record-setting $8.3 trillion in 2017. After 37% annual growth in 2013, home equity grew at a steady 11% to 13% per year in the last four years.[1]

2011-2017 HOME EQUITY VALUE AMONG HOMEOWNERS WITH MORTGAGES (IN TRILLIONS OF DOLLARS)[1]

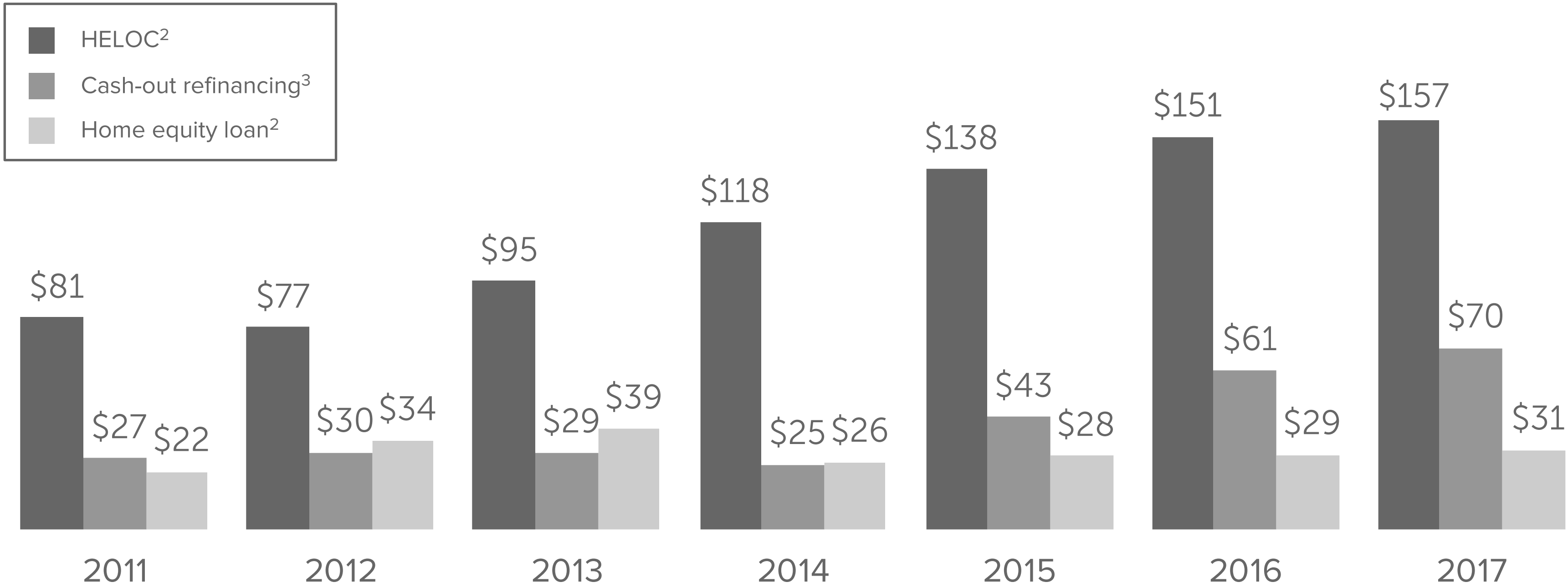


[1] CoreLogic Home Equity Reports for 2017 Q4, 2016 Q4, 2015 Q4, 2014 Q4, 2013 Q4, 2012 Q4 and 2011 Q4 (https://www.corelogic.com/news/corelogic-reports-homeowner-equity-increased-by-908-billion-in-2017.aspx).

HELOC & Cash-Out Refinance Originations Doubled Since 2011

Home equity lines of credit (HELOCs), cash-out refinancing and home equity loans are the most common ways in which homeowners tap their home equity to cover a variety of costs, including home improvements. According to estimates by Bank of America, originations of new HELOCs nearly doubled since 2011, reaching $157 billion in 2017. Similarly, cash-out refinancing volume more than doubled since 2011 to $70 billion in 2017. In contrast, home equity loans remained just above 2011 levels ($22 and $31 billion in 2011 and 2017, respectively).

2011-2017 SECURED LOAN ORIGINATIONS (IN BILLIONS OF DOLLARS)



[2] Bank of America estimates of HELOC and home equity loan originations.

[3] Freddie Mac, 3Q 2018 Quarterly Refinance Statistics; annual estimates of the dollar volume of equity cashed-out through the refinancing of prime, first-lien conventional mortgages (http://www.freddiemac.com/research/datasets/refinance-stats/index.html).

