Estimating American Homeowners' Potential Savings From Refinancing High-Cost Credit Card and Loan Debt

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American consumers have seen big changes in their personal and family balance sheets in the last decade, including rising amounts of unsecured borrowing. Our analysis confirms that 16.3 million households could realize potential savings of over $100 billion in interest payments by using home equity borrowing to replace higher cost sources of debt.

From 2011 through 2018, personal loan volume increased nearly threefold[1], and after a substantial decline from its pre-recession high of $1.03 trillion, credit card debt reached a new record of $1.05 trillion in December 2018.[2]

This growth in consumer credit has come with a hefty price tag. Consumers are paying the highest average interest rate in 24 years on outstanding credit card balances,[3] even as interest rates on bank savings accounts, Treasury bonds and other fixed-income investments remain at—or near—historically low levels. Rates for certain card categories can exceed 20%.[4] At the same time, home equity in the United States is at a record $15.8 trillion.[5] Yet home equity borrowing via home equity lines of credit (HELOCs) declined almost 40% from 2011 to Q2 2019.[6]

This reduction in HELOC volume is notable because interest rates on these secured loans can typically range from a quarter to a half of the average interest rate on credit card or personal loan balances. The gap between HELOC rates and other consumer credit rates presents a significant opportunity for homeowners.

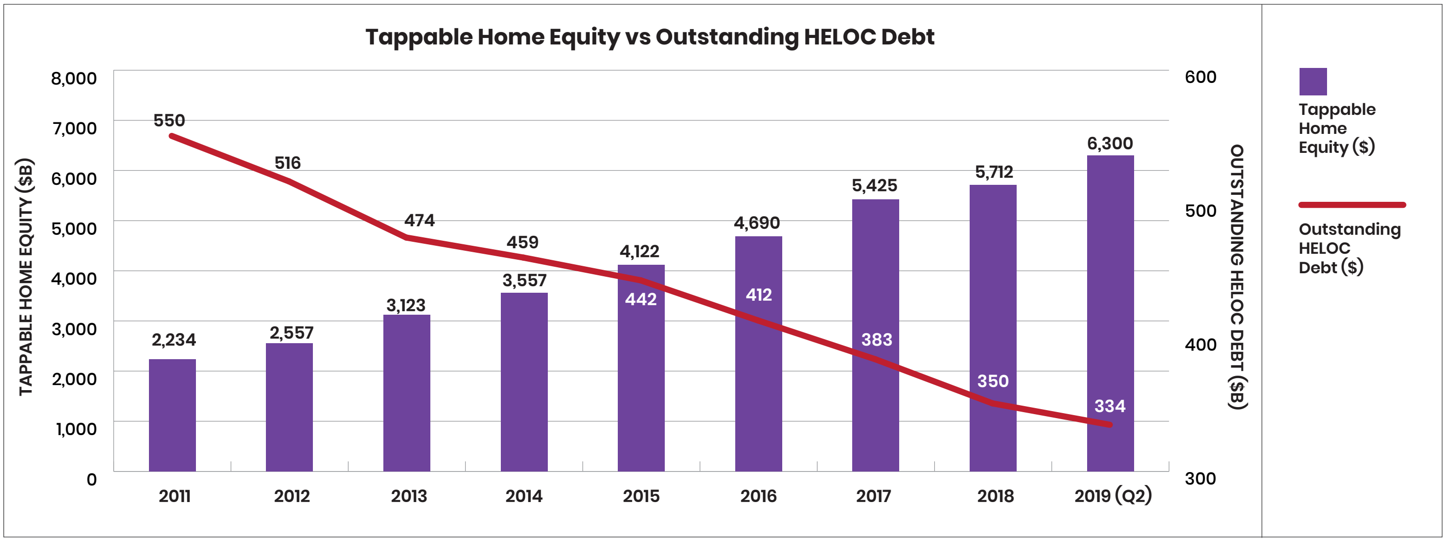
Much like a business, astute homeowners at this stage of the economy and interest rate cycle might be rethinking their financing costs and sources of credit. Should they consider reducing their interest burden by replacing high-cost credit card or installment loan debt with lower-cost secured loans? How best can they use one of the most valuable assets on their personal or family balance sheet to achieve significant savings on their borrowings?

