

Home Equity Lines of Credit: Consumer Knowledge and Behaviour

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Home Equity Lines of Credit are Growing in Popularity

Home equity lines of credit (HELOCs) are revolving credit products secured by the borrower's residential property. In recent years financial institutions have increasingly promoted products that combine HELOCs with traditional mortgages under the umbrella of a readvanceable mortgage. Under a readvanceable mortgage, HELOCs may be combined with a traditional amortized mortgage and other credit products such as credit cards.

In FCAC's previous research on HELOCs, the Agency identified four relevant consumer concerns: over-borrowing, debt persistence, wealth erosion and uninformed decision-making. In spring 2018, FCAC conducted an online survey to ask Canadians a series of questions testing their knowledge of HELOCs, and to understand how those with HELOCs use them.

Research Objectives

- to assess consumers' knowledge about HELOCs
- to identify product characteristics and risks that are not adequately understood by consumers
- to gather behavioural data on how Canadians are using their HELOCs

Methodology

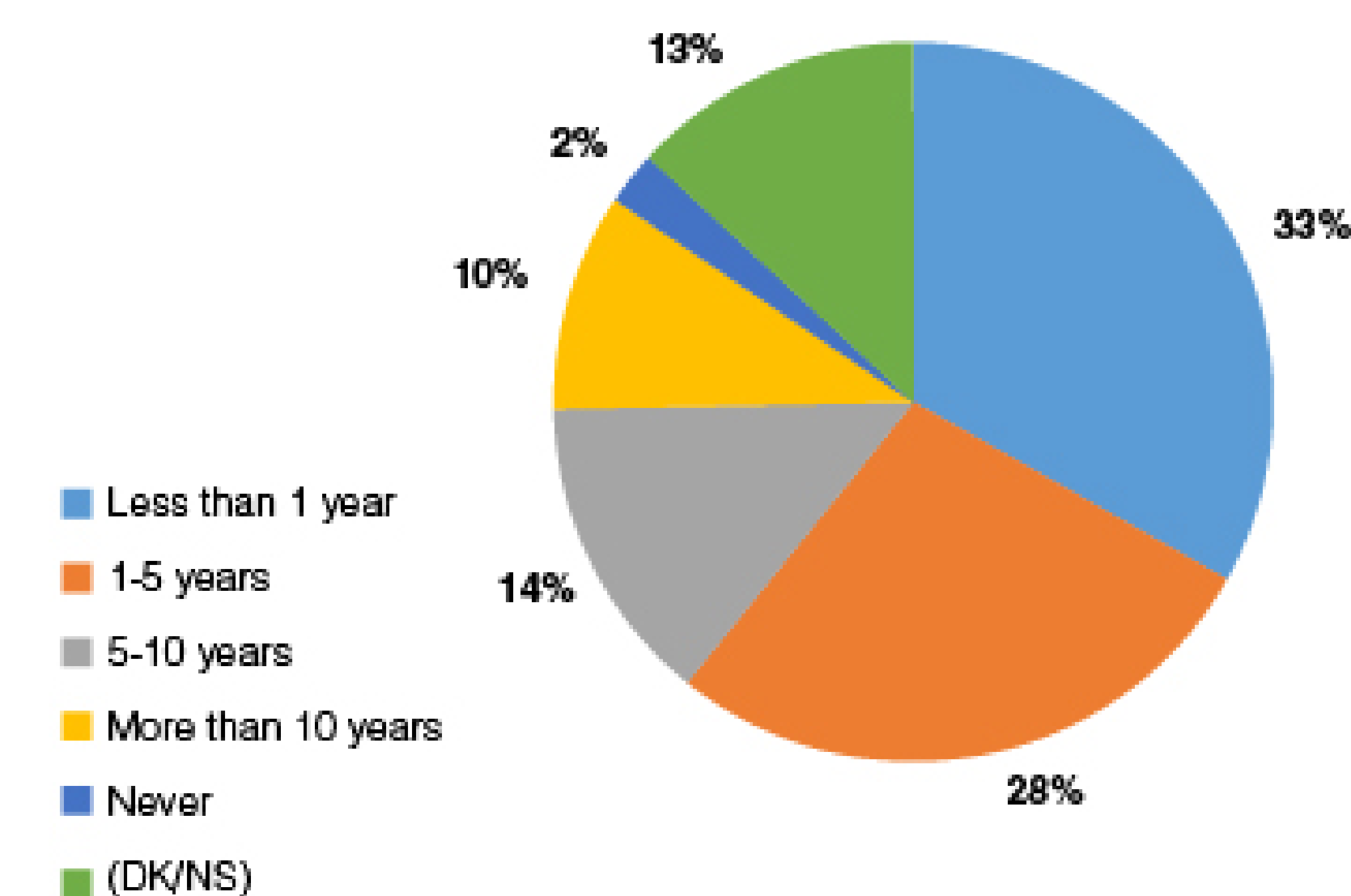
The survey primarily targeted homeowners aged 25-plus. There were 4792 respondents in the sample, of whom 1248 had HELOCs.