2 in 5 Borrowers Use Funds to Pay for Home Improvements

According to 2017 consumer surveys conducted by Bank of America, home improvement is the top use of HELOC funds, with two in five borrowers (42%) planning to use the funds to pay for home improvements.[4] The remaining borrowers planned to use the funds for a variety of purposes such as to consolidate debt, cover emergency needs, and/or pay for education and other large expenses. Aging housing stock, reduced homeowner mobility, and aging population have contributed to high demand for home improvements, with many homeowners using the growing equity in their homes to finance these projects. Fortunately, for those borrowers looking to use secured financing to fund home improvements, recent changes to the tax code preserve tax deductions of interest paid on the loans if "they are used to buy, build or substantially improve the taxpayer's home that secures the loan."[5]

EXCERPT FROM IRS NEWS RELEASE, FEBRUARY 21, 2018[5]

> *"Responding to many questions received from taxpayers and tax professionals, the IRS said that despite newly-enacted restrictions on home mortgages, taxpayers can often still deduct interest on a home equity loan, home equity line of credit (HELOC) or second mortgage, regardless of how the loan is labelled. The Tax Cuts and Jobs Act of 2017, enacted Dec. 22, suspends from 2018 until 2026 the deduction for interest paid on home equity loans and lines of credit, unless they are used to buy, build or substantially improve the taxpayer's home that secures the loan."*

[4] Bank of America internal consumer surveys 2017.

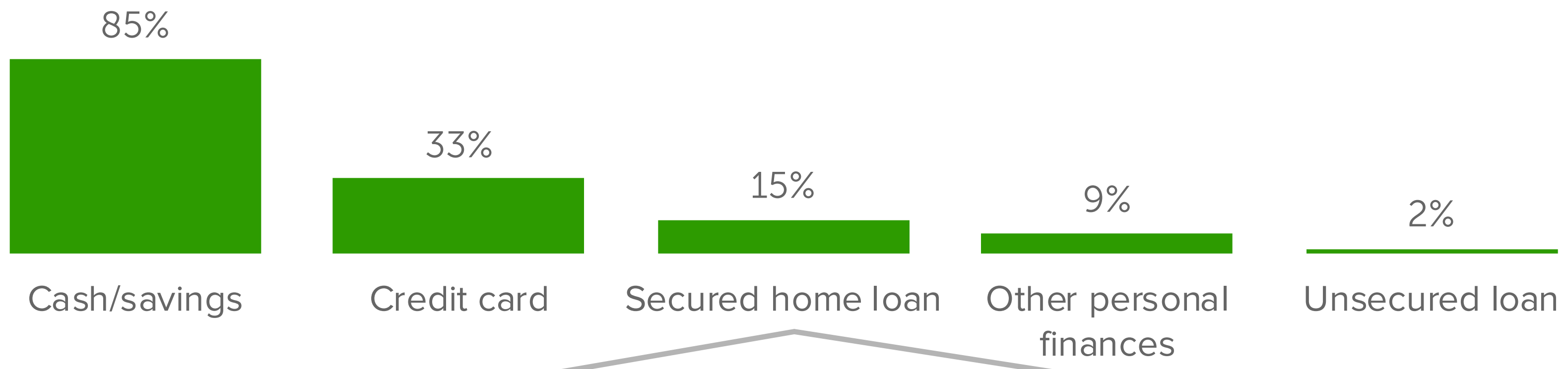
[5] IRS, Feb. 21, 2018, news release, https://www.irs.gov/newsroom/interest-on-home-equity-loans-often-still-deductible-under-new-law; Homeowners should consult a tax advisor regarding interest deductibility.

CONSUMER SURVEY INSIGHTS INTO FINANCING USAGE AND MOTIVATIONS

1 in 7 Renovators Uses Secured Financing

One in seven surveyed homeowners on Houzz (15%) paid for 2017 home renovations with secured financing, in the form of HELOCs (7%), cash-out refinancing (5%) and/or home equity loans (4%). Renovating homeowners are most likely to combine secured loans with either unsecured financing (5%) or cash funds (5%).

FREQUENCY OF TOP PAYMENT METHODS AMONG HOMEOWNERS WHO RENOVATED IN 2017*



PAYMENT METHODS USED WITH SECURED LOANS

Credit cards/unsecured loans (with or without cash/personal finances)	5.4%
Cash/personal finances (no other payment methods used)	4.9%
None, only secured loans used	4.5%

TYPES OF SECURED LOANS

HELOC	7%
Cash-out refinancing	5%
Home equity loan (general, construction or home improvement)	4%

*Multiple responses allowed.

Gen Xers and Larger Projects Drive Borrowing

Homeowners spending $50,000 or more on 2017 renovations were three times as likely to pay for renovations with secured financing (31%) compared with those spending $5,000 to $14,999 (10%). Gen Xers (ages 35 to 54), who represent 40% of renovating homeowners,[6] are most likely to finance renovations with a secured loan. Not surprisingly, borrowing against the home value is highest among those with 50% to 95% equity in their home. (See more segment data in Appendix A.)

