

## Access Home Equity 101

### Home Equity Loans

After years of investing time, money and effort toward the payment and maintenance of your home, your home now has the opportunity to pay you back for all of your hard work!

An Access Home Equity Loan allows you to borrow on a fixed rate loan that is excellent for home improvements, higher education expenses, paying off vehicles or debt consolidation. With an Access Home Equity Loan, you can borrow up to 80% of your home's fair market value (all liens not to exceed 80%\*). You may also choose from terms up to 20 years.

Benefits include:

-low fixed rates
-no points
-no closing fees (certain loan amounts may require title insurance or appraisals)
-interest on a home equity loan may be tax deductible (consult your tax advisor)
-no prepayment penalty
-terms up to 20 years

If you are looking for additional answers, visit our commonly asked questions. You can also view sample home equity calculations, or contact a credit union home equity specialist now at 806-353-9999 or 800-687-2990.

\*\*Loans available to New Mexico residents are 1<sup>st</sup> lien only

\*\*Product not available to members living outside Texas or New Mexico residency

### QUESTIONS

#### **What is Home Equity, and what are Home Equity Loans?**

Equity is the value of a person's home, less any amounts owed. A home equity loan occurs when the person borrows on the home using the equity as collateral. In Texas, borrowers are allowed to use up to 80% of the value of their home as that collateral. To be eligible for a home equity the property must qualify as your homestead (generally, defined as you must be living in the property)

#### **What is the difference between a 1<sup>st</sup> lien home equity loan and 2<sup>nd</sup> lien home equity loan?**

In Texas, you may only have one home equity loan at any given time. Generally, a borrower might have a mortgage loan (the first lien) and then borrow a separate loan (2<sup>nd</sup> lien) as the home equity loan. If a lending institution such as Access Community C.U. makes a home equity loan behind an existing mortgage this is referred to as a 2<sup>nd</sup> lien home equity loan (also called a subordinate lien, or a junior lien).

**What if I only want one loan on my home, can I payoff my mortgage into a 1<sup>st</sup> lien home equity loan?**

Yes, and in recent years this loan has gained increasing popularity. Let's say a borrower comes in to the Credit Union and wants to take out a home equity loan for \$30,000, but they only owe \$5,000 on their existing mortgage. In this case, it makes sense to payoff the existing mortgage and give the borrower the new money of \$30,000, thus you have a 1<sup>st</sup> lien home equity loan for \$35,000 dollars. This also helps the borrower's monthly cash-flow, by having only one payment as opposed to two.

**What will it cost to obtain a home equity loan?**

Access Community C.U. will never charge you points or fees on home equity loans. In most circumstances, your loan will be without fees if you are borrowing less than \$75,000. Loans that are in excess of \$75,000 could but might not always require title insurance or private appraisals that are either paid up front by the member or added into the loan.

**What will the interest rate be?**

Access home equity loan rates vary depending on the market, the amount borrowed, and overall credit risk rating. Contact an Access home equity specialist at 806-353-9999 or 800-687-2990.

**How long a term will I be able to get for a home equity loan?**

Access has many flexible terms ranging from as long as 20 years to a short as 5 years, and there are no penalties for early payoff.

**How long will it take to get an answer on my application?**

While each application can vary depending on circumstances, the general expectation is that you will have an answer within one business day of submitting your application. The approval may be "subject to" review of title searches or additional information being provided.

**After my loan is approved, how soon may I get the money I want to borrow?**

The State of Texas has mandated that home equity loans may not be closed (papers signed) before the twelfth (12<sup>th</sup>) day after an application has been submitted, or the required Texas Notice Concerning Extensions of Credit has been provided along with certain other disclosures. Following the closing, the law further mandates that a three business day rescission (cancellation) period is required before funds are disbursed to the borrower. Under normal

circumstances, this could mean up to 24 days depending on what day of the week the closing occurred.

### **If I live in a rural area is my property eligible for a home equity loan?**

Possibly, depending on the acreage of the property. The state mandates that a rural homestead cannot exceed 200 acres to be eligible for a home equity loan. You cannot have an active “agricultural use” property tax exemption to qualify (unless the property is primarily used for production of milk).

### **Where will I sign my papers?**

Generally, most home equity loans are closed either at the main office or Tascosa Financial Center. For out of town residence we might schedule the closing at a title company. The legislature mandated in the constitutional amendment, that home equity loans may be closed only at the offices of the lender, title company, or attorney.

### **What information will I need to provide when I apply?**

Most of the information is at the fingertips of our loan officers. If you have a long standing relationship with Access Community or live in Amarillo or the surrounding area, you will need very little. You will need to provide information on your homeowner’s insurance and may be required to produce pay stubs or other verifications of income.

### **Can a loan be set up with an automatic payment?**

Yes, an automatic loan payment can be established, even one coming from another financial institution. Better yet, you may receive a discounted rate for having set your loan up on automatic payment, and possibly an even better discount if you have or move an active checking account with Access.

### **I want to do some improvements to my home and some other things too. Can I use a home equity loan?**

Absolutely, the answer is yes. As said before, the only restriction is that you are limited to 80% of the value in your home.

### **How can I (will you) determine the equity value I have in my home?**

The legislature says you may borrow up to 80% of the fair market value of your home less any outstanding liens (mortgages). The quickest way to determine value is to find out the tax valuation ([www.prad.org](http://www.prad.org) if you live in Potter or Randall counties). If your tax appraisal is sufficient to allow borrowing of up to 80%, then the credit union will utilize this report and usually do a drive by inspection of the home. If you want to borrow more or the credit union underwriting requires it you might have to pay for a private appraiser to evaluate your home.

## I am retired and looking to supplement my income, can I get a home equity loan that pays me monthly payments?

Yes, this is known as a Reverse Mortgage (Go to [http://www.aarp.org/money/revmort/revmort\\_basics/](http://www.aarp.org/money/revmort/revmort_basics/) to research Reverse Mortgage.) Access, however, has chosen not to offer this product at this time. The credit union recommends that you research this product carefully and be sure you are aware of risks and benefits associated with a “rising debt” loan. This loan is different from a traditional “forward” mortgage that you pay down to purchase the property. In this scenario a lender would pay you monthly payments against the equity in your home. You must also reach certain age requirements defined by law.

## Will my home equity loan provide me with a tax deduction?

Generally, the IRS does allow you to deduct interest associated with real estate loans. The interest you pay on a home equity loan may be tax deductible, but you should consult your tax advisor.

## SAMPLE HOME EQUITY CALCULATIONS

<b>Example #1</b>	
Tax valuation	\$ 100,000.00
80% limit	=80,000.00
1 <sup>st</sup> Lien balance	-50000.00
<b>Available equity</b>	<b>\$ 30,000.00</b>
<b>Example #2</b>	
Tax valuation	\$ 100,000.00
80% limit	=80,000.00
1 <sup>st</sup> Lien balance	-85,000.00
<b>Available equity</b>	<b>\$ 0.00</b>
<b>Example #3</b>	
Tax valuation	\$ 140,000.00
80% limit	=112,000.00
1 <sup>st</sup> Lien balance	-50000.00
2 <sup>nd</sup> Lien (*must payoff)	-10000.00
<b>Available equity</b>	<b>\$ 52,000.00</b>
<b>Example #4</b>	
Tax valuation	\$ 140,000.00
80% limit	=112,000.00
1 <sup>st</sup> Lien balance (Home paid off)	-0.00
<b>Available equity</b>	<b>\$ 112,000.00</b>