CASH IN HAND

A STEP BY STEP GUIDE TO HOME EQUITY

Brought To You By Your Credit Union

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CHAPTER ONE: THE HOME EQUITY LOAN PROCESS

If you're like most people, your home is the largest part of your net worth, and whether you realize it or not, it's also a financial safety net. During the first quarter of 2015, the Federal Reserve announced that American net worth was at an all-time high, more than any society in the history of the planet, and that the typical American household owned a larger portion of the equity in their homes than they had in many recent years.

At the same time, Americans were still skittish about borrowing against their home equity. Hopefully, with this guide, you'll learn how a home equity loan can put your money to good use, either to increase your wealth or pay for the kind of large expense you've been preparing for since the day you signed your mortgage papers.

WHAT CAN I DO WITH A HOME EQUITY LOAN?

Basically, a home equity loan is going to give you a big lump of cash, and you can do any of three things with it: You can take care of an emergency; you can buy something fun; or you can use it to make money. If you're looking at a loan to pay for an emergency, then you already know how you're spending your money. Here are some examples of common ways people use home equity for fun, for profit or both:

Fun:

- Buy a vacation home, retirement home or timeshare.
- Buy a boat, RV or other grown-up toy.
- Renovate that terrible kitchen/bathroom/patio that you just can't look at anymore.
- Add a luxury to your home, such as an outdoor kitchen, a pool house or a garage apartment.

Profit:

- Start that small business you've been toying with.
- Take some time off to work on your novel/screenplay.
- Purchase a rental property. Maybe that vacation home or retirement home can pay for itself.
- With the low interest rate on first mortgages and home equity loans, many investment portfolios will simply pay you more than your interest rate.

WHAT IS A HOME EQUITY LOAN?

Home equity loans can be confusing at first. But you don't need to be a CPA or financial wizard to understand home equity borrowing. We'll start with some general definitions and examples, then move onto some of the more complicated options you might be offered, so you can make an informed decision.

Equity: Your equity is the amount of your home that you own (the amount that is paid for on your mortgage compared to the appraised market value of that same house). If you're not sure how much equity you have, you can use the worksheet we've provided or do a quick estimate by subtracting how much you owe from how much your home is worth. Remember, your home is probably not worth the same amount you paid for it, and any profit belongs to you. On the flip side, if your home has decreased in value since you bought it, that means you have less equity available.

Collateral: When you take out any loan, the lender wants to know they'll get their money back. Collateral is something you own that the lender can take if you default on your loan. When you borrow against your home equity, you are using your home as collateral. If that sounds scary, don't worry. We're going to talk about how much you can feel safe borrowing in a few pages, and we've got a worksheet to make sure you don't bite off more than you can chew.

Example: George and Regina bought a home five years ago for $200,000. They put down $40,000 when they bought it, and by making regular payments on their mortgage, they now owe $110,000. The last time they had their house appraised, they found out that the neighborhood was doing well, and their home is now worth $300,000. So, to figure out their equity, we take $300,000 (the value of the house), and subtract $110,000 (the amount they still owe on the home loan). They therefore have $190,000 in equity.

Sales price of the home:	$200,000
Down payment:	-$40,000
	$160,000
Payment on principal:	-$50,000
The mortgage lender's share of equity:	$110,000

Value of the home:	$300,000
Lender's equity:	-$110,000
Homeowner's share of the equity:	$190,000

When George and Regina want to buy a rental property, they use their home as collateral. But the rental property doesn't cost nearly as much as their house; it only costs $100,000.

If they want to put $30,000 down on the rental property and make $10,000 in renovations, they'll borrow $40,000.

Homeowner's equity:	$190,000
Amount borrowed:	-$40,000
Homeowner's equity in their home:	$130,000
Homeowner's equity in the rental property:	+$30,000
Total equity:	$160,000

In this example, the homeowners have only used about 11 percent of their primary home's equity, and have developed a second revenue stream that will pay them every month while probably increasing in value along the way.

TYPES OF HOME EQUITY BORROWING

Home Equity Loan - Commonly referred to as a second mortgage, this is the most common form of turning your home equity into usable cash. Usually, the second mortgage is on a fixed and shorter term than the first, although some can last up to 30 years. People usually choose home equity loans when they want a large lump sum of cash.