FREQUENCY OF SECURED FINANCING USAGE AMONG HOMEOWNERS WHO RENOVATED IN 2017

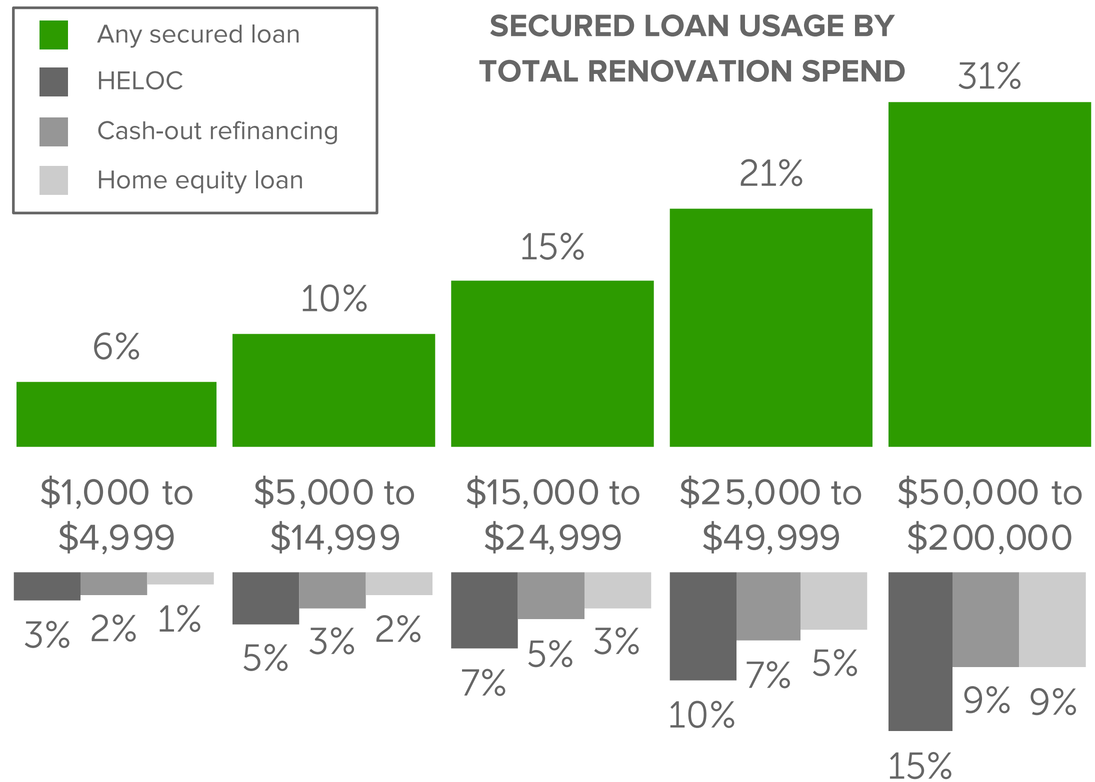
SECURED FINANCING USAGE BY HOMEOWNER SEGMENT

By Homeowner Age

25 to 34	10%
35 to 54	17%
55+	15%

By Home Equity Share

Less than 50%	16%
50%-95%	19%
95%-100%	11%



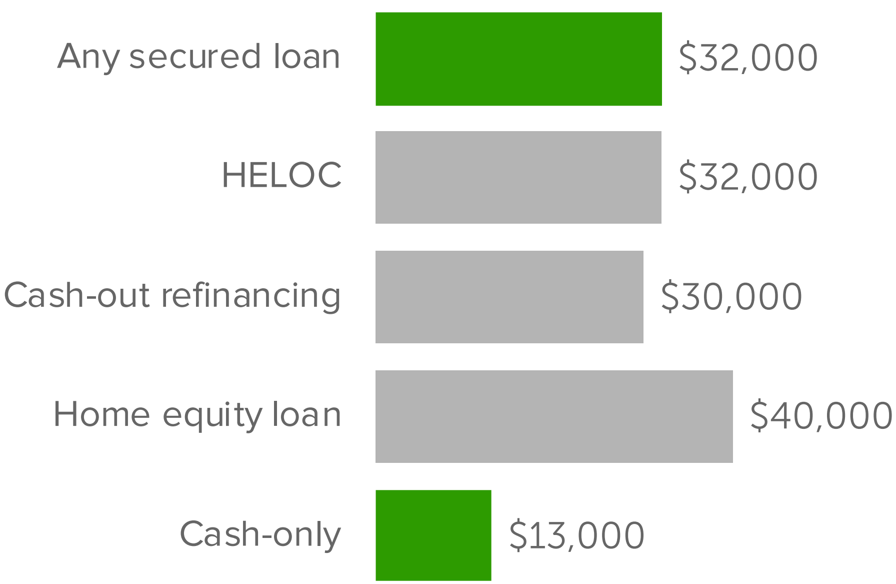
[6] 2018 Houzz & Home Study, Appendix A.

Borrowers Spend More Than Cash-Only Payers

One in two renovating homeowners (54%) pays for renovations only with cash or other personal finances (e.g., gifts, loans from family), with a median total spend of $13,000 on 2017 renovations. In contrast, secured loan borrowers represent a much smaller share, yet more than double the median spend ($32,000) compared with cash-only payers. Among borrowers, Gen Xers spent more on renovations ($38,000) in 2017 than millennials (ages 25 to 34) and baby boomers (ages 55 and up).

MEDIAN TOTAL 2017 RENOVATION SPEND AMONG RENOVATING HOMEOWNERS

MEDIAN RENOVATION SPEND BY FINANCING TYPE



MEDIAN RENOVATION SPEND BY AGE OF SECURED-LOAN USER

25 to 34	$30,000
35 to 54	$38,000
55+	$30,000

MEDIAN RENOVATION SPEND BY AGE OF CASH-ONLY USER

25 to 34	$10,000
35 to 54	$12,000
55+	$15,000

At Least Half of Renovation Spend Financed

A typical (median) homeowner paying with a secured loan reported financing 50% to 74% of the renovation spend with the loan. When combining the reported financed share range with total renovation spend, our estimates show that a median borrower financed $11,250 to $19,200 of the overall spend. This range varies significantly across HELOCs, cash-out refinancing, and home equity loans, with home equity loans netting higher amounts. Gen Xers are financing a share of spend similar to other generations, but due to their greater overall spend, their median financed amounts ($12,800 to $22,200) exceed those of other generations ($10,000 to $19,000).

