



# Home Equity Lines of Credit: Past and Future Performance

Urban Institute

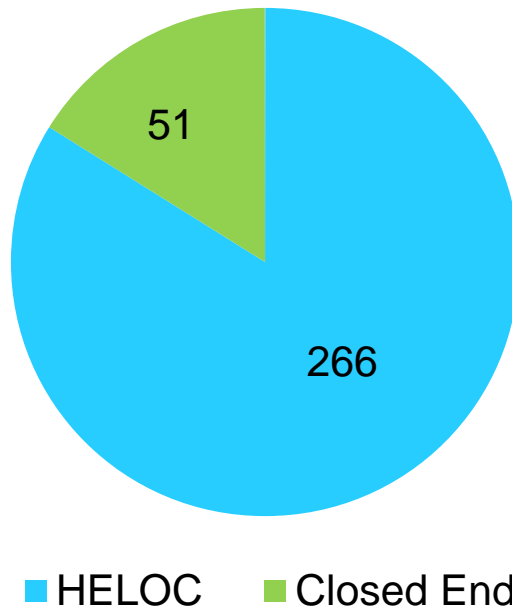
October 2014

## Background

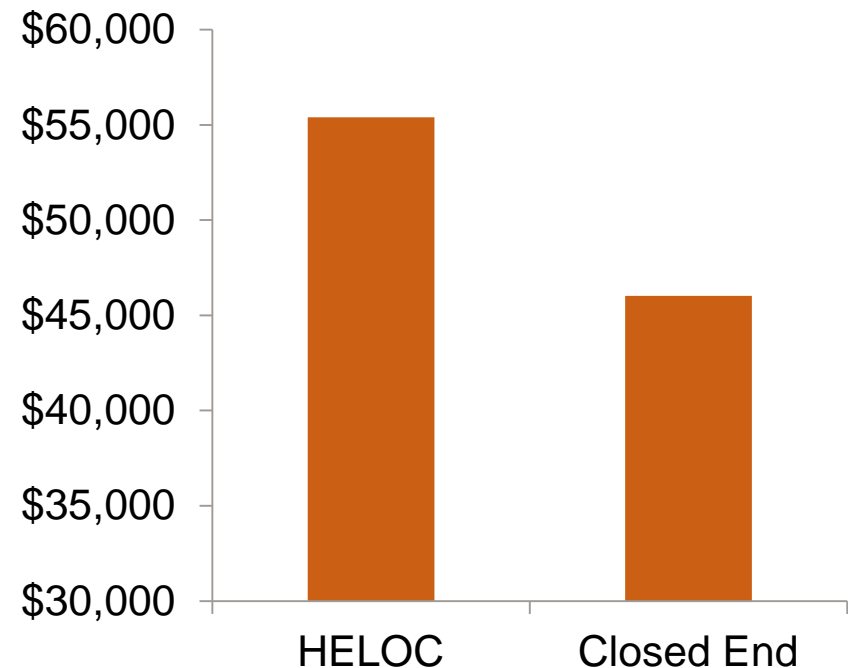
- Market: \$686 billion home equity (HELOC and closed-end second) as of Q2 2014. Bank exposure is \$580 billion, most of it with 4 largest banks.
- Issue: Most HELOCs are interest only loans with 10 year reset period where they switch to fully amortizing loans, which causes payment shock. Bulk of HELOCs originated between 2004 and 2006 that will reset next 3 years.
- Analysis: Reset performance on 2.3 million HELOC originations between 2001 and 2006 using *CoreLogic TrueStandings Home Equity Database*.

## CoreLogic's TrueStanding's Home Equity Data Base

\$266 billion or 83% of Home Equity are HELOCs



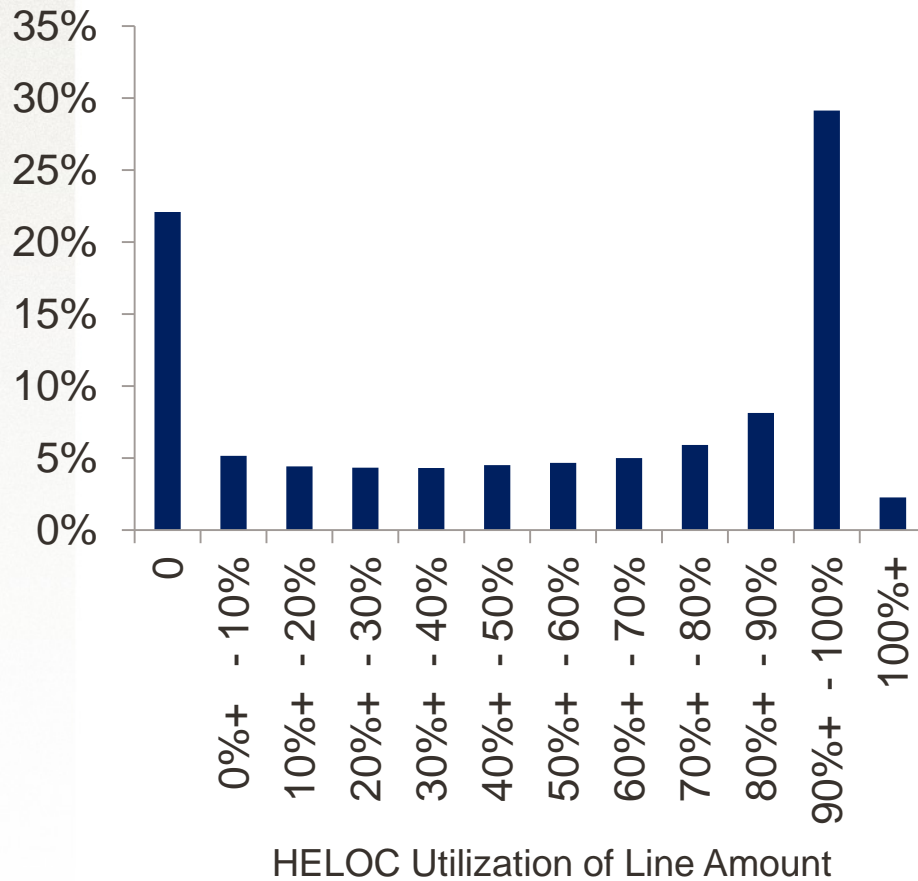
HELOC Avg Balances \$9k Higher than Closed End



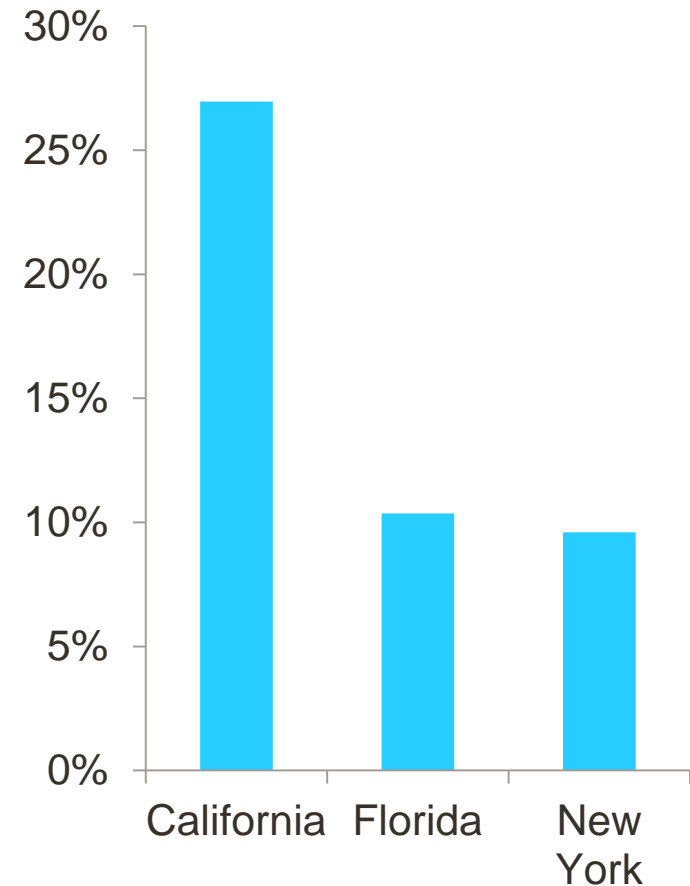
Source: CoreLogic, TrueStandings HomeEquity, Sept 2014

