



## Minnwest Message

### A word from our President about Understanding Home Equity

You've been hearing a lot lately about the mortgage crisis in the U.S. At Minnwest, we want you, our customers, to be informed and understand how many financial products work and how they impact you, your family and your future. We hope you have been reading Community Connection because we've covered several financial products that affect many of you . . . from mortgages to CDs.

In this issue, we've prepared information for you concerning home equity loans and home equity credit lines. We'll tell you the different options available to you, how they work and what you need to know to go shopping for the best one for you. We believe in being an ethical financial institution you can trust. That's why we want to give you some honest information. We've been involved in many of your lives for over 20 years since our foundation in 1987 and we want to remain your trusted financial resource.

Evan Ingebrigtsen

President

## How to tap into your home's equity safely and responsibly.

Almost everyone needs additional cash for major purchases and oftentimes a logical place to look is the equity in one's home. But, at Minnwest Bank, we want you to do it safely and responsibly. Tapping into your home's equity is an important decision. While we want you to look to Minnwest for your lending needs, we want you to give you all the facts concerning home equity loans and home equity lines of credit. We'll even provide some cautionary advice because we want what's best for our customers. Please remember that the information provided here is not always indicative of Minnwest Bank's policies and products, but is meant to inform you about these loans in general so you can make wise decisions.



### Types of loans available.

You can tap into your home's equity by

- 1) Taking out a second mortgage
- 2) Using a home equity line of credit

### Your first consideration. . . refinancing your mortgage.

Before you consider a home equity product, you may wish to consider simply refinancing your current mortgage. This is a logical choice if the interest rate available is lower than what you are currently paying. This simple solution could give you the funds you need. Be sure to consider how long you will live in the home and any closing costs to ensure that this is a good choice.

### Taking out a second mortgage or home equity loan.

If you have a low interest mortgage and need to borrow more, it isn't wise to refinance it. It's better to hold onto that low interest and borrow against your home's equity using a second mortgage. Basically, you are now responsible for two mortgages.

A second mortgage works just like a regular mortgage, although it usually is for a term of 5 to 15 years or more, rather than the customary 25 to 30 years. It is a secured loan that is subordinate to your first mortgage. Second mortgages are called subordinate because, if the loan goes into default, the first mortgage gets paid off first before the second mortgage. Therefore, second mortgages are riskier for lenders and generally come with a higher interest rate than first mortgages.

In most cases, a second mortgage takes the form of a home equity loan and the two are synonymous, from a financial standpoint. A second mortgage or

(Continued from front cover)

home equity loan may also be referred to as a closed-end loan because it is for a specified amount and for a fixed term. It's also repayable in equal monthly amounts. You'll know just what your payments are each month so you can easily budget for them.

#### **MINNWEST'S HOME EQUITY LOAN:**

Ideal for:	One-time major expenses. Usually \$10,000 or more. (Ex. new car, debt consolidation, single home improvement)
How it works:	Receive the entire loan amount at one time. Have the security of a fixed rate with predictable monthly payments
Advantage:	Fixed rate so payments are consistent. Option of credit protection which covers loan payments under certain circumstances. Interest may be tax deductible*

#### **Using a home equity line of credit.**

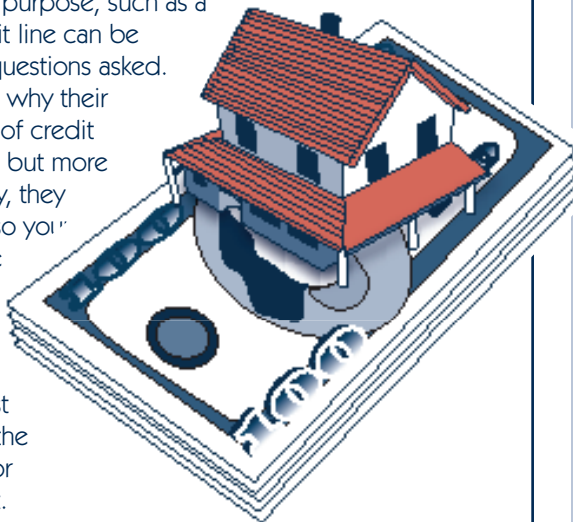
Whereas a home equity loan gives you the security of a consistent repayment plan, a home equity line of credit offers you flexibility. With a **Home Equity Line Of Credit** or HELOC, the borrower has an overall credit limit from which he or she can borrow. This credit limit or line of credit is based on the equity in your home. You can borrow from it whenever you want (during the "draw" period) for any amount. And, for that reason, you may hear them referred to as an open-ended loan. The "draw" period is the length of time you can access the funds. Usually, you can access the funds available to you with a special checking account or credit card. While home equity loans are designed to be used for a specific purpose, such as a home remodel, the funds in a credit line can be used for anything you wish. . . no questions asked. You are in complete control. That's why their advantage is flexibility. These lines of credit can be available for up to 15 years, but more commonly it's 3-10 years. Generally, they come with a variable interest rate, so your payments could fluctuate if the rate goes up or down. But, some HELOCs offer the opportunity to convert them to a fixed interest rate.

