HELOCs ON THE RISE

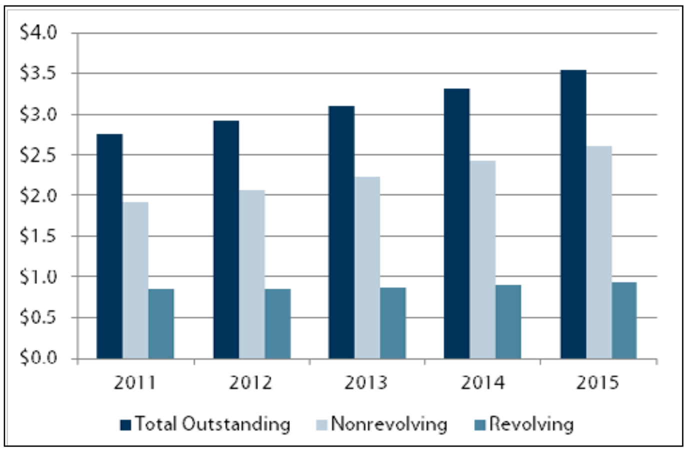
Market for home equity lines heats up

As the weather warms up, so does the market for home equity lines (HELOCs). Consumers are planning home improvement projects or the purchase of a new vehicle, boat or RV. These types of borrowing needs are the driver behind the expected increase in HELOCs this year.

According to the Federal Reserve, consumer lending in the United States has been increasing since 2011, as depicted in the graph at right. Strong growth in the auto sales industry, increasing household wealth and real personal consumption coupled with a low rate environment are contributing factors. Probably the most influential factor for the increase in HELOCs is the upward trending home price index.

Case Schiller notes the national home price index is up by 35 since 2011. This index depicts the repeat sale price of the same home. Experts are projecting home prices will continue to increase over the next couple of years, thus creating greater equity and translating to an opportunity for homeowners to borrow against the increased value of their home.

Consumer Lending Outstanding (in trillions)



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Find out more about Ann and our funding specialists at **FHLBTOPEKA.COM/INTELLIGENCE.**

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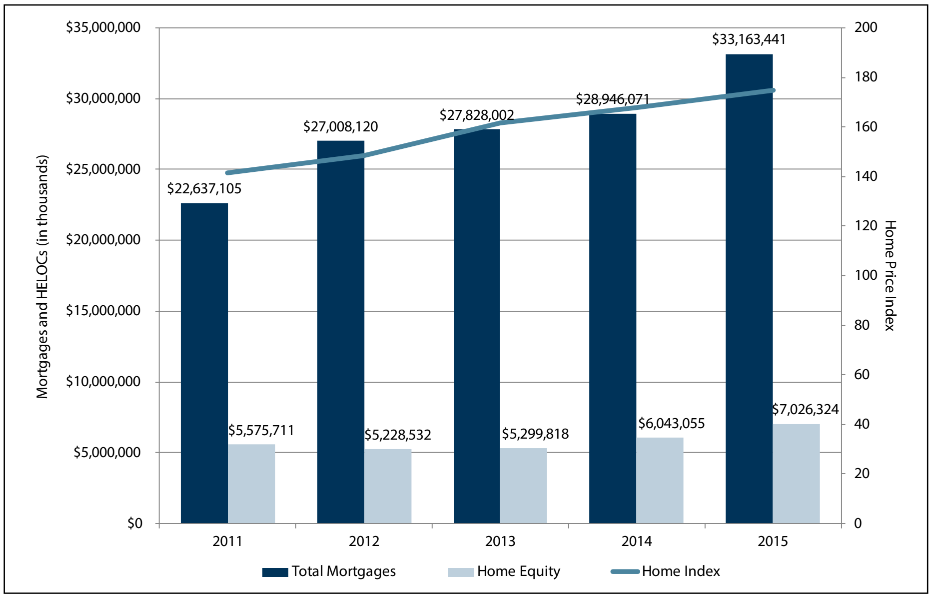
HELOCs are often viewed as a low-cost and efficient alternative to personal loans, especially with today's low rates. Additionally, establishing a line is a good safety net for dealing with the unexpected expenses that pop up for homeowners. In a recent article, the American Banker reports "HELOCs are more popular in this post bust period. In fact, the first 10 months of 2015 realized the biggest increase in HELOCs since 2008 with an increase of 19.7%." Compared to an extremely time-consuming and costly cash-out refi, a HELOC is a relatively quick and easy process. Some institutions even waive loan fees for customers that draw on the line immediately after closing.