# CoreLogic's True Standing's Home Equity Data

## HELOC's Barbell Distribution



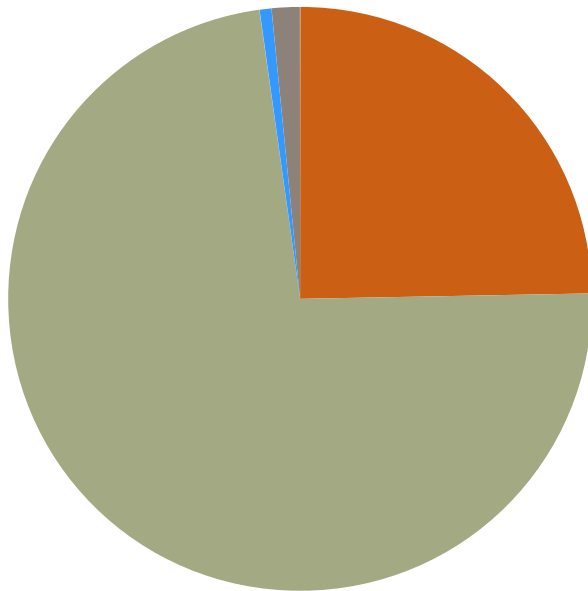
## 50% of HELOCs Are in 3 States



Source: CoreLogic, TrueStandings HomeEquity, Sept 2014

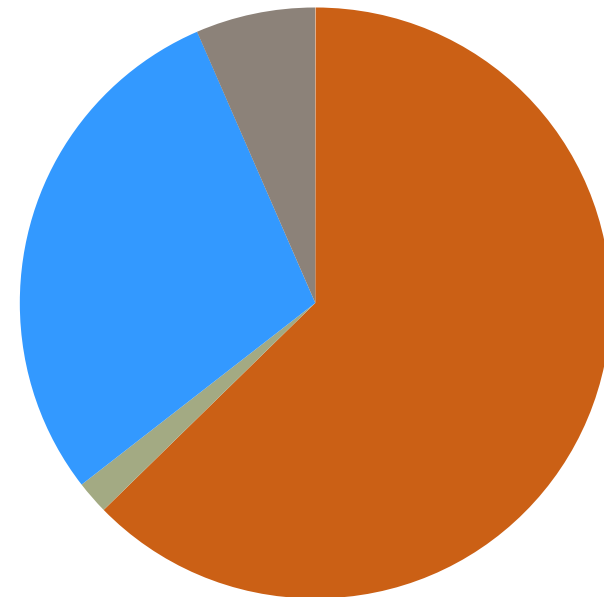
# CoreLogic's True Standing's Home Equity Data

25% of HELOC's are 1<sup>st</sup> Liens



■ 1st lien
 ■ 2nd lien
 ■ 3rd lien
 ■ Other

1/3<sup>rd</sup> of HELOC's Non-Owner Occupied

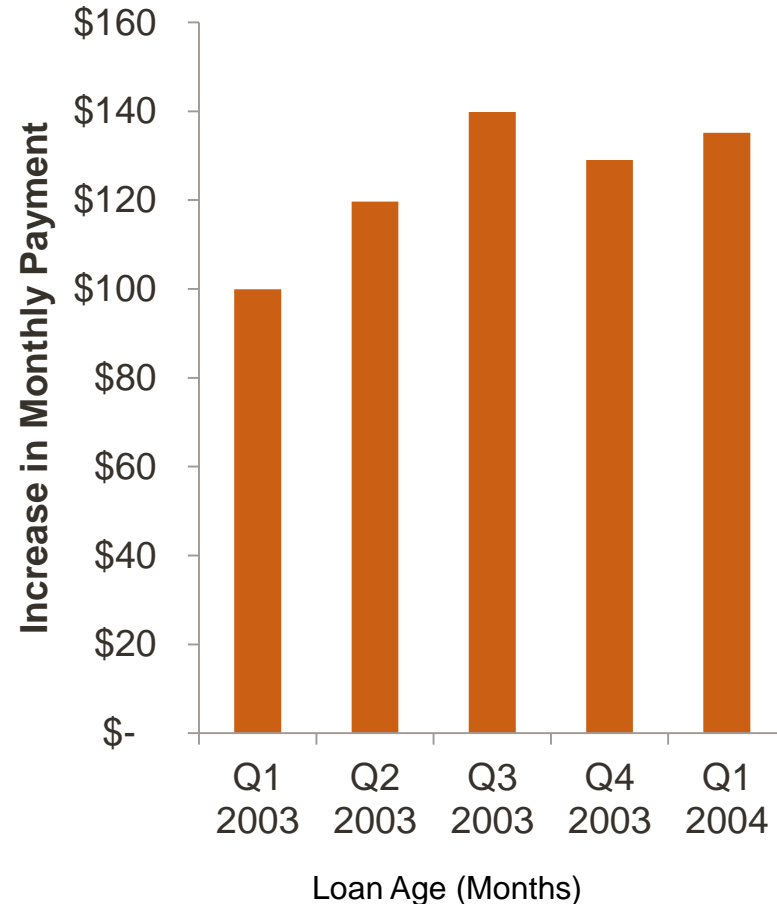
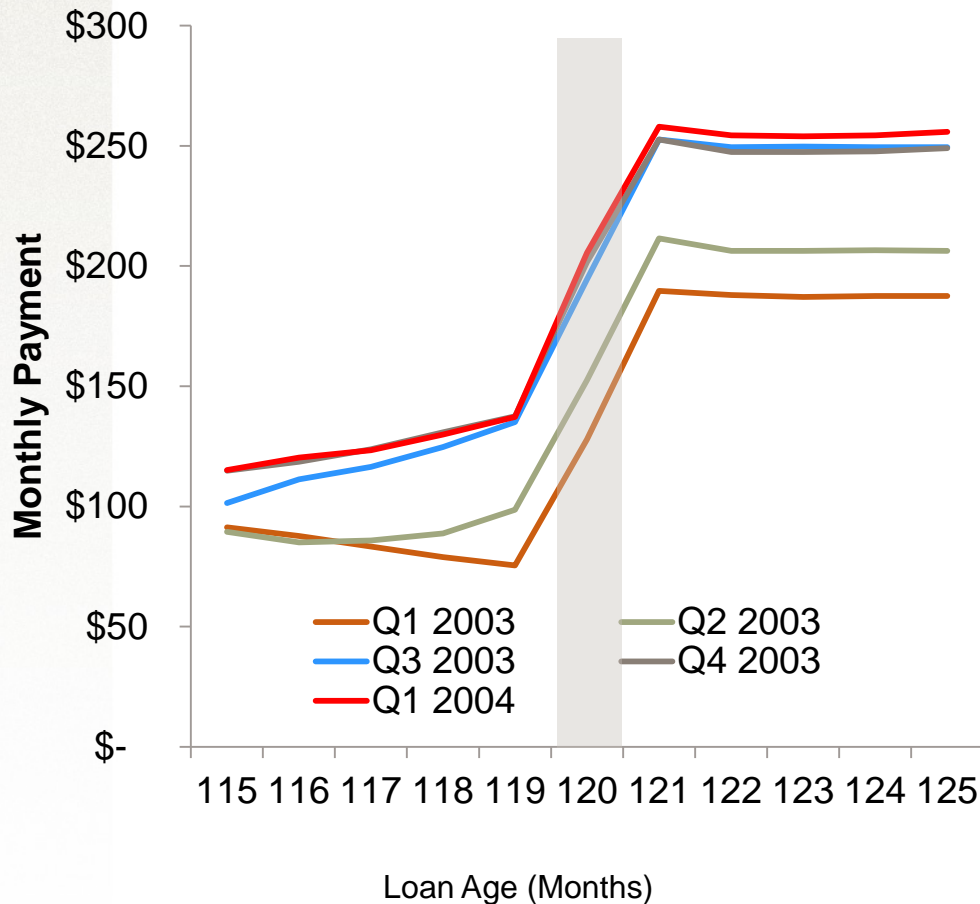


