

THE COMPLETE GUIDE

All You Need to Know About Home Equity Loans



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What is a Home Equity Loan?

Home Equity Loans allow you to tap into the equity you have in your home in order to open your finances and life up to a whole realm of potential. Home Equity Loan proceeds can be used for anything including covering education and tuition costs, paying for home repairs, improvements or additions, consolidating debt and substantial medical expenses. In this guide, you will learn how to access the equity in your home (up to 80% of your home's value in Texas), how to tell whether or not a home equity loan makes sense for you and the potential benefits and pitfalls associated with it.

But first, before we can dive into everything you need to know about home equity loans, we need to cover the basics, answering the question, "What is home equity?" and explaining how to calculate home equity percentage.

How to Calculate Home Equity

Home equity is the total dollar amount of your home for which you have already paid, or the portion you actually own. To calculate home equity, determine the current market value of your home from a tax appraisal, realtor quote, or your best guess. Multiply this amount by 80% (for Texas residents), then subtract the balance of your mortgage and any other liens against the property. The resulting figure is your available equity.

For example, consider a home valued at \$300,000 with a \$100,000 mortgage:

- $\$300,000 \times 80\% = \$240,000$
- $\$240,000 - \$100,000 = \$140,000$ in available equity

Benefits of Using the Equity in Your Home

When compared to other types of loans, such as personal or unsecured loans and credit card debt, leveraging the equity in your home with a home equity loan can have lots of potential benefits including:

- **Lower Rates** - Home equity loans typically feature lower interest rates than other types of debt.
- **Approval** - Even with shaky credit, approval for a home equity loan is still possible since lenders typically deem this type of loan as less risky because the borrower's primary residence is held as collateral.
- **Large Amounts** - Borrowers potentially have access to large amounts of money, depending on how much equity they currently have in their homes.
- **No Limits on Use** - You can use the proceeds from a home equity loan to pay for anything you desire – though some reasons for taking out a home equity loan are financially smarter than others.

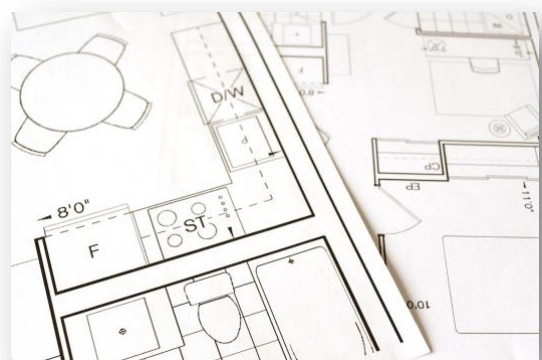
In spite of the benefits, it is important to carefully consider all of your options before deciding whether a home equity loan is right for you.

Can You Use Your Home Equity Loan for Anything?

Can you use a home equity loan for anything? Yes. *Should* you use a home equity loan for anything? No.

Before taking out a home equity loan, you should carefully consider the reason you want to borrow the money and whether or not the loan will improve both your current and future financial situations.

If you can afford the payment, taking out a home equity loan to make an investment (in education or your property) or to consolidate a substantial amount of high interest debt will



typically improve a person's finances.

A home equity loan is a serious commitment, secured by the borrower's primary residence. For this reason, it is generally not advisable to take out a home equity loan to pay for unnecessary expenses. You should also not use a home equity loan to consolidate debt, if you are not seriously committed to changing your spending habits.

Before tapping into your home's equity, carefully consider the reason you are borrowing the money and whether you truly want to commit to paying a home equity payment over the next five to 15 years.

Securing a Good Home Equity Loan Rate

If you have decided that a home equity loan will improve your financial position, both now and in the future, then it is time to begin shopping for good home equity loan rates. In order to choose a loan package that will work best for you, you should understand some basics of home equity loan rates and have a few questions prepared to ask your mortgage lender.

Fixed vs. Variable Home Equity Loan Rates

Most home equity loans feature a lump sum distribution of the loan proceeds, and these types of loans usually have fixed interest rates. This means the rate at which interest accrues on the loan remains the same throughout the life of the loan.

Although variable or adjustable interest rates do exist for home equity loans, America's CU offers only fixed rates. Depending on the current real estate loan market, a fixed rate might be higher initially than a variable rate, but it will not change – and neither will the amount of your payment – before your loan matures.

Request Loan Payment Estimates

Within three days of submitting a completed loan application package with supporting financial documentation and terms of request, your lender will provide you with a loan estimate. The loan estimate will outline the estimated costs of the loan request for which you applied.

At ACU, we will contact you as soon as possible to discuss the details of your request. We can calculate different payment quotes to see what suits your budget while accomplishing your financial goals.

4 Pitfalls to Avoid When Applying for a Home Equity Loan

Shopping, applying for and getting a mortgage loan is a complicated process, and there are many potential missteps borrowers can take along the way. Be sure to avoid the following four pitfalls when you apply for a home equity loan.

1. Forgetting about Closing Costs

Borrowers often focus most of their loan shopping attention on interest rate. Although interest rates are an important factor to consider, do not neglect to ask about additional closing costs involved with your loan. Closing costs can include items such as an appraisal, credit reports, recording fees, title insurance and more. Ask your lender about these fees up front; look for them disclosed on your loan estimate.

2. Ordering Your Own Appraisal

When estimating how much you might be able to borrow in a home equity loan, you might be tempted to order your own appraisal or comparative market analysis (CMA) to see how much your property is worth. If you purchase an appraisal on your own, you might end up paying for two appraisals. Depending on your loan request, your lender might be legally obligated to order an appraisal from a list of approved appraisers – even if you already purchased an appraisal. You will end up paying for two, and appraisals do not come cheap.

3. Borrowing More Than You Need

Just because you have lots of equity available does not necessarily mean you should take all of it out in a loan. Although it can be tempting to access this source of cash, you might end up spending it on things you may not need.

Although they can be incredibly useful, home equity loans require you to make a payment each month over a period of up to 20 years. Before making this sort of commitment, safeguard your financial future by borrowing only what you need.

4. Choosing the Wrong Lender

When taking out a loan as large as a home equity loan, which also puts your home on the line, be sure you are working with a lender you know and trust. Find out whether or not your lender services their own loans or sells them to secondary market mortgage company, as this will affect how you make payments and handle any sort of concerns with your loan in the future.

Potential Tax Benefits of a Home Equity Loan

In order to encourage consumers to participate in the real estate market, the IRS offers certain tax benefits to homeowners in the form of deductions on tax returns. The tax code regarding deducting mortgage interest is fairly complex, with lots of caveats and special circumstances.

In general, however, it separates mortgage loans into [three categories](#): grandfathered debt, home acquisition debt and home equity debt. Mortgage interest paid on these three loan types are held to different rules for tax deductions.



To find out whether you can deduct your mortgage and home equity loan interest payments and how much you are allowed to deduct, we recommend speaking with a certified public accountant.

Home Equity Loans with America's Credit Union

At America's Credit Union, our experienced and knowledgeable mortgage lenders work with members to help them determine whether a home equity loan is right for them.

With our personalized loan approval approach, we offer flexible loan terms, low closing costs, no prepayment penalties or fees and competitive home equity loan rates. In addition, we service all of our loans in-house, meaning you can continue visiting the same Credit Union location and working with the same lender and member service representatives throughout the life of your loan.

With no application fee, we encourage you to visit with a mortgage lender at [America's Credit Union](#) to find out what is needed for a home equity loan and learn more about applying today. Email us at info@americascu.org

Sources

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