



The Best Home Equity Loan

Homeowners during the past decade have put their home equity to work for them by taking out home equity loans. Americans use the freed-up cash for everything from home improvements to debt consolidation to college tuition. Using your home as collateral for funding for these types of financial plans can score you the best rates and lowest fees. Not all home equity loans are created equal however. What are the components of the best home equity loan? While each homeowner's needs are different, some of the key factors that determine the terms of the loan are the interest rate, the amount of cash borrowed, the length of time over which you'll repay the loan, and the total closing costs and fees.

First, to get the best home equity loan, make lenders compete against each other for your business. Do some comparison shopping to find the best interest rate possible. The rate you qualify for will, of course, be based on your credit score and history, as well as the amount of money you are planning to borrow. Still, calling around or getting online equity mortgage quotes can assure you that you are getting the best obtainable rate out there.

You should also determine exactly how much money you need to borrow for that kitchen remodel or that new car purchase. With a home equity loan, you will typically be able to borrow as much as 85% of your equity in the home, or in other words 85% of the total value of your home subtracted by the amount of money you still owe on your first mortgage. So, say your home is now valued at \$200,000 and you still owe \$160,000 on your original loan. Your equity in the home is thus \$40,000 and with a home equity loan you could borrow 85% of that, or up to \$34,000. Just because you can borrow that much, however, doesn't mean you should. The more money you pull out of your home, the greater the risk of the loan to your lender, resulting in higher interest rates and possibly more points for you. Make sure you only borrow exactly as much as you really need and not more, to get the best home equity loan.

Another determining factor in the overall quality of your loan will be the term you choose to repay your loan. Most home equity mortgages are designed to be paid back over the course of 10 or 15 years. (If you're looking for longer terms or more money, you should try a cash-out refinance home loan.) Because your lender assumes less risk on her investment with a 5-year loan rather than with a 15-year loan, she will be able to give you better interest rates with the shorter loan. If you are taking out a small amount of cash from your equity, something you can pay off in a couple of years, you'll get a much better deal than using the maximum amount of time to pay it off.

Finally, consider the additional fees of closing costs. In some cases, you may be able to find a lender who does not charge any closing costs on home equity loans, especially if that lender handled your first mortgage. The only way to find out is to call around and compare cost quotes. You'll find that sometimes lenders will give you lower interest rates, but charge you higher fees, or vice versa. Comparison shopping can help you find the best total package on your home equity mortgage.

The best home equity loan will be a combination of many factors. Some will be variable and others you will have less control over. Doing your research and knowing the facts, though, can assure you a great loan with the right terms for you.