How big is the opportunity to reduce interest payments by replacing high-cost credit card and personal loan debt with a HELOC? Every consumer's situation is different. In this analysis, Figure Technologies sizes up the potential interest savings that are available to U.S. homeowners in aggregate through the use of a HELOC to replace higher interest credit card and personal loan debt.

To arrive at this estimate, we analyzed the financial situation of American homeowners who are carrying unsecured debt (personal loans and credit cards) but who simultaneously own sufficient equity in their home to at least partially refinance their debt.

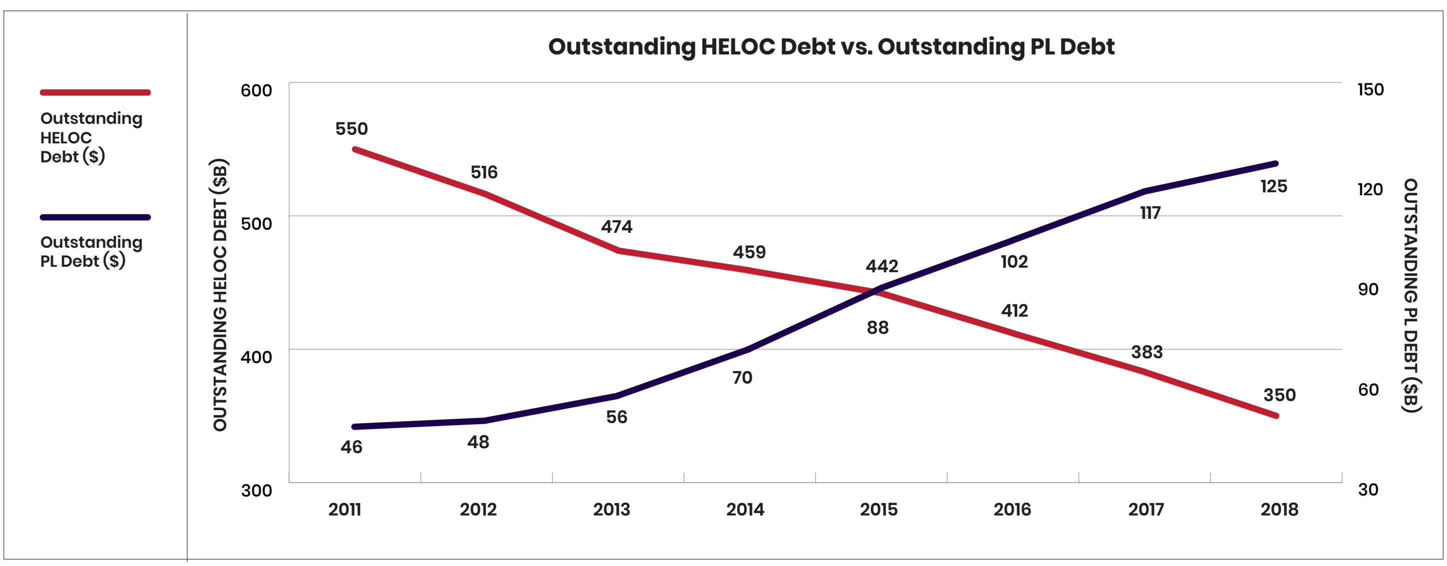
Broad Market Trends

A number of recent trends provide useful context for our estimate and methodology. As noted, one of the key trends in recent years has been the reduction in HELOC volume even as tappable home equity, typically defined as the amount of equity owned by homeowners above a 20% reserve threshold, has risen to record levels. The amount of tappable home equity is at a record $6.3 trillion, 27% more than the previous peak in 2006 and close to three times what it was following the Great Recession.[7] Over the same time period, HELOC volume is down about 40%.[8]



