Canadians lack knowledge about home equity lines of credit, but only one-in-ten seek expert legal advice, poll reveals

What homeowners should know before securing their biggest asset for a loan

Toronto – November 15, 2011 – More than one third of Canadians (36 per cent) have a home equity line of credit as a flexible way to borrow money, but results of a new poll suggest they may be borrowing without knowing what they're committing to — and too few are seeking expert legal advice.

According to a Leger Marketing poll commissioned by the TitlePLUS program, three-in-five Canadians (59 per cent) claim to be confident in their level of knowledge about home equity lines of credit (HELOC), but when queried most did not understand much about this financing mechanism. On average, Canadians correctly answered only three of eight true-or-false questions (38 per cent) that tested their basic knowledge of how HELOCs work. Those with a HELOC did not fare much better: Although 79 per cent were quite confident of their level of knowledge, on average, they correctly responded to only 43 per cent of questions asked.

"A home equity line of credit can give you lower interest rates and flexible lending terms, but there's more to this arrangement than meets the eye, "said Ray Leclair, LAWPRO's vice president, Public Affairs (Acting) and a real estate lawyer. "Without understanding all of the implications of this type of borrowing, consumers could risk their future credit or run into issues when they sell or refinance their home."

A popular way to borrow

According to the poll, Canadians who currently have a line of credit secured by their home have used it to finance major purchases including home renovations (37 per cent), a car (17 per cent), basic living expenses (11 per cent), a vacation (11 per cent), a down payment on an investment property (9 per cent), children's education (5 per cent) and funding for their business (5 per cent). Interestingly, one quarter of those with a HELOC haven't used it.

Expert advice vs. reading the fine print

While the majority of those with a secured line of credit took a cautious approach by reviewing all the loan documents with a loan officer (55 per cent) and one third (33 per cent) read all the fine print, only 12 per cent consulted with a lawyer before signing the agreement. One-in-ten (11 per cent) admitted to not reviewing any documents or seeking advice before signing.

Interestingly, younger Canadians aged 18 to 34 were most likely to seek legal advice (23 per cent) yet were the least likely to have accessed their loans with two in five having never touched the funds. Men when compared to women were twice as likely (15 per cent to 7 per cent) to simply sign all loan documents without reviewing; this could be explained by higher confidence in their level of knowledge about home equity lines of credit, 15 per cent greater than that of women (65 per cent vs. 52).

"For most Canadians, your home is your biggest asset. You wouldn't buy or sell it without consulting a real estate lawyer. Borrowing against it is just as important because a HELOC is a mortgage with similar implications; and in some cases, depending on the fine print, a home equity line of credit can affect your credit rating, your ability to borrow for other needs, and even your ability to use your credit card going forward," said Leclair. "Although many people may feel they understand what they are getting into when they take out a line of credit, this poll indicates otherwise. That's why – to protect themselves – consumers should seek expert legal advice before signing on the dotted line."

Failing the HELOC knowledge test

Despite Canadians' confidence in their knowledge about how their secured line of credit works, the majority seemed fuzzy on the details.

For example, of those who said they did have a home equity line of credit:

- 57 per cent did not know that when you take out a HELOC the financial institution lending the money puts a mortgage on the borrower's home.

- 58 per cent did not know that taking out a HELOC when they already have a mortgage on their home means that the lending institution places a second mortgage on the home, or modifies the original mortgage to capture all the equity in the home;

- Nearly seven-in-ten (69 per cent) did not know that having a HELOC could negatively affect their credit rating or future loan applications.

"Using your home to secure a loan is a case of 'Borrower Beware'," said Leclair. "When you use your home as collateral, the bank has legal rights to your property and you cannot close on a sale of that home without paying back that loan."

Canadians do not fully understand the implications of this financing tool – even though the majority feel confident in their level of knowledge of home equity lines of credit:

- 83 per cent of survey respondents did not know that when you pay off and close your home equity line of credit, any credit card consolidated under this line of credit may be cancelled and not available for future use.
- 62 per cent did not know that having a home equity line of credit could negatively impact your ability to take out a loan or mortgage with another financial institution.
- 58 per cent did not know that when you take out a line of credit, your home becomes the bank's security for any credit card debt, other loans you have with that bank, or any other loans you have co-signed.

About the survey

The survey was completed by Leger Marketing via their online panel between October 24 and 26, 2011, with a sample of 1501 Canadians aged 18 or older. A probability sample of the same size would yield a margin of error of +/- 2.5 per cent, 19 times out of 20.

About LAWPRO and TitlePLUS title Insurance

TitlePLUS title insurance is provided by Lawyers' Professional Indemnity Company (LAWPRO), an insurance company that is licensed to provide professional liability insurance and title insurance in most jurisdictions across Canada.

TitlePLUS title insurance is the only all-Canadian title insurance product on the market today. It protects home buyers and mortgage lenders under the same policy (and for the same premium) from title-related and other problems that could affect ownership or the marketability of the property, and covers the legal services provided by the lawyer closing the purchase.

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