MEDIAN FINANCED SPEND SHARE AND SPEND RANGES AMONG RENOVATING HOMEOWNERS PAYING WITH SECURED FINANCING

MEDIAN FINANCED SPEND SHARE RANGE			MEDIAN FINANCED SPEND RANGE	
74%	50%	Any secured loan	$11,250	$19,200
74%	50%	HELOC	$11,250	$19,000
49%	25%	Cash-out refinancing	$7,500	$14,800
74%	50%	Home equity loan	$17,500	$24,700

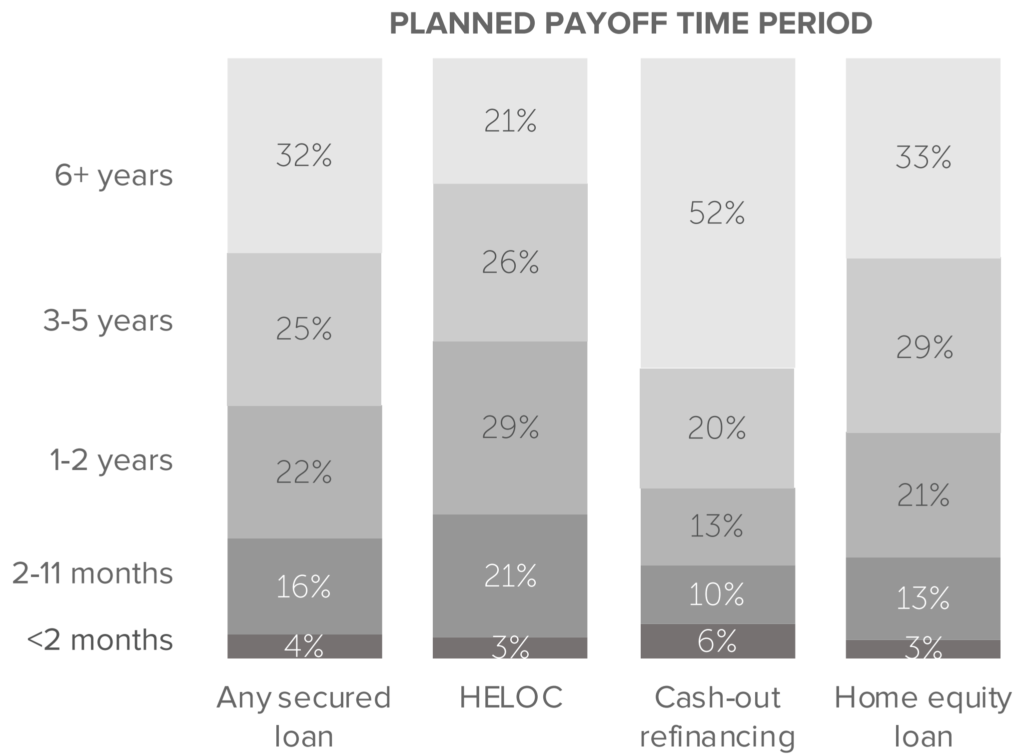
By Homeowner Age — Any secured loan

Age	Median financed spend share range	Median financed spend range
25 to 34	50% to 74%	$12,500 to $19,000
35 to 54	50% to 74%	$12,800 to $22,200
55+	50% to 74%	$10,000 to $17,600

Planned Payoff Period 6 Years or Longer

A third of homeowners who pay for renovations with secured financing plan to take six years or longer to pay off their loan balances (32%). The planned payoff period varies considerably among HELOCs, cash-out refinancing and home equity loans, with cash-out refinancing seeing the longest payoff schedules (e.g., 52% of borrowers plan to pay off cash-out refinancing over six years or longer). Planned payoff schedules vary little by homeowner age.

