



Banking for your family and your future.



## HOME EQUITY GUIDE



### Easy Steps To Find:

- What is a HELOC?
- How does it work?
- Do I qualify?
- What can the funds be used for?

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A large, two-story house with a green lawn and a green overlay. The house has a prominent front porch with columns and a large window. The text is overlaid on the image in white.

# HOME IS WHERE THE HELP IS.

Your home's equity can be a valuable, low cost tool to help you achieve your life's goals, but first get all the facts about HELOCs before you apply. It is incredibly important to know the different features, costs, tax implications and mistakes to avoid so that you can compare loans to find the best one for you. This help guide will answer the most common questions about HELOCs.

# What Is A Home Equity Line Of Credit (HELOC)?

A Home Equity Line of Credit (HELOC) is a loan secured by the available equity in your home. Your available equity is the difference between today's market value or appraised value and the current balance of your mortgage and any other loan secured by the property.

## How Much Home Equity Do I Have?

As we mentioned above, your available equity is the difference between today's market value or appraised value and the current balance of your mortgage and any other loan secured by the property.

For example, let's say you bought a home 10 years ago and the remaining balance of your mortgage is \$150,000. You have an appraisal completed on your home to determine its current market value. The appraisal value of your home comes back at \$325,000. Your available equity is \$175,000.

<b>Current Market Appraisal Value</b>	<b>\$325,000</b>
<b>Less the Mortgage Payoff Amount</b>	<b>- <u>\$150,000</u></b>
<b>Available Equity</b>	<b>\$175,000 or 53% available equity</b>



### SPECIAL NOTE:

Even though your available equity is \$175,000, your maximum HELOC limit will be less than this amount. That's because most lenders will only provide a HELOC up to a maximum of 80% of the current market or appraised value. The section "How Much Can I Borrow" will provide additional details.

## Why Is A HELOC Considered An Attractive Loan Option?

Because a HELOC is secured by the available equity in your home, it is one of the lowest-risk loans available on the market. As a result, the interest rate charged for a HELOC is significantly less than rates for Personal Loans, Credit Cards, etc. In addition, the interest you pay on the loan may be tax-deductible if you are using the funds to improve the property on which the loan is taken.\*\* It's this combination of low rates and potentially tax deductible interest that make a HELOC extremely attractive to borrowers.

\*\*Consult your tax adviser to determine your eligibility to deduct the interest paid on a HELOC.



### Fun Facts:

- 61.4% of the average American family's net worth is in home equity.
- According to credit bureau Experian, the average HELOC balance in the U.S. for 2021 was \$39,556. The 2021 average HELOC balance by state as follows: Ohio – \$28,176; Kentucky – \$28,635; and Indiana – \$25,562.



# How Does A HELOC Work?

## Line Of Credit

A HELOC operates differently from most other loans. As its name suggests, if you are approved during the underwriting process, a line of credit will be established for you. You use this available line of credit much like a credit card. You can borrow against the available line and will be required to make monthly payments on the outstanding amount. You may even pay off the full outstanding balance of the loan, but because it is a line of credit you will still be able to borrow from the line again and again until the draw period ends.

## Draw Period And Repayment Period

Home Equity Line of Credit Loans will have a draw period and a repayment period. The draw period is the time during which you can borrow or use the line of credit funds. Draw periods can range from 5 to 10 years. Payments during the draw period are typically lower than during the repayment period. Depending on the lender, payments during this period can be interest-only payments or interest plus a small amount of principal. This is by design as the line of credit is meant to be accessed and repaid multiple times as needed.

When the draw period ends, the HELOC enters the repayment period. During the repayment period, you will make equal monthly payments on the outstanding balance. Typical repayment periods can range from 10 to 15 years.





# What Can HELOC Funds Be Used For?

HELOC funds can be used for anything you desire, not just for home remodeling or renovation projects. Here's where HELOC and Home Equity Loans get a little bit tricky though: deducting the interest paid from your taxes.