Home Equity Line of Credit - Unlike home equity loans, which tend to be repaid at a fixed rate for a set amount of time, like a car loan, HELOCs are set up more like a credit card, with a revolving line of credit for smaller purchases that might change every month.

TAKING ACTION

We've included worksheets for each chapter of this book. In this chapter, we'll figure out your net worth, how much equity you have and how much you can afford to use as collateral. When you apply for your home equity loan or HELOC, you'll need to bring certain documents, so we've included a checklist for what you'll need to bring. Some of the required documents can change slightly from state to state or loan to loan, so make sure you talk to your lender along the way.

All of our worksheets follow the click-and-clunk method, which means that you can keep moving, even if you get stuck. Don't know how much is in that account? Put something in the estimate box for now and come back to it later. When you're done, go back and see what documents you have and which ones you still need. Then, in any spot where you need a document or to find an amount, put in the contact info for your bank, credit union, insurer, or whomever. Now you've got a to-do list, a call list and a worksheet on the same page.

WORKSHEET I: ASSETS

		Amount		Institution			Paperwork	
ASSETS		Estimated	Exact	Name	Phone	Email	Document	Hard
Cash	1							
Primary	2							
Primary Savings	3							
CDs	4							
Money Market	5							
Life Insurance	6							
Other Cash	7							
Category Total (1-7)	8							
INVESTMENTS								
Securities	9							
Treasury Bonds	10							
Brokerage	11							
IRA	12							
Roth IRA	13							
401(k)	14							
Sep-IRA	15							
Pension	16							
Annuity	17							
529	18							
Coverdell	19							
Other	20							
Category Total (9-20)	21							
OWNERSHIP								
Real Estate	22							
Sole	23							
Partnership	24							
LLCs	25							
Other	26							
Category Total (22-26)	27							

SUMMARY FOR THE				
Assets	22			
Investments	23			
Ownership	24			
Other	26			
Page Total	27			

WORKSHEET II: DEBT

		Amount		Institution			Paperwork	
DEBTS		Estimated	Exact	Name	Phone	Email	Document	Hard
Accounts Payable	1							
Auto Loan	2							
Auto Loan	3							
Other Vehicle Loan	4							
Credit Card Debt (Total)	5							
Student Loan Debt	6							
Consumer	7							
Loan on Life Insurance	8							
Mortgage	9							
Other Real Estate	10							
Other	11							
Category Total (1-11)	12							
SUMMARY								
Your Assets (Your Assets Worksheet, Box 26)	13							
Assets from Co-Signors (Their Assets Worksheet, Box 26)	14							

Total Assets (Box 13 + Box 14)	*15*			
Your Debt (This Worksheet, Box 12)	*16*			
Debt from Co-Signors (Their Debt Worksheet, Box 12)	*17*			
Total Debt (Box 16 + Box 17)	*18*			
Net Worth (Box 15 - Box 18)	*19*			

CHAPTER TWO: COMPARING APPLES TO APPLES

After you've decided to draw on your home equity, you might think the hard choices are over. After all, you've taken the plunge, right? Everything else should just be paperwork. Unfortunately, that's not the case. Taking a loan against your home's equity is a lot like a wedding, and even though you've decided to get married, it doesn't mean you're done figuring out the details. After all, you still need to figure out who you're going to marry. In this chapter, we'll walk through the process of choosing the right loan and the right lender.

LOAN OR LINE OF CREDIT?

A home equity loan and a home equity line of credit (HELOC) sound very similar, and the process of applying for both is similar, too. As we move forward, we'll discuss second mortgages more generally, because the steps you'll take will be essentially the same. But for now, you need to figure out which product is a better fit for your needs.

A second mortgage is a loan that's secured by the value of your home when you still have a first mortgage. If you need a large, fixed amount of money for repairs or other expenses, taking out a second mortgage can allow you to pay for them at a favorable interest rate. This is an option for major planned purchases or for really expensive emergencies.

A home equity line of credit is like having a credit card that's secured by your home. Some institutions issue a plastic card that can be used to advance the funds, while others do not. In latter cases, that credit line can be accessed online or at a branch. Like a credit card, there is a credit limit. In a home equity loan, the limit is usually pegged to the value of your house and what is still owed on the first mortgage at the time of opening the account. It's good for a specific term, called a "draw period," which is generally 10 to 15 years. In many cases, the interest on a HELOC is tax-deductible, but you should confirm that with your trusted tax preparation professional.

