



Avoiding Important Pitfalls to Get the Best Home Equity Loan

Home equity loans have been steadily growing in popularity in the past several years. They can offer great benefits like extra cash for various projects. They can also offer great low interest rates and small fees. Yet there are many possible mistakes you can make in the home equity loan process. Take a look at the following pitfalls and do your best to avoid them to achieve the very best home equity loan.

Pitfall #1 - Signing Documents You Don't Understand

The majority of mortgage brokers are honest, forthright businesspeople, but there are a few who will try to take advantage of your ignorance. Lenders will sometimes slip in extra fees that they did not previously mention into later paperwork. Be sure that you read and understand every paper and contract your broker puts in front of you before you sign. This will ensure you know exactly what the home equity mortgage will mean for your situation.

Pitfall #2 – Failure to Realize Your Rights

Because of the federal Truth in Lending Act, by law you are allowed to back out of any home equity loan for up to three days after it begins. Part of this clause, however, stipulates that you must submit your cancellation in written form to your lender within that time. At that point your lender is required to refund any closing costs or fees that you paid as part of the loan. Knowing this legal right can save you from being locked into a bad loan.

Pitfall #3 – Getting an Unrealistic Balloon Payment Schedule

Some payment schedule provide for extremely low initial payments at the cost of a huge “balloon” payment at the end of the loan term. In such a case, you'd have to either be able to pay off the loan balance with your own savings, or take out a new loan to pay for the home equity loan. The last option could involve lots of fees and might end up costing you more in the long run than the original loan was worth. Try to get a more reasonable payment plan, like a fully amortizing loan.

Pitfall #4 – Pre-payment Penalty Clauses

Many lenders will include pre-payment penalties in your home equity loan contract to protect themselves from losing money on their investment. The penalty for a larger-than-specified payment may be as much as three months' payments. Not all lenders will require these clauses though. Make sure you find a good lender who will not punish you for trying to pay off your loan ahead of schedule.

Pitfall #5 – Making Payments That Add to Your Balance, Instead of Decrease It

Low payments can be very attractive, but they always come at a price. In some loan scenarios, your initial payments may be so low that they do not even cover the full amount of interest due for the month. That means the remaining portion of interest will be tacked onto your principal balance, thus actually increasing your total amount owed. Eventually, your payments will have to substantially increase to begin to pay off the principal. The new payments will likely be a big shock to the system and may even be more than you can handle. Don't get sucked into this type of payment plan just for the low payments.

There are, of course, more mistakes that can be made in the home equity mortgage process, but the five listed above are the major and most costly ones. The more informed you are, the



better chance you'll have of finding the best home equity loan for your needs!