

## Here Come the 2<sup>nd</sup>'s

Here come the 2<sup>nd</sup>'s! Rising California home prices are increasing equity in many primary residences and homeowners are wisely utilizing this capital through Home Equity Line of Credit's (HELOC) or Business Purpose 2<sup>nd</sup> Trust Deeds. This Blog explains parameters and best practices for obtaining and or funding a business purpose 2<sup>nd</sup> Trust Deed and some of the differences between a Bank HELOC and a Business Purpose 2<sup>nd</sup> Trust Deed.



Zillow predicts that U.S. home prices will rise by 4.3 percent on average in 2014. In home equity lending, homeowners may borrow based on how much equity they have in their property. The variable HELOC or Line of Credit typically comes from a bank for a consumer purpose and the fixed Business Purpose 2<sup>nd</sup> Trust Deed comes through a Hard Money Lender. Here are some of the basic differences between a HELOC and Business Purpose 2<sup>nd</sup> Trust Deed:

Lending Criteria	Bank HELOC	Hard Money Business Purpose 2 <sup>nd</sup>
FICO	>700	>600
Combined Loan to Value (CLTV)	<85%	<55%
Ability to Pay	Yes	Yes
Valuation	Current Value	Current or As Repaired Value
Term	10 year fixed	3-5 years
Access	Line of Credit that can fluctuate	Loan amount fixed and disbursed at Origination
Rates	5-7%	11-14%
Loan Purpose	Home Improvement or other consumer purpose	Business or Investment purpose
Status of 1st Trust Deed	Current	Current or Delinquent
Status of Taxes and Insurance	Current	Current or Delinquent
Prepaid Interest	No	Typically, yes

Here are a few examples of recent Business Purpose 2<sup>nd</sup> Trust Deeds:

1. Retiring Police Officer expanding a Notary business and needs money for marketing and office equipment.
2. Rehabber needing additional funds to complete construction.

Property owners should learn from the 2008 Crisis, where about 30 percent of the equity in U.S. homes was obliterated, and not treat their homes like automated teller machines, but pull money out wisely without incurring too much leverage. Hard Money Lenders on these loans should pay attention to the above lending criteria to ensure a successful loan.

Whether a HELOC or Business Purpose 2<sup>nd</sup>, borrowers can take advantage of the equity in their homes. Have you borrowed against your home? We would like to know. Please comment on our [Mortgage Vintage, Inc. Facebook Page](#) or our [LinkedIn Company page](#). If you enjoy discussions like this, please sign up for our [Linked in Group](#) called Southern California Trust Deed Investment Group.