■ Owner Occupied
 ■ Second Home
 ■ Investor
 ■ No Data

Source: CoreLogic, TrueStandings HomeEquity, Sept 2014

# At 10 Year Reset, Payments Jump by \$125 or 120%

*Comparison of 3 Month Moving Avg Payment Before and After 10-Year Reset Mark*

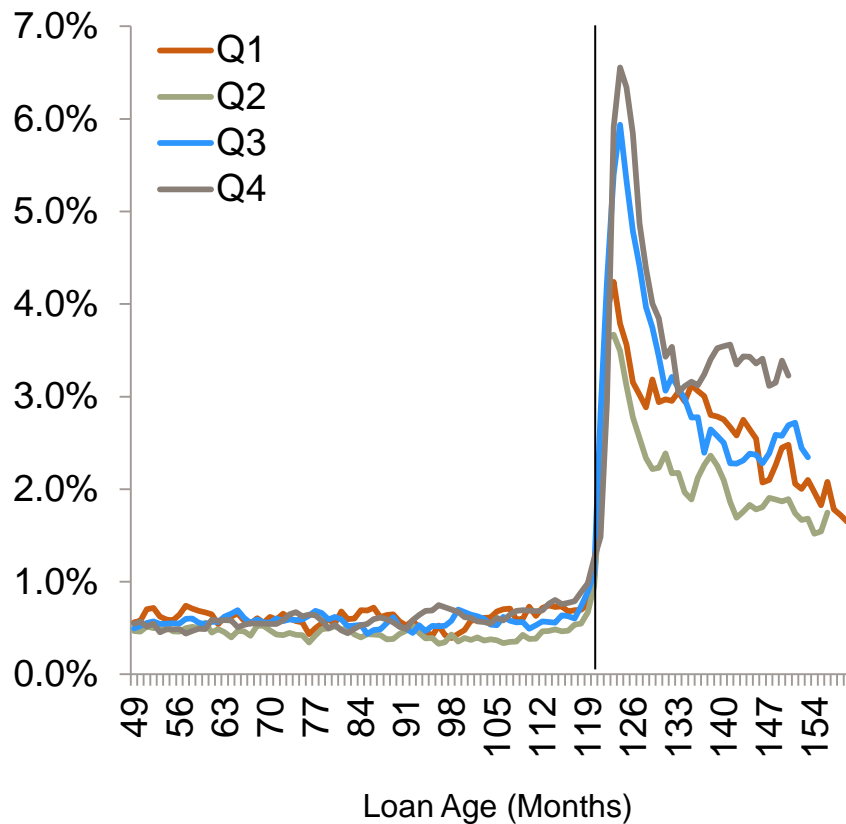


Source: CoreLogic, TrueStandings HomeEquity, Sept 2014.

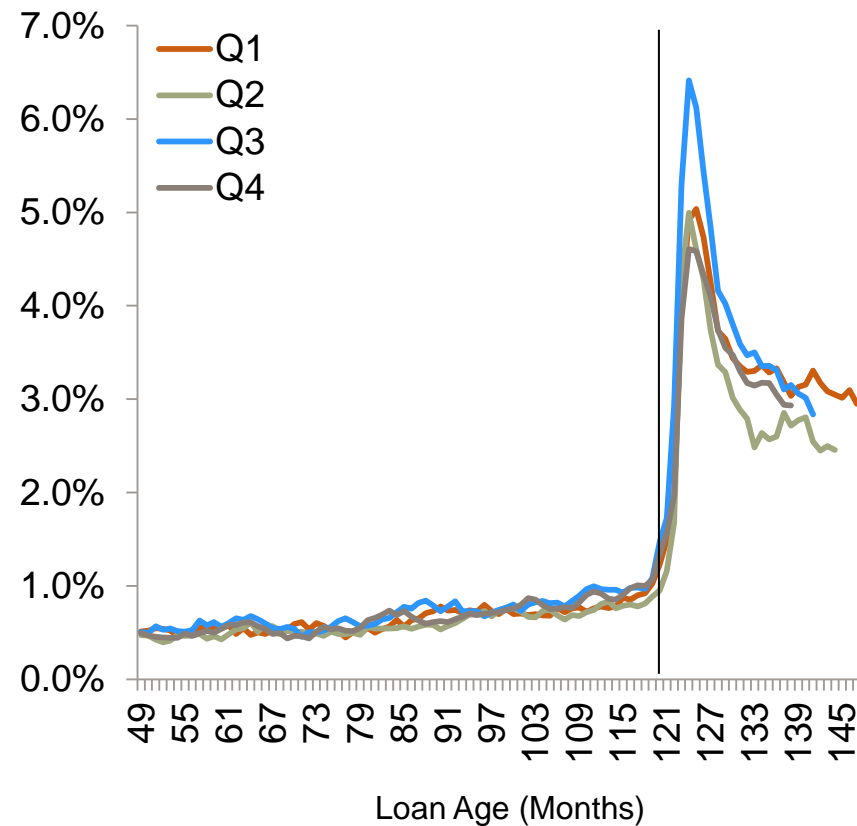
# Large Spike in 60+ DQ at 10 Year Reset

60+ Delinquency Rate

## 2001 Vintage



## 2002 Vintage

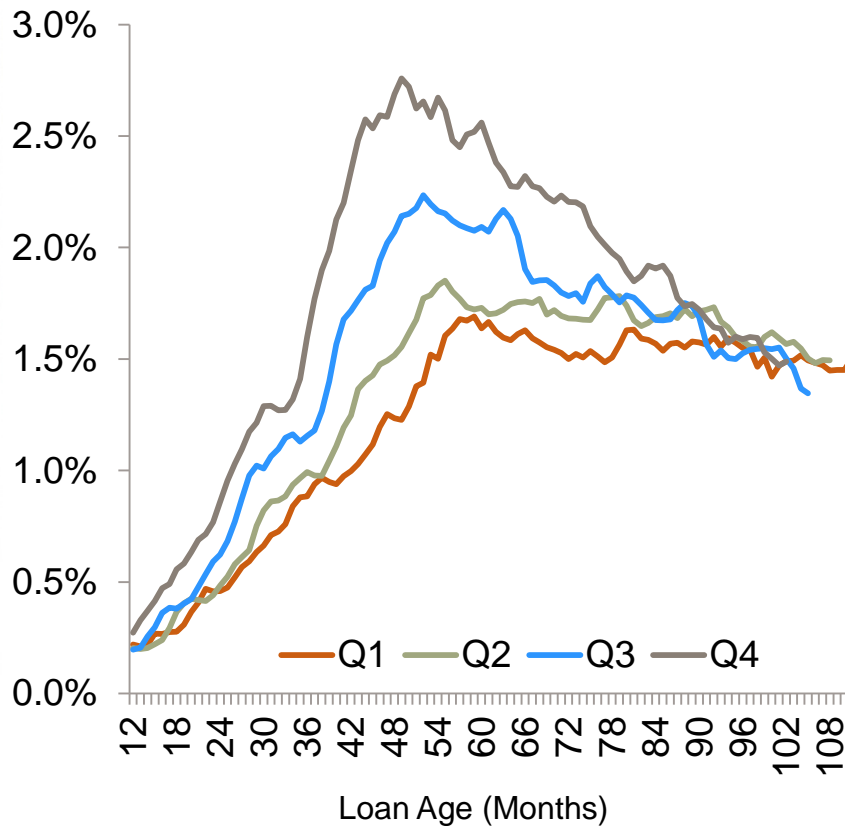


Source: CoreLogic, TrueStandings HomeEquity, Sept 2014

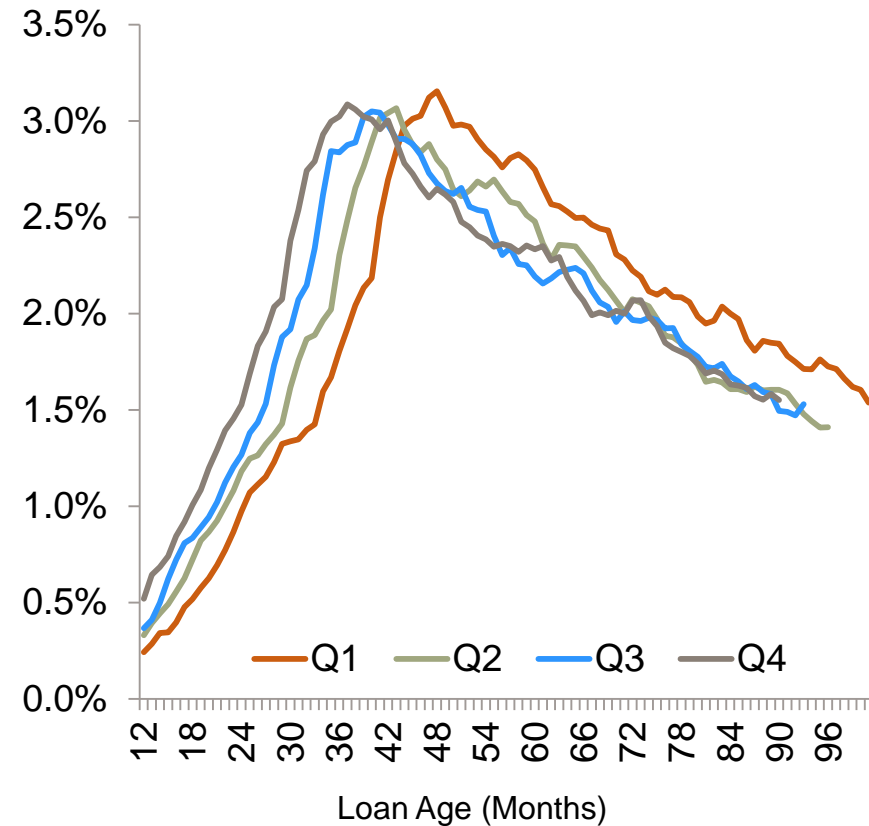
# Clearly Worsening in 2005 Before Price Decline or Recession