If you want a large chunk of money right now, you need a home equity loan. If you need small amounts of money over time, consider a home equity line of credit.

COMPARING LENDERS

Usually, when you make a shopping decision, you have a pretty good idea how two products differ. The next Big Mac you eat will probably taste pretty much like the last one. You know how it compares to a Whopper. With second mortgages, you don't get the advantage of experience and you don't have commercials helping you make the decision. It's also difficult to see how the products differ from one another without doing a lot of math. To simplify the process, we've put together a list of the key factors to look for, so you can understand how lenders differ from one another. You can reference this page when completing the lender comparison worksheet.

Loan minimum - This is the smallest sum the institution will lend on a home equity loan. If you want less than the minimum, consider a HELOC.

Loan maximum - This is the largest sum the institution will lend, and it's usually set at a percentage of your home's equity.

Fixed rate vs. adjustable rate - Just like your first mortgage, your second may have a fixed or adjustable rate, depending on the lender and product. With a HELOC, you can usually only find adjustable rate mortgages, which means your interest rate will change each time the Fed raises or lowers interest rates, though usually not by a significant amount.

Draw period - The amount of time on which you can draw from your equity, specifically for HELOCs. A draw period is usually between 10 and 15 years.

MOVING BEYOND THE NUMBERS

There are a variety of other factors to consider when you pick your lender, and on the worksheet you'll see a spot for intangibles. Do you have a relationship with this lender? How has their customer service been? Are they easy to reach by phone, by email or in person? Ask your friends and neighbors about anyone they borrowed from. Did you hear positive or negative reviews?

It's important not to get swept away by flashy websites or impressive advertising. You're going to be working with your lender for a long time and you want to be confident that you can trust them.

GETTING HELP

It's important to assemble a team of professionals you trust, to make sure you get the best deal and set yourself up for financial success. For many people, the team they assemble for their second mortgage is comprised of the same professionals they use every day, like their lawyer and accountant. If you don't think you need a lawyer or accountant, read chapter three on home equity scams. You might change your mind.

You also might want to include a mortgage specialist. The mortgage specialist or mortgage consultant knows all the intricate details of lending regulations in your area, and they've seen enough second mortgages to know how to best handle your loan, especially if any special problems arise. Mortgage consultants can also help you set your budget so you don't incur more debt than you're comfortable with, or less than you need to accomplish your goals. For more information on budgeting and the size of your loan, read chapter four on how to best put the equity in your home to work for you.

We've also included a worksheet for your team's contact info so you can see them all in one place and make communication simple. Remember, the worksheet uses the click and clunk system, so if you don't have all of the information, it's fine. Fill in what you can, and get the rest when you need it. Remember, you may not need a professional in each one of these categories. Many credit union members find they can can simply rely on the credit union to fill most, if not all, of these roles.

WORKSHEET III: COMPARING LENDERS

	LENDER 1	LENDER 2	LENDER 3
Name of Lender			
Contact			
Date			
LOAN INFORMATION			
Home Equity Loan or HELOC?			
Fixed or Variable Rate?			
Interest Rate			
Minimum Amount			
Maximum Amount			
Amount Approved			
Draw Period Length (HELOC)			
Repayment Length			
Application Fee			
Processing Fee			
Origination Fee			
Other Fees			
INTANGIBLES			
Accesible			
Friendly			
Trustworthy			
Other			
OVERALL			

WORKSHEET IV: ASSEMBLING YOUR TEAM

LAWYER	
Name	
Firm	
Phone	
Fax	
Email	
Address	
Notes	

ACCOUNTANT	
Name	
Firm	
Phone	
Fax	
Email	
Address	
Notes	

MORTGAGE CONSULTANT	
Name	
Firm	
Phone	
Fax	
Email	
Address	
Notes	

OTHER	
Name	
Firm	
Phone	
Fax	
Email	
Address	
Notes	

CHAPTER THREE: HOME EQUITY SCAMS TO AVOID

In today's world, you can never be too careful. Professional con artists know getting a second mortgage is something you probably don't do every day, and they see it as an opportunity to rob borrowers of their money, personal information, or even, in extreme cases, their home. Be alert, and watch out for these "classic" scams that return every few years.

UP-FRONT COST REFINANCE

The scam: You get a phone call or a letter from someone who wants to refinance your mortgage. The scammer offers to cut your monthly payment by hundreds of dollars or help you pay off your mortgage in record time. All you have to do is pay a small percentage of those savings up front.

