

When Your Home Is On The Line: What You Should Know About Home Equity Lines of Credit



Are you in need of cash?

Do you want to consolidate your debts?

Are you receiving home equity loan or refinancing offers that seem too good to be true?

Does your home need repairs that contractors tell you can be easily financed?

If you are a homeowner who needs money to pay bills or for home repairs, you may think a home equity loan is the answer. But not all loans and lenders are the same -- you should shop around. The cost of doing business with high-cost lenders can be excessive and, sometimes, downright abusive. For example, certain lenders -- often called "predatory lenders" -- target homeowners who have low incomes or credit problems or who are elderly by deceiving them about loan terms or giving them loans they cannot afford to repay.

Borrowing from an unscrupulous lender, especially one who offers you a high-cost loan using your home as security, is risky business. You could lose your home and your money. Before you sign on the line:

- THINK ABOUT YOUR OPTIONS
- DO YOUR HOMEWORK
- THINK TWICE BEFORE YOU SIGN
- KNOW THAT YOU HAVE RIGHTS UNDER THE LAW

THINK ABOUT YOUR OPTIONS

If you're having money problems, consider these options before you put your home on the loan line.

- Talk with your creditors or with representatives of nonprofit or other reputable credit or budget counseling organizations to work out a plan that reduces your bill payments to a more manageable level.
- Contact your local social service agency, community or religious groups, and local or state housing agencies. They may have programs that help consumers, including the elderly and those with disabilities, with energy bills, home repairs, or other emergency needs.
- Contact a local housing counseling agency to discuss your needs. Call the U.S. Department of Housing and Urban Development toll-free at (800) 569-4287 or visit <http://www.hud.gov/offices/hsg/sfh/hcc/hccprof14.cfm> to find a center near you.
- Talk with someone other than the lender or broker offering the loan who is knowledgeable and you trust before making any decisions. Remember, if you decide to get a home equity loan and can't make the payments, the lender could foreclose and you would lose your home.

If you decide a loan is right for you, talk with several lenders, including at least one bank, savings and loan, or credit union in your community. Their loans may cost less than loans from finance companies. And don't assume that if you're on a fixed income or have credit problems, you won't qualify for a loan from a bank, savings and loan, or credit union -- they may have the loan you want!

DO YOUR HOMEWORK

Contact several lenders -- and be very careful about dealing with a lender who just appears at your door, calls you, or sends you mail. Ask friends and family for recommendations of lenders. Talk with banks, savings and loans, credit unions, and other lenders. If you choose to use a mortgage broker, remember they arrange loans but most do not lend directly. Compare their offers with those of other direct lenders.

Be wary of home repair contractors that offer to arrange financing. You should still talk with other lenders to make sure you get the best deal. You may want to have the loan proceeds sent directly to you, not the contractor.

COMPARISON SHOP

Comparing loan plans can help you get a better deal. Whether you begin your shopping by reading ads in your local newspapers, searching on the Internet, or looking in the phone book, ask lenders to explain the best loan plans they have for you. Beware of loan terms and conditions that may mean higher costs for you. Get answers to these questions and use the Comparison worksheet to compare loan plans.

Interest Rate and Payments

- What are the monthly payments? Ask yourself if you can afford them.
- What is the annual percentage rate (APR) on the loan? The APR is the cost of credit, expressed as a yearly rate. You can use the APR to compare one loan with another.
- Will the interest rate change during the life of the loan? If so, when, how often, and by how much?

Term of Loan

- How many years will you have to repay the loan?
- Is this a loan or a line of credit? A loan is for a fixed amount of money for a specific period of time; a line of credit is an amount of money you can draw as you need it.
- Is there a balloon payment -- a large single payment at the end of the loan term after a series of low monthly payments? When the balloon payment is due, you must pay the entire amount.

