Home Equity Loans in Today's Market

Everywhere you look in the media today you hear doom and gloom messages about the housing market. Rising foreclosure rates among subprime or poor credit borrowers has caused dozens of lenders to close their doors or declare bankruptcy. Risky adjustable rate mortgages that were made en masse during the housing boom are now being widely rejected by investors on the secondary market. Without those investment funds, lenders have less money available to make such loans and are less likely to do anyway as there are few investors willing to buy them. This situation has created a nationwide credit crunch on subprime ARM loans.

Unfortunately the trouble has spread a little to other types of loans. Long-term conforming mortgages seem to be the only “safe” loans on the secondary market. Conforming loans are mortgages bought and guaranteed by the government-sponsored entities Freddie Mac and Fannie Mae. They include only loans under $417,000 and are limited to first mortgages. Anything else is now harder to find and harder to get because they are considered riskier than conforming loans, and with good reason. The Federal Deposit Insurance Corp. (FDIC) recently reported that delinquencies of 90 days or more on home equity lines of credit shot up 16.6 percent in the second quarter of 2007.

A home equity loan is a loan taken out in addition to your original mortgage that also uses your home as collateral. The amount you receive is based on how much equity you have saved up. They have been popular loans in the past because they allow homeowners to take out cash for other financial projects like home improvement, new businesses, and college tuition. The interest rates on these loans are typically lower than rates on credit cards or other unsecured loans, and the interest is tax deductible.

These loans, also known as second loans are still available but the qualification standards have become much stricter. Before you apply, you should know what stipulations your lender is likely to require.

Good Credit
No longer can you slide by with a poor excuse for a credit score. Money is tight now; lenders only want to lend to those who have proven their responsibility with credit in the past. Before you apply, obtain a copy of your credit report and see what you can do to improve your score.

Adequate Income
Lenders want as much reassurance as possible that you will be able to repay your home equity loan. They will generally require you to show more proof of adequate income than in days past. Be prepared to provide W-2’s and bank statements and other income-related documents.

Full Appraisal
When housing price appreciation was skyrocketing during the housing boom, many lenders were not as concerned about getting a precise measurement of what a house was worth because the value was likely to increase significantly within a year anyway. Now that things have slowed down, you can expect your lender to order a full home appraisal to have an

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accurate measure of your home’s worth.

Lending standards have definitely tightened, and it is probably in the best interest of the economy and housing market in general. You can still find the home equity loan you are looking for – just be prepared to work a little harder for it today!

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