

— • CLIENT SUCCESS STORY

Local Market Monitor (a Vertical IQ product)

Building a Solid Foundation for Regional Banks' Residential Lending Guidelines, Policies, and Products



— • THE CHALLENGE

It's difficult to assess if home prices are too high or too low in a particular market. Given that banks extend credit with the home as collateral, it's difficult to know how much credit is too much – especially when there are swings in values.

One of the unforeseen impacts of the COVID-19 pandemic was a sudden surge in home prices beginning in the spring of 2020. It was a perfect storm of sorts with supply not meeting demand for existing home sales, while building material supply chain issues and labor challenges boosted the cost of new home construction. Yet even as the world returned to some degree of normalcy in 2022, high real estate prices lingered.

Many consumer and residential lending professionals knew the real estate situation was alarming, including William from a regional bank with more than \$50 billion in assets. “Going into 2022, I was very concerned about the growth of home prices over the previous two years,” he shared.

“As a credit risk management leader, I'm responsible for managing credit risk for the bank's residential mortgage and home equity lending programs. I develop the organization's policies and guidelines relating to lending transactions and decisions.”

“When it comes to a residential mortgage or home equity transaction,” William explains, “the bank’s risk is mitigated in two ways. The first is by the individual credit risk of the borrower – that’s generally things like FICO score or income. The second is, should the borrower default, you have your collateral – the property – which reduces loan losses.”

This is where calculating accurate home values and pricing forecasts becomes mission critical for a bank. “Learning from the industry’s experiences during 2008’s recession, I try to build lending advice that can survive most scenarios, but COVID created a very different market situation,” notes William. “The home prices jumped significantly during the pandemic, and I knew they had to come back down, which would impact the value of our borrowers’ homes and thus our collateral.”

So, when the stakes are this high, how do you formulate sound financial guidance on a real estate market that is in uncharted waters? **Simple: You consult the data.**



“ The Equilibrium Home Price forecast provided by Local Market Monitor provides an indication if a market is overvalued or not. I include it in a monthly credit presentation that our team uses to make lending decisions. It helps the team understand where home prices are going. ”

• **WILLIAM**

SVP, Consumer and Residential Lending

— • THE SOLUTION

Since 2011, William and his bank have been using Local Market Monitor to analyze home prices to ensure they are managing risk and providing sound lending decisions. He incorporates Local Market Monitor’s data into his monthly presentation to the bank’s chief credit officer. He explains:

