

THE HOME EQUITY PLAYBOOK

**7 Ways Homeowners Are Using
Their Equity Without Automatically
Giving Up Their Existing Mortgage**

A plain-English guide from EZ Fundings



Understand your options before you borrow.



Introduction

BEFORE YOU BEGIN

Most homeowners know what they owe on their mortgage. Far less know how much appreciation they have gained since buying the home. That difference is your **home equity**.

It may open up options you did not know about, such as funding a home project, paying down higher-interest debt, covering a major expense, or putting money toward another property. Many homeowners also have a first mortgage rate they would rather keep. That raises a fair question: if you only need part of your equity, **do you have to refinance your entire mortgage?**

Not always. A Home Equity Line of Credit, or HELOC, may allow qualified homeowners to borrow against part of their equity while leaving their existing first mortgage in place.

This playbook walks through seven topics in plain English. You can read it start to finish or jump to the section that matches what you are thinking about.



How to use this guide

- Use the equity worksheet to estimate your equity.
- Read the risks page before you decide anything.
- Bring the Questions to Ask at the end to your conversation with a Loan Officer.



A HELOC is not right for everyone. Rates are often variable, payments can change, and your home is the collateral. This guide is for education only and is not a loan offer.

HOW MUCH EQUITY DO YOU HAVE?



Estimated
Home Value



What You Owe



Approximate
Home Equity

Home equity is the part of your home you own outright. A simple starting point is the difference between what your home is worth and what you owe.



For example, a home worth an estimated **\$500,000** with a **\$400,000** mortgage balance has roughly **\$100,000** in equity.

This is an illustration only, not a prediction of what you could borrow.

Equity is not the same as available equity

Not all of your equity will necessarily be available to borrow. Lenders set limits on how much total debt can be secured by your home compared to its value. You may hear this called LTV or CLTV. In plain terms, CLTV adds up all the loans secured by your home and compares the total to what the home is worth.

Line	Your numbers
Estimated home value	\$ _____
Current first mortgage balance	\$ _____
Other loans secured by your home (if any)	\$ _____
Approximate equity (value minus all balances)	\$ _____



Home value estimates vary. A lender may use an appraisal or another valuation to confirm your home's value.

HOW A HELOC WORKS

A HELOC is a revolving line of credit secured by your home. Think of it as a credit line with a limit. Instead of receiving one lump sum, you generally borrow what you need, when you need it, up to the limit your lender sets.



Open the line

Your lender approves your HELOC and sets your credit limit.



Draw period

You can borrow, repay and borrow again, up to your limit.



Repayment period

Borrowing ends and you repay what you owe over a set period.



Draw period

The time when you can borrow, repay and borrow again, up to your limit.



Repayment period

Borrowing ends and you repay what you owe over a set period. Monthly payments can rise when repayment begins.



Variable rates

HELOCs commonly have variable interest rates, so your payment can change over time. Some lenders let you convert part of the balance to a fixed rate.



Fees

Costs may apply to open or maintain the line. Ask for a full list up front.



Collateral

Your home secures the line. If you cannot repay as agreed, you could lose your home.



HOME IMPROVEMENTS

Projects are one of the most common reasons homeowners look at their equity. **Think kitchen or bathroom remodels, a new roof, HVAC, an ADU, a pool, or major repairs.** Project costs often arrive in stages. A line of credit may fit that pattern because you can borrow as bills come due instead of taking one lump sum on day one.



Kitchen



Bath



Roof



HVAC



ADU



Before you borrow for a project

- ✓ Get written quotes first so you know what the project is likely to cost.
- ✓ Borrow what the project needs, not the maximum available.
- ✓ Remember that a variable rate means your payment can change.
- ✓ Ask a tax professional how borrowing against your home may affect your taxes.
- ✓ Do not assume a project will increase your home's value by what you spend.

PAYING OFF HIGHER-INTEREST DEBT

UNSECURED DEBT



Credit cards, personal loans or other higher-interest debt.

SECURED BY YOUR HOME



Some homeowners use equity to pay off these debts.

Some homeowners use equity to pay off credit cards, personal loans or other higher-interest debt. Depending on the rates and terms involved, this may simplify several payments into one and may change your monthly cash flow.



The tradeoff to understand

When you use home equity to pay off credit cards or personal loans, you are converting unsecured debt into debt secured by your home. If you cannot keep up with the payments, your home is at risk.



