Tapping into your home's equity

YOUR OPTIONS + HOW THEY COMPARE

Home equity **/hōm ‘ekwədē/** *(n.): The difference between your property's market value and the outstanding loans against that property.*

YOU'VE SPENT YEARS BUILDING EQUITY IN YOUR HOME. BUT HOW DO YOU ACCESS IT?

There are numerous ways to get cash for your home equity, including home loans, HELOCs, and home equity investments. Use this guide to compare your options and determine which one makes the most sense for your financial situation.

Compare your options

Tapping into your home's equity

It's not a secret: Americans struggle with debt. Our recent survey showed that while homeowners are house rich, they're also cash poor with little day-to-day liquidity.

Survey takers indicated that if they did have debt-free access to their home's equity, they'd use it to pay off credit card debt, medical bills, or even help friends and family pay off debt.

Additionally, many homeowners responded that they haven't even considered available options to tap into their home equity. In short, they felt stuck because available financial options only seem to add more debt and interest to the homeowner's monthly balance sheets.

The good news? This house rich/cash poor status quo doesn't have to continue.

Read on for the options you have available to tap into your home equity to start using that liquidity to reach your financial goals!

WHO QUALIFIES?

Homeowners should have a credit score of 620 and over, a minimum loan-to-value ratio of 70%, and an average debt-to-income ratio of 50%.

LOAN-TO-VALUE

70%

DEBT-TO-INCOME

50%

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5 Key Areas to Evaluate Before You Refinance

Cash-out refinance

Compare your financial situation now to when you first took out your mortgage. What's changed?

Chances are, a lot. Perhaps your student loan interest rates have skyrocketed or your monthly credit card payment has become more than you can afford. Refinancing can help you shift your debt to a better place.

WHAT IS IT?

A cash-out refinance replaces your existing mortgage with a new home loan for more than you currently owe on your house. That means you get a larger sum of money than what you owe.

While you can use the money for pretty much anything, it's recommended to use it to improve your financial situation by paying down debt or by renovating your home. Consolidating or eliminating your debt helps you improve your overall credit while renovating or doing a few home improvements can help increase your home's overall value.

WHAT DO I NEED TO KNOW?

As with any financial decision, you'll want to consider the costs. Cash-out refinancing comes with high closing costs for the loan and often higher monthly payments. After all, you're taking out a larger mortgage, which means bigger payments and more interest across the life—often 15 to 30 years—of the loan.

You should also be aware of closing costs that average at around 4% of the loan amount as well as cancellation and prepayment penalties.

IS A CASH-OUT REFINANCE A FIT FOR ME?

If you can find lower interest rates, cash-out refinancing can be a smart option. This is particularly true if you're looking to fund higher education as you may find lower interest rates than private education loans. If cash-out refinancing won't lower your interest rate but you still need cash, you may want to consider a home equity loan instead.

Cash-out refinancing can be a savvy option for those looking to refinance and take out cash. As Alan Moore, CEO of AdvicePay, shared with Bankrate, cash-out refinancing is a "good way to grab equity and keep it all in one loan."

WHEN MIGHT A CASH-OUT REFINANCE NOT BE A FIT?

If cash-out refinancing won't lower your interest rate but you still need cash, you may want to consider a home equity loan or Home Equity Investment product instead to avoid higher interest rates on a bigger mortgage.

Home equity line of credit (HELOC)

When you have a financial need and are in a bind for cash, you may consider a second mortgage. While your first mortgage, or purchasing loan, is guaranteed by a lien on your home, a second mortgage lets you borrow money based on your home's equity. A home equity line of credit (HELOC) is a type of a second mortgage.

WHAT IS IT?

A HELOC acts as a credit card, using your home's equity as a source of funds. According to TransUnion, almost five million consumers opened a HELOC between 2013 and 2017, and that number is expected to double over the next five years. The rise in popularity may be attributed to the few, if any, closing costs and variable interest rates.

WHAT DO I NEED TO KNOW?