## Healthcare Expenses

Even with medical and dental insurance, the cost of healthcare has increased dramatically. Many insurance policies feature high deductibles or may not fully cover all procedures. If family members need specialized treatment or long-term care not covered by insurance, a Home Equity Line of Credit can fund the needed care. The interest paid on a HELOC for healthcare expenses is usually not tax deductible.\*\*

## Home Improvements

The most common use of HELOC funds is to improve the home on which the loan is made. Remodeling a kitchen or main bathroom; installing an in-ground pool or outdoor living room; building an addition or replacing a roof can all be done using a HELOC. If such improvements are done correctly with quality materials and workmanship, they can improve the resale value. The interest paid on a HELOC for home improvement projects may be tax deductible.\*\*





# What Can HELOC Funds Be Used For? (cont.)

## Major Life Events

Like so many things, weddings and funerals have become very expensive. Even a modest event can now cost \$10,000 - \$20,000. A Home Equity Line of Credit can help fund the remembrance of a loved one or the start of a couple's life together. As with healthcare expenses, the interest paid on HELOC funds to pay for wedding and funeral expenses is usually not tax deductible.\*\*.

## Other Investments

Savvy investors may choose to access HELOC funds to purchase other higher-yield investments, assets or properties. Funds are often used to purchase land or put a down payment on a second home. The interest paid on HELOC funds used to purchase other investments is usually not tax deductible.\*\*

\*\*Consult your tax adviser to determine your eligibility to deduct the interest paid on a HELOC.





# How Much Can I Borrow With A HELOC?

The amount that you can borrow for a Home Equity Line of Credit will depend on three primary factors:

- Your home's current market value
- Total amount owed on mortgage/home equity loans
- Your credit history

Most lenders offer HELOCs with a maximum borrowing limit of 80% of the home's current market value (often referred to as 80% Loan-to-Value ratio or LTV). In rare circumstances, you may be able to borrow up to 90% of the Loan-to-Value ratio.

To find out how much you can borrow:

- Take your home's current market value and multiply it by .8 (for 80%) and .9 (for 90%).
- Subtract the mortgage payoff amount and any other loans tied to the home (including home equity or HELOC loans).

In the example used earlier, the current market appraisal value is \$325,000. The mortgage payoff amount is \$150,000.

## How Much Can I Borrow?

(Sample Calculation)

	80% LTV	90% LTV
Current Home Value	\$325,000	\$325,000
Multiply By Percent	x 0.8	x 0.9
Maxium Loan Amount	\$260,000	\$292,500
Less Mortgage & Home Equity Payoff	– \$150,000	– \$150,000
<b>HELOC Maximum Amount</b>	<b>\$110,000</b>	<b>\$142,500</b>



# What Costs Or Fees May Be Charged?

**The rate you will be charged for a Home Equity Line of Credit is an important consideration, but there are other costs and fees that you may have to pay when applying for a HELOC. When comparing lenders, make sure to compare the costs of fees as well as the interest rate. The most common fees include:**

## **Origination Fee or Application Fee:**

You will likely pay an origination fee or application fee when applying for a HELOC. This fee is charged at application to ensure that the applicant is serious about applying for the loan and to deter those who are not qualified from overwhelming loan processors.

## **Title Search Fees:**

Before HELOC funds can be disbursed, the lender must make sure that the person receiving the funds owns the property. Therefore a title search must be performed and the corresponding fees charged.

## **Loan Processing Fee:**

This fee is exactly what it sounds like – a fee charged to process/underwrite your loan application. HELOC underwriting is a cumbersome process, and this fee aims to recoup some of the expense to underwrite and approve the loan.

## **Flood Zone Determination Fee**

To make sure that the home is protected, during the underwriting process a Flood Zone Determination will be obtained, and the cost may be passed on to you. If your property is found to be in a Flood Zone, the lender will require proof of flood insurance before the loan is completed.

## **Appraisal Fee**

To find the current market value of your home, an appraisal may be ordered by the lender with the costs passed on to you. In some situations, an appraisal may not be requested. Instead, the lender may opt to use the county appraiser's value of the property instead.

## **Recording Fees**

A HELOC will place a lien on your home until the loan is paid in full. This requires that the loan/lien be recorded with the county's property recorder. Any fees charged to record the lien may be passed on to you.