FREQUENCY OF PLANNED PAYOFF TIME PERIOD AMONG RENOVATING HOMEOWNERS PAYING WITH SECURED FINANCING



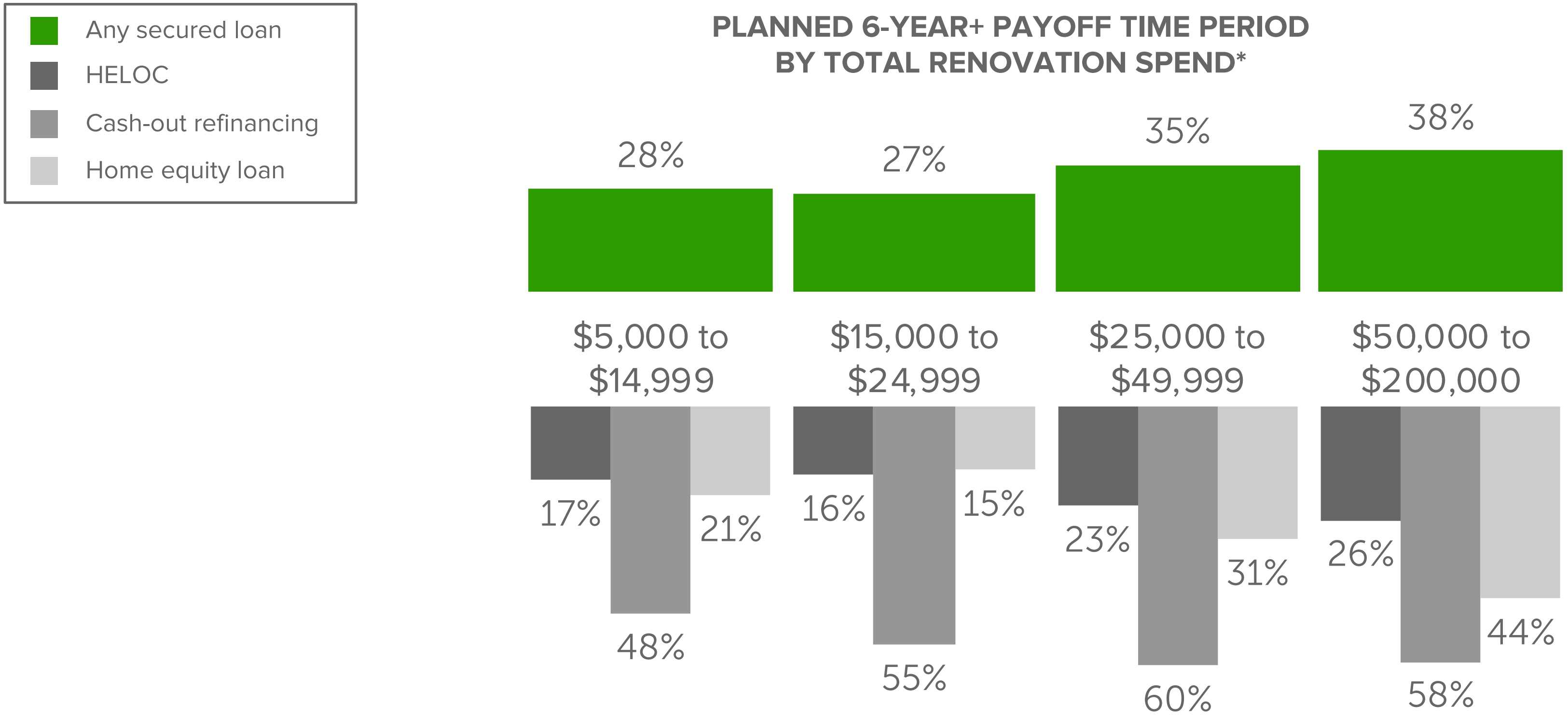
PLANNED 6-YEAR+ PAYOFF BY HOMEOWNER AGE

25 to 34	36%
35 to 54	34%
55+	31%

Larger Projects Have Longer Payoff Schedules

The nature of borrowing changes in larger renovations, as reflected in the extended payoff schedules and larger shares of financed spend. For example, 38% of all borrowers plan to take six years or longer to pay off their secured loans if they spend $50,000 or more on their renovations, compared with 28% of those spending $5,000 to $14,999. These differences are even more stark for home equity loans.

FREQUENCY OF PLANNED 6-YEAR+ PAYOFF TIME PERIOD AMONG RENOVATING HOMEOWNERS PAYING WITH SECURED FINANCING



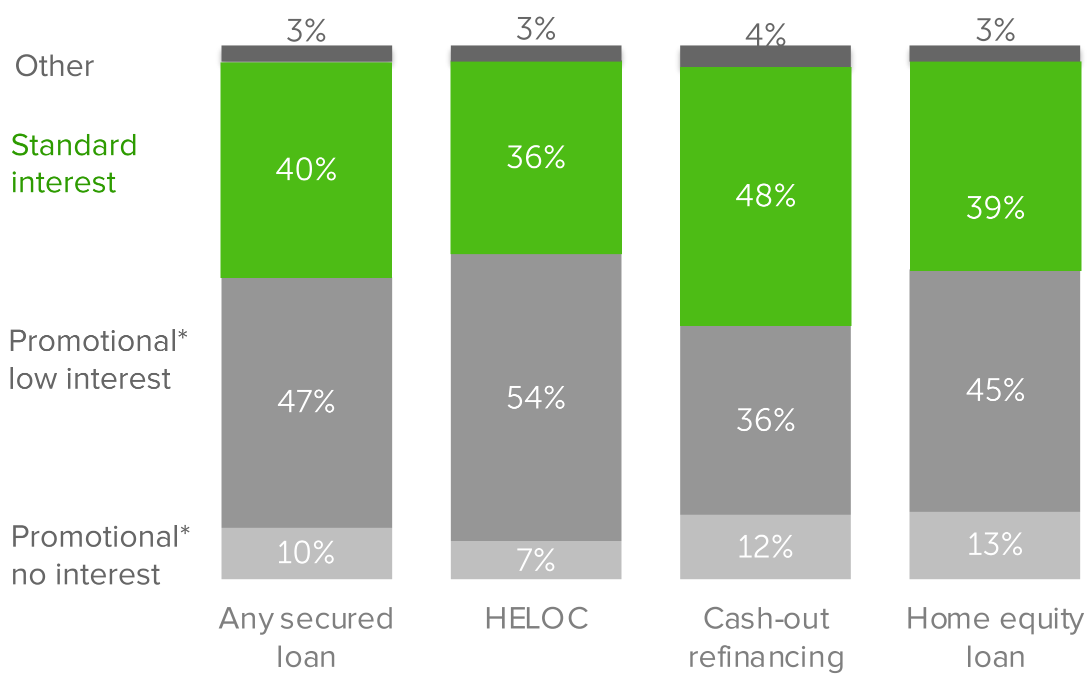
*Projects under $5,000 are not shown due to a low incidence of secured financing in that project size segment.