With a HELOC, you only pay interest on the amount you actual use, not the entire amount of the line of credit or unused portion of the line of credit.

Depending on your lender, the credit line may be required to be repaid at the end of the draw period or allowed to be renewed. Others may allow repayment over a fixed period (the "repayment period"). Be sure you understand your options.

There are some HELOCs where your repayment plan begins with you only paying the interest on the amount borrowed. While this does give you an initial low repayment plan, it can result in a very large payment required at the end of the loan called a balloon payment. You should carefully consider this type of arrangement and talk with your financial advisor to determine if it is right for you.

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## **What are the 3 most popular uses of home equity funds?**

- home improvements
- consolidating bills & debt with high interest rates into a lower, more manageable home equity financing rate
- making large purchases or even a second home

## **What is. . .**

### **Home equity?**

Home equity is the difference between how much your home is worth minus what you owe on your current mortgage. In other words, it's the part of the home's value that is actually paid off. If your home value goes up, then your equity increases. If it goes down, then your equity decreases.

### **Loan-to-value?**

The ratio of the principal balance of a home loan to the estimated market value. A \$100,000 home with a \$75,000 mortgage, for example, has a loan-to-value ratio of 75%. Few lenders will make a loan for the full value of a home; most have a maximum loan-to-value ratio of 75% to 90%.

(Source: SmartMoney)

### **Index?**

Published rate that serves as a base for the interest rate charged on a home equity line and also as the base for rate used by the lender.

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Variable rate plans secured by a dwelling must, by law, have a cap or ceiling on how much your interest rate may increase over the life of the plan.

#### **MINNWEST'S HOME EQUITY LINE OF CREDIT:**

- Ideal for:** Ongoing expenses. Usually \$5,000 or more.  
(Ex. continuing home improvements, educational & medical expenses, events such as a baby or wedding, large or unexpected purchases)
- How it works:** Access credit line anytime, for any amount (up to limit) & for any reason using special checks. This gives you flexibility.
- Advantage:** Fixed rate so payments are consistent. Flexibility of use - use for any reason. Interest may be tax deductible\*

#### **Costs of obtaining a home equity loan or line of credit.**

Many of the costs of setting up a home equity loan or line of credit are similar to those you pay when you buy a home. For example, there could be fees for property appraisals, application fees, closing costs including fees for attorneys, title search, title insurance, etc.

Take into consideration the amount of fees you will need to pay to establish a home equity plan. For example, if you were to only use a small amount of a credit line, those initial charges would substantially increase the cost of the funds borrowed. On the other hand, because the lender's risk is lower than for other forms of credit, since your home serves as collateral, annual percentage rates for home equity credit lines are generally lower than rates for other types of credit. The interest you save could offset the costs of establishing and maintaining the credit line.

#### **Primary advantage & disadvantage of home equity loan products.**

What is so enticing about home equity loans and home equity lines of credit is that interest is usually tax-deductible on loans which don't exceed \$100,000. But, as a word of caution, please contact your tax advisor to make sure that is true for your situation! That's why many borrowers use a home equity loan for such purchases as a car or debt consolidation, rather than choose another type of loan; they are seeking the tax advantage. The primary disadvantage is that you are using your home as collateral and placing it at risk. So before taking out any type of loan, you must consider all the advantages and consequences of your action.

#### **Having second thoughts? You have 3 business days to cancel.**

If you're using your home as security for a home equity loan or a line of credit, federal law gives you three business days after signing the loan papers to cancel the deal--for any reason--without penalty. You must cancel in writing. The lender must return any money you have paid to date.

#### **Meet with a Minnwest lender.**

Our lenders are trained to help you with the loan process. Do not be afraid to ask questions. And, if there is a term or wording unfamiliar to you, question, question and question until you feel comfortable. On back, we've listed some questions for you to use when shopping for a home equity loan product. We hope you'll make Minnwest Bank your first choice!

## **What you need to know about interest rates.**

Generally, home equity loans have a fixed interest rate with fixed monthly payments.

