

# Risk Happens. Lenders Can Still Thrive.

Should home equity lenders avoid all risk or accept it?

Rick Hughes, SVP, Equity Protection Program

The word “risk” has a bad connotation. We associate it with danger, the possibility of loss, the negative consequences of uncertainty and less-than-ideal outcomes. That said, although we face risk daily in almost every aspect of our lives, we still move forward, make plans, grow and prosper because of the integration of risk management and mitigation strategies.

## The COVID Effect

Within the equity lending industry, risk is also inherent. However, since 2020, many lenders have been avoiding risk altogether or mitigating it by reducing product offerings.

In 2020, it was harder to see the forest from the trees – while the home lending market itself was relatively stable, big economic changes and unprecedented times pushed lenders to avoid risk and adopt a “wait-and-see” attitude. Lenders began turning away borrowers or offered loans for far less than the homeowner’s available equity, often pushing these potential customers to competitors.

**Lenders can seize opportunity by incorporating sound home equity protection policies to lessen the negative impact of loan defaults, while continuing to develop growth strategies that generate additional revenue.**

## Capitalizing on a Healthy Market

Fast forward to 2024 and the market is stable. Inflation is coming down, nearing 2%, though house prices are remaining high, leading to record amounts of equity available to homeowners. While this has been the case over the course of the past four years, it has been hard for some lenders to get out of a risk-averse, “wait-and-see,” holding pattern, leaving revenue-generating and community-building opportunities on the table.

Now’s the time for change. Lenders can seize opportunity by incorporating sound home equity protection policies to lessen the negative impact of loan defaults, while continuing to develop growth strategies that generate additional revenue. Tightening lending guidelines can be prudent in a crisis, but being too cautious and suppressing lending prevents lenders from reaching their objectives.

Unfortunately, an overly cautious approach can even backfire. Focusing on waiting for deposits instead of taking advantage of the thriving equity lending market will not guarantee a positive liquidity position — and may instead hurt balance sheets as well as community standing in the end.

Financial institutions can responsibly prepare for potential risk using methods to minimize the impact of loan defaults. By channeling a prudent attitude into thoughtful controls, it’s no longer necessary for a fear of risk to paralyze growth and development strategies. Balancing liquidity status, compliance requirements and the need to manage balance sheets is always a challenge, but a fresh look at risk management approach can help lenders thrive.

## Embracing Action by Managing Risk

Risk management means being proactive about what to do in the event of a loss, and how to transfer risk. Innovative lenders are successfully using risk management programs to reach their revenue goals and increase their customer base.

According to Rick Hughes, SVP of the Equity Protection Program powered by NFP, “a sound risk management program analyzes a lender’s particular needs first. Then, the risk management team can develop an outline of prudent underwriting guidelines and procedures that will allow a lender to expand [their equity lending options] while transferring the risk of loan default.”

No industry can avoid risk altogether: risk happens. But within the equity lending industry, using proven risk management and risk mitigation methods to reduce and transfer risk is the key principle to minimize loss while maintaining positive feasibility and operational plans.

Partner with confidence. Contact our team to discuss how our equity protection program can strengthen your institution’s resilience and protect your equity against market fluctuations.

## Ready to Learn More?

**Connect with a consultant** on [NFP.com](https://nfp.com).

## Sources

**Inflation Trends And Outlook In The United States, 2024** ([forbes.com](https://forbes.com))

**Housing Market Predictions For 2024: When Will Home Prices Be Affordable Again? – Forbes Advisor**

**2024 Economic Outlook: Insights & Trends | J.P. Morgan** ([jpmorgan.com](https://jpmorgan.com))

**U.S. Economic, Housing and Mortgage Market Outlook – April 2024 - Freddie Mac**

## About NFP

NFP, an Aon company, is an organization of consultative advisors and problem solvers helping companies and individuals address their most significant risk, workforce, wealth management and retirement challenges. With colleagues across the US, Puerto Rico, Canada, UK and Ireland, we serve a diversity of clients, industries and communities.

Our global capabilities, specialized expertise and customized solutions span property and casualty insurance, benefits, wealth management and retirement plan advisory. Together, we put people first, prioritize partnerships and continuously advance a culture we're proud of.

Visit **NFP.com** to learn more.

NFP Corp. and its subsidiaries do not provide legal or tax advice. Compliance, regulatory and related content is for general informational purposes and is not guaranteed to be accurate or complete. You should consult an attorney or tax professional regarding the application or potential implications of laws, regulations or policies to your specific circumstances.

Every claim is adjusted according to its own specific set of facts. Whether or not insurance coverage would apply to any claim is dependent on the facts and circumstances of each individual claim and the language of the insurance policy.

Insurance services provided by NFP Property & Casualty Services, Inc. (NFP P&C), a subsidiary of NFP Corp. In California, NFP P&C does business as NFP Property & Casualty Insurance Services, Inc. (License # 0F15715).

07/24 | 24-PC-COI-GEN-188950 | Copyright © 2024 NFP. All rights reserved.