With HELOCs, your lender may lower your credit line or even revoke it if the value of your home decreases or your financial situation worsens. Also, if you default on either type of loan, you risk foreclosure.

Since they're typically adjustable-rate loans, HELOC monthly payments and interest rates may go up, making payments unreducible.

Additionally, while HELOCs require no money down at closing, they typically have annual fees and minimum draw requirements as well as hefty prepayment penalty fees.

IS A HELOC A FIT FOR ME?

HELOCs might be better for short-term financial needs since the interest of these loans can vary.

They're also good if you aren't sure how much you need to borrow and when you'll need to borrow it since HELOCs give you access to cash for a set period of time—in some cases up to 10 years.

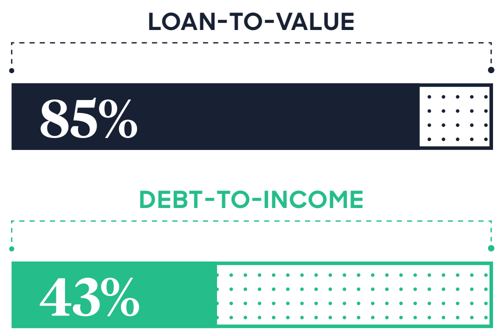
WHEN MIGHT A HELOC NOT BE A FIT?

If you have a high expense, like a remodel or college tuition, home equity investment programs may be a better choice because you receive a larger lump sum.

Home equity loans are worth considering for consolidating debt because you get a single payment, often with a lower interest rate.

WHO QUALIFIES?

Homeowners should have a credit score of 680 and over, a minimum loan-to-value ratio of 85%, and a maximum debt-to-income ratio of 43%.



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HELOCs & Home Equity Loans: What's the Difference and Is Either Right for You?

Home equity loan

When you have a financial need and are in a bind for cash, you may consider a second mortgage. While your first mortgage, or purchasing loan, is guaranteed by a lien on your home, a second mortgage lets you borrow money based on your home's value. A home equity loan is a type of second mortgage.

WHO QUALIFIES?

Homeowners should have a credit score of 680 and over, a minimum loan-to-value ratio of 85%, and a maximum debt-to-income ratio of 43%.

LOAN-TO-VALUE

85%

DEBT-TO-INCOME

43%

READ MORE

Should You Use Your Home Equity to Buy a Second Home?

WHAT IS IT?

A home equity loan allows you to borrow against the equity you've accrued, using your home as collateral to guarantee the loan.

WHAT DO I NEED TO KNOW?

Home equity loans can typically have higher interest rates than HELOCs. However, with either loan, you'll likely pay a lower interest rate than you would with an unsecured loan, such as a personal loan.

Home equity loan fees typically include closing fees that equal about 2–5% of the loan amount.

While a home equity loan is a viable financing option, it does require you use your home as collateral—and defaulting on that loan could result in foreclosure. This is because lenders place a second lien on your home as collateral against their loan.

IS A HOME EQUITY LOAN BEST FOR ME?

If you have a high expense, like a remodel or college tuition, home equity loans are often a better choice because you receive a larger lump sum.

These loans can help when consolidating debt because you get a single payment, often with a lower interest rate.

WHEN MIGHT I WANT TO STAY AWAY FROM A HOME EQUITY LOAN?

If you're unsure how much money you really need, or when, a HELOC can be a smarter option since you'll have a revolving credit line to access for a set amount of time rather than receiving a lump sum - and the monthly payments that come with it.

Home Equity Investments

WHAT IS IT?

Home equity investments allow you to get paid today for the equity you've accumulated in your property—without getting a loan. In exchange for cash today, an investor gets a share of your home's future value. As NerdWallet explains, you're "allowing a silent partner to take a stake in your home."

WHAT DO I NEED TO KNOW?

If you don't have enough equity in your home, you won't be able to take a home equity investment. According to NerdWallet, homeowners typically have half their home paid for prior to entering an equity investment, although owning 25% of your home's value may be sufficient.

