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# The Facts of 125% Home Equity Loans: Part I

With credit so easily available these days, it is no wonder that Americans en masse have taken advantage of credit cards and consumer promotions to make all sorts of purchases. Credit makes it possible for people everywhere to “buy now, pay later.” Unfortunately, people are often not able to pay for those goods later. This accounts for the consumer debt of today that has reached epidemic proportions. Within the past decade, consumer debt has more than doubled to arrive at the August 2006 figure of $2.35 trillion. With so many Americans under such a heavy debt load, many look anywhere for salvation from their financial obligations. Those who are homeowners can often turn to equity in their homes for help.

What if homeowners do not have any equity to use though? You might think that they would have to turn elsewhere for debt consolidation, but amazingly there is a home loan program designed to help those with little or no equity in their home pull out cash. This is called the 125% home equity loan. These loans have been around since 1997 and lenders have promoted these loans with great energy in the past several years. They are extremely profitable for lenders, and based on the total number of 125 home equity loans processed in the past years, they are also in style with homeowners as well.

The pure popularity of the loan, though, does not mean that it is the best solution for all consumer debt problems. While the 125% home equity loan can be helpful in certain situations, there are many risks and negative aspects of the program. You should carefully consider the facts about this loan before being convinced by advertising that this is the loan for you.

**What is a 125% Home Equity Loan?**
This program is a branch-off of normal home equity loans, or second mortgages, that allow you to pull out cash from your existing equity. With the 125% loan, however, you are not required to have much, if any, equity in your home. You can borrow up to 125% of the value of your home. That should give you some clue as to how risky this venture is; you are borrowing more than your home is worth! Generally the amount borrowers get to use for debts or other uses averages around $30,000 to $50,000.

**What are the requirements?**
As stated above, you do not need to have a lot of equity built up in your home, and you can even find lenders that will let you exceed the normal debt-to-income ratio standards. For a conventional home loan, lenders will want to see that your monthly debt payments going toward your housing needs is only 28% or less of your monthly income. Generally, they will only allow for 36% of your income to go toward your debt total, which could include housing as well as credit cards debts or other loans. You may find some lenders though, that will be so lenient as to let you slide by with as much as a 55% debt-to-income ratio for a 125% equity loan.

In spite of this, there are several stringent requirements you will be required to meet in order to qualify for such a risky loan. These include having an excellent credit score, usually somewhere between 650 and 700. Lenders will also require that you have a stable employment history and that your current job pays well and that you are likely to stay there for a while. Lenders will also look for an outstanding credit payment history. These loans are very profitable to lenders, but only when they find borrowers who are actually going to make the hefty payments.

Look for the follow-up articles, Parts II and III of “The Facts of 125% Equity Home Loans” to explain the pros and cons of these loans.