Responses are weighted by region, age and gender to reflect 2016 Census proportions.

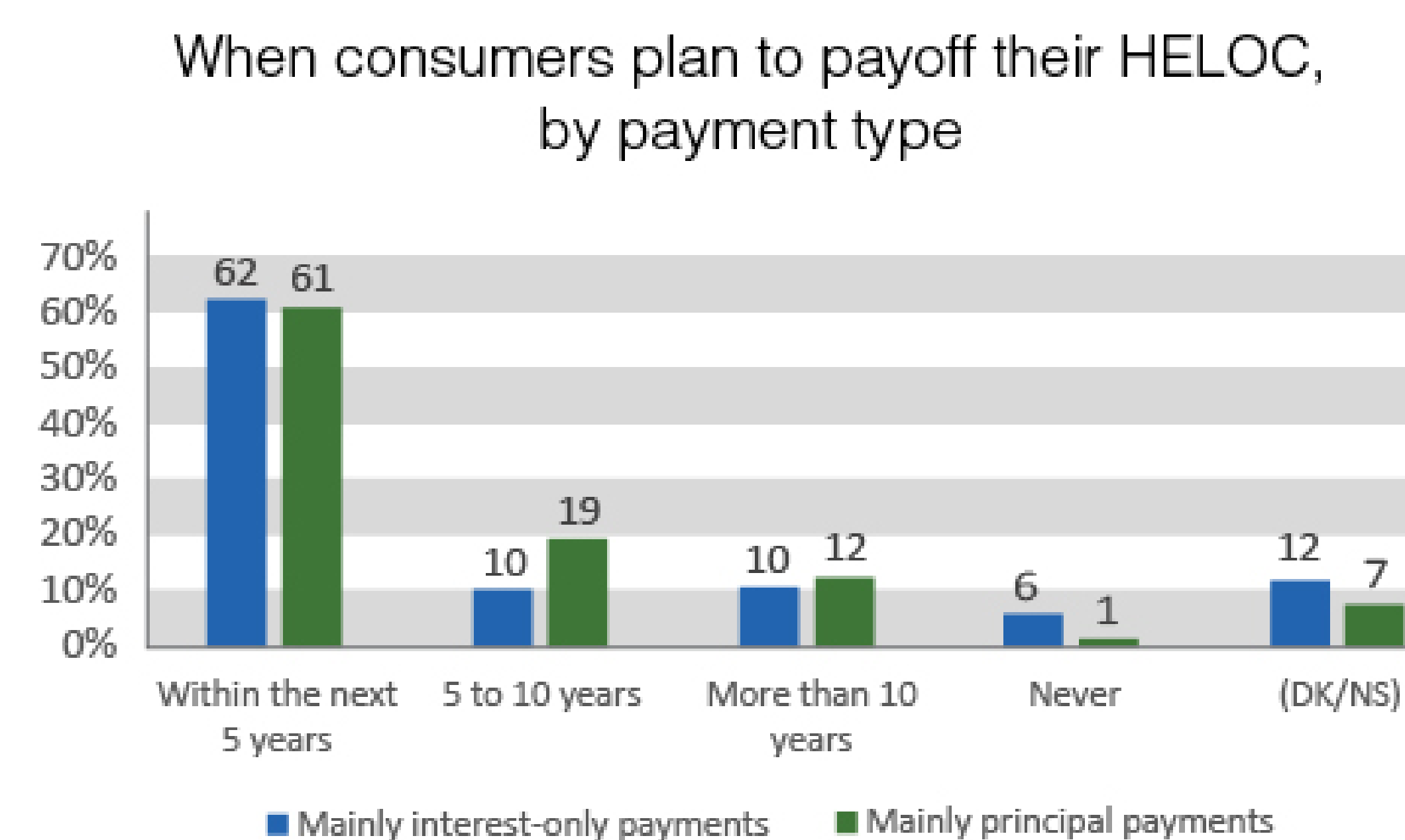
Selected Findings

Most HELOC holders plan to pay off their HELOC in less than five years

Figure 17: "When do you plan to pay off your HELOC?"



Over one-quarter of HELOC borrowers pay interest-only, of whom 62% expect to pay off their HELOC within five years



What We Learned

1. Many Canadians are not familiar with HELOCs. HELOC holders were more familiar than non-holders.
2. Respondents who said they were more familiar with HELOCs tended to be more knowledgeable about them.
3. Some consumers are unaware of HELOC terms and conditions.
4. Canadians acquire and use their HELOCs for a variety of reasons.

Key Messages

1. Canadians may not realize that not using HELOCs responsibly can have serious repercussions on their financial well-being.
2. Borrowers should educate themselves about HELOCs, follow a clear borrowing plan, and create a repayment plan and stick to it.
3. Financial institutions should ensure they only sell products that are appropriate for a consumers' financial needs and circumstances, disclose all relevant risks, and work with their customers to make sure they understand the product and have a credible repayment plan.



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