Home equity lines of credit can have variable interest rates or fixed rates. They may even have the option of converting from a variable rate to a fixed rate. With a variable rate, your monthly payments can increase or decrease as the Prime Rate fluctuates. Each time you use your line of credit, the interest rate on the day of your purchase is what you'll be charged. If the interest rate increases or decreases after that purchase, your payments will be affected accordingly. In other words, they will go up or down.

#### **How is my initial interest rate determined?**

Pricing is based on the loan-to-value ratio (See our definition) or the existing equity in your home and your credit history.

#### **How are interest rates calculated on a home equity line of credit?**

If it is a variable rate, it must be based on a publicly available index (see our definition), such as the prime rate published in some major daily newspapers or a U.S. Treasury bill rate. Plus there's an additional margin or percentage points (for example, 2%) added to the prime rate. This total number (Prime Rate + margin) is your Annual Percentage Rate.

\*\*Consult a tax advisor regarding deductibility of interest.

## How much can I borrow?

Here's a very simple way to determine how much you may be able to borrow using your home's equity. The following is based on 80% of your home's value (See definition of Loan-to-Value)

Home's value (estimated tax value)	\$ _____
Multiply by the factor of 80%	x .80
Equity in your home available for loan	\$ _____
Subtract what you owe on your mortgage	— _____
Projected amount of home equity loan or line of credit.	\$ _____

Your situation is unique, please consult with an appropriate advisor before making any decisions based on this information. While all information was obtained from resources believed to be reliable, Minnwest Bank and its marketing affiliate cannot guarantee that the information is complete or accurate. Minnwest Bank's Community Connection is intended to provide general information only and should not be construed as legal, accounting, tax or other professional advice.

## Some questions to ask lenders.

Ask potential lenders these questions to help you make an intelligent and safe decision.

### FOR LOANS & LINES OF CREDIT:

- How much credit can I have?
- What is the interest rate?
- Is the interest rate & payment fixed?
- Does the rate & payment change?
- Is there an the initial interest rate?
- What is the max. interest rate or cap?
- Is there a minimum interest rate?
- How often can the rate be adjusted?
- How will rates affect my payments?
- What index is used to determine rate?
- Can loan be converted to a fixed rate?
- What is the repayment period?
- Do payments cover both principal & interest?
- Are payments interest-only?
- Is there a final balloon payment?
- Can balloon be refinanced or extended?
- What's the penalty for late payments?
- What are the default provisions?
- Is there a penalty for early repayment?
- What closing costs will I have to pay?
  - Points (percent of line of credit)
  - Application fee • Title search fee
  - Appraisal fee • Other fees

### FOR HOME EQUITY LINES OF CREDIT:

- Are there limitations on how I use the line of credit?
- Is there a minimum I must use each time I access it?
- Is there a minimum I must keep out standing?
- Am I required to take an initial advance when HELOC is set up?
  - If so, how much?
- Is there an annual fee? What is it?
- Are there fees per transaction?
  - Is so, how much?

### MINNWEST HOME MAX LINE OF CREDIT

## WE'RE PUTTING

# THE CRUNCH

## ON THE CREDIT CRUNCH

### 3 YEAR FIXED

# 5.99% APR\*

- Interest only payments for 3 years**
- No closing costs**  
Appraisal or title insurance fees may be borrower's responsibility, if required, and may range between \$0 and \$600.
- Same rate for 3 years**

With a Minnwest Home Max Line of Credit, you get the security of knowing you'll have the same fixed rate for three years. And you'll have the same low interest rate every time you access funds from your Home Equity Line of Credit — for three years. Plus, there's no closing costs and interest may be tax deductible.\*\* Use your Minnwest Home Equity Line of Credit to pay off high rate credit cards, consolidate debt, make home improvements, pay tuition, or even to buy a new car or take that dream vacation.

\*APR = Annual Percentage Rate. 5.99% APR is available for up to 3 years on Home Equity Lines of Credit with a loan to value of 80% or less. Rate includes a 0.50% rate discount (direct debit from a Minnwest Bank checking account required). Offer is subject to normal credit qualifications. \$350 termination fee will be collected if the account is closed within 2 years. No closing costs available to new or existing Minnwest Bank customers. Minimum loan amount of \$10,000 is required. If you made only the minimum payment and took no other credit advances, it would take 3 years to pay off a credit advance of \$10,000 at an ANNUAL PERCENTAGE RATE OF 5.99%. During that period, you would make 35 monthly payments ranging from \$45.95 to \$50.87 and one final payment of \$10,050.87. Property Insurance may be required. \*\*Consult a tax advisor regarding deductibility of interest. Some additional restrictions may apply. Member FDIC. Rates effective as of February 5, 2008. Limited time offer.



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