

How to determine and access the equity in your home

EQUITY EDGE

ANSWERS TO COMMONLY ASKED QUESTIONS



The tools you need to thoughtfully use and create equity in your home



OVERVIEW

Recent rising residential real estate values are pushing home equity totals to record levels, opening up a fresh source of revenue for many homeowners. The *Washington Post* reports that total home equity in the United States surpassed \$13 trillion in early 2016, more than double what it was in 2011.

If you are looking to tap into your portion of this vast amount of home equity, take time to do your homework. There are several ways to take advantage of your home's equity, each with unique factors to consider. Our *Equity Edge guide* will help you to understand the types of home equity financing available and offer answers to many commonly asked questions.



\$112,000

Average equity available to tap in their homes for over 37 million borrowers in the United States. *

[**Forbes.com*](#)

\$156 BILLION

Amount lenders handed out in HELOCs in 2015, a 24% rise from a year earlier and a 138% rise from 2010.**

[***Nerdwallet 2016*](#)

WHAT IS HOME EQUITY?

Home equity is the difference between the appraised value of your home and any current mortgage balance(s). For example, if your home is currently appraised at \$325,000 and you owe \$200,000 on your mortgage, your home holds \$125,000 in equity.

There are many reasons homeowners tap into their equity. Two of the most common are making home improvements and debt consolidation.

“What I am seeing is that home improvement tops that list. Second is college financing, and third is debt consolidation,” said Tom Becker, Hanscom FCU Senior Vice President of Lending when asked about the most common uses of home equity.



3 WAYS TO ACCESS HOME EQUITY

1

CASH-OUT REFINANCE

By refinancing your home, you will be able to pay off your existing mortgage and get a cash payment for the remaining balance of the new loan. Payments and terms will be outlined for you by the lender and will function like any primary mortgage.

2

FIXED-RATE HOME EQUITY LOAN

Also called a second mortgage, this type of loan lets you borrow one time at a fixed rate. You will pay fixed monthly or bi-weekly payments as outlined in the terms of your agreement. Because the loan is paid to you in one lump sum, this is a popular option for debt consolidation or a home remodeling project.

3

HOME EQUITY LINE OF CREDIT (HELOC)

With this type of loan, a credit line is established against the equity in your home, allowing you to borrow as needed. These loans typically have a variable rate. You draw against the available credit line, replenishing it as you repay it. Because funds repeatedly become available, this is a common option for recurring payments such as college tuition or medical bills.



TOP 5 REASONS TO TAP HOME EQUITY

Home Improvements	1
Debt Consolidation	2
Emergency Fund	3
College Costs	4
Protect Retirement	5

HOW DO I QUALIFY

for a home equity loan or line of credit?

First, you will have to show that you have available equity in your home. Lenders commonly restrict borrowing amounts to 85 percent of the home's appraised value minus any mortgage(s) on the home.

"At Hanscom Federal Credit Union, for our home equity lines of credit, we will lend up to 100 percent of the home's value minus any first mortgage secured by the home," Hanscom FCU's Tom Becker said. "In Florida, Arizona and Nevada, we limit that to 65 percent, and the limit is 50 percent in California."

You will also need to show that you meet the debt-to-income ratio required by your lender. This percentage indicates what part of your monthly income is taken up by your monthly debt payments. Start by adding up your monthly payments, including your mortgage, auto loan or lease, credit cards, other personal loan payments, and your projected home equity payment. Take the total of those payments and divide it by your current monthly income before taxes. The result is your debt-to-income ratio. Most lenders require this number to be no higher than 36 percent.

Finally, review your credit report to understand your credit score and correct any misinformation. Lenders will use your score to determine your creditworthiness.

"We look at many different factors when reviewing a credit report," said Becker. "This includes payment history, particularly on current or prior mortgage loans; late payments on all types of loans; the type of debt recorded in the report (unsecured credit card, student loan debt, secured debt such as an auto loan or a mortgage, for example); the number of accounts with balances; the number of recent (within the past six months) credit report inquiries; the amount of debt compared to the credit limit (referred to as capacity); and, of course, collection accounts and the type of collection accounts (medical bills, cable or cell phone bills, and credit cards, for example)."

Hanscom Federal Credit Union members can access their credit score and reports at no charge. For information or to set up an appointment, visit hfcu.org/score.

Tom Becker

Senior Vice President of
Lending, Hanscom FCU

Tom is a graduate of Northwestern University (B.A. Economics). He has spent over 30 years in the banking industry in the areas of retail, wholesale, and correspondent residential consumer and commercial lending. He can be reached at tbecker@hfcu.org



3 MORE THINGS TO KNOW

1

IS THERE A DOWNSIDE TO TAPPING INTO HOME EQUITY?

As with a first mortgage, home equity loans and credit lines must be paid on time. You are putting your house at risk if you do not meet the terms of the agreement, and then you could find yourself in foreclosure.