Other things to weigh

- Paying off cards does not change the habits that built the balance.
- A variable rate can change what you pay over time.
- Fees may apply.
- Stretching a balance over a longer period can mean paying more interest overall.



Before you consolidate

- ✓ Compare the total cost of keeping your current debt vs. using home equity.
- ✓ Review the new interest rate, fees and terms.
- ✓ Confirm the new payment fits comfortably in your budget.
- ✓ Be confident in your ability to maintain the payment long term.



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REAL ESTATE OPPORTUNITIES

Some homeowners explore using available equity as part of a plan to purchase another property, such as a **second home** or an **investment property**.



Questions to think through



Can you comfortably carry the costs of two properties?



What if the property sits vacant, or rental income is lower than expected?



What happens to your payment if a variable rate rises?



Are you comfortable with your current home securing the borrowing?



Financing a second or investment property is a separate decision with its own requirements. Talk with your **EZ Fundings Loan Officer** about how the pieces fit together.

HELOC VS. CASH-OUT REFINANCE

The biggest difference is what happens to the mortgage you already have.



A homeowner owes \$400,000 on a low interest rate mortgage but needs \$75,000 for a project. A cash-out refinance may mean replacing the entire first mortgage with a new loan. A HELOC may allow the homeowner to borrow against available equity separately while maintaining the original mortgage and interest rate.

Neither option is better in every case.



	CASH-OUT REFINANCE	HELOC
Your current first mortgage	Replaces the first mortgage with a new loan.	Generally keeps the first mortgage in place.
How you receive money	Typically a lump sum.	Line of credit as needed.
Rate and terms	New rate and terms on the whole loan.	Commonly variable rate while first mortgage keeps its terms.
Monthly payments	One new mortgage payment.	First mortgage payment plus separate HELOC payment.
Costs	Closing costs may apply.	Fees may apply.
May be worth a look when	You want to change the rate or term on your whole loan.	You want to keep your current first mortgage and need part of your equity.

WHEN A HELOC MAY NOT MAKE SENSE

A HELOC can be a useful tool, but it is not the right fit for every homeowner or every goal.



You prefer one lump sum with a predictable payment.



You are not comfortable using your home as collateral.



You would struggle to keep up if your payment rises.



You need more than your available equity allows.



You are worried about fees and how they add up.



Some lenders may limit or freeze borrowing on a line if your home's value drops significantly or your financial situation changes.



Alternatives to explore with your EZ Fundings Loan Officer



A cash-out refinance



A fixed-rate home equity loan



Waiting, saving or scaling back the project or purchase



If you would not be comfortable making the payment after a rate increase, that is worth pausing on before you borrow.



QUESTIONS TO ASK YOUR LOAN OFFICER

- ☐ How much equity could I potentially access based on my situation?
- ☐ Is the rate variable, and can any part of the balance be fixed?
- ☐ How long is the draw period, and what happens when repayment begins?
- ☐ What fees apply to open and maintain the line?
- ☐ How could my payment change if rates rise?
- ☐ How does a HELOC compare to a cash-out refinance for what I am trying to do?
- ☐ Could the lender reduce or freeze my line, and under what conditions?
- ☐ What happens to my current first mortgage under each option?



PLAIN-ENGLISH GLOSSARY

TERM	SIMPLE MEANING
HELOC	A home equity line of credit that lets you borrow, repay and borrow again, up to a set limit.
Equity	The portion of your home's value that you own (value minus what you owe).
Draw period	The time when you can borrow funds from your HELOC, usually 5 to 10 years.
Repayment period	The time after the draw period when you repay what you borrowed, usually 10 to 20 years.
LTV / CLTV	Loan-to-value (LTV) is your first loan amount compared to your home's value. Combined loan-to-value (CLTV) includes all loans on the property.
Variable rate	An interest rate that can go up or down over time based on a market index.
Collateral	Your home is used as security for the loan.
Cash-out refinance	A new mortgage that replaces your current loan and gives you a lump sum of cash from your home's equity.



YOUR NEXT STEP

Understand Your Options Before You Borrow

Talk with your EZ Fundings Loan Officer about the financing strategy that best fits what you are trying to accomplish. Bring your equity worksheet and the questions above, and we will walk through your options together.



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