60+ Delinquency Rate

### 2005 Vintage



### 2006 Vintage

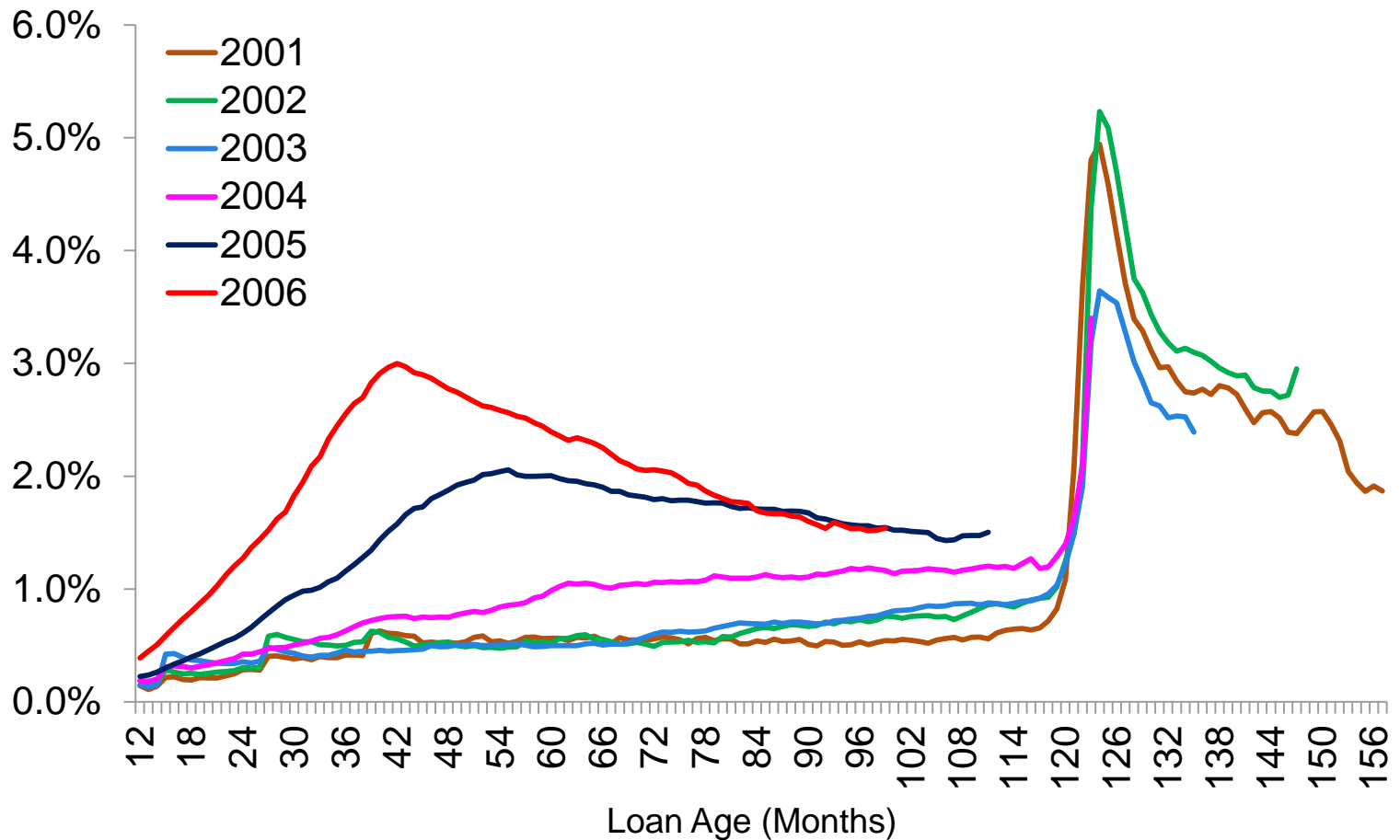


Source: CoreLogic, TrueStandings HomeEquity, Sept 2014



# Material Shift in Performance Beginning in 2004

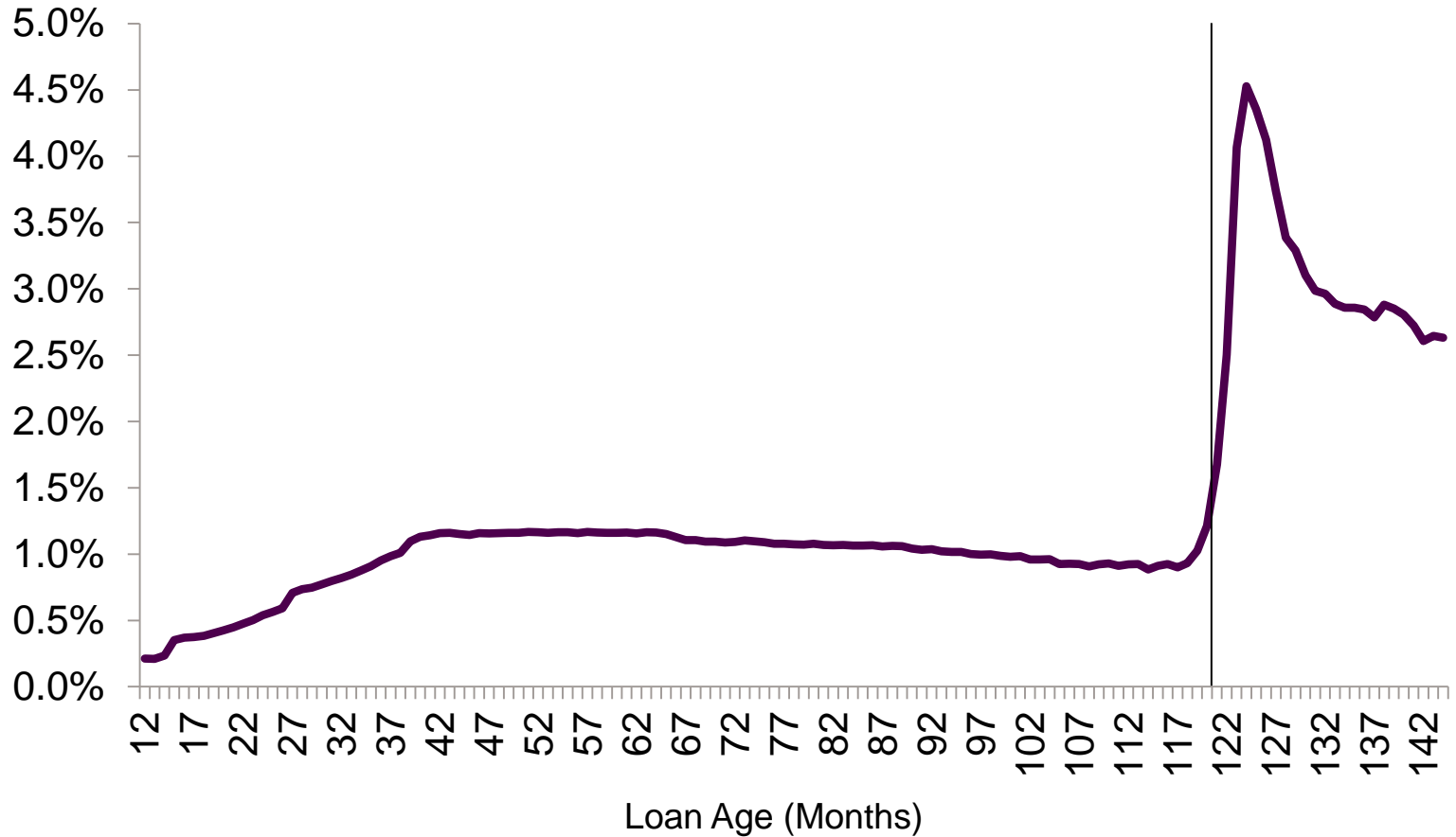
60+ Day Delinquency



Source: CoreLogic, TrueStandings HomeEquity, Sept 2014

