Unlocking HOMEOWNERSHIP

HOME EQUITY

Home equity is the difference between what you owe on your mortgage and the value of your home. For example, if you have a mortgage with a balance of $300,000 and your home's estimated value is $350,000, you have $50,000 in equity. You can tap into your home's equity for many reasons, including for funding a home improvement project, or to assist you in facing financial hardship.

Calculate Your Home Equity

Here's the information you need to calculate your home's equity:

- **The balance of your mortgage.** You can retrieve this information from your mortgage servicer, and you can typically find it on a current mortgage statement or your online mortgage payment account.
- **Your home's market value.** Use an online real estate website like Zillow, Redfin or Realtor.com to estimate your home's market value. The only way to find the true market value of your home is to have your home appraised by a professional, which is typically done when you are preparing to sell or refinance your home.
- **Do the math.** Subtracting your loan balance from your home's estimated value will give you an estimated home equity amount.

Use Your Home Equity

The more equity your home has, the more options you will have for reaching your financial goals.

Mortgage Refinance: When you refinance your mortgage, you are essentially paying off your old mortgage loan and replacing it with a new one. When refinancing a home, instead of the lender paying the home's seller, it pays off the balance of your old home loan. You'll pay the lender back based on the amount of your new mortgage. Like getting a purchase mortgage, refinancing requires you to file an application, go through the underwriting process and close.

- **Why Refinance?**
  - **Lower interest rates.** If you refinance your home when interest rates are lower, this can reduce your monthly mortgage payments and the overall cost of the loan.
  - **Change loan term.** You may want to shorten your loan term, allowing you to pay the mortgage quickly and reduce the total interest paid.

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- **Cash-out refinance.** Some homeowners refinance a loan amount higher than what they currently owe on their loan. In this case, the difference is "cashed out," and the homeowner can receive a lump sum check for the difference. They can then use the cash for home improvements or to pay off higher-interest loans.
- **Eliminate private mortgage insurance.** Homeowners with a mortgage that initially required a lower down payment (like an FHA loan) must have private mortgage insurance for the life of the loan, which is an added monthly cost. Refinancing the loan once there is enough equity eliminates the cost of private mortgage insurance, thus likely lowering monthly mortgage payments.
- **Obtain a fixed-rate mortgage.** Homeowners with adjustable-rate mortgages may choose to refinance into a fixed-rate mortgage to have a stable and predictable monthly payment.

- **Mortgage Refinance Tips:**
  - If you decide to refinance your current 30-year loan and choose another 30-year loan, you are essentially starting from the beginning again.
  - When refinancing, you must qualify for the loan like you did with your original mortgage – consider your creditworthiness today before moving forward.
  - Know what the remaining balance on your original loan is compared to the current value of your home. Also, consider refinancing when rates are lower.
  - There are closing costs associated with refinancing, just like with your original loan, and those costs can be significant.
  - If you are considering a cash-out refinance, you should take out only what you need to cover your expenses, your home improvement project, etc. If your home's value were to decrease after a cash-out refinance, you could owe more on the home than what it is worth, affecting your ability to sell or refinance it.

Home Equity Loan (HEL): Home equity loans are commonly known as "second liens" or "second mortgages" and act as just that: Lenders finance a portion of the home's total value, with the property acting as collateral or "secure" the financing with the value of your home. This means if you don't repay the loan, the lender can take your home as payment for your debt. You receive the money from a home equity loan as a lump sum check. A home equity loan usually has a fixed interest rate that will not change and is paid back monthly. The interest may be tax-deductible if you use the loan for home improvements or renovation.

- **Home Equity Loan Tips:**
  - Be sure you can afford this second mortgage payment in addition to your current mortgage and other monthly expenses.
  - Many lenders prefer that you borrow no more than 80% of the equity in your home.
  - Home equity loans may have upfront fees and costs, so be sure to compare more than just your monthly payment when shopping around.
  - If you cannot repay the HEL, the lender could foreclose on your home. If you are considering taking out a HEL to pay off your debts, you should explore alternatives with a credit counselor.
  - If the value of your home decreases, you could end up owing much more than the home is worth, and you will be "upside down" or "underwater," meaning you won't be able to sell your home for more than you owe.

Home Equity Line of Credit (HELOC): A home equity line of credit, or HELOC, is a second mortgage that uses your home's equity as collateral to access a revolving line of credit. For most HELOCs, you will receive special checks or a credit card, and you can borrow money for a specified time after you open your account. This time is known as the "draw period." During the "draw period," you can borrow money and make minimum payments. When the "draw period" ends, you can no longer borrow money from your line of credit.

After the draw period ends, you may be required to pay off your balance all at once, or you may be allowed to repay over a certain period. During this time, known as the "repayment period," you cannot borrow additional amounts and may have to make larger minimum payments than during the draw period.

Under some plans, if you make only the minimum payments, you will not pay off your entire balance by the end of the term. At that point, you must pay the remaining balance as a single lump sum, commonly called a "balloon payment."

- **Home Equity Line of Credit Tips:**
  - You could lose your home if you cannot get another loan to repay this amount or pay it off using your savings.
  - HELOCs have variable interest rates, meaning your rate changes with the market.
  - Understand that you are increasing your debt.
  - Payments during the repayment period can be significantly higher.
  - There are closing costs associated with the line of credit.
  - Before taking out a HELOC to consolidate your debts, talk to a U.S. Department of Housing and Urban Development-approved housing counselor.

Consult with a Financial Professional

Consult a trusted financial professional before deciding whether to refinance or explore your home's equity. Weigh the pros and cons to help you make an informed decision that will be in your best interest.