**Home equity lines of credit (HELOCs) in the US banking system**

* A HELOC is a revolving line of credit secured by the equity in a homeowner's property. It allows the homeowner to borrow against the value of their home, up to a certain credit limit.
* HELOCs typically have variable interest rates, which can fluctuate over time. As of 2023, the average HELOC interest rate was around 8.95% to 13.10% APR at U.S. Bank.
* To qualify for a HELOC, borrowers typically need a credit score of 660 or higher, as well as sufficient home equity (often at least 15-20% of the home's value). Lenders also consider factors like income, debt-to-income ratio, and the home's appraised value.
* HELOCs provide homeowners with a revolving line of credit secured by the equity in their homes. As of Q1 2024, the total authorized amount for HELOCs outside of combined loan plans was $129.9 billion, with $36.8 billion drawn.
* HELOCs typically have variable interest rates. As of 2023, the average HELOC interest rate was around 8.95% to 13.10% APR at U.S. Bank, depending on factors like credit limit, loan-to-value ratio, and credit score.
* To qualify for a HELOC, borrowers typically need a credit score of 660 or higher. U.S. Bank also considers factors like home value, existing mortgage balance, income, and debt-to-income ratio.
* HELOCs provide flexibility, allowing homeowners to borrow as needed up to their approved credit limit. As of 2023, the average credit limit for HELOCs was $50,000 or more at U.S. Bank.
* HELOCs have a "draw period" (often 10 years) where funds can be accessed, followed by a "repayment period" (often 20 years) where the borrowed amount plus interest must be paid back.

**Eligibility**

**Equity Requirement:** Homeowners typically need at least 15-20% equity in their home to qualify for a HELOC. This is based on the loan-to-value (LTV) and combined loan-to-value (CLTV) ratios.

**Score:** A credit score in the mid-to-high 600s is usually required, with a score of 700 or higher being preferred for the best interest rates.

**Income and Employment:** Lenders will require proof of income and employment, such as W-2s, pay stubs, tax returns, and benefit statements.

**Debt-to-Income (DTI) Ratio:** The DTI ratio should generally be no higher than 43-50% to meet lender requirements.

**Payment History:** A solid payment history, with no recent late payments or delinquencies, is crucial for HELOC approval.

**Home Appraisal:** Lenders will order a home appraisal to determine the current market value of the property and calculate the maximum HELOC amount.

**Closing Costs:** While there are typically no upfront closing costs for a HELOC, there may be an early closure fee if the line is paid off and closed within the first 30 months.

**Property types that qualify for a HELOC**

**Primary Residence:** Homeowners can typically qualify for a HELOC on their primary residence. Lenders generally have less stringent requirements for HELOCs on primary homes compared to investment properties.

**Investment Properties:** It is possible to get a HELOC on an investment property, such as a rental home or a second home. However, the requirements are usually more strict for investment properties:

* Higher credit score requirement, often 720 or above
* Lower maximum loan-to-value (LTV) ratio, typically 80% vs. 85% for primary homes
* The requirement to have a tenant in place and a documented rental income history
* Need for significant cash reserves, often at least 18 months' worth of expenses

**Second Homes:** Homeowners may also be able to qualify for a HELOC on a second home that is not an investment property, though the requirements may be more stringent than for a primary residence.

**Total HELOC Balances Increased by 6.6% in 2023**

**Total HELOC Debt**

|  |  |
| --- | --- |
| Year | Debt |
| 2021 | $295.5 |
| 2022 | $305.9 |
| 2023 | $326.1 |

**Average HELOC Balance**

|  |  |  |  |
| --- | --- | --- | --- |
| 2021 | 2022 | 2023 | 2022-2023 Change |
| $39,556 | $41,045 | $42,139 | +2.7% |

**States Where the Average HELOC Balance Grew the Most**

|  |  |  |  |
| --- | --- | --- | --- |
| State | 2022 | 2023 | Change |
| Hawaii | $73,915 | $84,070 | +13.7% |
| Colorado | $47,255 | $52,232 | +10.5% |
| South Dakota | $30,494 | $33,214 | +8.9% |
| South Carolina | $31,739 | $34,334 | +8.2% |
| Tennessee | $43,672 | $47,210 | +8.1% |

**Average HELOC Balance by Generation**

|  |  |  |  |
| --- | --- | --- | --- |
| Generation | 2022 | 2023 | Change |
| Generation Z (18-26) | $37,756 | $40,608 | +7.6% |
| Millennials (27-42) | $46,232 | $48,773 | +5.5% |
| Generation X (43-58) | $48,509 | $51,070 | +5.3% |
| Baby boomers (59-77) | $38,162 | $37,487 | -1.8% |
| Silent Generation (78+) | $32,719 | $31,654 | -3.3% |

Inference

* HELOCs remain a popular home equity financing option, with the total authorized amount reaching $129.9 billion as of Q1 2024, and $36.8 billion drawn.
* Variable interest rates on HELOCs have increased, with the average rate ranging from 8.95% to 13.10% APR at U.S. Bank as of 2023, reflecting the rise in interest rates.
* Lenders have maintained relatively strict eligibility requirements for HELOCs, including a minimum credit score of 660, sufficient home equity (15-20%), low debt-to-income ratios, and a solid payment history.
* While HELOCs are available for primary residences, investment properties, and second homes, the requirements are more stringent for investment and second properties, with higher credit score thresholds and lower maximum LTV ratios.
* The average HELOC balance grew by 2.7% in 2023, with the largest increases seen in states like Hawaii, Colorado, and South Dakota. However, balances for older borrowers (Baby Boomers and Silent Generation) declined slightly.
* The flexibility and relatively low interest rates of HELOCs continue to make them an attractive financing option for homeowners, particularly for funding home improvements, debt consolidation, and other major expenses.