



Using your Home Equity Responsibly

Is a Home Equity Line of Credit Right for You?

If you are in the market for credit, a home equity line of credit (or HELOC) may be right for you. A HELOC is a form of revolving credit in which your home serves as collateral. In other words, if you fail to repay the amount you've borrowed, plus interest, you could lose your home.

Because no one wants to lose their home, that makes a HELOC less risky for the lender. So annual percentage rates (APRs) for home equity lines are generally lower than other types of credit – a better deal for you. However, because your home is potentially at risk, the loan needs to be used responsibly.

Many homeowners use their HELOCs for home improvements, educational expenses, medical bills and other big ticket items – not for day-to-day expenses.

A HELOC can be a smart, flexible choice in borrowing – just make sure it's the right one for you. As with any financial tool, you need to consider all the potential risks as well as the rewards.

Weigh risks vs. benefits

Before making a decision about a home equity line of credit, you should weigh carefully the risks and costs against the benefits. Make sure you are satisfied with credit terms that best meet your borrowing needs without posing undue financial risk.

IMPORTANT: Keep in mind that a HELOC is an adjustable rate loan – not a fixed rate loan. Your APR can go up or down. When the interest rate on your home equity line goes up, your payment will also increase.

Another very real risk is that your home may decrease in value while you're using your home equity line of credit. When it comes time to sell your house or refinance your HELOC, you may have less equity in your home than you did when you qualified for the loan.

Interest Rate Charges and the Effect of Changes


As noted above, home equity lines of credit typically involve variable rather than fixed interest rates. The variable rate must be based on a publicly available index (such as the prime rate published in some major daily newspapers or a U.S. Treasury bill rate); the interest rate for borrowing under the home equity line changes, mirroring fluctuations in the value of the index.

Most lenders cite the interest rate you will pay as the value of the index at a particular time plus a "margin," such as 2 percentage points. Because the cost of borrowing is tied directly to the value of the index, it is important to find out:

- Which index is used
- How often the value of the index changes
- How high it has risen in the past
- The amount of the margin

Please note: At Bremer, the HELOC product includes a floor to the interest rate which represents the lowest possible rate you will be charged during the term of your HELOC. This could cause your rate to be higher than the index plus margin.

IMPORTANT: With a variable interest rate, your monthly payments may change. Assume, for example, that you borrow \$10,000 under a plan that calls for interest-only payments. At a 10 percent interest rate, your monthly payments would be \$83. If the rate rises over time to 15 percent, your monthly payments will increase to \$125.



Similarly, if you are making payments that cover interest plus some portion of the principal, your monthly payments may increase, unless your agreement calls for keeping payments the same throughout the plan period.

Minimum Payments, Principal and Interest

Some plans set minimum payments that cover a portion of the principal (the amount you borrow) plus accrued interest. But (unlike with the typical installment loan) the portion that goes toward principal may not be enough to repay the principal by the end of the term.

Other plans may allow payment of interest alone during the life of the plan, which means that you pay nothing toward the principal. If you borrow \$10,000, you will still owe that amount when the plan ends because you will have paid “interest only”.

Be Informed and be Prepared

Whatever your payment arrangements during the life of the plan – whether you pay some, a little, or none of the principal amount of the loan – when the plan ends you may have to pay the entire balance owed, all at once.

You must be prepared to make this “balloon payment” by refinancing it with the lender, by obtaining a loan from another lender, or by some other means. If you are unable to make the balloon payment, you could lose your home.

IMPORTANT: Although you qualified for the initial loan, you will be required to requalify if you choose to refinance the loan when the balloon payment comes due. Qualifying for refinancing is not guaranteed.

If you sell your home, you will probably be required to pay off your home equity line in full immediately. If you are likely to sell your home in the near future, consider whether it make sense to pay the up-front costs of setting up a line of credit.

Determining Your Line of Credit

With a home equity line, you will be approved for a specific amount of credit. This is your credit limit, the maximum amount you may borrow at any one time under the plan.

Many lenders set the credit limit on a home equity line by taking a percentage (80 percent, for example) of your home’s appraised value and subtracting from that the balance owed on the existing mortgage. The more your home is worth, the larger the line of credit can be.

Comparing HELOCs Among Lenders

If you decide to apply for a home equity line of credit, look for the plan that best meets your particular needs. Read the credit agreement carefully, and examine the terms and conditions of various plans, including the annual percentage rate and the costs of establishing the plan.

The APR for a home equity line is based on the interest rate alone and will not reflect the closing costs and other fees and charges, so you’ll need to compare these costs, as well as the APRs, among lenders.

Taking Action for You

Bremer will work closely with you to create a lending solution that fits you and your budget just right, with quick turnaround on your request, flexible terms and competitive interest rates so you can enjoy your credit responsibly.

PER-0209 Member FDIC. Equal Housing Lender. Material adapted from the brochure “When Your Home Is on the Line” by the Federal Reserve Board.