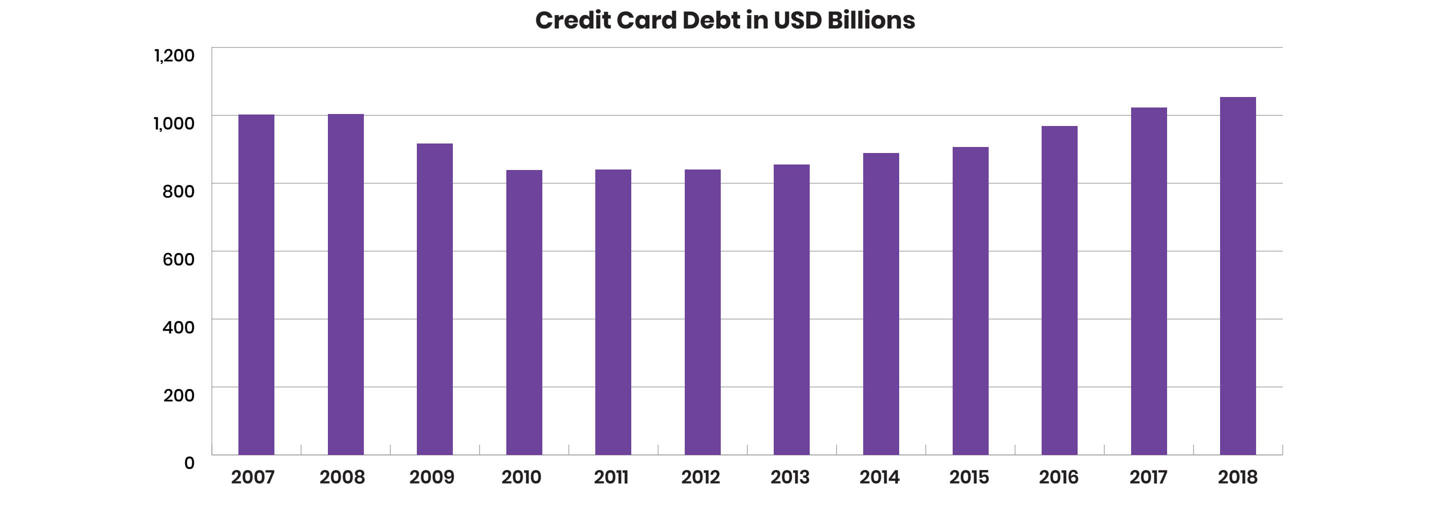
Source: Black Knight (tappable home equity data), St. Louis Fed (HELOC data)

As HELOC volume was declining over the past seven years, heavy marketing of unsecured personal loans caused dramatic volume growth in that lending category of about 270%:[9]



Source: Black Knight (HELOC Debt), TransUnion (Personal Loan Debt)

Credit card debt has also risen. At the end of 2018, credit card debt stood at the highest level on record.[10]



Source: US Federal Reserve Board

Data Analysis and Methodology

We analyzed individual debt data by state for homeowners who own at least 15% equity in their homes. A number of lenders, including Figure, offer loans resulting in a combined loan-to-value (CLTV) that is less than the traditional 20% requirement. Some go as high as 95% LTV.[11]

For the purposes of this study, we selected a more conservative 85% CLTV, and considered anything above that to be tappable home equity. We looked at the following home categories: single-family residential (by far the largest category), condos, townhouses, rowhouses, and planned unit developments. From that list of homeowners meeting the tappable equity threshold, we extracted homeowners who either are carrying personal loans, or who have credit card debt that Experian classifies as debt not paid off in full each month.[12]

We identified a total of 16.26 million such homeowners nationwide. If a homeowner had more debt than tappable equity, we only counted the amount of debt that they could refinance with the equity they held. If they had more tappable equity than debt, we assumed that they would be able to refinance their entire debt load. We found that the average American homeowner in the cohort described above is carrying $14,350 in debt—$3,363 in personal loans and $10,987 in revolving credit card debt. They have sufficient equity to refinance about 87% of that debt, or $12,549.