# Composite of 2001 – 2006 Vintages

60+ Day Delinquency Rate

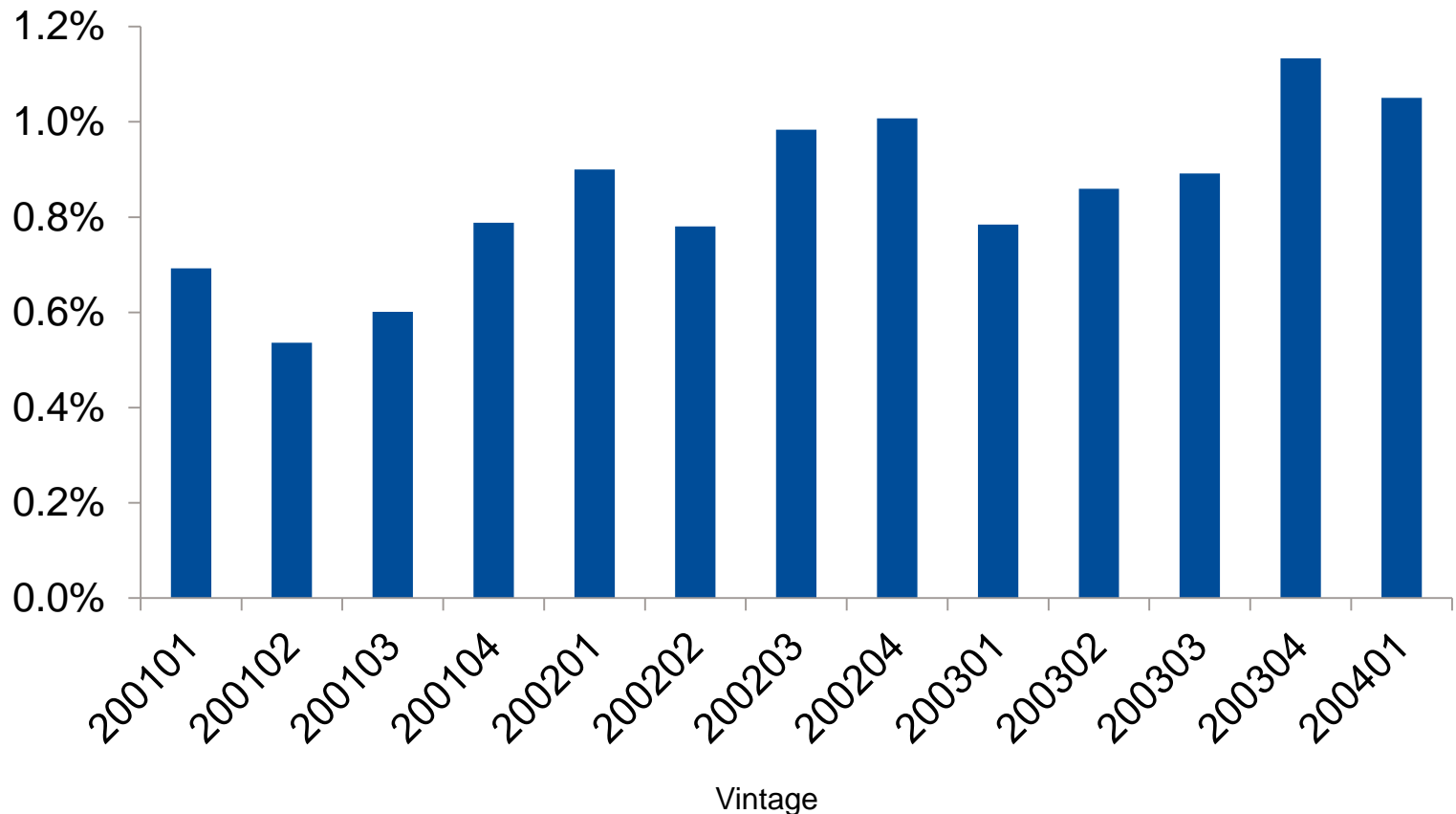


Source: CoreLogic, TrueStandings HomeEquity, Sept 2014

# Performance Prior to Reset.....

*60+ Delinquency Rate, 3 Months Before 10 Year Reset*

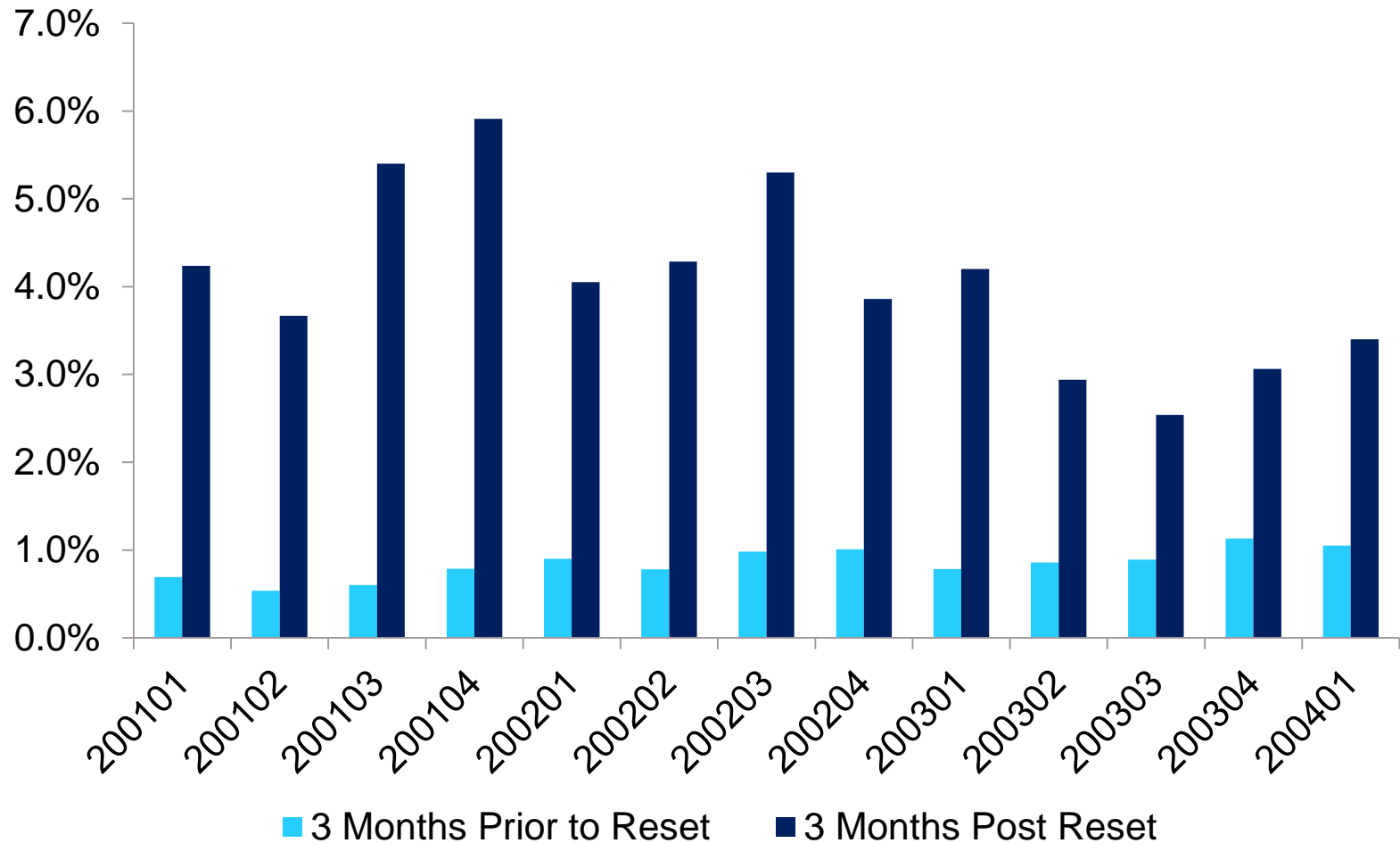
## 3 Months Before 10 Year Reset, 60 Day DQ