2

DO I REQUIRE AN APPRAISAL TO TAP INTO MY HOME EQUITY?

Yes. A professional appraisal will indicate your loan-to-value ratio, which is necessary to determine how much equity is in your home.

3

WILL I HAVE TO PAY PRIVATE MORTGAGE INSURANCE (PMI)?

"Private mortgage insurance is not required on our HELOCs," Becker noted. PMI only applies to first mortgages.

While Hanscom Federal Credit Union does not originate home equity loans, our home equity lines of credit remain popular with our members. Read on to learn more about HELOCs and how they can work for you.

Are there closing costs?

Taking out a HELOC is sometimes like financing a first mortgage. There may be closing fees, such as an application fee, loan processing fee, points, origination and underwriting fees, appraisal fee, broker fee, recording fee, and annual fee. Not every lender will charge these fees.

"Our HELOCs have no closing costs associated with them, except in the rare occasion where the HELOC is paid off and discharged within the first 24 months," Becker said. "In these cases, the member is responsible for reimbursing HFCU for the closing costs."**

Ask questions of several lenders to understand the variety of HELOC products on the market and what is required of each. A little homework now will help your home equity work for you in the future.



WHAT SHOULD I ASK WHEN SHOPPING FOR A HELOC?

When reviewing lenders for a home equity line of credit, ask questions. "One of the best protections you have is the Federal Truth in Lending Act. Under the law, lenders must tell you about the terms and costs of the loan plan when you get an application," reports the Federal Trade Commission.



What is the interest rate? Clarify whether the rate is an introductory offer that will change in the future. Know whether you are borrowing with a fixed or adjustable rate. If it is adjustable, ask how that rate will be determined.



If the rate is variable, can I switch to a fixed rate at any time during the loan?



Will I be expected to pay any fees up front or during the life of the loan?



Are there minimum withdrawal requirements?



How will I access the money (i.e. checks, credit cards, online transfers)?



What are the fees for late payments?



Is there a pre-payment penalty?

OUR 3 IN 1 ADVANTAGE PLAN

3 in 1 Advantage Plan Example

Hanscom Federal Credit Union's Home Equity 3 in 1 Advantage plan offers a fast, flexible way to access your home's equity. It offers an equity line of credit, with options for fixed loans and a credit card. There are no applications fees, no minimum draw requirement*, and no closing costs.**

With the line of credit in Hanscom FCU's Home Equity 3 in 1 Advantage, you can borrow as often as you like, up to your approved limit. As you pay down the balance, your available credit increases.

The Home Equity 3 in 1 Advantage also includes fixed rate advances. You can convert any or all of your line into a fixed rate advance. You may get up to three fixed rate advances at a time. Each works like an installment loan with fixed payments for the terms you choose.

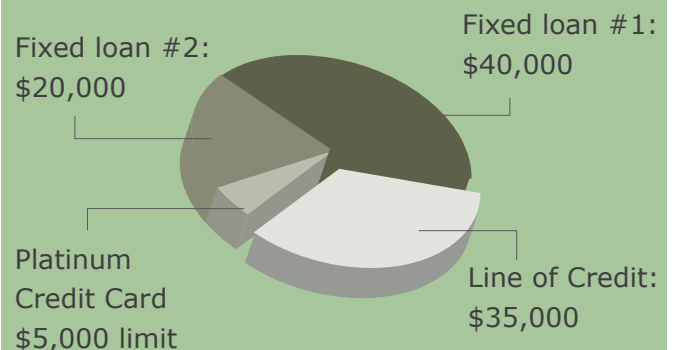
You can also convert a portion of your equity into a Platinum credit card. You get the same low rate you enjoy on your line of credit, and you are automatically enrolled in MemberPoints, which lets you earn free gift cards, brand-name merchandise and great travel rewards on purchases.

Learn more about the Hanscom Federal Credit Union Home Equity 3 in 1 Advantage program by visiting any of our branches, calling 800-656-4328, or at hfcu.org/equity.

In this example, a homeowner has \$100,000 in equity. Currently, there are two fixed loans, one for \$20,000 and one for \$40,000. There is also a Platinum Credit Card with a \$5,000 limit.

The remaining \$35,000 is available as a line of credit. The homeowner has several options for the remaining equity: take another fixed rate advance, increase the limit of the Platinum Credit Card, or borrow from the line of credit.

Equity: \$100,000



[Learn More](#)



*Non-usage Fee: During the draw period, when there are no advances taken for any twelve (12) consecutive months following your anniversary date, you agree to pay the Lender a Non-Usage fee of \$50.00.

**If you terminate your line within the first 24 months after closing, you will be responsible for closing costs. These costs generally range from \$400-\$700. Closing costs do not include any taxes (if necessary).



1610 Eglin St.
Hanscom AFB, MA 01731
800.656.4328
hfcu.org

