

Home Equity Lines of Credit (HELOCs)

A Home Equity Line of Credit (HELOC) is a flexible, revolving line of credit secured by the equity in a homeowner's property. This financial product allows homeowners to borrow funds against the value of their home, which can be used for various purposes such as home improvements, debt consolidation, or major expenses like college tuition.

- **Originators:** Traditional banks remain the dominant source of HELOCs, holding a market share of approximately **60%** in 2023 according to the Mortgage Bankers Association (MBA). Credit unions and online lenders are gaining a small but increasing share of the market.
- **Line Utilization:** While HELOCs offer access to a maximum credit line, homeowners don't necessarily use the entire amount. The average outstanding balance on a HELOC was around **\$60,000** in Q1 2024, according to Equifax, indicating that homeowners utilize a portion of their available credit.
- **Home Equity Values:** Rising home prices have led to an increase in overall home equity, potentially making HELOCs a more attractive option for homeowners. The CoreLogic Home Price Index indicates a **6.9%** year-over-year increase in home prices as of May 2024.

Key Features of HELOCs:

- **Credit Line:** HELOCs function like credit cards, offering a revolving line of credit up to a certain limit based on the property's appraised value and the borrower's equity.
- **Draw Period:** This is a typically 10-year period during which homeowners can withdraw funds from the HELOC as needed.
- **Repayment Period:** After the draw period, borrowers enter a repayment period, typically 15-20 years, where they repay the principal amount borrowed with interest.
- **Interest Rates:** HELOCs typically offer variable interest rates, which can fluctuate based on an index and a margin set by the lender. As of June 2024, average HELOC interest rates are around **6.5%**.

Regulations:

Similar to mortgages and auto loans, HELOCs are subject to regulations to ensure consumer protection:

- **Truth in Lending Act (TILA):** Requires lenders to disclose important loan terms like interest rates, fees, and the APR to borrowers.

- Home Ownership Equity Protection Act (HOEPA): Protects borrowers from unfair lending practices for certain high-cost HELOCs.

Current Market Overview:

As of 2024, the HELOC market in the United States is influenced by several factors, including the Federal Reserve's interest rate policies, economic conditions, and housing market trends. The current prime rate, to which most HELOC rates are tied, stands at 8.5%, with typical HELOC rates ranging from 8.95% to 13.10%, depending on the borrower's credit profile and the lender's specific terms

According to recent data, the total outstanding balance of HELOCs in the U.S. stands at approximately \$320 billion, reflecting a steady demand for this credit product despite fluctuating interest rates. The average HELOC balance is around \$50,000, and the majority of HELOC borrowers use the funds for home improvement projects, which remain the most common use case.

Year	HELOC Volume (billions)
2020	\$324
2021	\$340
2022	\$356
2023	\$372

Service Providers:

Several major banks and financial institutions offer HELOCs, each with varying terms and features. Prominent providers include:

- U.S. Bank: Offers competitive rates, a fixed-rate option, and no application fees or closing costs.
- WSFS Bank: Provides flexible access to funds and personalized service options for its customers.
- NerdWallet: Lists and compares rates from various lenders, helping consumers find the best HELOC options available.

Impact on the Banking System

- **Profitability:** HELOCs can be a profitable product for banks, generating interest income on the outstanding balance.
- **Risk Management:** Lenders need to carefully assess the risks associated with HELOCs, as they are secured by the borrower's home. A decline in home values could lead to defaults if the loan-to-value ratio becomes unfavorable.

Conclusion:

HELOCs offer homeowners a way to tap into the equity they've built in their properties and can be a valuable tool for financing various needs. Data analysis is crucial for lenders to understand market trends, borrower behavior, and potential risks associated with HELOCs. As the housing market and interest rate environment evolve, the role of HELOCs within the US banking system remains dynamic and requires ongoing monitoring.

Credit Cards

Credit cards are a cornerstone of the US banking system, providing consumers with flexible spending options and banks with a significant source of revenue. This report examines the current state of the credit card market in the US, highlighting key data, major service providers, regulatory landscape, and notable trends.

- **Issuers:** Banks remain the dominant issuers of credit cards, holding a market share exceeding **70%** in 2023 according to the Nilson Report. Credit unions, retail stores, and travel companies also offer credit cards, capturing the remaining market share.
- **Card Network:** Transactions flow through major networks like Visa, Mastercard, Discover, and American Express. These networks connect issuers, merchants, and cardholders, facilitating secure and efficient transactions.
- **Credit Card Debt:** Total US revolving credit (mostly credit cards) reached a record high of **\$1.02 trillion** in Q1 2024, as per the Federal Reserve Bank of New York. This highlights the significant role credit cards play in consumer spending.

Key Features of Credit Cards:

- **Credit Limit:** This is the maximum amount a cardholder can borrow and revolves with on-time payments.
- **Interest Rates:** Credit cards typically have high Annual Percentage Rates (APRs) ranging from **15% to 25%** or more, depending on creditworthiness and card type.
- **Rewards Programs:** Many cards offer rewards programs that incentivize spending with points, cash back, or travel miles.
- **Fees:** Annual fees, balance transfer fees, and foreign transaction fees are some common charges associated with credit cards.

Regulations:

The Credit Card Accountability Responsibility and Disclosure Act (CARD Act) of 2009 established key regulations to protect consumers:

- **Billing Statements:** Clear and transparent billing statements with detailed transaction information.
- **Interest Rate Increases:** Limitations on how often and under what circumstances credit card issuers can raise interest rates.
- **Early Warning System:** Issuers must notify cardholders about potential credit limit reductions before they occur.

Market Overview

As of 2024, the US credit card market remains robust, with approximately 548 million open credit card accounts. This marks a 12% increase from the previous year. The Federal Reserve indicates that total consumer loans through credit cards and other revolving plans reached \$1,058.35 billion as of June 2024.

The top 10 credit card issuers in the US hold nearly 88% of outstanding credit card balances. Chase, for instance, leads the market in terms of both outstanding balances and purchase volume.

Trends and Insights:

1. **Increasing Credit Card Usage:** Post-pandemic, there has been a significant rebound in credit card usage, with purchase volumes increasing across all networks.
2. **Shift Towards Digital:** There is a growing preference for digital and contactless payments, accelerating the adoption of fintech solutions.
3. **Credit Card Debt:** While consumer confidence is returning, credit card debt remains a concern, with total revolving credit increasing.

Major Credit Card Networks and Issuers:

The credit card market is dominated by four major networks:

1. **Visa:** Holds nearly 50% of all credit cards in circulation in the US, with a market share of 52.22% in purchase volume for the first three quarters of 2022.
2. **Mastercard:** Holds about 27.41% of the market share.
3. **American Express:** Accounts for 10.17% of the market share.
4. **Discover:** Holds 7.13% of the market share

Impact on the Banking System:

- **Profitability:** Credit cards are a significant source of revenue for banks through interchange fees (paid by merchants), interest income on outstanding balances, and annual fees.
- **Consumer Spending:** Credit cards act as a lubricant for consumer spending, fueling economic activity across various sectors. However, excessive credit card debt can pose financial risks to consumers.