Renovators Embrace Interest Promotions

Promotional interest rates are a commonly reported feature of secured financing, more likely to appear in HELOCs (61%) and home equity loans (58%) than cash-out refinancing (47%). Uptake of promotional rates in secured financing does not fluctuate significantly across homeowner age, project size or home equity share. (See Appendix A-C.)

FREQUENCY OF PROMOTIONAL OFFERS AMONG RENOVATING HOMEOWNERS PAYING WITH SECURED FINANCING

SECURED FINANCING INTEREST RATES



*Subject to a limited promotional period.

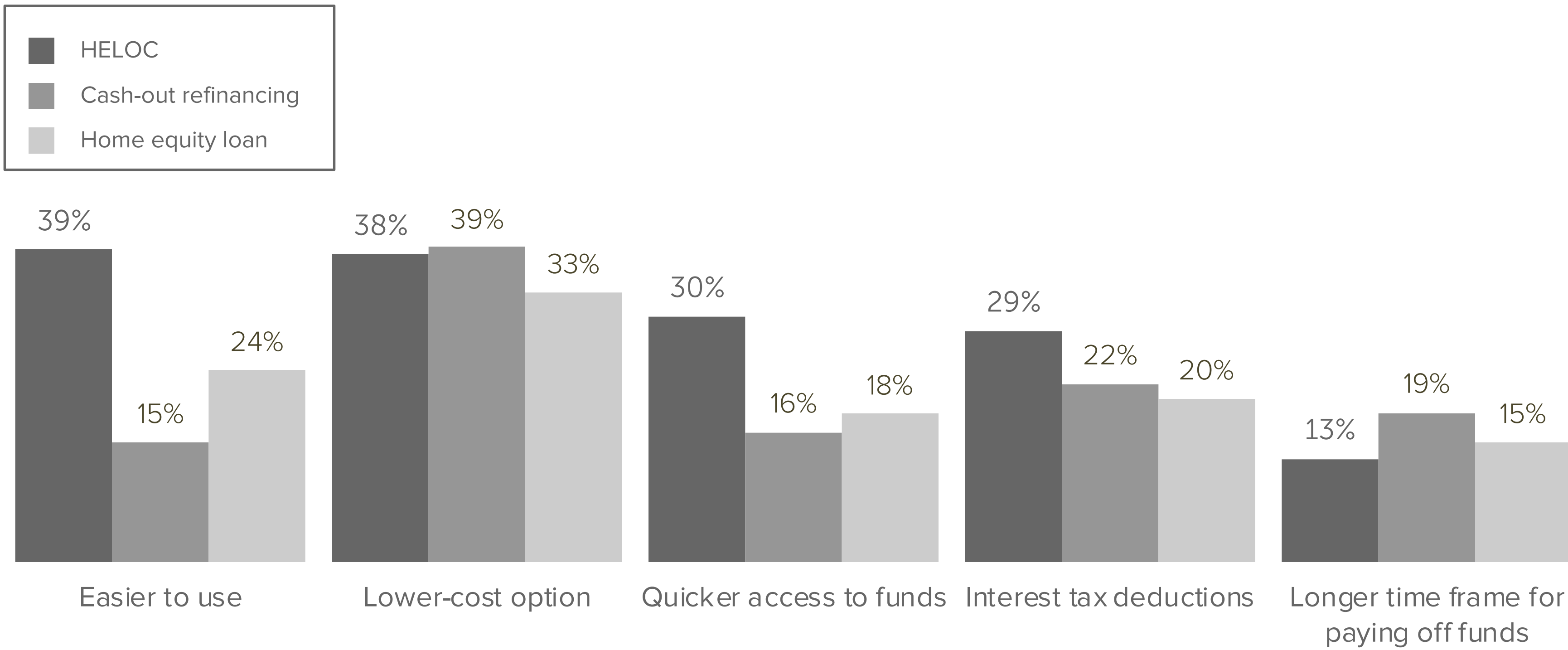
PROMOTIONAL INTEREST RATES BY HOMEOWNER AGE

25 to 34	55%
35 to 54	57%
55+	56%

Numerous Advantages Seen in HELOCs

Surprisingly, the top reasons for choosing a secured financing method (over any other secured or unsecured financing) vary across methods. For example, low cost is by far the leading reason for choosing to pay for renovations with cash-out refinancing (39%) or home equity (33%). On the other hand, a HELOC's low cost (38%) is one of its many appeals, with ease of use just as important (39%). Furthermore, quicker access to funds and interest rate deductions are far more common among the reasons for selecting HELOCs (30% and 29%, respectively) with any other secured method.