The person who contacted you has no intention of refinancing your home. This is a variation on the Nigerian prince scam you've probably seen in your email.

How to beat it: It's illegal to charge up-front fees for mortgage refinancing. Some scammers may try to waffle around this by calling them "document processing" fees or using some other jargon. Whatever they call it, it's against the law and is a sure sign this "lender" is really just looking for a quick payday while not delivering anything in return.

While rates can fluctuate over time and from institution to institution, the fluctuation is limited. If someone is offering a rate that is several percentage points lower than anyone else in town, be highly skeptical. Check with the Better Business Bureau to see if the company exists and/or if complaints have been filed against it.

THE FINE PRINT DEED SIGN

The Scam: Scammers use a variety of up-front pitches. Some might offer to lower your rate or payment, while others offer a home equity line of credit with alarmingly good terms. They may also offer to take over the deed to your house and then use their superior credit rating to secure a lower rate while allowing you to remain in the home as a renter. Whatever the pitch, there are many, many forms to sign. All of them are written in indecipherable legalese. Yes, even more undecipherable than the legitimate forms they're impersonating.

Somewhere amid these forms, perhaps buried in the back, is a form signing the deed for your house over to the scammer. Once they have the deed, they can rent the home to someone else or sell it outright while forcing you to vacate. Worst of all, you're still on the hook for the balance of the mortgage, since the loan is tied to you personally and not to the home.

How to beat it: Scrutinize every document you sign relating to your mortgage or home. Have your lawyer look at them. After all, that's why you pay professionals. Spending 20 minutes with a real estate lawyer is expensive, but not as expensive as losing your home. On the other hand, if you're working with a lender you know and trust, such as your credit union, you can rest assured something like this will never happen.

Unless you're selling your home, there's no legitimate reason to sign the deed of your house over to someone else. While rent-to-buy schemes aren't illegal, be sure it's what you want by checking with a professional before you sign anything.

HOME IMPROVEMENT SCAMS

The Scam: If you're looking into a second mortgage to renovate your home, be sure to avoid scammers who stop by and offer to do work around the house. At its heart, it's one of the oldest scams out there, because it comes down to someone taking money for work they never intended to perform. The offer might come from someone who claims to have leftover materials or who says they noticed some missing shingles on your roof when working on your neighbor's house, and now they have a great deal to offer you. By the time you realize you're not missing any shingles, the scammers will have cashed the check you gave them.

Many of those who have been robbed by home improvement scammers reported it was difficult or impossible to get in touch with the scammer after the initial visit. In many cases, the scammers told homeowners a sad story to explain their lack of cellphone or business card, taking advantage of homeowners' sympathy to explain why they can't provide contact information.

How to beat it: Scammers might claim they need to charge you for materials up front or they need a hefty deposit to get started, but that's a red flag. Professional contractors have enough credit to buy materials and usually have accounts at local hardware stores to make billing easier. If the person you're talking to doesn't have good enough credit to buy materials, they're probably not good enough at home repair to be worth your money. More than 60 percent of the Katrina-related victims of home repair scams said they paid up front, according to an LSU study, because the lack of skilled contractors in the city made homeowners anxious to get their projects done.

IF YOU THINK YOU HAVE BEEN SCAMMED

None of this should scare you away from a home equity loan, because most lenders are legitimately looking out for your best interest. However, in today's world the reality is there are some things you'll want to watch out for, and we've included a pretty comprehensive list.

If you think you might have been the victim of a home improvement scam, let the FTC and your financial institution know immediately. If they find out quickly enough, they may be able to stop the check before the scammers can cash it, and keep others from falling for the same scam.

CHAPTER FOUR: BEST USES FOR YOUR HOME EQUITY

As we mentioned in chapter one, people generally obtain a second mortgage because of an emergency, to buy something fun, or to make a profit. You don't need us to tell you about your emergency or what you find fun, so we'll focus this chapter on using your home's equity to improve your overall finances, and why it may be better to use your equity than a credit card.

STARTING A BUSINESS

Millions of Americans dream of starting their own business. The risks are high and many small businesses unfortunately fail. But the rewards can be high, too. If you weren't born rich, owning a successful business is one of the best ways to build your wealth.