Source: CoreLogic, TrueStandings HomeEquity, Sept 2014

# Post Reset Performance Consistently Worse

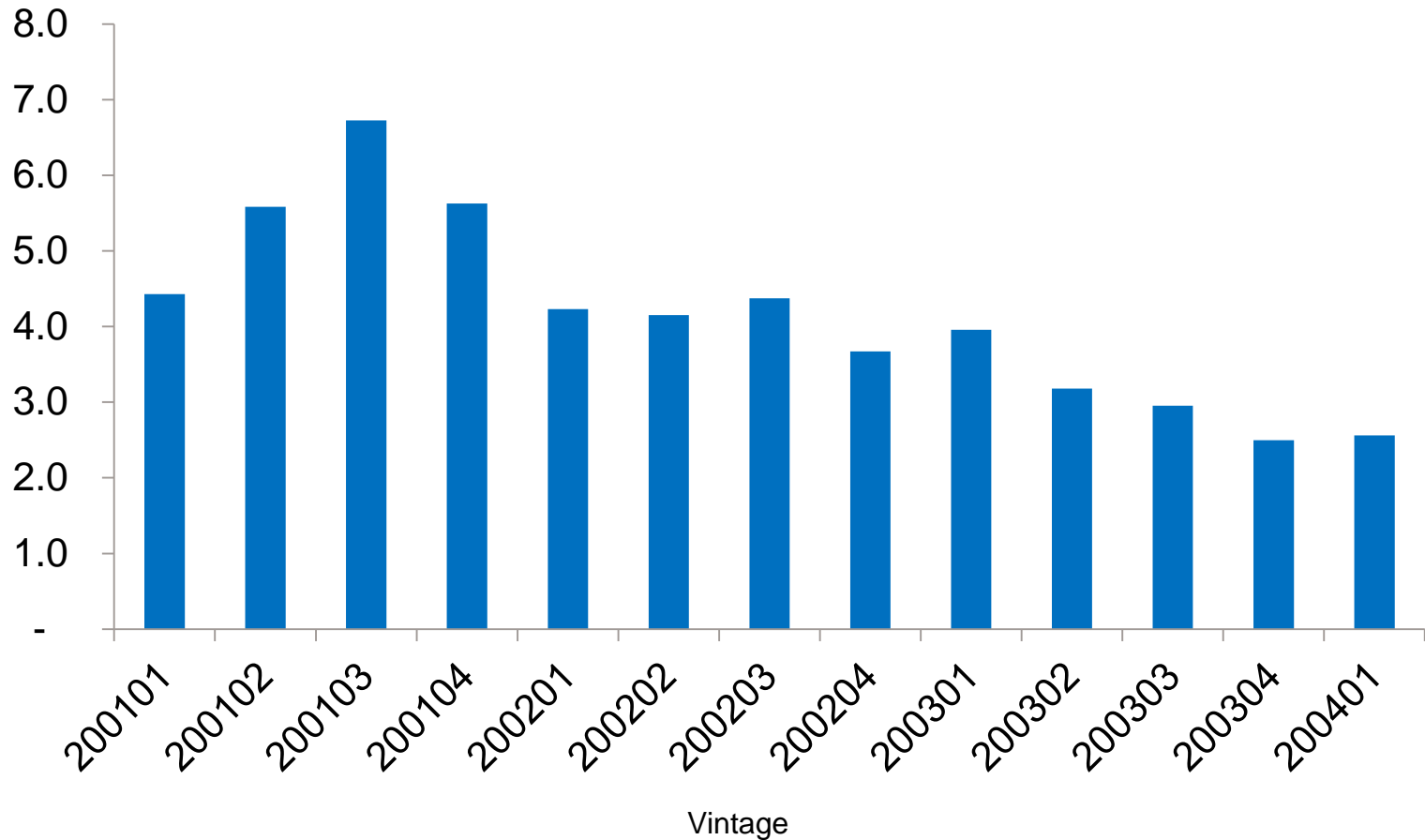
60 Day Delinquency Rate



Source: CoreLogic, TrueStandings HomeEquity, Sept 2014

## Performance Worsens by 3 to 7 Times

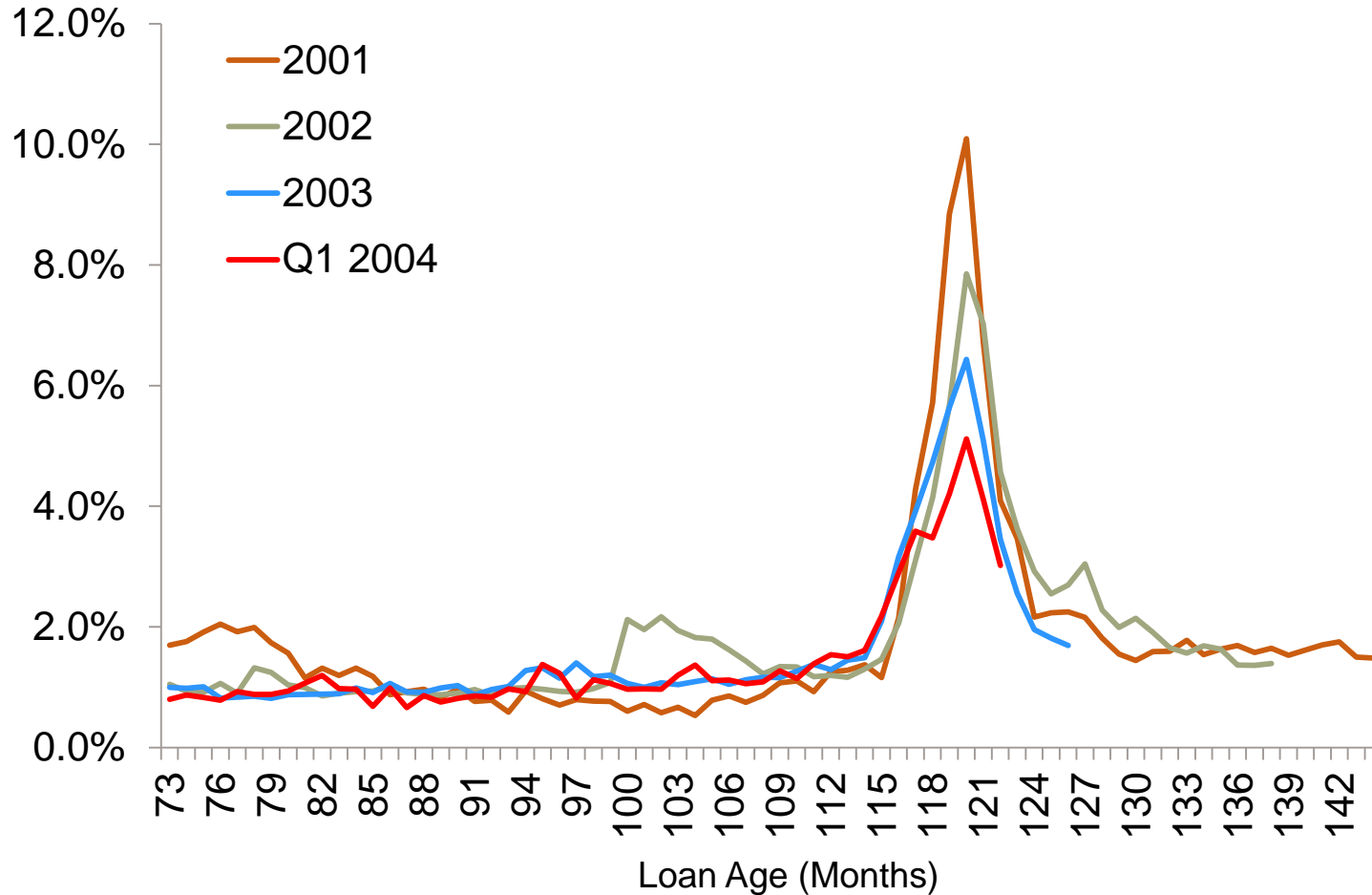
*Ratio of 60 Day Delinquency Rate for 12 Months Post Reset to 12 Months Prior to Reset*



