Estimation of Aggregate Home Equity Debt

As banks and finance companies have reported more detailed information on their home equity loans in recent years, estimates of aggregate debt of this type have become more accurate. Other factors, however, have introduced new sources of imprecision into the estimates: the rapid development of securitization of home equity loans and the expanding role of mortgage companies and specialized home equity lenders, for whom data reporting is fragmentary.

Since 1987, commercial banks have reported receivables under home equity lines of credit on quarterly Call Reports, and since 1991 they have reported their holdings of traditional home equity loans. Mutual savings banks also report these data on Call Reports. Savings and loan associations and federal savings banks report credit line receivables on Call Reports but do not separate traditional home equity loans from first mortgages in these reports. Finance companies report each month to the Federal Reserve on their real estate loans, and since June 1996 they have reported residential and commercial mortgages separately. Finance companies do not distinguish between loans under lines of credit and traditional loans, but the bulk of their home equity receivables consists of traditional closed-end loans. Estimates of both types of home equity debt outstanding at credit unions are available from the Credit Union National Association.

Debt Under Home Equity Lines of Credit

According to Call Reports, commercial banks held about $98 billion in receivables under home equity lines at the end of 1997 (table); savings institutions held about $18 billion, and credit unions about $15 billion. The data for the other holders are less precise. Information from the securities rating firms indicates that about $12 billion of credit line receivables resided in pools of securitized assets (the data on these receivables usually do not show the type of originating institution).

The estimate of $10 billion for finance companies is based on the fact that the household survey indicates that (1) they supplied only about 6 percent of the credit lines surveyed, (2) they reported $58 billion of residential real estate credit at the end of 1997, and (3) industry members confirm that most of these receivables are closed-end loans.

Debt Under Traditional Home Equity Loans

Estimating the amount of traditional home equity debt outstanding is somewhat more difficult: Fewer institutions provide specific data on this type of credit, and much of the recent growth has been among holders for whom the data are the least precise.

The Call Reports show the levels for commercial banks and credit unions.

Savings and loan associations and federal savings banks do not break out traditional home equity loans from their other residential mortgage debt. The household survey indicated that savings institutions (including mutual savings banks) held about half as much of this type of debt as commercial banks, which in 1997 would be about $38 billion.

The estimate of $48 billion for finance companies is derived from their report of $58 billion in residential mortgage debt and the estimate that $10 billion of it is in credit lines. The estimate for pools is from the rating agencies.

An estimate of $10 billion is used here for miscellaneous sources of traditional loans, including mortgage companies. Although mortgage companies have become quite active in this market, most of the loans they originate are securitized and would be reflected in the estimate for pools.

The estimated $420 billion of total home equity debt represents a 60 percent increase from the 1993 total, compared with an approximately 15 percent to 30 percent increase implied by responses to the household survey. Half the gain in the aggregate is accounted for by securitized loans, a category which, as noted, contains some unknown amount of loans that would otherwise be considered original or refinanced purchase-money mortgages. In the household survey, these loans were excluded from the detailed questions that focused on traditional home equity loans (typically second mortgages) and home equity lines of credit.

Estimates of aggregate home equity debt outstanding, by source, 1997
Billions of dollars

Type of home equity debt	Commercial banks	Savings institutions[1]	Credit unions	Finance companies	Securitized pools	Other[2]	All sources
Line of credit	98	18	15	10	12	*	153
Traditional loan	76	38	15	48	80	10	267
Total	**174**	**56**	**30**	**58**	**92**	**10**	**420**

1. Savings and loan associations, federal savings banks, and mutual savings banks.

2. Mortgage bankers, individuals, and any other source mentioned by respondents.

* Amount is negligible.

SOURCE. Surveys of Consumers, 1997; Reports of Condition and Income, December 31, 1997; Credit Union National Association; Federal Reserve; Moody's Investors Service; and Bloomberg L.P.