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Gives You More Cash: A Home Equity Mortgage or Refinance Home

Could you really use some extra cash for those needed financial projects? Using your home as security for a new loan is a very popular loan choice among homeowners these days. There are several ways to do this however. The major options are to either take out a home equity mortgage or a refinance home loan.

A home equity mortgage taps into your existing equity and lets you borrow against it. You can usually do this with either a home equity line of credit (HELOC), which is money you can pull out as needed like a checking account, or you can get a lump sum of money at the close of your equity mortgage loan.

A refinance home loan will allow you to create a new loan big enough to pay off your first mortgage and then some. You get to take the extra cash with you at the loan's closing, and you'll pay it back little by little as part of your new monthly mortgage payments.

Which one will be the better choice for the amount of money you need to borrow? That will depend on how much you need. Typically a refinance mortgage will provide you with more cash because they are usually safer loans than home equity mortgages. This is because, just like most first mortgages, refinance loans are bundled up with other home loans and resold on the secondary market as bond securities. That means the risk associated with your particular loan is spread around to many different investors, protecting your lender from the brunt of that risk, allowing her to be able to loan you more money. Major renovations, college tuition, or other large expenses would probably be better covered by a refinance home loan.

If you do not need a ton of money for your project though, you might be better off with a home equity mortgage. These loans are not resold as bonds, but are usually kept in the hands of your lender. The amount of money you'll be able to pull out from a home equity loan will depend on the amount of current equity you have. Generally, lenders will allow you to borrow up to 85% of your equity, or in other words 85% of the current appraised value of your home minus the remaining balance of your first mortgage. For example, say you have a house that is now worth \$200,000 and you still owe \$170,000 on your mortgage. That leaves you with \$30,000 of home equity and you can borrow up to 85%, or in this case \$25,500. Of course, the percentage of your equity that you can borrow will depend on your credit history and other factors, so the final total could be less. Still, a home equity mortgage could provide you with a substantial amount of cash for smaller home improvement projects, or to consolidate your debts.

When you are choosing between a home equity mortgage and a refinance home loan, make sure you calculate exactly how much you will need to borrow in order to make the right decision. Of course, you will definitely have to consider several other factors, like the interest rate, the loan term, and the extra costs, but knowing how much extra money you need will simply the process. Look for future articles to explain those other important factors in making the home equity or refinance loan decision, but be sure to talk to your trusted mortgage professional for more information or other questions.