OLDER AMERICANS HOUSING GUIDE

Using home equity to meet financial needs

Consumer Financial Protection Bureau

Using your home equity to meet your financial needs

Having financial security as you age is important. Owning a home is most people's greatest asset and can be a resource for you and your family. This guide describes how you might be able to use your home equity should the need arise—and also the potential risks involved.

Your home equity is equal to the value of your home minus the total amount of existing mortgages on your property.

How much home equity do you have?

The amount your property is currently worth		The total of all mortgages on the property		**Your home equity**
$	−	$	=	$

This guide provides general consumer information. It is not legal advice or regulatory guidance. For information on how to obtain legal help, please see the "Where to go for help" section of this guide. This guide also includes links or references to third-party resources or content. The Bureau does not endorse the third-party or guarantee the accuracy of this third-party information. There may be other resources that also serve your needs.

Using your home equity: benefits and risks

By taking out a loan that uses your property as collateral, you might be able to convert your equity into money that you can use to provide additional monthly funds for living expenses, pay for repairs to your home, fund home improvements (including those that may help you stay in your home as you age), pay for caregiving expenses, or for other purposes.

While using your home equity can have benefits, **keep in mind that by doing so you are taking out a loan that must be repaid**. Because you use your home as collateral for this loan, if you fail to make payments or meet other loan requirements, you could be at **risk of losing your home through foreclosure**. Other things to consider:

- Be careful about borrowing more money than you need, because you are responsible for paying the money back plus interest and fees.
- Taking out a new loan could affect your credit score, since it is another debt that you owe.
- Loans generally have upfront costs you must pay, which reduce the amount of equity you can use.
- Watch out for scams. Avoid any companies that ask for big fees up-front or that make unrealistic promises. Also beware of home repair scams where contractors approach you (often knocking on your door) about taking out a loan to pay for repairs. It's important to shop around.

Ways to convert home equity into money

In this section you'll see general descriptions of four types of loans you might be able to use to access the equity in your home.

	Who is generally eligible to apply for this loan?	**How can you receive the money?**	**Do you make monthly payments?**	**What happens to your loan balance over time?**
Cash-out refinance	A homeowner who has equity in their home and who has an existing mortgage.	All at once when you take out the loan.	Yes. You have a new mortgage that includes the amount borrowed (and fees) from the cash out refinance, which includes the money used to pay off your previous mortgage.	Your loan balance decreases as you make monthly payments.
Home equity loan	A homeowner who has equity in their home.	All at once when you take out the loan.	Yes. This is a separate loan from your mortgage, so you have two monthly payments: (1) mortgage, and (2) home equity loan	Your loan balance decreases as you make monthly payments.
Home equity line of credit (HELOC)	A homeowner who has equity in their home.	You can access the money as you need it, up to a limit determined by the lender.	Yes, but only once you start borrowing from your line of credit. Your monthly payment depends on the amount of the line of credit that you use.	Your loan balance increases as you withdraw money from the line of credit, and then decreases as you make monthly payments.
Reverse mortgage	A homeowner who is 62 years or older and has equity in their home.	You can receive money all at once when you take out the loan, in regular payments over time, or as a line of credit you can use when needed.	Reverse mortgages do not require monthly payments. You repay the loan all at once when you no longer live in the home.	Your loan balance **increases** over time, but you never owe more than 95% of the appraised value of your home at the time the loan is due.

Cash-out refinance

If you have equity in your home and also have an existing mortgage, you could consider a cash-out refinance. This means that you take out a larger mortgage loan against your home, use some of that amount to pay off your current mortgage, and take the rest in cash to use for other purposes.

If you are considering a cash-out refinance, keep in mind the following:

- A cash-out refinance may extend the amount of time it takes to pay off your mortgage. Your monthly payment may also increase, since you are replacing your current mortgage with a larger loan.
- Because you are getting a new loan to replace the one that you have, your new interest rate and other loan terms change. Make sure you understand those details before agreeing to the terms.
- Cash-out refinance loans are usually paid back over a period of 30 years. While this means that your monthly payments may be smaller than if your mortgage loan was for a 15-year term, it is important to know that you are paying back the loan for a longer period of time and that your loan balance accordingly decreases at a slower rate.

Home equity loan

A home equity loan is a new mortgage loan that you take out using your home as collateral. If you have an existing mortgage, a home equity loan is a second mortgage with a second, separate monthly payment. If your home is paid off, taking out a home equity loan is a new mortgage on your property.

If you are considering a home equity loan, keep in mind that:

- A home equity loan usually has a fixed interest rate, which means that your monthly payment does not change over time.
- Compared to traditional 30-year mortgages and cash-out refinances, home equity loans are usually paid back over a shorter period. While this means you make payments for a shorter amount of time, it also means that those payments are probably larger than for a longer loan.

Home equity line of credit (HELOC)

Similar to a home equity loan, a home equity line of credit (HELOC) allows you to use your home as collateral for a loan. However, unlike a home equity loan, a HELOC is "open-ended," meaning that it allows you to borrow money against your home equity, up to a limit, whenever you need it. HELOCs have an initial "draw period," meaning that you can borrow within a certain time period, usually ten years. During the draw period, you are required to make interest payments based on the amount you borrowed. After the draw period ends, you then enter the "repayment period," during which you must pay off the outstanding balance through regular payments of interest and principal.

