Clarity WEALTH ADVISORS
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Home Financing Options

Hello!

With the Fed's Ben Bernanke indicating last month that he plans to keep interest rates "exceptionally low" until mid-2013 as a way to continue the economic recovery, many have taken advantage of refinancing debt, including those on their homes and other properties. There are three main types of home financing: mortgages, home equity loans (HEL), and home equity lines of credit (HELOC).

Mortgages

A mortgage is a type of loan that is secured by the collateral of a property to ensure that the debt is repaid. The borrower is expected to repay the principal and interest over the specified repayment period (also known as amortization) of the mortgage. It is often used for financing various assets or projects, including:

- Purchase of an existing home or a new home
- Renovation
- Consolidation of other debts

Since a mortgage is a fully secured form of financing, the interest one pays is usually less than with most other types of financing.

Home Equity Loan (HEL)

With this type of loan, a lump sum of money is given to the borrower, and both the interest rate and monthly payment are fixed. There is a specified period for the loan to be repaid. The amount one can borrow is based on various factors such as the value of the home, the existing mortgage balance, income, other debts, and credit history. Once funds from a HEL are received, one cannot borrow further from the loan.

Home Equity Line of Credit (HELOC)

A HELOC allows one to draw funds against their home equity, up to a predetermined amount and has a specified term, often between 10 to 20 years. They have a variable interest rate that is usually based on prime plus or minus a margin. Payments will vary depending on the interest rate and how much credit is used. There is typically a minimum payment due each month, with the option to pay off as much of the line as one wants.

A home equity line of credit (HELOC) works like a credit card as one is allowed to borrow up to a certain amount for the loan term. As the principal is paid off, the credit revolves and it can be used again. As a result, this provides more flexibility than a fixed-rate home equity loan.

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