## What About HELOCs With Introductory Rates Or Promotional Offers?

When applying for a HELOC, you may be offered an Introductory Rate or Promotional Offer. Make sure to read the fine print on how long the introductory rate will last and what the rate will change to when the promotional period expires. Introductory rates can be a great incentive to choose one lender over another, but if the promotional rate changes to an above-average rate for your area or the fees charged are much higher than other lenders, you could be paying more in the long run.

## My Home Equity Line Of Credit Is Tied To The Prime Rate. How Does That Affect My Rate And Payment?

Home Equity Lines of Credit are variable-rate products that use the Prime Rate as the benchmark. The Federal Reserve establishes the Prime Rate based on market conditions. As the prime rate increases or decreases, the HELOC rate adjusts accordingly. This also means your monthly payment will fluctuate as the Prime Rate changes.



# How Do I Qualify For A HELOC?

## Lenders will look at 3 major factors when underwriting a Home Equity Line of Credit.

### Credit Score & History

Lenders will review your credit report to examine your payment history, especially your mortgage payment history. Slow payments or delinquency on your mortgage will impact your ability to receive a HELOC. As for the credit score, most lenders prefer to see a credit score of 640 or higher.

SPECIAL NOTE: Before applying for a HELOC, you should review your credit history for accuracy. Clear up any credit blemishes or errors to increase your chances for approval.

### Debt-To-Income Ratio

Lenders will also want to make sure that you can afford the HELOC payment. To determine this, lenders will review and calculate your Debt-to-Income (DTI) ratio. Lenders prefer DTI to be 45% or below.

To calculate your DTI, add all of your recurring monthly debts. Then divide this total by your gross monthly income (your pay before taxes and other deductions are taken out).

### Debt-To-Income Ratio Calculation

$$\text{Debt-To-Income Ratio} = \frac{\text{Recurring Monthly Debt}}{\text{Gross Monthly Income}}$$

### Available Equity

Lenders will also review your home's available equity. For more information on calculating your equity, view the section on Page 9 titled "How Much Can I Borrow with a HELOC?"

## Is My Credit Score Affected By A Home Equity Line Of Credit?

Anytime you apply for a loan, your credit score will decrease by 3 to 5 points. This is very minor and usually does not impact your overall creditworthiness. You may see your score decrease a bit more when the loan is added to your credit report because you have increased your debt load. Over time, your score will rebound if you diligently make your monthly payments on time.

## How Long Does It Take To Get A Home Equity Line Of Credit Approved?

The process to underwrite a Home Equity Line of Credit is more cumbersome and involved than a Vehicle Loan or Personal Loan. Depending on the lender you select, it may take 2 to 6 weeks to receive the loan. Local credit unions and banks can usually approve and disburse the loan in 2-3 weeks. COPFCU strives to approve and disburse HELOC loans in 2-3 weeks.



# How Do I Qualify For A HELOC? (cont.)

## Credit Union or Bank? Which Is The Best Option For A Home Equity Line Of Credit?

### **BANKS**

Banks (both large and small) are created as for-profit companies. The goal of a bank is to sell financial products and services that produce a profit for the shareholders that own the bank. This for-profit model results in higher loan rates and fees.

### **CREDIT UNIONS**

Credit Unions are formed as not-for-profit companies. The goal of a credit union is to provide sound financial products and services for the betterment of its members, who own the credit union. Because of the not-for-profit model and the member-owner structure, any profits made by the credit union are used to subsidize lower loan rates and fees for members. The bottom line is that credit unions are usually the better option for consumers.





# The Key Features Of A COPFCU HELOC.

## The Many Benefits To Our COPFCU Members:

- Ability to borrow up to \$250,000
- Low variable rates based on Prime
- Low application fee
- No closing costs
- 10-year draw period with a 10-year repayment period
- Fast turnaround time of 2 to 3 weeks

NOTE: Product features may change. Contact us for rates and full details.

## Ready To Apply?

A Home Equity Line of Credit is a low-cost loan to help you achieve your goals, no matter what they are. At COPFCU, applying for a Home Equity Line of Credit is fast and easy. Visit [copfcu.com/apply](http://copfcu.com/apply) to get started. Our friendly Loan Officers are ready to answer any other questions you may have and will help you through the process every step of the way.



## Thank you!

Thank you for downloading our Home Equity Guide.  
We hope you found the information useful.

If you have any questions or need additional  
information, please contact us.



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