MONEY

Home equity loans pick up

But change is happening slowly, records show

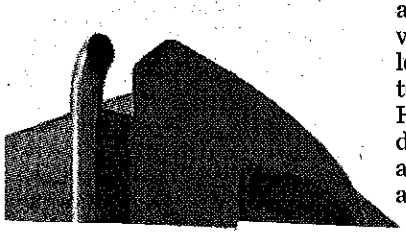
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Home equity loans, which helped fuel Americans' pre-recession spending binges, are climbing out of a prolonged slump as house prices rise.

But don't expect them to drive consumer purchases as they did in the boom years.

"Housing isn't providing the same juice to consumer spending," says Mark Zandi, chief economist of Moody's Analytics.

Outstanding balances on home equity lines of credit fell for the 10th-straight quarter in the January-March period, to $526 billion, and are down from $714 billion in the first quarter of 2009, according to a Federal Reserve Bank of New York report.



The balances dropped because homeowners continue to shed more debt on home equity loans taken out in the housing run-up — through repayments and defaults — than the amount of new loans being generated.

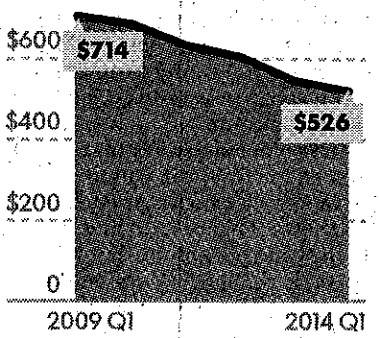
But a closer look shows that the sector is recovering. Lines of credit originated by lenders rose 20% last year to $92.5 billion, the fastest growth since volumes began rising in 2011, according to Equifax and Moody's. By comparison, $383.8 billion in credit lines were originated in 2006.

"It has recovered significantly from where it was just a few years ago," says Greg McBride, chief financial analyst for Bankrate.com.

Fueling the increase are average home prices that in February were up 23% from March 2012 lows in 20 large cities, according to the S&P/Case-Shiller index. Houses are collateral in case of default. "As long as home prices are stable or increasing, lenders are more eager" to provide home equity loans, McBride says.

LESS DEBT

Consumer balances on revolving home equity loans have fallen by a quarter since peaking in 2009 (in billions):



Source Federal Reserve Bank of New York Consumer Credit Panel/Equifax

KRIS KINKADE, USA TODAY

But banks remain cautious. Consumers can borrow, through both a mortgage and home equity loan, 80% to 85% of a home's value, vs. as much as 125% in the mid-2000s, McBride says. With home prices still 20% off their 2006 peaks, many homeowners don't have enough equity to meet banks' credit standards.

During the housing boom, borrowers turned their homes into ATMs, taking out equity loans not only to remodel kitchens but also to finance everything from college tuition to European vacations. When home prices tanked, many Americans defaulted.

Borrowers are also more conservative. In the mid-2000s, LuAnn Herbert-Smith of Greentown, Pa., got a home equity loan to launch a business and buy a vacation home. She and her husband, now in a different house, recently took out a $30,000 loan to install a roof, replace appliances and buy a car. "We took out only what we can afford and what is needed," Herbert-Smith, who is retired, said in an e-mail.

Such prudence may translate into a smaller boost for the economy. Each $1 increase in housing wealth is leading to about an 8-cent rise in consumer spending — about half of the traditional impact, Zandi says.

Economist Greg Daco of Oxford Economics says that may not be a bad thing. "I'm not sure this is the type of debt we want to head back into," he says.