Home Equity Loans – What's the difference?

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A home equity loan or home equity line of credit (HELOC) puts the equity you've built in your home to work for you. Borrowing funds against your home's equity can be an ideal way to pay for a major expense or a small renovation. Home equity is the difference between what you owe on your mortgage and what your home is currently worth. You are probably wondering how it all works and it's important to have a solid knowledge of the difference between them, how to use either one wisely, and the risks involved.
In this article we will discuss some common questions to explain how it all works.

What is a Home Equity Loan?

A home equity loan gives you a lump sum amount to be repaid over a certain period of time (term) where the collateral is the equity in your home. The Bank will determine how much you can borrow based on the equity in your home.

What is the difference between a Home Equity Loan and a Home Equity Line of Credit (HELOC)?

	Home Equity Loan	**Home Equity Line of Credit (HELOC)**
How can I access the funds?	Lump-sum disbursement	Withdrawal funds as needed
Repayment	Monthly payments stay the same for the life of the loan	Only pay on the balance you owe. Monthly payments may fluctuate as well as interest rate.
Interest Rate	Fixed interest rate	Variable interest rate

How do I access the money?

With a HELOC, the funds are available as you need them! You can access the money through our convenient online banking or with checks. With a home equity loan you'll receive the funds in one lump sum.

What can I use the money for?

The most common ways people use these home equity loan products include debt consolidation, emergency expenses, home improvement projects, and paying for a life event such as college.

Debt Consolidation – home equity loan products typically offer much lower interest rates than credit cards, allowing the borrower to be able to pay off the debt quicker than they would with a credit card.

Home Projects – Unexpected, unplanned expenses can occur with homeownership. Your water heater breaks, the roof is leaking or maybe you need more space after having kids and want to build an addition. Consider a home equity loan if you are unable to pay for the necessary cost when it happens and need a one-time infusion of cash.

College Tuition – Another common way to use home equity loan products is for college tuition, provided you can afford to make the monthly payments on top of your mortgage. Interest rates are usually lower with either a home equity loan or HELOC, than on student loans. However, student loans typically have a deferred payment option until after the student graduates, which is not the case with either type of home equity loan product.

Emergency Expenses – Life happens and especially in these times we are in, unexpected situations are abounding. For instance, if you have high medical expenses or need an added cushion for an emergency, you may want to consider a home equity loan product to supplement your savings or lack thereof.

Budgeting and planning will help you decide if you need a home equity loan or HELOC. Consider how much you want to borrow, whether it's a one-time expense (ex. new roof) or if you'll need the money over time (ex. medical expenses). Either way, Ambler Savings Bank is here for you.

How do I figure out how much equity I have?

Simple – write down the estimated value of your home, then subtract all amounts owed on the property. The difference is your equity. For example, if your home is valued at $200,000 and you owe $100,000, you have $100,000 in equity. Lenders will then calculate a loan-to-value (LTV), usually 80% (but may vary). In our example: $200,000 (value of the home) x 80% (LTV) = $160,000 less $100,000 (the amount you owe) = $60,000. In this example the home owner would be eligible to borrow up to $60,000.

What about interest?

Interest rates vary for each home equity loan product. HELOC's use a variable rate, meaning that the rate can change depending on what the rate is based on. In many cases, home equity loan rates are competitive against credit card giants and other borrowing products, making it a smarter way to borrow money. Check out our website here for the latest rates at Ambler Savings Bank.

How do I qualify?

You don't need "perfect credit" provided your credit score and history demonstrates both a willingness and ability to repay on time. Of course, income and current debt play a factor. These and other qualifications are assessed in your application.

Always consult with a lending advisor to determine what's best for your needs and make sure you understand all the terms, as this type of loan is using your home as collateral. The lending team at Ambler Savings Bank is here to guide and advise you through the process. To get started it's as easy as completing the application and talking to one of our loan officers. Contact us today at 215-646-8400 or check out our lending webpage here.