



Home Equity Loans: Are They Right for You?

Homeowners who need money to pay bills or make home repairs often consider a home equity loan. These loans may offer a lower interest rate than a credit card, and the interest may be tax-deductible. However, home equity loans should only be used for major, important purchases or financial needs. Keep in mind that when you take out a home equity loan, **your home is on the line.**

Get informed.

Check your credit report. It's important to make sure your credit report is accurate before you apply for any loan. You can order one free credit report annually from each of the major credit reporting agencies. Order online at www.annualcreditreport.com or by calling toll-free, 1-877-322-8228.

Shop around for the best deal. Contact several lenders – and be cautious about dealing with a lender who just appears at your door, calls you or sends offers in the mail. Check with more than one lender. This includes banks, credit unions and mortgage companies. It's okay for lenders and brokers to compete for your business. Your business is a valuable commodity.

Ask questions. Each lender should explain the loan plans they can offer. Just knowing the amount of the monthly payment or the interest rate is not enough, so ask for more information. Look over the terms and conditions. The terms often relate to fees that increase the overall cost. Ask for an explanation of anything you don't understand.

Once you've decided on a lender...

After you've checked your credit report, shopped around, asked questions and picked the lender that's best for you, you're almost ready to move on. First, request:

1. A *Good Faith Estimate* of all loan charges. This will show the total cost of the loan before you sign. The estimate

must be sent within 3 days after you request it.

2. Blank copies of the forms you will sign at closing, when the loan is final. Study these carefully and ask for an explanation of anything you don't understand.
3. Copies of the forms you will sign at closing with the terms (amounts) filled in. A week or two before closing, contact the lender to find out if there have been any changes in the *Good Faith Estimate*.

But before you sign on the dotted line...

Think twice before you sign loan agreements. It's always good to get a second opinion.

If you have a knowledgeable friend, relative or attorney, ask them to look over the *Good Faith Estimate* and other loan papers before you sign the contract. Make sure that all promises, including spoken ones, are put into writing.

Under no circumstances should you sign if the lender exhibits any of these traits:

- Asks you to falsify information (such as inflating your income).
- Changes the terms of the loan without giving reason.
- Pressures you to apply for a larger loan than you need.
- Pressures you to sign today. A good deal today should be available tomorrow.

✓ Lender Comparison Checklist

The following is a handy checklist you can bring along when comparing lenders. These are good questions to keep in mind when shopping around for the best deal, and reputable lenders should give concise answers.

	Lender A	Lender B
What are the monthly payments?		
What is the Annual Percentage Rate (APR)? (This is the cost of credit shown as a yearly rate; it includes the interest rate, points, broker fees and other credit charges.)		
What is the interest rate? (This is the cost of borrowing money shown as a percentage rate.)		
Will the interest rate change?		
• When?		
• How often?		
• By how much?		
What will I have to pay in points?		
What will I have to pay in fees?		
• Application or loan processing fee		
• Origination or underwriting fee		
• Lender or funding fee		
• Appraisal fee		
• Document preparation and recording fees		
• Broker fees		
• Other fees		
Are any of the fees refundable if I don't get the loan?		
How many years will I have to repay the loan?		
Is this an installment loan or a line of credit?		
Is there a balloon payment?		
What are the total closing costs?		
If you use a broker, how will he or she be paid?		
Does the loan include optional credit insurance? (You don't have to purchase optional credit life insurance to get your loan.)		
Did you get a copy of your credit score obtained by the lender?		
Can you afford this loan?		

Make sure there are **no doubts** lingering about the loan when you close the deal.

Know your rights. If you are using your home as security for a home equity loan, federal law gives you 3 business days after signing the loan papers to cancel the deal – for any reason – without penalty. *You must cancel in writing.*

Sources

FTC Facts for Consumers: Home Equity Loans: Borrowers Beware!, Federal Trade Commission
FTC Facts for Consumers: Home Equity Credit Lines, Federal Trade Commission
FTC Consumer Alert: Shopping for a Home Equity Loan?, Federal Trade Commission

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