IS A HOME EQUITY INVESTMENT A FIT FOR ME?

If you're a debt-averse homeowner who needs liquidity or is having trouble with monthly mortgage payments, you may benefit from a home equity Investment product like Hometap. There are a few situations where home equity investments are especially attractive:

- **You have an immediate cash need.** If you're short on liquid assets, you can fund your financial need via a home equity investment. For example, you can use the cash from a home equity investment to pay off your high-interest credit card debt. It's also a smart way to fund your education since, unlike private education loans, a home equity investment has no interest or monthly payments.
- **You can't afford additional monthly payments.** If you don't want to or can't afford additional monthly payments or interest, you'll want to take a closer look at home equity investment products, which have no interest or monthly payments because they are an investment. As such, you're not obligated to pay off the capital from the investment until the end of the term.

WHEN MIGHT I WANT TO STAY AWAY FROM A HOME EQUITY INVESTMENT PRODUCT?

Home equity investments don't make sense for every homeowner. For example, it may not be a fit if:

- **You want to stay in your home for 10+ years.** If you know you want to stay put, you may not want to enter an equity investment agreement. Most home equity investment products, including Hometap, have a term of 10 years, meaning you'll need to settle the investment when the term is up or sell your home.
- **You don't have enough equity.** If you don't have enough equity in your home, you won't be able to bring on a home equity investor. Calculate your home equity to see where you stand.

WHO QUALIFIES?

Homeowners that qualify for a Hometap Investment have an average credit score of 630 and over and a maximum loan-to-value ratio of 75%.

LOAN-TO-VALUE

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Home Equity Investment 101: What You Need to Know

How they all compare

Qualifications

	Hometap	Home Equity Loan	HELOC	Cash Out Refinance
Average Credit Score	typically >630 (no firm requirement)	Min, score of 680	Min, score of 680	Min score of 620
Average Loan-to-Value	Max LTV of 75%	Max LTV of 80-85%	Max LTV of 80-85%	Max LTV of 70%
Average Debt-to-Income	n/a	43%	43%	50%
Other restrictions (Vary by lender)	No prepayment penalties	Prepayment penalties	Minimum annual draw requirements Prepayment penalties + cancellation fees occur with some lenders	Prepayment penalties + cancellation fees

Pricing + Terms

	Hometap	Home Equity Loan*	HELOC*	Cash Out Refinance*
Investment/ Loan Amount	$100K	$100k	$100k	$100K
Term	10 Years	10 Years	10 Years	10 Years
Loan	No	Yes	Yes	Yes
Interest Rate Type	No interest rate	Fixed or variable	Typically variable	Fixed or variable
Average Interest Rate	No interest rate	8.4%	5.6%	4.8%
Monthly payment	No monthly payment	$1,533.33	$1,300.00	$1,233.33
Closing Costs + Fees	3% of Investment + closing costs	3-5% of the loan amount	Typically no cost due at closing. $100 in annual fees	$4,500
Due at Sale or Refinancing	16.7% of home value	Outstanding Principal	Outstanding Principal	Outstanding Principal

* Loan interest levels and payments are based on a credit score of 730. Rates sourced from Bankrate.com (as of December 2018).

READY TO LEVERAGE YOUR HOME'S EQUITY TO REACH YOUR GOALS?

When it comes to accessing equity, the majority of homeowners surveyed by Hometap have never even considered most of the available options such as taking out a HELOC, home equity loan, or second mortgage. In fact, over 50% of homeowners have actually considered selling their home before tapping into their equity.

With an average of **$122,000 in equity**, but housing costs exceeding 50% of their salaries, these homeowners are the exact definition of house rich and cash poor.

At Hometap, we believe you should be able to have a house and a life. Unlocking the equity you've already earned may be the key to getting there.

Is tapping into your home's equity through a Hometap Investment a fit for you?

TAKE THE QUIZ TO FIND OUT

GET AN ESTIMATE