FREQUENCY OF TOP REASONS FOR CHOOSING SECURED FINANCING OVER OTHER FINANCING OPTIONS AMONG RENOVATING HOMEOWNERS PAYING WITH SECURED FINANCING*

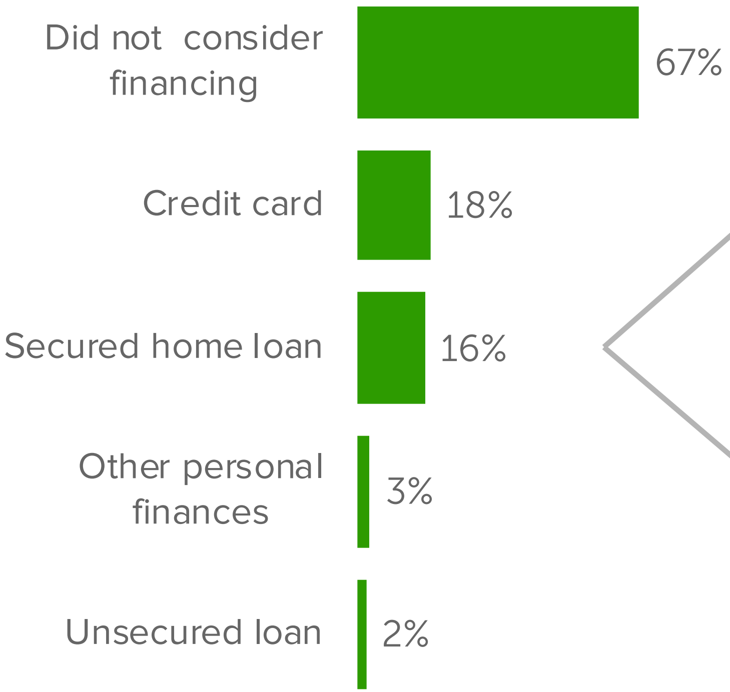


*Multiple responses allowed, up to three responses.

Perceived High Loan Costs Keep Some Away

Overall, one in two renovating homeowners paid for renovations with only cash or other personal finances (54%). Among them, 16% gave a secured home loan at least some consideration but decided against using one primarily because they either preferred cash (49%) or perceived the secured loan option as too costly (27%). Yet, if a better financing option had been available, half said, they would have used it (52%), to either do additional and/or bigger projects and/or do projects sooner.*

FREQUENCY OF OTHER FINANCING METHODS CONSIDERED AMONG RENOVATING HOMEOWNERS PAYING WITH CASH**



TOP REASONS FOR NOT USING A SECURED LOAN
(among those who considered paying with a secured loan)

Prefer cash	49%
Too costly	27%
Other (wide range of reasons)	24%

IF BETTER FINANCING OPTIONS WERE AVAILABLE, WHAT WOULD YOU HAVE DONE DIFFERENTLY?
(among those who considered paying with a secured loan)

Would have used better financing**	52%
Would still use cash	47%
Other actions	1%

*Among the 52% who said they would have used better financing options if they were available, 76% said they would have pursued additional and/or bigger projects and/or done their projects sooner, while 24% said they would have changed nothing about the project.
**Multiple responses allowed.

METHODOLOGY AND APPENDIXES

Methodology

ABOUT HOUZZ CONSUMER INSIGHTS

- 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 (BOA): In an effort to shed light on the overall usage behavior of secured payment methods among renovating homeowners, the Houzz research team collaborated with BOA's research team to add new questions to the 2018 Houzz & Home Study, working together to interpret and position these additional insights in this report.

ABOUT BANK OF AMERICA

- Bank of America is one of the world's leading financial institutions, serving individual consumers, small and middle-market businesses and large corporations with a full range of banking, investing, asset management and other financial and risk management products and services. The company provides unmatched convenience in the United States, serving approximately 67 million consumer and small-business clients with approximately 4,400 retail financial centers, approximately 16,100 ATMs and award-winning digital banking with more than 36 million active users, including nearly 26 million mobile users. The company serves clients through operations across the United States, its territories and more than 35 countries. Bank of America Corp. stock (NYSE: BAC) is listed on the New York Stock Exchange.

Appendix A:
Secured Financing Usage by Loan Type

	SECURED HOME LOANS			
	Any Secured Loan	HELOC	Cash-Out Refinancing	Home Equity Loan
Secured Financing Usage				
Overall	15%	7%	5%	4%
Planned Payoff Time Period				
<2 months	4%	3%	6%	3%
2 to 11 months	16%	21%	10%	13%
1 to 2 years	22%	29%	13%	21%
3 to 5 years	25%	26%	20%	29%
6+ years	32%	21%	52%	33%
Share of Renovation Spend Financed Through a Secured Loan				
<25%	28%	26%	37%	24%
25% to 49%	20%	21%	17%	19%
50% to 74%	18%	20%	15%	19%
75%+	34%	34%	31%	38%
Secured Financing Interest Rates				
Promotional with no interest	10%	7%	12%	13%
Promotional with low interest	47%	54%	36%	45%
Standard interest	40%	36%	48%	39%
Other	3%	3%	4%	3%