If you are hanging out a shingle as a consultant or professional of any kind, it's important to have a unique knowledge of the topic that people will really think is worth paying for. It''s not enough to have a passion for a field if you don't have the skills to add value for your clients. If you're planning on entering the field you're already working in, talk to professionals you already know before making the leap. They're likely to be honest, and you'll want them on your side once you're on your own.

In addition to your expertise, you need to become fluent in business as well. If you don't have a detailed business plan – one that includes a marketing and sales strategy, a plan to manage cash flow, raise needed capital, and an exit strategy for when you will sell or retire, you probably aren't ready to quit your day job … yet. For a sample business plan, visit the Small Business Administration at www.sba.gov. Then, go see your team. Your accountant can help you with the numbers and your lawyer can help you with the paperwork.

No matter how careful the planning, businesses are almost always much more expensive to start and run than we thought. Think about your worst-case scenario – then double it. That's probably very close to the mark. What happens if sales don't meet expectations? What happens if you have to spend more on inventory, insurance, technology or staffing than you had anticipated? Once you have the business plan, compare it to your net worth and call your mortgage consultant. Make sure you can afford what you want to do.

While using a home equity loan to start a business may sound exciting, because you get to make money without a boss and follow your dream, be sure you're on solid ground before putting that dream into action. There are risks involved in any business, but you can minimize those risks by doing your homework creating a solid plan.

HOME RENOVATION

Stop and take a look around your house. Are you delighted with everything in it? This is where you spend a good portion of your day and where you and your family build happy memories. Are there certain renovations that would make your everyday life more rewarding? Remember, if you want your home to make a profit, the next person to buy it needs to see their dream home, too. A few improvements can make your day brighter and put money back in your pocket.

If you're looking to improve your quality of life, then you probably know what you want to do to the house, based on your own lifestyle and what's important to you. If you want to make a profit, consider relatively low-cost improvements that require little to no maintenance. They should immediately distinguish your house from similar homes and ideally also improve the energy efficiency of your home.

Here are four small-scale home remodel projects that can improve the resale value of your home. They're excellent uses for your home equity line of credit (HELOC) and you may be able to save money by doing some or all of them yourself! Consult your tax advisor to determine if those improvements apply for tax deductions on top of energy savings and resale value.

Replace the front door - There's an old adage in real estate that suggests features get tours, but the front porch gets sales. People make decisions on home-buying all the time by starting with a gut reaction and finding reasons to support it later. Upgrading an old, poorly fitting front door with a newer energy-efficient model is a cheap, quick project that can instantly improve your home's efficiency and aesthetic appeal. Best of all, hanging a door can be done in an afternoon, and has an ROI of 98%. Wow!

Minor kitchen remodels - Replacing major appliances and installing new flooring is a difficult, time-consuming and expensive task. Being without a kitchen for weeks on end can be a nightmare, but if you're really not happy with your kitchen, it might be time for a new one in any case, and a home equity loan can make it a reality. However, you might not need more than a few minor kitchen upgrades, like new cabinets, counter-tops, and energy-efficient cook-tops, which are comparatively inexpensive. The average spend here is just under $20,000 with an estimated return on investment at an impressive 80%. Just like with the front door, the changes are mostly aesthetic. People perceive a more modern-looking kitchen as being a better fit than a more "retro" look.

Wooden decks - Outdoor space is one of the hallmarks of the current iteration of the American dream. Where else can a family sit and enjoy a frosty lemonade on a hot summer day? Watch the kids play in the yard while tending the grill on a beautiful wooden deck! The average cost of a new deck, based upon a 16 foot by 20 foot wooden deck, is $10,000. The average return on investment is just over 80%. This is because of the perception of expanded living space at a reasonable price. Adding a deck costs about

$35 per square foot, while a square foot of inside space costs an average of $85. Decks are a great way to increase the play space for a modest cost.

Convert an attic space into a bedroom - For most homes, the attic is an afterthought. It's a place where unused craft projects and abandoned hobbies go to die. Turning an existing attic space into a spare bedroom or office, complete with its own bathroom, can be done for a slightly steeper price. Nationally, the average cost is just over $50,000. That includes constructing a room, extending utilities to it and adjusting the exterior of the house to accommodate the new space.

This remodel provides a 77 percent return on investment in resale value, with the potential for more. If you have adult children or relatives visiting from out of town, an attic room can be a wonderful guest room. You could also rent it out for additional income!

