

## The Comeback of the Home Equity Loan

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Warm weather brings more home improvement projects. And now that home prices have stabilized and even increased in various markets, borrowers have restored some of the equity they had lost.

As mortgage rates increase, most homeowners that refinanced to take advantage of low rates don't want to remortgage to take *cash out* for home improvements. Home equity rates are still low, so a fixed-rate home equity solution makes sense for many homeowners.

The home equity loan is a great asset for banks and credit unions, too. It offers a higher rate than a regular mortgage, shorter duration, and if underwriting is sound and LTV limits are below 85 percent, a home equity loan is also a low credit risk.

Perhaps that's why our members' interest in funding solutions for home equity products is growing. One of the lowest rates we have seen in the market is 2.74 percent for a five-year home equity loan.

Did you know that you can lock in an attractive spread on these shorter duration assets by utilizing a mix of amortizing advances? The funding scenario below uses the 3/3 Amortizing advance for 30 percent of the funding allocation, the 5/5 Amortizing advance for 50 percent, and funds the remaining 20 percent with short-term advances or excess deposits. This strategy has an initial net spread of 178 basis points and is projected to maintain an average net interest spread of 124 basis points, even if rates rise 300 basis points.

<b>5-year</b>	<b>Home Equity Loan</b>	<b>2.74%</b>
30%	3/3 Amortizing Advance	0.80%
50%	5/5 Amortizing Advance	1.36%
20%	Cash or ST Advance	0.22%
	<b>Total Liabilities</b>	<b>0.96%</b>
	<b>Initial Net Spread</b>	<b>1.78%</b>

(Rates as of 7/2/2013)

<b>Average Net Spread (Five Years)</b>	
Down 100 bp	1.66%
Down 50 bp	1.70%
<b>Basecase/Rates Flat</b>	<b>1.72%</b>
Up 100 bp	1.58%
Up 300 bp	1.24%
Up 500 bp	0.84%

For a customized funding strategy, please contact your relationship manager or a financial strategist to discuss your institution's unique funding requirements.