



## Regions Next Step Podcast

### Home Ownership 101: Your Home as a Financial Tool

In this podcast, Kreg Newman, a Mortgage Loan Officer for Regions Bank in Birmingham, Ala., talks about your home can act as a financial tool.

Listen to learn from Kreg about the following topics:

- Considerations when borrowing against your home
- How to tap into your home's equity with cash out refinance, HELOCs or HELOANS
- How to choose which option is right for your financial goals

### ***Episode Transcript***

Kreg Newman:

My name is Kreg Newman, and I'm a Mortgage Loan Originator from Regions Bank in Birmingham, Alabama. In this episode, we'll be discussing the ways your home can act as a financial tool.

If you currently own your home, you already know it provides shelter and stability. But you might not have considered that it can also be a financial tool. In fact, your house a financial value, which you can tap into to meet other goals.

For many Americans, their home is their most valuable asset. So, let's take a closer look at what this means and how you can make use of it.

To start off, let's discuss equity. Equity is the difference between what your home would be worth in a sale – its fair market value – and the amount of debt secured by your home. Usually, this is the amount you owe on your mortgage. As you make payments toward your mortgage principal over time, and the value of your home increases, your equity also increases.

There are THREE primary ways to tap into your home equity: cash out on a first mortgage, a home equity loan or HELOAN, or a home equity line of credit or HELOC. Cash out refinance is a first mortgage. HELOANS and HELOCs are referred to as second mortgages. All of these use your home as collateral and can be used to do home improvements and renovations, such as adding onto a home or installing a pool. They can also be used for debt consolidation, to buy land, assist with college expenses, and much more.



Additionally, each has its own terms and requirements, so it's helpful to understand the differences. The amount you can borrow depends on a variety of factors – your income, your credit situation, and the amount of equity you have in your home. Depending on the type of loan you choose, you could receive the money in one lump sum payment or have a line of credit available to use when you need it in the future.

So, let's break them down a little more.

A “cash-out” refinance means to refinance your home for more than what you owe on your current mortgage. This allows homeowners to use the extra loan amount, or the amount in excess of the current mortgage as they wish. You may be able to reduce the interest paid over the life of the loan if you refinance at a lower rate and do not extend the loan term. On the other hand, you could lower monthly payments by extending the term. However, that may come at the cost of paying more interest over time. Either way this would provide additional cash flow that can be used towards other expenses.

A home equity loan or HELOAN is always a one-time transaction with a lender. HELOANS usually have a fixed interest rate, meaning borrowers will pay the same interest rate over the term of the loan. This makes the monthly payments consistent over time. You receive the money in one lump sum payment, and you can't borrow more without getting another loan.

Compared to a HELOAN, a Home Equity Line of Credit, or HELOC is more flexible. This is helpful if you are not sure exactly how much you need, or you don't need all of the money at once. A HELOC is a revolving credit line that you can borrow against as needed, up to your credit limit. You have a maximum amount that you can borrow, and you only have to repay what you actually take out, plus any interest or fees. Unlike HELOANS, HELOCs typically have an adjustable interest rate, which means the rate will change over time. It's important to review the repayment terms of your HELOC, as your mandatory payments could fluctuate based on the terms.

So, how do you make the decision on which one is best for you?

You might consider a HELOC if you expect to have expenses of different amounts spread over a period of time. For example, if you know you have upcoming college expenses or medical bills, but you don't know the exact costs, a HELOC could help you meet those needs. This way, you only pay interest on the amounts you actually need to borrow, rather than the full amount you are approved to borrow. Additionally, you won't make monthly payments unless you use the HELOC or your lender charges fees. And unless you use your HELOC or if there are annual fees, you won't make monthly payments.

You might consider a cash out refinance or HELOAN, if you have a set amount you want to borrow from your current equity and prefer a fixed rate over a period of time.



Additional considerations to help you decide between a cash out refinance or HELOAN is whether you have a low interest rate on your current mortgage. Your lender can analyze the rates, closing costs, and your goals to help determine the best solution.

Under the right circumstances, a second mortgage can help you cover important expenses that would be difficult to pay for upfront, and allow you to repay the debt over a longer period of time.

Regardless of which product you chose, remember that your home is the security or collateral for the loan or credit line. Remember that a cash out refinance, home equity loan or home equity line of credit can be a valuable tool to help you reach your financial goals.

You can find additional resources including articles, checklists, calculators and more online at [www.regions.com/nextstep](http://www.regions.com/nextstep). No matter your goals, Regions will help you with each step you want to take. Thank you for listening.

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