When you're making improvements to your home, you're not just making your life better in the short term. You're also making an investment in your future. Ideally, the increase in the value of your home will exceed the cost of the improvement. If the ROI figures scare you, remember that you're getting value out of the remodel along the way, and that the numbers are skewed by people pursuing projects they love that the next owners might not like.

We've included a worksheet for you to do a walkthrough of your home. Pretend you're seeing it for the first time. Do you want to buy it? Why or why not? There's a space for you to evaluate each room and choose if you'd like to clean, repair, or remodel it. Then, once you've got your list you can walk through it with potential contractors to get estimates, and write in how long and how expensive the project will be.

Disclaimer: We can help you get organized and plan, but nothing can keep a contractor on schedule and on budget, so plan accordingly.

CREDIT CARD DEBT

When you filled out your net worth worksheet, were you surprised by your credit card debt? Even if you don't have much credit card debt, a home equity loan or line of credit can reduce your interest rate and bring down your monthly payments. In most cases, the interest on your second mortgage is tax deductible. Talk about savings!

If you're considering using this loan to pay off your credit card debt, it's important to work with a reputable financial institution, because some of the consolidation companies can really harm your credit, and a few are simply scams.

With a second mortgage, you can get enough money to pay off your credit cards and get the added benefits of avoiding default, which hurts your credit. This also enables you to keep your revolving credit from your cards available to you for use in a pinch.

WORKSHEET V: HOME WALKTHROUGH

	EVALUATE			ESTIMATE		
EXTERIOR	**Clean**	**Repair**	**Replace**	**Contact**	**Price**	**Time**
Back doors						
Deck, porch, patio						
Doorbell						
Driveway						
Front Doors						
Garage doors						
Garbage receptacle						
House number						
Mailbox						
Outdoor lights						
Paint and trim						
Parking						
Recycling receptacle						
Sidewalks						
Siding (brick/ stone/ cement)						
Traffic noise						
Windows						
Notes:						

	EVALUATE			ESTIMATE		
INTERIOR	**Clean**	**Repair**	**Replace**	**Contact**	**Price**	**Time**
Kitchen						
Kitchen appliances						
Master bedroom						
Guest bedroom						
Other bedrooms						
Master bathroom						
Fixtures						
Other bathrooms						
Fixtures						
Dining room						
Den						
Living room						
Office						
Attic						
Wiring						
Notes:						

WORKSHEET VI: BUDGET

	Typical Month Before Loan	Typical Month After Loan
BILLS		
Mortgage	*1*	*1*
Utilities	*2*	*2*
Car Payment(s)	*3*	*3*
Car Insurance	*4*	*4*
Health Insurance	*5*	*5*
Subscriptions	*6*	*6*
Credit Card(s)	*7*	*7*
Student Loans	*8*	*8*
Other Debt Payments	*9*	*9*
Other Bills	*10*	*10*
Bills Total (Add 1-10):	*11*	*11*
EXPENSES		
Groceries	*12*	*12*
Gasoline	*13*	*13*
Eating Out	*14*	*14*
Entertainment	*15*	*15*
Clothes	*16*	*16*
Miscellaneous	*17*	*17*
Expenses Total (Add 12-18):	*18*	*18*
SAVINGS		
College Fund(s)	*19*	*19*
Retirement Fund(s)	*20*	*20*
New Car	*21*	*21*
Emergency Fund	*22*	*22*
Other Savings	*23*	*23*
Savings Total (Add 12-18):	*24*	*24*

SUMMARY		
Monthly Cost of the Loan (After #25 - Before #25)	*25*	*25*
Monthly Cost of the Loan (After #25 - Before #25)	*26*	*26*

CHAPTER FIVE: WHY A CREDIT UNION IS A SMART CHOICE

You need a reputable lender for your second mortgage so you can avoid scams and get a good rate with someone you know and trust. That leaves two choices: a bank and a credit union. Obviously, banks and credit unions offer a lot of overlapping services. Both banks and credit unions take in deposits, administer checking and savings accounts, issue credit and debit cards and provide home loans in addition to consumer loans.

With the two types of financial institutions being so similar, what makes one more or less favorable than the other? Much of it comes down to guiding philosophy and who is most willing to work in the consumer's best interests.

WHO GETS THE PROFITS?

