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Getting a Smart Home Equity Loan

Home equity loans have been around for years and gained tremendous popularity during the past few years when home equity seemed to grow on trees. If you are currently in the market for a home equity line, you should take a few minutes to find out what is required for a smart, affordable loan.

Improve Your Credit

In today's mortgage mess, only those with good credit are being considered for mortgage financing. Before you even start applying, obtain a copy of your credit report and find out what you can do to improve your credit score, if need be. Once your credit score is where it should be, you will also have to provide proof of sufficient income and a consistent employment history.

Understand Your Needs

When it comes to home equity, there are two loan choices available: a home equity loan or a home equity line of credit (HELOC.) Both use the equity in your house to provide you with funds, but they are structured differently to accommodate various needs. A home equity loan provides you with a lump sum, and a fixed-rate repayment schedule. This loan program is best if you have a one-time financial need, like a tuition payment, or a child's wedding.

A HELOC works more like a checking account. You can withdraw money as needed up to the limit during a specified time period. Your repayment plan will typically include an adjustable interest rate to repay only the interest on the amount you borrowed. This could be ideal for an ongoing remodel or other home improvement project.

Prepare for Closing Costs

Like any mortgage loan, home equity loans will also cost you in closing costs. These will include charges for appraisal and escrow fees, recording and attorney's fees. Typically, these will total several hundred to a couple thousand dollars. Before you sign the contract, get an estimate of the total fees and make sure you can afford to pay them. If you do not have the cash available, you may be able to sweet talk your lender into rolling the closing costs into the mortgage balance.

You may also be required to pay points for your home equity loan. One point is equal to one percent of the loan total and points are paid to your mortgage lender to buy down the interest rate on your loan. This could total several thousand dollars depending on how many points you pay.

As you enter a home equity loan, you should also be aware that you might incur a fee if you try to refinance or pay off the loan within the first few years of the mortgage. This fee is called a prepayment penalty and is included to make sure lenders recover their costs for making the loan.

Don’t Be Greedy
If you have good credit and income, you may find that lenders will offer you more money than you actually need for your financial venture. Do not be tempted into taking it all. With the current mortgage market trouble, if you got in over your head with home equity loan payments, there are few lenders willing to bail you out. Realize that a home equity loan puts extra strain on your ability to pay off your original mortgage, and if you are not careful and consistent in your payments, you could lose your house!

A home equity loan is still a good financing idea for many fiscal projects. It is an even better idea when you have done your homework and know exactly what you’re getting into and what it is going to cost.