Appendix B:
Secured Financing Usage by Age

	HOMEOWNER AGE GROUPS*		
	25 to 34	35 to 54	55+
Secured Financing Usage			
Any secured loan	10%	17%	15%
HELOC	3%	8%	8%
Cash-out refinancing	3%	6%	4%
Home equity loan	4%	5%	4%
Planned Payoff Time Period (Any Secured Loan)			
<2 months	9%	4%	4%
2 to 11 months	15%	16%	15%
1 to 2 years	20%	20%	24%
3 to 5 years	21%	26%	26%
6+ years	36%	34%	31%
Share of Renovation Spend Financed Through a Secured Loan (Any Secured Loan)			
<25%	27%	28%	27%
25% to 49%	14%	20%	20%
50% to 74%	18%	19%	18%
75%+	40%	33%	35%
Secured Financing Interest Rates (Any Secured Loan)			
Promotional with no interest	13%	11%	8%
Promotional with low interest	42%	46%	48%
Standard interest	44%	41%	40%
Other	1%	2%	4%

*Among renovating homeowners who paid for 2017 renovations with secured financing, 6%, 44% and 51% were ages 25 to 35, 35 to 54 and 55 or older, respectively.

Appendix C:
Secured Financing Usage by Home Equity

	SHARE OF OWNED HOME EQUITY*		
	<50%	50%-95%	95%+
Secured Financing Usage			
Any secured loan	16%	19%	11%
HELOC	7%	10%	6%
Cash-out refinancing	6%	6%	3%
Home equity loan	5%	4%	3%
Planned Payoff Time Period (Any Secured Loan)			
<2 months	4%	3%	4%
2 to 11 months	11%	16%	22%
1 to 2 years	19%	20%	25%
3 to 5 years	24%	30%	24%
6+ years	41%	30%	25%
Share of Renovation Spend Financed Through a Secured Loan (Any Secured Loan)			
<25%	24%	27%	31%
25% to 49%	18%	21%	18%
50% to 74%	20%	19%	18%
75%+	38%	33%	32%
Secured Financing Interest Rates (Any Secured Loan)			
Promotional with no interest	8%	9%	9%
Promotional with low interest	44%	48%	45%
Standard interest	44%	40%	43%
Other	4%	3%	3%

*Among renovating homeowners who paid for 2017 renovations with secured financing, 29%, 37% and 35% had less than 50%, 50% to 95% and 95% or more equity ownership in their home, respectively.

Appendix D:
Secured Financing Usage by Spend

	RENOVATION SPEND RANGE*				
	$1,000 to $4,999	$5,000 to $14,999	$15,000 to $24,999	$25,000 to $49,999	$50,000 to $200,000
Secured Financing Usage					
Any secured loan	6%	10%	15%	21%	31%
HELOC	3%	5%	7%	10%	15%
Cash-out refinancing	2%	3%	5%	7%	9%
Home equity loan	1%	2%	3%	5%	9%
Planned Payoff Time Period (Any Secured Loan)					
<2 months	n/a	5%	2%	3%	2%
2 to 11 months	n/a	22%	17%	11%	12%
1 to 2 years	n/a	23%	26%	24%	19%
3 to 5 years	n/a	21%	28%	27%	28%
6+ years	n/a	28%	27%	35%	38%
Share of Renovation Spend Financed Through a Secured Loan (Any Secured Loan)					
<25%	n/a	36%	26%	26%	20%
25% to 49%	n/a	16%	19%	18%	20%
50% to 74%	n/a	15%	23%	15%	22%
75%+	n/a	33%	32%	41%	39%
Secured Financing Interest Rates (Any Secured Loan)					
Promotional with no interest	n/a	13%	9%	8%	8%
Promotional with low interest	n/a	45%	48%	46%	46%
Standard interest	n/a	37%	41%	43%	43%
Other	n/a	5%	2%	3%	3%

*Among renovating homeowners who paid for 2017 renovations with secured financing, 6%, 19%, 15%, 24% and 36% had renovation spend in the ranges of $1,000 to $4,999, $5,000 to $14,999, $15,000 to $24,999, $25,000 to $49,999 and $50,000 to $200,000, respectively.

Appendix E:
Links to Resources on Houzz

Houzz is the easiest way for people to find inspiration, get advice, buy products and hire the professionals they need to help turn their ideas into reality.

PHOTOS	FIND PROS	BROWSE PRODUCTS	ARTICLES
Kitchen	Architects & Building Designers	Furniture	Most Popular
Bath	Design-Build firms	Lighting	Houzz Tours
Bedroom	General Contractors	Kitchen & Dining	Kitchen Guides
Living	Home Builders	Bath	More Rooms
Dining	Interior designers	Home Decor	Decorating Guides
Home office	Kitchen & Bath Designers	Bedroom	Bathroom Guides
Baby & kids	Kitchen & Bath Remodelers	Storage & Organization	Remodeling
Entry	Landscape Architects & Landscape Designers	Home Improvement	Architecture
Hall	Landscape Contractors	Outdoor	Landscape Design
Staircase	Pools and Spas	Baby & Kids	Garden Guides