

State Department Federal Credit Union

Topics of Interest

What kind of Home Equity Loans are Available?

A home equity line of credit (HELOC) or home line of credit is a variable rate loan. Monthly payments vary according to the interest rate, which corresponds to the prime rate set by the Federal Reserve Bank. With a HELOC, homeowners are pre-approved for a specific amount of money and use the loan like a line of credit, withdrawing cash as it is needed. Interest rates (and monthly payments) often start off low but eventually end up rising.

In contrast, a home equity loan offers homeowners a lump sum payment with a fixed interest rate and loan terms ranging from 5 to 15 years. Homeowners pay the same amount of money every month for the duration of the loan. Both are considered second mortgages, and as with a conventional mortgage loan, both home equity loans and home equity lines of credit have closing costs associated with them. According to Don Taylor, PhD, CFA, CFP, a columnist at Bankrate.com, if you need money for a big-ticket item or single home improvement project go with a home equity loan. If you need money on a continuous basis and don't mind the fluctuating interest rates, go with a HELOC.

The 125% loan is a 2nd mortgage loan option in which homeowners can borrow up to 125% of home's value. For example, if your home is worth \$100,000 and your first mortgage is \$95,000, you can borrow \$30,000, for a total of \$125,000. The total of the first and second mortgages combined cannot exceed the appraised value of the home however. A 125% loan is useful when a homeowner needs more cash than can be obtained through a conventional home equity loan. Cash-out refinancing refers to refinancing your home at a lower interest rate (either a fixed or variable rate) and getting cash out, providing cash to a homeowner to pay for home improvement projects or pay down credit card bills.