**Home equity lines of credit (HELOCs)**

A HELOC is a line of credit borrowed against the available equity of your home. Your home's equity is the difference between the appraised value of your home and your current mortgage balance

**Revolving Line of Credit**

HELOCs function similarly to a credit card, where the homeowner can borrow up to a pre-approved credit limit, repay the balance, and then re-borrow as needed during the "draw period" (typically 10 years).

**Variable Interest Rates**

HELOC interest rates are usually variable, calculated based on an index like the Prime Rate plus a margin set by the lender. This means the interest rate can fluctuate over the life of the loan.

**Potential Tax Deductibility**

In some cases, the interest paid on a HELOC may be tax-deductible if the funds are used for home improvements or other eligible expenses.

**How HELOCs Work**

To obtain a HELOC, homeowners must have sufficient equity in their home, typically at least 15-20% of the home's value. Lenders will evaluate the homeowner's creditworthiness, income, and the home's appraised value to determine the maximum credit limit.During the draw period, the homeowner can access the HELOC funds as needed, making interest-only payments. At the end of the draw period, the loan enters the repayment phase, where the homeowner must begin making principal and interest payments until the balance is paid off.

**Benefits and Risks of HELOCs**

**Benefits**

* Lower interest rates compared to credit cards
* Flexible access to funds during the draw period
* Potential tax deductibility of interest payments

**Risks**

* The home is used as collateral, so failure to repay could result in foreclosure
* Lenders may require the homeowner to maintain a certain level of equity in the home
* Variable interest rates can lead to fluctuating monthly payments

**Trends and Data**

**Total HELOC Debt**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Metric** | **2021** | **2022** | **2023** | **2022-2023 Change** |
| Total HELOC Debt | $295.5B | $305.9B | $326.1B | +6.6% |

**All Sectors; Total Home Equity Lines of Credit; Asset, Level**

HELOCs experienced significant growth in the early 2000s, with many homeowners using them to finance home improvements or consolidate debt. However, the abuse of HELOCs was also cited as a contributing factor to the subprime mortgage crisis. After the crisis, some major lenders temporarily stopped offering new HELOCs, though many have since resumed. According to data from the Federal Reserve, the total outstanding HELOC balance in the U.S. was $412 billion as of the first quarter of 2023, down from a peak of $1.2 trillion in 2008.

* **Americans owe $349 billion on 13.1 million home equity lines of credit (HELOCs).**That equates to an average of $26,702 per account. Outstanding HELOC debt represents 2.0% of U.S. consumer debt.

**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% |

**Credit cards**

A credit card is a physical payment card that allows you to get credit from a financial institution. You can use the pre-approved limit to make purchases and repay the borrowed amount with an interest each month within your billing cycle.

**Types of Credit Cards**

**Rewards Credit Cards** - Offer incentives for purchases, such as:

Airline miles, Hotel room rentals, Gift certificates, Cash back

Examples: Chase Sapphire Preferred, American Express Gold Card, Citi Double Cash Card

**Store Credit Cards**

Issued by retailers and can only be used for purchases from the issuing retailer

Offer discounts, promotions, and rewards specific to the retailer

Examples: Macy's Credit Card, Best Buy Credit Card, Amazon Prime Rewards Visa Signature Card

**Secured Credit Cards**

Require a refundable security deposit, which becomes the credit limit

Useful for building or rebuilding credit history

Examples: Discover It Secured Credit Card, Capital One Secured Mastercard, Wells Fargo Secured Credit Card

**Balance Transfer Credit Cards**

Offer a promotional 0% APR for a limited period on balances transferred from other credit cards

Useful for consolidating debt and saving on interest charges

Examples: Chase Slate Edge, Citi Double Cash Card, Wells Fargo Active Cash Card

**Student Credit Cards**

Designed for college students with limited or no credit history

Offer rewards and features tailored to student needs

Examples: Discover It Student Cash Back, Bank of America Cash Rewards Credit, Card for Students, Wells Fargo Active Cash℠ Card for Students

**Comparison of some popular credit cards in the US:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Card Name | Card Type | Annual Fee | Rewards | APR Range |
| Chase Sapphire Preferred | Rewards | $95 | 2X points on travel and dining, 1X on other purchases | 16.24% - 23.24% Variable |
| American Express Gold Card | Rewards | $250 | 4X points at restaurants and at U.S. supermarkets, 3X points on flights booked directly with airlines or on amextravel.com | 16.24% - 23.24% Variable |
| Citi Double Cash Card | Cash Back | $0 | 2% cash back (1% when you buy, 1% when you pay) | 13.99% - 23.99% Variable |
| Discover It Cash Back | Cash Back | $0 | 5% cash back in rotating quarterly categories, 1% on other purchases | 11.99% - 22.99% Variable |
| Capital One SavorOne Cash Rewards Credit Card | Cash Back | $0 | 3% cash back on dining and entertainment, 2% at grocery stores, 1% on other purchases | 15.24% - 25.24% Variable |
| Wells Fargo Active Cash Card | Cash Back | $0 | 2% cash rewards on purchases | 14.99% - 24.99% Variable |
| Bank of America Customized Cash Rewards Credit Card | Cash Back | $0 | 3% back in a category you choose, 2% at grocery stores and wholesale clubs, 1% on other purchases | 13.99% - 23.99% Variable |
| Capital One Quicksilver Cash Rewards Credit Card | Cash Back | $0 | 1.5% cash back on every purchase | 15.24% - 25.24% Variable |
| Amex EveryDay Credit Card | Rewards | $0 | 2X points at U.S. supermarkets, 1X on other purchases. 20% more points when you use your card 20 or more times on purchases in a billing period. | 13.99% - 23.99% Variable |
| Chase Freedom Unlimited | Cash Back | $0 | 1.5% cash back on every purchase | 14.99% - 23.74% Variable |

**Credit Card Features and Terms**

1. Annual Percentage Rate (APR)

The interest rate charged on unpaid balances

Credit cards typically have higher APRs compared to other consumer loans

APRs can be fixed or variable

1. Grace Period
   * The time between the close of each billing cycle and the payment due date
   * During this period, no interest is charged if the full balance is paid
2. Fees
   * Annual fees: charged yearly for holding the credit card
   * Late payment fees: charged for making a payment after the due date
   * Over-the-limit fees: charged for exceeding the credit limit
   * Balance transfer fees: charged for transferring a balance from another card
   * Cash advance fees: charged for withdrawing cash using the credit card
3. Credit Limit
   * The maximum amount of credit a cardholder can use
   * Exceeding the credit limit may result in over-the-limit fees and a negative impact on credit score
4. Minimum Payment
   * The minimum amount due each month to keep the account in good standing
   * Typically a percentage of the outstanding balance or a fixed amount
5. Billing Cycle
   * The period between each monthly statement
   * Varies by issuer, but typically 28-31 days
6. Credit Utilization
   * The ratio of credit used to credit available
   * Keeping credit utilization below 30% is recommended for a good credit score