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CAUTION: Home Equity Loan Perils Still Lurking

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Recent statistics indicate a slow but, rather, steady revival of home equity loan originations for some select group of homeowners by some regional banks. Nonetheless, homeowners should be extremely mindful of such offers and exercise caution before tapping into their home equity. Let us explore some of the perils still lurking for the unwary.

SOME BACKGROUND

Some homeowners confronting budget shortfall used to tap into their home equity as a piggy bank to finance their necessities or sometimes trappings. Such loans became an albatross around the neck of such homeowners when the price of their properties dropped precipitously combined with another calamity namely when a substantial portion of such people either lost their jobs or wold not earn as much as before to properly pay their financial obligations. This problem was exacerbated further when banks tightened their lending spigots and would not refinance such loans or would lend out more loans to satisfy previous loans. This vicious cycle continued for about three years since the "financial collapse" of 2008.

Now, there are some signs some regional banks have started to loosen their lending spigots and allow some select group of homeowners to again tap into their home equity to acquire loans or lines of credit.

SOME **PITFALLS FOR THE UNWARY**

1. PERIL OF FURTHER PLUNGE IN THEIR NEIGHBORHOOD HOME PRICES

Probably, one of the most salient perils of tapping into one's equity is the non-remote possibility of further drop in home prices of the loan's recipient. This risk is extremely paramount especially in areas where foreclosure is alarmingly mounting.

2. PERIL OF FURTHER STEEP PRICE FOR HOME EQUITY LOANS OR LINES OF CREDIT

Compared to car loans and home mortgages, home equity loans and lines of credit are still, generally, very expensive.

Granted, it might be argued, home loans or lines of equity might be better than refinancing since banks might waive origination fees or lines of credit. Nonetheless, most banks instead impose other requirements on the borrower such as borrowing a minimum amount, or keeping a line of credit or loan OPEN for a set number of years.

SALIENT NOTE

Despite the perils just enunciated, some homeowners might find such lines of credit or loans helpful. For example, if homeowners do not need the cash on hand for renovation or other emergencies such as aging parents' medical bills, then with relatively lower interest rates now, such loans and lines of credit might be worth more in 10 years when such rates are reasonably expected to rise further.

SOME CAVEAT

Still, banks impose rather stringent requirements on home equity loan borrowers. For instance, borrowers should have at least a 720 FICO score, at least 20% equity in the home, and income verification such as pay stubs, for the past two years.

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