Source: CoreLogic, TrueStandings HomeEquity, Sept 2014

# Prepayment Spike's at Reset

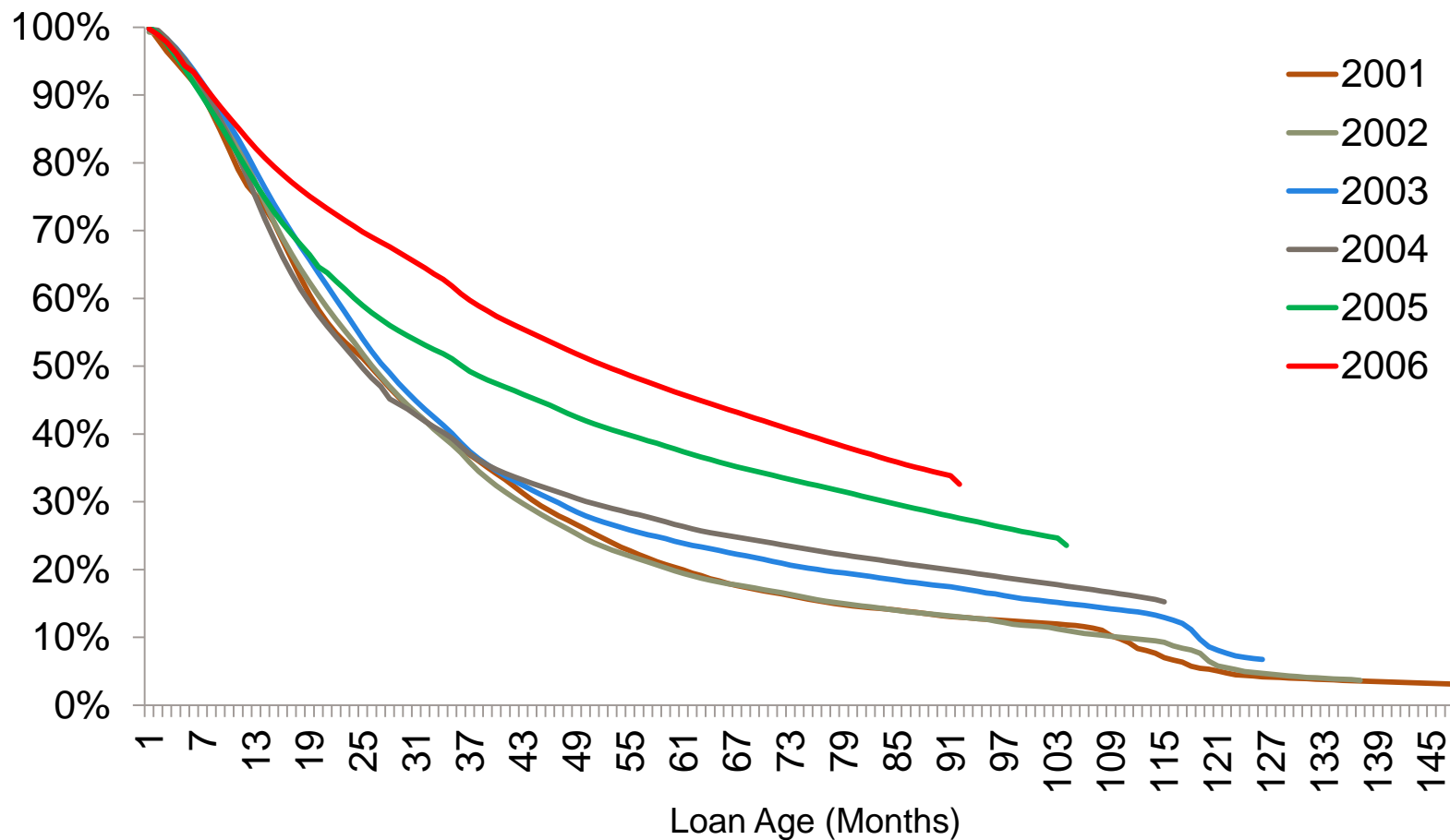
*Percent of Loans That Prepaid by Month*



Source: CoreLogic, TrueStandings HomeEquity, Sept 2014

# Vintage Rapidly Shrinks, Especially After Reset

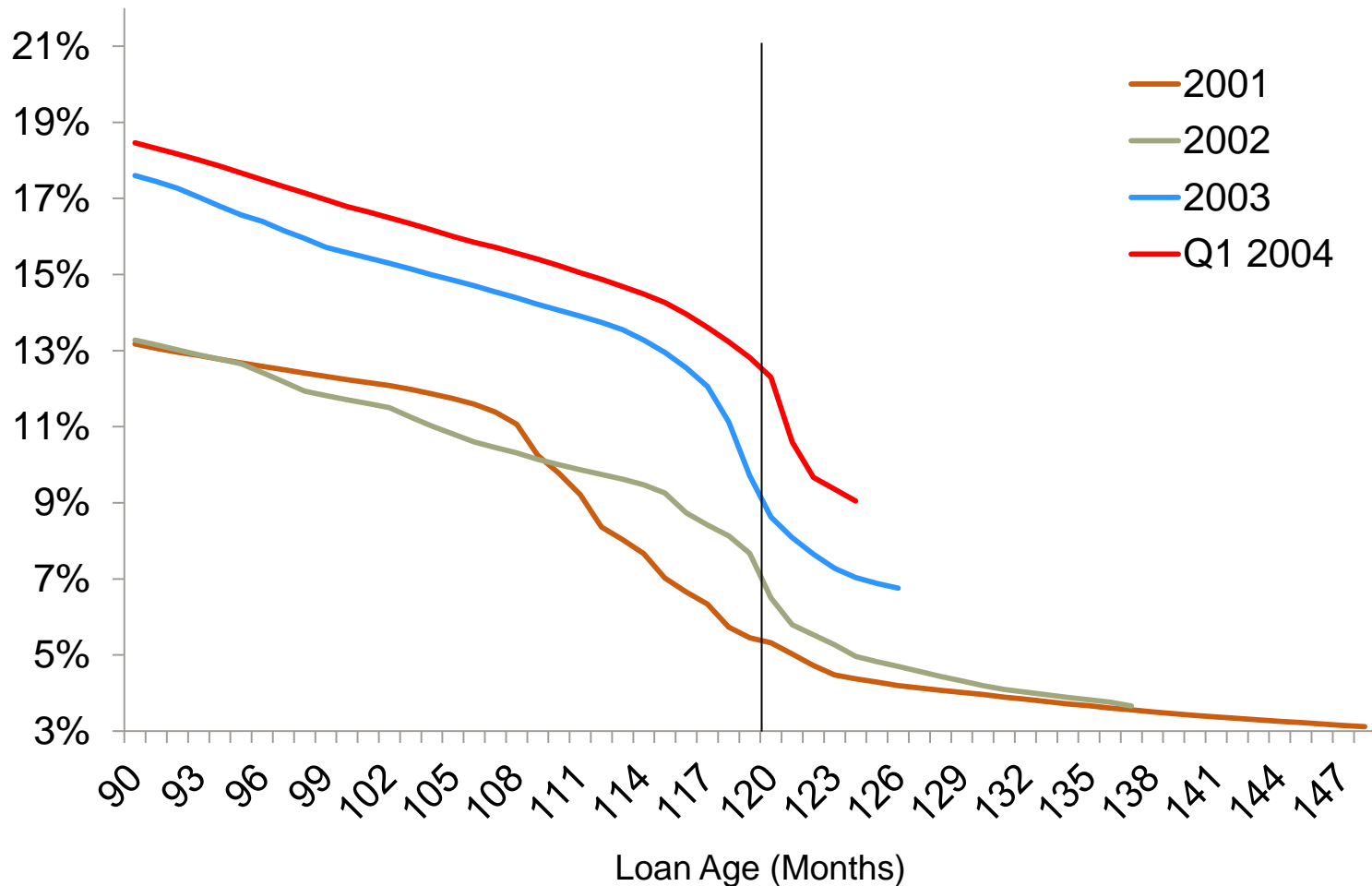
*Pool Factors or Percent of Original Loans Still Active, by Vintage*