As I visit with member institutions who offer HELOCs, they tell me this product has been a very profitable piece of their portfolio, and that their customers are getting creative when using their lines. A HELOC might be just the answer to boost profitability with your current mortgage customers or attract new business.

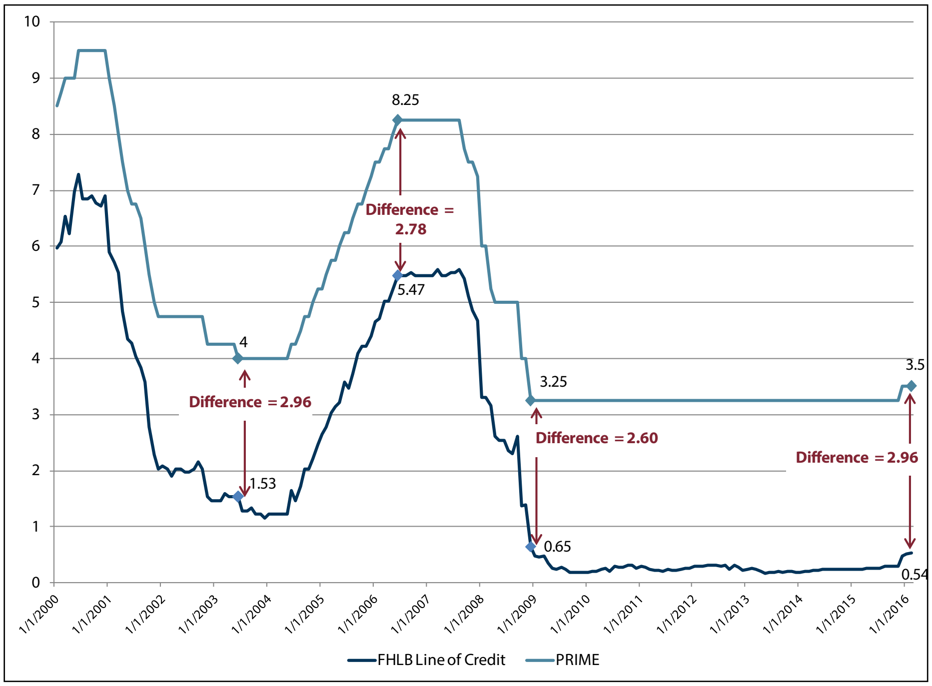
Given the potential of higher demand for these lines of credit, funding sources and options will be important for managing your liquidity position and protecting your margins. FHLBank's Line of Credit is an affordable way to fund this portfolio. The majority of HELOCs adjust to Prime, and you'll find an attractive spread between FHLBank's Line of Credit and Prime over the last 15 years. The average spread has been nearly 2.90%, even considering the rising and falling rate environments over those years. The current line of credit rate combined with the 6% dividend on activity-based stock lowers the effective borrowing rate of the line of credit by up to 27bps, pushing the average spread as high as 3.17%.

If daily tracking of the line of credit rate is too onerous, consider using one of FHLBank Topeka's short-term advances instead. The pricing on short-term advances is only slightly higher than the line of credit. You can achieve similar spreads by hedging with advances that adjust to our short-term indexes, available with frequencies of one week to three months.

Effect of Home Prices on HELOCs



Line of Credit vs. PRIME



Contact Ann today for solutions that work for you.

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