The total personal loan balance of $3,363 includes all installment plan payments excluding mortgage, auto, and student loans. So in addition to unsecured personal loans typically paid over a number of years, this number may include installment plan purchases as well as some personal loans that are backed by some physical item that the homeowner purchased (for example a jet ski). Thus while we refer to these personal loans as unsecured, a portion may in fact be secured—the data source used does not separate the two.

The total amount of unsecured debt that the 16.3 million homeowners are carrying is $233 billion. Of that, equity is available to refinance $204 billion of that total. In aggregate, the homeowners have $2.9 trillion in tappable equity. The reason that not all debt can be refinanced despite such a large aggregate total of tappable equity is that some homeowners have more unsecured debt than tappable home equity, while others have a large amount of tappable equity but only small amounts of unsecured debt.

Savings Calculation

To calculate the potential savings, we looked at the total amount of interest and fees a homeowner would pay if they took out a 5-year amortizing HELOC in the amount of $12,925 at a rate of 8%.[13] The amount of the HELOC represents the total amount of the refinanceable debt plus a 3% HELOC origination fee. The interest rate is the average rate of a Figure HELOC. That HELOC has a $262.08 monthly payment and incurs $2,799.45 in interest over the life of the loan.

We then calculated how much additional interest a homeowner would pay if they applied the exact same monthly payment of $262.08 to servicing the unsecured loans. Assuming a five-year personal loan with a principal amount of $2,941 at 12%, the monthly payment is $65.42 and the total interest paid over the life of the loan is about $984.23.[14]

If we then apply the balance of the monthly payment ($262.08-$65.42=$196.66) to the credit card, for which we are using a common industry-average interest rate of 18.2%, it will take about 7.5 years to pay off the credit card, during which the homeowner will spend about $8,041 in interest.

Note: While the national average is slightly lower, 18.2% tracked with numbers we see from our customers. When calculated at the current national average rate 17.8%, our study still found potential savings of just under $95B.

Overall, the homeowner will spend $984 + $8,041 = $9,025 in interest and have debt 2.5 years longer than if the homeowner consolidates the debt with a HELOC. Using a HELOC, the homeowner eliminates the debt in five years and spends only $2,799 on interest, which represents savings of $6,225.

Of course, the homeowner could pay off the debt faster and pay less in interest, but if the homeowner is able to pay off those loans faster, they could also pay the HELOC off more quickly and pay less interest there as well. The key point is that in our calculations, the monthly payments for the HELOC versus the unsecured debt are the same.

For the 16.3 million homeowners identified, the cumulative savings is $101.2 billion.

Details by State

The research indicated some notable differences by state.

The highest amount of unsecured debt per homeowner was in Alaska ($16,544), Texas ($14,744), and South Dakota ($14,622). Using the same refinancing calculations as above, homeowners in those states could save the following: Alaska (potential savings of $8,077), Texas (potential savings of $7,169), and South Dakota (potential savings of $6,433).

On the other end of the spectrum, Ohio ($10,372), Iowa ($10,549), and Wisconsin ($10,925) homeowners had the lowest amounts of unsecured debt. Homeowners there could save:

Ohio

(potential savings of $5,210)

Iowa

(potential savings of $5,109)

Wisconsin

(potential savings of $5,336).

Here is the breakdown by state:[15]