Source: CoreLogic, TrueStandings HomeEquity, Sept 2014

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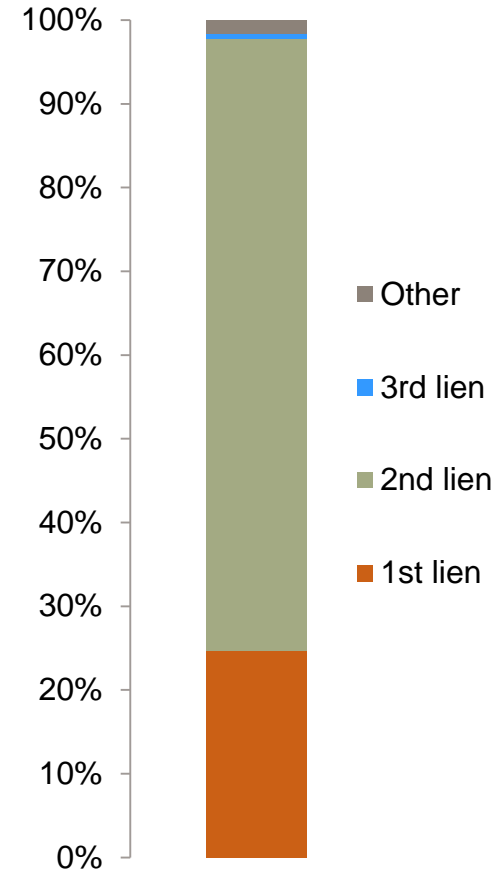
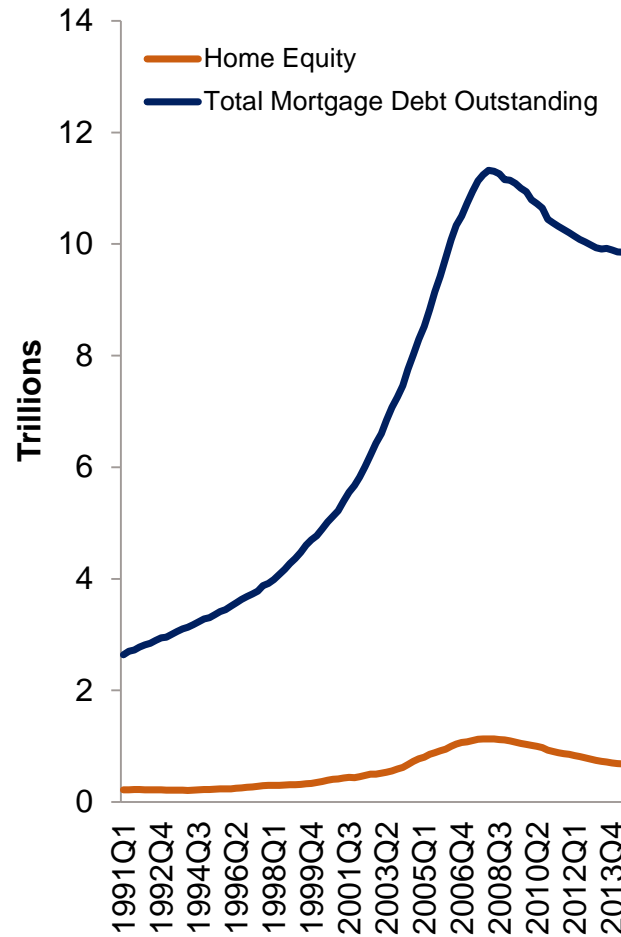
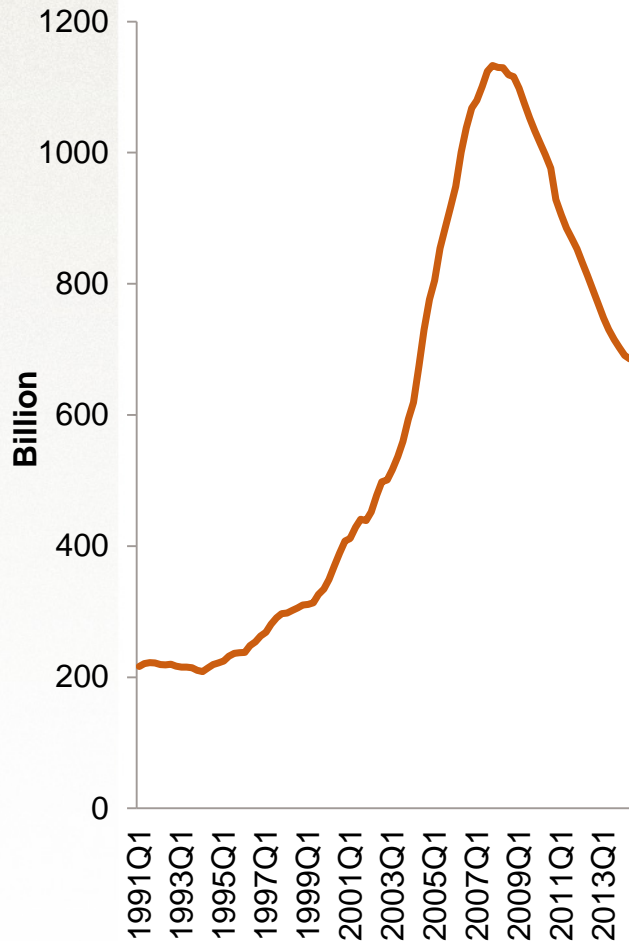
*Pool Factors or Percent of Original Loans Still Active, by Vintage*



Source: CoreLogic, TrueStandings HomeEquity, Sept 2014



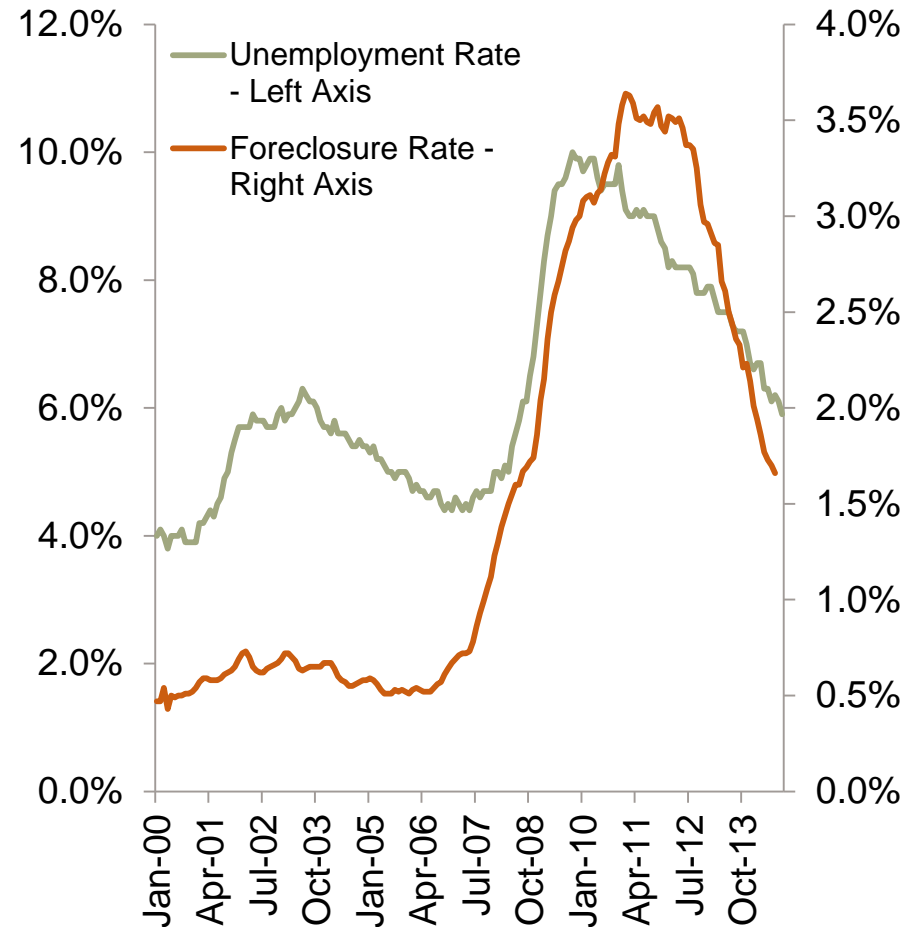
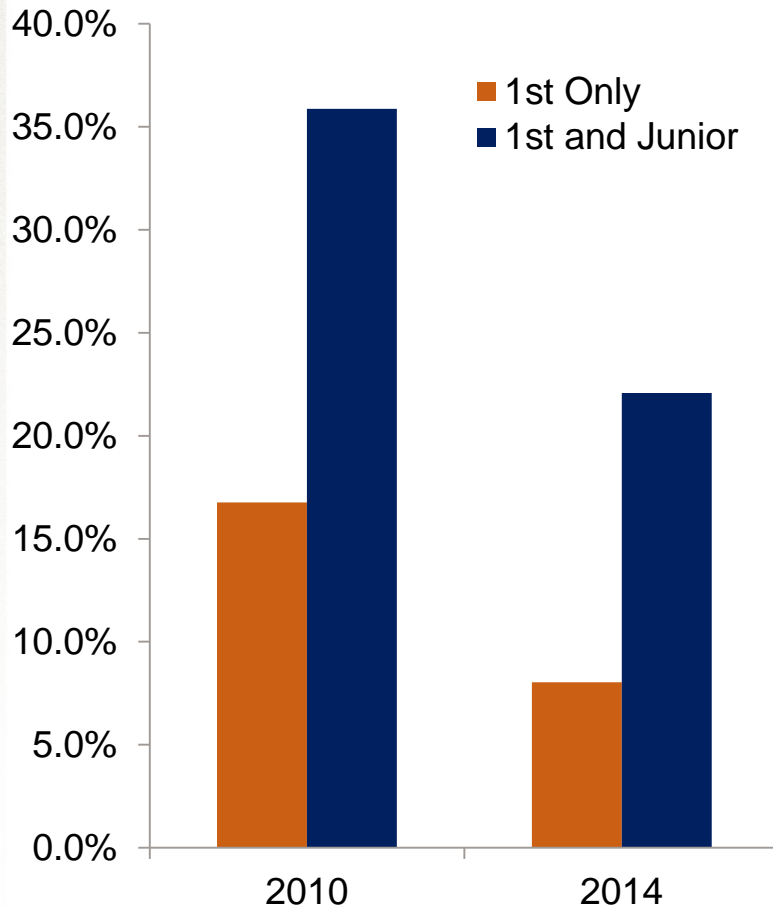
# Home Equity Debt Outstanding Rapidly Shrinking and Quarter are 1<sup>st</sup> Liens



Source: Federal Reserve, Q2 2014

# Dual Triggers of Default Quickly Improving

## Negative Equity Share



Source: CoreLogic, TrueStandings HomeEquity, Sept 2014.

# Thank You!

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