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Friday, May 7, 2010

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- Cover story: Home-equity spigot opens slightly

By Michele Lerner SPECIAL TO THE WASHINGTON TIMES

"Mortgage brokers have few sources for home-equity loans, and the big banks are not offering very good pricing for home-equity loans right now," Mr. Martucci says.

Earlier in the decade, some lenders were approving home-equity loans for as much as 95 percent combined loan-to-value (CLTV), meaning the homeowners had both a first mortgage and a home-equity loan equal to 95 percent of the property value. Today, most lenders will lend a maximum of 85 percent or sometimes 90 percent CLTV.

"Even though the housing market seems to be improving, lenders are wary of approving home equity loans in an environment in which home prices are not necessarily stable," Mr. Martucci says. "If the banks lend someone up to 95 percent of their home value and prices drop again, that could quickly become 100 percent loan-to-value or more."

Mr. Lieb says his bank limits its home-equity loans to 85 percent CLTV, while Navy Federal Credit Union sometimes will go up to 90 percent CLTV.

"Home equity loan approvals depend on neighborhood home values because they depend on the borrower's equity in the home and the current value," Mr. Lieb says. "If someone is applying for a home-equity loan in an area where there have been a high number of foreclosures or few sales, then the home may not appraise at a high enough amount for the loan to be approved."

Home-equity loan approvals also depend on individual circumstances, including the credit score and debt-to-income ratio of the borrowers.

"We look at each individual member who applies for a loan to determine whether they can repay it," Mr. Krieger says. "While of course we won't go above our maximum CLTV, we can make adjustments for members who perhaps have a lot of equity in their home, but have a low credit score. We have a wide variety of loan products and can work with our members to find ways to help them."

While Navy Federal Credit Union does not set credit-score limits or maximum debt-to-income ratios, Access Capital Mortgage has a credit-score minimum of 720 along with an overall debt-to-income ratio (all monthly liabilities including housing costs compared with gross monthly income) of 45 percent.

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"If we approve someone for a HELOC with an adjustable rate that is currently at 4.75 percent, we qualify them at a rate of 8 percent to cover an eventual increase in the interest rates and monthly payments," Mr. Lieb says. "Our maximum home-equity loan or line of credit is usually \$250,000, although sometimes we make an exception and go up to \$275,000."

Mr. Lieb says some local banks may be willing to lend more money or go to an even higher CLTV, depending on the home value and the creditworthiness of the borrower.

"The home-equity loan business is definitely easing up, but people are still sometimes surprised by their appraisals," Mr. Lieb says. "If the appraisal is too low, then we have to reduce the amount of money we can loan."

Home-equity loans can be used for any purpose, although applicants do need to state on their application whether it is for personal use or to pay for college tuition or home improvements. Mr. Krieger says his credit union will not approve a home-equity loan for business expenses.

"A lot of people apply for a home-equity line of credit to be used as a security blanket so that the funds are available if they need them," Mr. Lieb says.

Mr. Krieger says that in recent months his customers have shown a strong preference for a home-equity line rather than a home-equity loan because interest rates are so low.

"Home-equity loans and lines of credit can be a good way to pay for home improvements and tuition, and some people use them to pay off other debts since the interest on home-equity loans is tax deductible," Mr. Krieger says. "We also offer debt-consolidation loans, so we work with our members to see which product serves them best."

An advantage of home-equity loans and lines is that they are low-cost loans, with borrowers paying only for the appraisal and transfer taxes. At Navy Federal, even some of those costs are absorbed so borrowers can take out a \$100,000 home equity loan for as little as \$100.

Another option for homeowners in addition to a home-equity loan or line is to refinance their property and take out some of the equity as cash.

"A cash-out refinance may be a good option because you can opt for a fixed-rate loan rather than an adjustable-rate loan," Mr. Martucci says. "The downside is that home-equity loan costs are usually far below \$1,000, while a refinance can cost \$3,000 to \$4,000. But for the peace of mind of having just one mortgage at a fixed rate, it could be worth it for someone intending to stay in their home for a long time."

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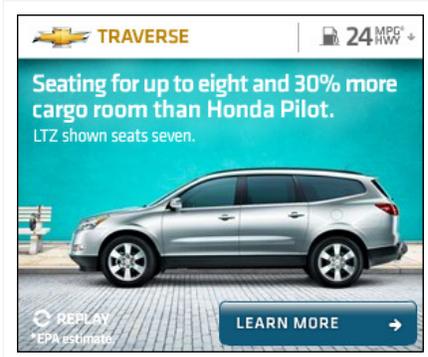
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