



Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Financial Institution Letter
FIL-33-2014
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Interagency Guidance on Home Equity Lines of Credit (HELOCs) Nearing Their End-of-Draw Period

Summary: The *Interagency Guidance on Home Equity Lines of Credit Nearing Their End-of-Draw Period* (HELOC guidance) recognizes that some institutions and borrowers may face challenges as HELOCs near their end-of-draw period. Many borrowers will have the financial capacity to meet their contractual obligations as HELOCs transition from the draw period to an amortizing or balloon payment. However, some borrowers may have difficulty meeting higher payments resulting from principal amortization or an interest rate reset, or refinancing an existing loan due to changes in financial circumstances or declines in property values since the HELOC's origination date. The HELOC guidance provides a framework for managing HELOCs nearing their end-of draw period and communicating and prudently working with HELOC borrowers experiencing financial difficulties.

Statement of Applicability to Institutions Under \$1 Billion in Total Assets: This Financial Institution Letter applies to all FDIC-supervised institutions, including community banks, although its application should be commensurate with the size and risk profile of the HELOC portfolio. Community banks with a small portfolio of HELOCs, few portfolio acquisitions, or exposures with lower risk characteristics may be able to use existing, less-sophisticated risk management processes.

Distribution:

FDIC-Supervised Banks (Commercial and Savings)

Suggested Routing:

Chief Executive Officer
Chief Loan Officer

Related Topics:

[FIL-58-2008](#) – HELOCs: Consumer Protection and Risk Management Considerations When Changing Credit Limits and Suggested Best Practices; and
[FIL-4-2012](#) – Allowance for Loan and Lease Losses Estimation Practices for Junior Liens on Residential Properties

Attachment:

[Interagency Guidance on Home Equity Lines of Credit Nearing Their End-of-Draw Period](#)

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Note:

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Highlights:

- The HELOC guidance encourages institutions to work with borrowers to avoid unnecessary defaults and to communicate clearly and effectively with borrowers.
- The HELOC guidance:
 - Provides core operating principles, including compliance with applicable laws and regulations, which should govern a financial institution's oversight of HELOCs nearing their end-of-draw period.
 - Describes components of a risk management approach that promotes an understanding of potential exposures and consistent, effective responses to HELOC borrowers unable to meet their contractual obligations.
 - Addresses appropriate accounting and reporting for HELOCs nearing their end-of-draw period.
- Financial institutions should apply the HELOC guidance in a manner commensurate with the size and risk characteristics of a financial institution's HELOC portfolio. For example:
 - Financial institutions with a significant volume of HELOCs, portfolio acquisitions, or exposures with higher risk characteristics generally should have comprehensive systems and procedures to monitor and assess their portfolio.
 - Existing processes may be sufficient for community banks with a small portfolio of HELOCs or exposures with lower risk characteristics.