		PER CAPITA AVERAGES				
State	**Homeowners**	**Credit Card**	**Personal Loans**	**Total Debt**	**Tappable**	**Refi Opp**
AK	22,510	$ 14,411	$ 5,032	$ 19,444	$ 159,284	$ 16,544
TX	1,355,781	$ 12,290	$ 4,430	$ 16,720	$ 150,291	$ 14,744
SD	2,230	$ 10,097	$ 7,173	$ 17,270	$ 170,001	$ 14,622
ND	19,978	$ 10,396	$ 6,345	$ 16,741	$ 132,336	$ 14,140
WY	19,902	$ 10,464	$ 5,749	$ 16,213	$ 162,862	$ 14,027
WA	459,402	$ 11,218	$ 4,201	$ 15,419	$ 234,860	$ 13,858
MS	43,899	$ 10,334	$ 5,257	$ 15,591	$ 130,327	$ 13,588
DC	26,034	$ 12,115	$ 2,186	$ 14,302	$ 424,341	$ 13,567
GA	513,445	$ 12,011	$ 3,654	$ 15,665	$ 121,335	$ 13,226
CA	2,047,299	$ 11,089	$ 3,047	$ 14,136	$ 356,435	$ 13,178
NY	772,347	$ 11,586	$ 2,759	$ 14,344	$ 225,263	$ 13,151
UT	170,805	$ 10,218	$ 4,498	$ 14,717	$ 171,489	$ 13,148
LA	153,326	$ 10,745	$ 4,649	$ 15,394	$ 127,526	$ 13,069
CO	352,229	$ 10,938	$ 3,351	$ 14,288	$ 211,856	$ 13,067
ID	81,486	$ 9,764	$ 5,280	$ 15,044	$ 144,988	$ 13,013
FL	1,158,071	$ 11,224	$ 3,515	$ 14,739	$ 167,635	$ 12,984
MT	45,524	$ 9,934	$ 5,010	$ 14,944	$ 166,735	$ 12,980
VT	830	$ 10,121	$ 4,902	$ 15,023	$ 225,759	$ 12,930
NV	149,362	$ 11,038	$ 3,535	$ 14,573	$ 151,372	$ 12,874
OR	231,733	$ 10,299	$ 3,837	$ 14,136	$ 191,785	$ 12,807
HI	39,225	$ 10,713	$ 2,501	$ 13,214	$ 469,295	$ 12,769
VA	506,120	$ 11,631	$ 3,107	$ 14,739	$ 169,764	$ 12,733
WV	32,885	$ 9,814	$ 4,539	$ 14,353	$ 116,499	$ 12,731
OK	148,629	$ 11,082	$ 4,491	$ 15,573	$ 95,584	$ 12,672
NM	59,654	$ 10,806	$ 4,350	$ 15,155	$ 136,236	$ 12,629
MN	340,931	$ 10,633	$ 3,569	$ 14,201	$ 155,397	$ 12,593
AL	185,107	$ 10,574	$ 4,391	$ 14,964	$ 114,152	$ 12,485
NH	86,331	$ 10,838	$ 3,539	$ 14,377	$ 158,005	$ 12,449
MD	360,993	$ 11,808	$ 2,989	$ 14,797	$ 169,050	$ 12,442
AR	105,779	$ 10,221	$ 5,194	$ 15,415	$ 93,851	$ 12,342
NJ	561,645	$ 11,891	$ 2,125	$ 14,016	$ 196,943	$ 12,264
AZ	355,753	$ 10,903	$ 3,259	$ 14,162	$ 143,998	$ 12,229
MA	392,321	$ 10,874	$ 2,497	$ 13,372	$ 227,905	$ 12,190
SC	230,110	$ 10,723	$ 3,742	$ 14,465	$ 132,667	$ 12,184
TN	341,595	$ 10,153	$ 4,167	$ 14,320	$ 122,700	$ 11,911
DE	57,752	$ 11,024	$ 3,120	$ 14,144	$ 137,093	$ 11,863
CT	159,028	$ 11,646	$ 2,338	$ 13,984	$ 176,297	$ 11,857
NC	521,716	$ 10,391	$ 3,283	$ 13,674	$ 132,292	$ 11,764
ME	54,364	$ 9,874	$ 2,994	$ 12,868	$ 157,262	$ 11,712
MI	568,591	$ 9,873	$ 3,661	$ 13,534	$ 115,280	$ 11,706
KS	121,553	$ 10,871	$ 2,998	$ 13,869	$ 112,677	$ 11,635
NE	83,141	$ 10,000	$ 3,578	$ 13,578	$ 98,898	$ 11,531
RI	59,855	$ 10,777	$ 2,371	$ 13,148	$ 149,597	$ 11,437
MO	234,436	$ 10,832	$ 2,760	$ 13,592	$ 112,665	$ 11,378
IL	594,367	$ 11,215	$ 2,449	$ 13,664	$ 128,543	$ 11,351
KY	155,251	$ 9,706	$ 3,523	$ 13,228	$ 115,274	$ 11,306
PA	730,312	$ 10,530	$ 2,717	$ 13,248	$ 127,639	$ 11,285
IN	375,203	$ 9,772	$ 3,338	$ 13,110	$ 105,322	$ 11,230
WI	305,578	$ 9,472	$ 3,298	$ 12,770	$ 120,700	$ 10,925
IA	161,059	$ 9,268	$ 3,446	$ 12,714	$ 96,557	$ 10,549
OH	702,059	$ 10,060	$ 2,760	$ 12,820	$ 90,522	$ 10,372