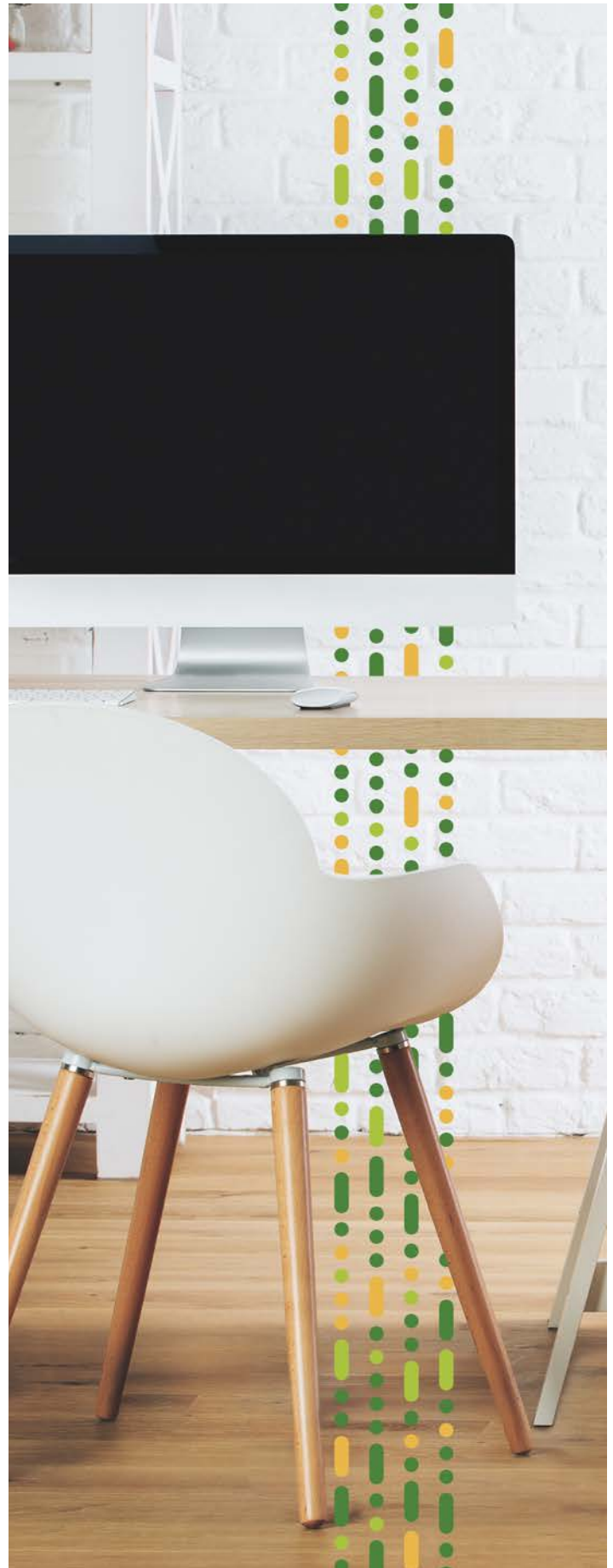
“My presentation and its proposed lending guidance applies to any residential or consumer lending product we offer – predominantly residential mortgages and home equity. It also includes an economic home price section, which is intended to support what’s going on in both residential lending and home equity lending.”

To simplify this monthly effort, William utilizes Local Market Monitor’s award-winning Equilibrium Home Prices, as well as their home price three-year forecasts and Metropolitan Statistical Area (MSA)- and state-level statistics. “The data provides powerful insight required to tell the story,” he notes.

But the narrative this real estate pricing data tells is important for more than just risk management purposes.

“It’s really important for the team to understand what the housing cost environment looks like and then understand my perspective about the credit environment. I consider it to be the ‘why’ and nobody wants to have surprises, especially when considering a credit guideline change.”

William continues: “The worst thing is when you have a disconnect with the sales team and they’re asking, ‘Why are you pulling back? What’s causing the change in risk?’ I’m able to say, ‘Here’s the data. You can’t argue with data.’ They need to see the numbers so they understand the reasons behind the adjustments.”



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— • **WILLIAM**

SVP, Consumer and Residential Lending



Local Market Monitor was also extremely helpful with a recent audit for the bank as they were lending in areas outside of their core market. “We needed reliable, independent, and timely information that could be used to monitor those markets where we were less familiar,” said William. “Local Market Monitor provided the insights we needed for those specific client engagements.”

— • **A TIME-SAVING TOOL,
A RISK-MITIGATING RESOURCE**

Showcasing the local economic conditions that drive success at the state, MSA, and even the county level – key drivers such as housing prices, construction, employment, and wages – Local Market Monitor offers valuable data for credit risk analysis and underwriting, as well as banks’ sales and marketing teams.

You’ll also find timely assessments and forecasts for more than 300 MSAs, 2,000 counties, and 20,000 ZIP codes across the U.S.

Bankers also will be better equipped to analyze real estate values using Local Market Monitor’s award-winning Equilibrium Home Prices. It’s a time-saving, risk-mitigating resource to add to your bank’s toolbox. ●

TO LEARN MORE ABOUT HOW LOCAL MARKET MONITOR, A VERTICAL IQ PRODUCT, CAN GIVE YOUR TEAM AN EDGE, CONTACT US AT 919.787.4600 OR INFO@VERTICALIQ.COM.