If you are considering a HELOC, keep in mind that:

- HELOCs are more flexible than other loans in that they allow you to withdraw money multiple times and allow you to withdraw only the amount that you need
- HELOCs often have adjustable interest rates, so after an initial fixed period, your interest rate can increase or decrease based on the market–thereby changing the amount of your monthly payments

Reverse mortgage

With a reverse mortgage, you borrow money using your home as a guarantee for the loan, as you would for a traditional mortgage. Unlike a traditional mortgage, a reverse mortgage is repaid when the borrowers no longer live in the home. Although you don't make monthly mortgage payments, you need to continue to pay property taxes and homeowners insurance, and keep your house in good condition. Because interest and fees are added to the loan balance each month, your loan balance goes up—not down—over time. As your loan balance increases, your home equity decreases. Reverse mortgage borrowers must be age 62 or older. For more information about reverse mortgages, see the CFPB's reverse mortgage page at consumerfinance.gov/reversemortgage.

If you are considering a reverse mortgage, keep in mind that:

- Closing costs for reverse mortgages are typically higher than for other loans, which is largely because reverse mortgage borrowers must pay mortgage insurance. This insurance guarantees that while your loan balance increases over time, you never owe more than 95% of what your home is worth at the time the loan is due.
- You are required to occupy your home as your primary residence, continue to pay property taxes and homeowners insurance, and keep your home in good repair. If you fail to do any of these things, you can lose your home to foreclosure.
- As with the other products described in this guide, when you die your heirs have to pay back the reverse mortgage loan. Unless they have the money to do so, they can take out another loan, sell the home, or turn the home over to the lender.

- A reverse mortgage might affect your ability to qualify for certain public benefit programs, such as local property tax relief programs.
- You are required to meet with a HUD-approved housing counseling agency before taking out a reverse mortgage loan.

How to use your home equity is an important decision. You may want to talk with an attorney, accountant, financial planner or advisor, or **HUD-approved housing counseling agency** before taking out a loan. For more information about how to contact these professionals, see the *Where to go for help* section at the end of this guide.

Questions to ask yourself when considering your options:

- **How much is your home worth? How much debt do you owe on your home?**
  None of the options described above allows you to convert 100% of your equity into cash. With a cash-out refinance, home equity loan, or HELOC, lenders typically require that you keep at least 10% to 20% of your home value as equity. A reverse mortgage allows you to convert even less of your equity into cash—the amount depends on your age, home value, and interest rate.
- **How long do you intend to own your home?**
  Consider your future when deciding how to use your home equity. With all the options above, you need to pay back your loan immediately if you sell your home—so if there is a good chance that you sell your home in the next couple years, your short-term access to money may not be worth the fees you have

to pay to take out the loan. Consider options with lower up-front costs, like a HELOC, over one with higher up-front costs, like a reverse mortgage.

- **How much can you afford to pay each month?**
  As the table in this guide shows, different options have different implications for monthly payments. Keep in mind, however, that all these options require that you continue paying property taxes and insurance on your property.

- **How does using the equity in your home impact your long-term financial plans?**
  Converting your equity into cash creates a debt you have to repay. For home equity loans, refinances, and home equity lines of credit, you repay this debt through monthly payments to the lender. For a reverse mortgage, this debt has to be repaid all at once when you no longer live in the house.

- **What implications might this decision have after you die?**
  Mortgage loans come due upon your death and have to be repaid by your heirs—which may mean that they need to sell the house to repay the loan. This is particularly noteworthy for reverse mortgages because the loan balance that must be repaid increases over time. For more information, see the CFPB guide, *Leaving your home to children or heirs.*

Where to go for help

Legal help

- **Free legal services for people over age 60**
  Find local programs that provide free legal help to people over age 60 by contacting the national Eldercare Locator at (800) 677-1116 or eldercare.acl.gov.

- **Free legal services for people with low income**
  Find local programs that provide free legal help to low-income people through the Legal Services Corporation at (202) 295-1500 or lsc.gov/find-legal-aid.

- **Fee-for-service lawyers**
  The American Bar Association provides information about how to find a lawyer in each state, available legal resources, how to check whether a lawyer is licensed, and what to do if you have problems with a lawyer, at (800) 285-2221 or findlegalhelp.org.

Housing counseling

The U.S. Department of Housing and Urban Development (HUD) provides a list of approved housing counseling agencies that offer advice on buying or renting a home, curing a mortgage default, obtaining a forbearance and avoiding foreclosure. The HUD-approved housing counseling agencies offer independent advice, often at little or no cost to you, at (800) 569-4287 or consumerfinance.gov/find-a-housing-counselor.

Credit counseling

Most credit counselors offer services through brick-and-mortar offices, online, or via telephone. The U.S. Department of Justice publishes a list of approved credit counselors. Call (202) 514-4100 or see the list at justice.gov/ust/list-credit-counseling-agencies-approved-pursuant-11-usc-111.

Accounting help

The American Institute of CPAs provides a list of local certified public accountants, at (888) 777-7077 or aicpa.org/forthepublic/findacpa.html.

Benefits for older adults

The National Council on Aging publishes a free Benefits CheckUp tool that connects older adults with benefits that they may qualify for. Call the helpline at (800) 794-6559 or visit benefitscheckup.org.

More CFPB resources **consumerfinance.gov/olderamericans**

Online
consumerfinance.gov

By phone
(855) 411-CFPB (2372)
(855) 729-CFPB (2372) TTY/TDD

By mail
Consumer Financial Protection Bureau
P.O. Box 27170
Washington, DC 20038

Submit a complaint
consumerfinance.gov/complaint