

MORTGAGE LENDING UPDATE

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Home Equity Line of Credit

Noticed an increase in the interest rates on your credit cards? I have. Apparently whatever recent reforms the government aimed at credit card issuers were met by a preemptive first strike against consumers by the charge card companies. You may have also seen the new charts and/or graphs on your charge card statements showing how long it will take to pay off the account if you make only the minimum monthly payments.

One of my credit card accounts indicated that if I only made the minimum monthly payments it would take 2,282 years to pay off the balance. I'm not kidding. I've got a secret for them. I ain't payin'. Not gonna do it. Send those future bills to Glen Haven Memorial Gardens, in care of the attendant, and wait for a reply.

If you have found yourself aggravated by increased charge card interest rates, you might want to consider a Home Equity Line of Credit (HELOC) secured by the equity in your home. The "equity" that you have is simply the difference between the value (potential sales price) of your home and the amount of any existing debt on the property. For example, let's say that the value of your home is \$100,000 and the balance of your first and only mortgage loan is \$80,000. Your equity in your home, or the amount of your 'ownership' in that property, is \$20,000.

Continuing the example above, let's say that you have two or three charge card accounts that total \$15,000. You've noticed that the balances never seem to go down. Well, you see, something always seems to come up and you wind up charging something new onto the account and your payments, well, you intended to pay more, but you never seem to make any headway. Think charge card companies are your friend with their funny commercials? When they get you, they certainly don't seem to want you to leave.

Here's my suggestion. Make an appointment with your local banker, credit union representative or your local professional mortgage lender to discuss applying for a HELOC to pay off, once and for all time, your charge card debts. A HELOC is secured by a mortgage (usually a second mortgage interest) in your home. So, you are putting your home on the dotted line. Visit the Federal Reserve's webpage, http://www.federalreserve.gov/pubs/equity/equity_english.htm, to view their brochure (required reading for HELOC applicants): "What You Should Know About Home Equity Lines of Credit".

A HELOC in simple terms is a form of revolving credit secured by a lien on your property. You can borrow, pay back and then borrow those same funds again. It is made for a maximum draw amount based upon the equity you have in your home and your credit profile. If you have a good credit rating, your HELOC can be made for as much as 100% of your equity in your home. An appraisal will be required, but many lenders will pay that cost as well as the other costs of closing, including attorney fees and sometimes the intangible taxes, as well.

Pleasantly enough, the monthly required repayment on a HELOC is often as low as 1% to 2% of the outstanding balance. In addition, under the existing tax laws and depending upon your specific situation, YOU MAY BE ALLOWED TO DEDUCT FOR INCOME TAX PURPOSES ALL OF THE INTEREST YOU PAY on the HELOC because the debt is secured by your home. Not so much the interest paid on charge cards. Also, the interest rates charged on HELOC's are much less than credit card interest rates.

If you choose to do this, I would recommend that you do not close or cancel all of your charge card accounts. Leave one or two or three charge accounts open and use them infrequently. Avoid like the plague carrying any balance on them for extended periods of time. The reason for keeping them open is that the credit scoring models developed and used by the three major credit reporting agencies will penalize those persons who do not have and do not judiciously use one or two or three charge card accounts. Charge card accounts, at least in small number and very modestly and sparingly used, still seem to be a necessary part of a "healthy" credit profile.

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