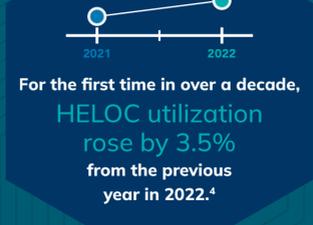


A Shelter from Risk

Utilizing HELOCs to minimize risk and maximize opportunity in your lending portfolio

The underperformance of many unsecured loan portfolios coupled with continued challenges with the asset side of the balance sheet have lowered lenders' risk tolerances. Lenders are increasingly turning to HELOCs (home equity line of credit) for their collateralized nature and resistance to market fluctuations—offering a shelter from risk. **In this infographic, we'll delve into the strategic utilization of HELOCs by today's lenders—to reduce risk, diversify portfolios, and build lasting customer relationships.**



HELOC lending is rising...

What factors are driving this shift?

There are a variety of distinct yet interrelated factors that are driving the shift to HELOCs, and these factors impact consumers, merchants, and lenders both individually and collectively. In this section, we'll unpack a few of them.

- Consumers
- Merchants
- Lenders

Factors among consumers

Increased real estate prices driving renovations

Housing prices in the US have seen tremendous growth—the median price of a house has increased 63% over the past 10 years.¹ As a result, more Americans are opting to renovate instead of move, and new homebuyers are settling for homes that need a bit more love. HELOCs offer an attractive way to pay for these renovations.

Housing costs in the US



Home equity in the US



Home equity growth increasing feasibility

As homeowners stray away from selling their homes and real estate prices continue to rise, home equity in the US has seen a significant rise from \$9 trillion in 2012 to \$29.31 trillion in 2022.² HELOCs are collateralized by a consumer's home, making ample equity a prerequisite to this loan category.

High interest rates and reduced refinances

The average 30-year fixed mortgage rate in the US has risen from 4.35% in 2013 to 7.5% in 2023.³ A stark contrast to 2020 and 2021, customers are no longer favoring cash-out refinancing options, as rates are exponentially higher than previous years.

30-year fixed mortgage rate in the US



Factors among merchants

Predicted home improvement spending



Inflation normalizing demand

The home improvement rush induced by the pandemic has ended, normalizing demand across home improvement categories.⁵ In response, merchants who may have historically resisted HELOCs due to their slightly more complicated nature are now considering them to close jobs and sustain demand.

Rising cost factors increasing job size

Cost inputs in the home improvement market, including materials and labor, have increased average job size significantly over the past few years and increased the probability a customer will seek some form of financing—including HELOCs—for common renovations and home improvements.⁶

Material cost growth since the pandemic



Factors among lenders

Delinquency rates on personal loans



Challenges in unsecured loan performance

Recent years have seen a decline in the performance of unsecured loans, with increased defaults and delinquencies.⁷ This trend has led lenders to prefer more secure lending options like HELOCs, which offer the stability of real estate as collateral, effectively reducing risk.

Asset side issues increase lending scrutiny

Today's banks face decreased deposits and increased outflows—both for customer use and for products with more competitive interest rates.⁸ These asset-related challenges have resulted in increased scrutiny when it comes to lending offerings. HELOCs are typically a higher profit product for lenders and an excellent utility for cross-selling—making them an attractive offering when facing today's market realities.

Deposits at US banks



The market is primed for HELOC usage... How can lenders benefit by offering HELOCs?

- Lower your level of risk**
Mitigate risk through the secured nature of these loans, which provide home equity as collateral.
- Know your borrowing better**
Deepen your understanding of borrowers as the revolving nature of HELOCs offer insights into their financial behaviors and needs.
- Diversify your loan portfolio**
Diversify on loan portfolio, reduce dependency on specific types, and spread risk across a variety of segments.
- Grow your consumer base**
Attract a broader consumer base by appealing to individuals seeking flexible financing solutions for their home improvements.

Add HELOCs to your lending portfolio with LoanStar.

At LoanStar, we are dedicated to building mutually beneficial connections between lenders and consumers. Nowhere is this more impactful than the HELOC segment.

Through the MerchantLinQ platform, we empower our lenders to rapidly enter the HELOC lending category with exceptional confidence and configurability. Easy to deploy and utilize on all sides of the transaction, MerchantLinQ connects lenders with new lending opportunities, MerchantLinQ business lenders with new access to important funds.

Contact us at lenders@loanstartech.com to learn more today.

1. <https://fred.stlouisfed.org/series/MSPUS>
 2. <https://www.statista.com/statistics/375865/value-of-homeowner-equity-usa/>
 3. <https://fred.stlouisfed.org/series/MORTGAGE30US>
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 6. <https://www.nahb.org/blog/2022/04/building-materials-prices-start-2022-with-8-percent-increase>
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