Home Equity Loans Explained

How much is your home worth? $250,000? $400,000? Did you know that the value of your home adds up to money in the bank?

Home equity loans have become a popular way for homeowners to get ready cash on credit. These people are finding that their homes are not only good long-term assets, but can also provide a steady flow of cash that's beneficial to both the borrowers, and the lenders.

Of course, like most types of lending agreements, home equity loans are subject to variable interest rates. The effective rate will differ with each home equity lender. Some attract new customers by offering low introductory rates, while others charged fixed rates. The costs involved differ as well. Some home equity loans will carry substantial one-time upfront fees, others come with closing costs, and some are subject to annual fees and other continuing costs. There are home equity loans with large balloon payments due at the end of the loan term, while others require higher monthly payments with no balloon upon completion.

Is there one single home equity loan that's perfect for every homeowner? No. Different homeowners have unique loan needs. Your challenge, therefore, is to contact a number of different lenders in order to compare your options and select the home equity loan that's best suited to satisfying your individual needs.

Here are some things to consider before agreeing to a home equity loan:

* Be sure to review the home equity loan terms carefully before signing the contract. Be sure that the interest rate and all associated costs, including any penalties for early payment, are clearly disclosed.

* Question everything. Be sure that you understand all of the terms and conditions of your financing. If the details aren't clear, or your questions are not fully answered, ask again or keep shopping.

Is a Home Equity Loan Right for You?
The value of your home is one of your best sources of credit. You are able to use your home as collateral, without selling the property. A home equity loan can initially provide you with large amounts of cash at relatively low interest rates. What's more, they also offer tax deductions, an advantage not found with other types of loan arrangements.

There is a downside to placing your home as collateral. Should you default on your loan payments, the lender has every right to foreclose on your home. In other words, a home equity loan can actually place your property at risk if you are late or unable to meet your monthly payment obligations.

Home equity loans requiring a large final "balloon" payment may put you in a position of borrowing money in order to pay off this debt. Again, if you don't qualify for this additional financing, your home may be in jeopardy.

Another disadvantage to a home equity loan is the overall accessibility of money. With such easy access to cash, you may find yourself borrowing and spending more freely, building a mountain of debt. In a worst-case scenario you may consider selling your home to get out of debt, but even that's not always an option. Most home equity loans require the borrower to pay off the loan upon sale of the property, and there may not be enough available cash from the proceeds of the sale to cover the debt.

Any kind of credit should be handles sensibly and with a great deal of respect. Even though a home equity loan can seem like money in the bank, it's certainly not "free" money. If you're considering taking a home equity loan, be sure to learn the facts and understand the consequences before you put your good credit, and even your home, at risk.