Making the Most of the Equity in Your Home

By Jennifer Bib, First Commonwealth Bank, Mt Lebanon WBN Chapter

When looking to refinance, consolidate, or obtain new credit, a Home Equity Loan is a great option for many borrowers. Before making this selection it is very important to understand the various options and possible risks that may be associated.

What is Home Equity? The equity in your home is determined by the current value of your home versus the outstanding balances owed. For example, if a bank will lend up to 80% Loan to Value (LTV) then a home that appraises at $100,000 will have an $80,000 maximum lending amount. Any current mortgages or Home Equity Loans are subtracted from this amount and the amount left is what can be used for a new loan or line of credit.

For example:

Appraised Value:	$100,000
x 80% :	$80,000
- Current Mortgage:	$48,500
Equity Available for Borrowing:	$31,500

Term Loan vs. Line of Credit A Term or Installment Loan is established as a specified amount that is paid out at loan origination either to the borrower directly or to a financial institution to pay off another account. The payments are made in fixed, set amounts every month and additional funds cannot be advanced from this type of loan. The rate on this type of loan is usually fixed.

Home Equity Lines of Credit (HELOC) are the most flexible option. As the funds are paid back they become available again for future usage. The flexibility of a HELOC allows you to have funds available for home improvement, automobile expenses, education, vacations, or an emergency fund. In most cases the amount that is not advanced is not subject to an interest charge. A minimum payment is set every month and is typically based on a draw period of 10-20 years.

Rates on the HELOC are usually variable and based on a publically available index (such as WSJ Prime rate.) The rate is subject to the changes of the index used. For example, a rate can be established with a margin of "Prime + 0.25%." The current Prime rate is 3.25% so the rate for this particular client would be 3.25% + 0.25% = 3.50%.

- Important Items to Remember While Considering What is best for you:
- Carefully read the agreement; understand all terms, fees, and requirements.
- Is the rate offered just a promotional rate that will change within the first few months?
- The fees for establishing and maintaining the account.
- Application fees. These fees are usually non-refundable.
- Closing costs or "points" (One point=1% of the borrowed amount)
- Consider your repayment plan; what can you afford and how long will it take you to pay if off?
- Can you afford the payment if the variable rate were to be raised?
- Ask questions! There is no such thing as too many questions!

Work closely with your banker or account representative to determine what option is best for you. Ask as many questions as possible and if something is not clear ask for clarification before proceeding. Remember that your home is on the line if you cannot repay this debt so it is important to be sure of the commitment that you are making.

For more information visit www.fcbanking.com or www.federalreserve.gov

About the Author: **Jennifer Bibb** is the Assistant Office Manager of First Commonwealth Bank's Mt Lebanon Office. Her extensive lending experience has enabled her to help her clients achieve their financial goals through refinancing and obtaining new credit. She has been awarded various levels of recognition for exceeding loan production goals. Jennifer is available to help you establish a new loan or as a second review of current financial plans.

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