Conclusion

Our analysis confirms that millions U.S. homeowners have significant opportunity to use HELOCs to replace higher cost sources of credit, with potential savings totaling over $100 billion. Across the 16.3 million households in our analysis, using HELOCs to reduce interest cost could be of substantial help in paying down debt and strengthening household's overall financial position.

Adding to the appeal of HELOCs is the new generation of technology-driven non-bank lenders such as Figure that make the process of accessing this credit far more efficient and streamlined than services offered by traditional banks and lenders. A Figure HELOC provides a typical applicant a funding decision in as few as five minutes and with funding in as few as five days*.

About Mike Dooley

Mike Dooley is chief economist at Figure Technologies, a professor emeritus at the University of California, Santa Cruz and a Research Associate at the National Bureau of Economic Research. He formerly worked at the Board of Governors of the Federal Reserve System and the International Monetary Fund.

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John Sweeney is Head of Wealth and Asset Management at Figure Technologies. He has extensive experience helping individuals meet their financial goals, and has held senior roles at Fidelity and American Express.

About Figure

Figure Technologies, Inc. creates innovative consumer financial solutions for home improvement, debt consolidation and retirement, while providing its members with financial education and financial empowerment. Its mission is to build and promote innovative financial products on blockchain that benefit consumers and eliminate rent-seeking, illiquidity and other inefficiencies present in current financial markets. The company's flagship product, the Figure Home Equity Line, is the world's fastest HELOC and uses Provenance.io, the blockchain protocol Figure created. Based in San Francisco, Figure was co-founded by Mike Cagney, former Co-founder and CEO of SoFi, along with Alana Ackerson, Cynthia Chen and June Ou. Figure has more than 200 employees in offices in California, Nevada, Montana and Utah. Figure has raised over $130 million since its founding in January 2018.

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*Five-day funding timeline assumes closing the loan with our remote online notary. Funding timelines may be longer for loans secured by properties located in counties that do not permit recording of e-signatures or that otherwise require an in-person closing, or if the 5-day period includes a weekend or holiday. Funding in 5 days is not available for first lien loans secured by owner-occupied properties in Vermont.

References

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6. 2011 had $550.2B total outstanding HELOC debt, and Q2 2019 was $333.8B. https://fred.stlouisfed.org/series/RHEACBM027NBOG
7. https://www.housingwire.com/articles/49963-homeowner-tappable-equity-reaches-an-all-time-high-of-63-trillion. Tappable home equity is the amount of equity available to homeowners to borrow against before hitting a maximum 80% combined loan-to-value (CLTV) ratio. 80% is the standard industry metric.
8. https://fred.stlouisfed.org/series/RHEACBM027NBOG
9. https://www.wsj.com/articles/lenders-shunned-risky-personal-loans-now-theyre-competing-for-them-1535103000
10. https://www.federalreserve.gov/releases/g19/HIST/cc_hist_r_levels.html
11. https://www.nerdwallet.com/best/mortgages/heloc-lenders. As of August 26, 2019, here are some lenders that loan above 80% CLTV: Figure (95%); Citi, PenFed, PNV, and Connexus (90%); Suntrust and Flagstar (89%).
12. the Experian categories included in this research are Revolvers, Rate Surfers, Consolidators, and Mixed
13. Figure HELOC rates range from 4.99% to over 12%, depending on factors including the borrower's FICO score, but the average is approximately 8%.
14. These are all representative industry standards, and the monthly and total interest payments are calculated with a standard amortizing loan function.
15. Data from Experian, 2019.