Banks are corporations – owned by their stockholders. Typically, and especially at larger banks, these shareholders are Wall Street institutions. Credit unions, on the other hand, aren't owned by stockholders on Wall Street; we're owned by our members on the local Main Streets throughout our nation's and world's neighborhoods!

True, neither banks nor credit unions are in business to lose money. Both need to show a healthy bottom line to stay open. The difference is this: When a bank makes money, they send their profits to their stockholders, who most often have no connection to your local community. When a credit union shows a profit, on the other hand, they pass it on to members - who are technically the owners. This can be in the form of dividends, better rates, technological investments and a variety of actions that bring greater value to members of the cooperative. Because credit unions are not forced to focus on pleasing distant shareholders through issuing a dividend every quarter, they can frequently offer services and loans at lower costs than banks.

The mutual ownership structure of credit unions gives them another advantage too: Wall Street can't pressure credit unions to make unwise decisions for short-term gains at the expense of their membership. Every decision made by a credit union is solely in the long-term best interest of its members.

For example: In normal economic times, credit union and bank failures are very rare. That story changed during the mortgage crisis of 2008-09. Leading up to the crisis, publicly traded banks were under intense pressure from Wall Street to make questionable loans so they could keep short-term numbers up. Credit unions were free to make sound and rational decisions that were in the best interests of their membership, not Wall Street. According to information published by the Federal Deposit Insurance Corporation and the National Credit Union Association, banks were failing at a rate three times higher than credit unions in 2008 and had a failure rate of five times that of credit unions.

In good times, credit unions have a great track record. And when times are tough, there's no comparison.

EASE OF SERVICE

Here's a fun game: Call a corporate bank with a simple request, like checking the balance of a savings account. Count the number of irritating phone tree menus you have to sift through before you could talk to a real person who can answer your question.

For-profit banks have earned a reputation of having cumbersome customer service and out-of-touch policies. Getting information on financial services, such as credit repair or auto loans, means sitting on hold for hours. Credit unions, on the other hand, provide easy-to-use services and real, live human beings who can answer questions, make recommendations and help you understand the complex world of finance.

LENDING PRACTICES

For-profit banks answer to corporate owners. They expect a predictable, stable rate of return on their investments. This demand puts a straitjacket on lending and ensures those practices never deviate from a predetermined formula.

However, let's pretend you just got a new job, so last year's tax returns aren't a good indicator of how much you are earning. That's not in the formula, so it doesn't matter. Credit history ruined by an old medical bill? Corporate banks stop reading after the first three words of that sentence. In short, there's no room for flexibility and loan interest rates tend to be much higher.

Credit unions are community institutions, so helping people out is part of what they do. Their rates tend to be lower than those of corporate banks. They also tend to be more willing to make exceptions for details that may not be reflected in the conventional lending formula.

EDUCATIONAL RESOURCES

Corporate banks have historically made a killing by keeping people in the dark about their practices. Credit card companies made it hard to tell exactly how much interest you were being charged. Banks charged overdraft fees without ever telling you they were doing it. These things got so bad, Congress took action. Consumer ignorance was built into the profit model of big financial institutions. Educating consumers was not just a waste of money to them, it was actually costing them business.

Credit unions are not-for-profits that want to make their communities a better place. Part of that mission includes financial education. If you need advice about home buying, making a budget or using credit responsibly, your credit union will be happy to help.

CHAPTER SIX: HOME EQUITY LOANS AND YOUR FINANCES

Your financial situation is like your fingerprint, because it's unique to you. Reading this book shouldn't replace talking to a professional, but hopefully you're armed with enough knowledge to make that meeting go smoothly. Let's finish by discussing how a second mortgage can affect your finances and how you can use the wealth of data on your worksheets.

Look at your budget now and compare it to what your budget will look like after the loan. Have you brought down your credit card payments? How much? If you want the loan to renovate your home or open a business, do you have the money you need without warping your budget too much?

Next, take a look at your mortgage and make sure you have enough equity to get the job done. Do you need three swimming pools? Does your business need its own jet from day one? If you need more, and you can't possibly tighten your belt, go back to your lender and see what options you have.

Home equity loans can be a great low-interest way to get money when you need it. The interest is usually tax-deductible and the alternatives are often not nearly as good. Choose the right lender, avoid scams, and you'll be on your way to financial success.

If you've got your team assembled and your checklists completed, you're ready to get started. Let's work together to take the next step!