Points and Fees

- What will you have to pay in points and fees? One point equals 1 percent of the loan amount (1 point on a \$10,000 loan is \$100). Generally, the higher the points, the lower the interest rate. If points and fees are more than 5 percent of the loan amount, ask why. Traditional financial institutions normally charge between 1 and 3 percent of the loan amount in points and fees.
- Are any of the application fees refundable if you don't get the loan?
- How and how much will the lender or broker be paid? Lenders and brokers may charge points or fees that you must pay at closing or add on to the cost of your loan, or both.

Penalties

- What is the penalty for late or missed payments?
- What is the penalty if you pay off or refinance the loan early (that is, is there a prepayment penalty)?

Credit Insurance

- Does the loan package include optional credit insurance, such as credit life, disability, or unemployment insurance? Depending on the type of policy, credit insurance can cover some or all of your payments if you can't make them. Understand that you don't have to buy optional credit insurance -- that's why it's called "optional." Don't buy insurance you don't need.
- Credit insurance may be a bad deal for you, especially if the premiums are collected upfront at the closing and financed as part of the loan. If you want optional credit insurance, ask if you can pay for it on a monthly basis after the loan is approved and closed. With monthly insurance premiums, you don't pay interest and you can decide to cancel if the premiums are too high or if you believe you no longer want the insurance.

After you have answers to these questions, start negotiating with more than one lender. Don't be afraid to make lenders and brokers compete for your business by letting them know you are shopping for the best deal. Ask each lender to lower the points, fees, or interest rate. And ask each to meet -- or beat -- the terms of the other lenders.

Once You've Selected a Lender, Get the Following

- A "Good Faith Estimate" of all loan charges. The estimate must be sent within 3 days of applying.
- Blank copies of the forms you'll sign at closing, when the loan is final. Study them. If you don't understand something, ask for an explanation.
- Advance copies of the forms you'll sign at closing with the terms 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. By law, you can inspect the final settlement statement (also called the HUD-1 or HUD-1A form) one day prior to closing. Study these forms. Write down any questions you want to ask.

THINK TWICE BEFORE YOU SIGN

- Have a knowledgeable friend, relative, attorney, or housing counselor review the Good Faith Estimate and other loan papers before you sign the loan contract. Be sure the terms are the same ones you agreed to. For example, a lender should not promise one APR and then -- without good reason -- increase it at closing.
- Refer to the list of questions you've written down. Ask where these terms are covered in the loan contract. And ask for an explanation of any dollar amount or term you don't understand. Don't let anyone rush you into signing the loan contract.
- Make sure all promises, oral and otherwise, are put in writing. It's only what's in writing that counts.
- Get a copy of the documents you signed before you leave the closing.

Don't Sign on the Dotted Line if the Lender ...

- Tells you to falsify information on the loan application (for example, suggests that you write down more income than you really have).
- Pressures you into applying for a loan for more money than you need, or one that has monthly payments larger than you can afford.
- Promises one set of terms but gives you another with no good reason for the change.
- Tells you to sign blank forms or forms that aren't completely filled in. If an item is supposed to be blank, draw a line through the space and initial it.
- Pressures you to sign today. A good deal today should be available tomorrow.

KNOW THAT YOU HAVE RIGHTS UNDER THE LAW

You Have 3 Business Days to Cancel the Loan

If you're using your home as security for a home equity loan (or for a second mortgage loan or a line of credit), 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. The lender must return any money you have paid to date.

Do You Think You've Made a Mistake?

Has the 3-day period during which you may cancel passed and you're worried that you've gotten in over your head? Do you think your loan fees were too high? Do you believe you were steered into monthly payments you can't afford? Has your lender repeatedly pressured you to refinance? Is your loan covered by insurance you don't need or want?

If you think you've been taken advantage of, state and federal laws may protect you. Also, the following organizations may be able to help:

- Your local or state bar association -- sometimes listed under "Lawyers Referral Service" in the Yellow Pages of your phone book. The association may be able to refer you to low-cost or no-cost lawyers who can help.
- Your local consumer protection agency, state attorney general's office, or state office on aging, listed in the Blue Pages of your phone book.

- Your local fair housing group or affordable housing agency, housing counseling agency, or state housing agency.

You can learn more about credit and home equity loans by visiting the federal government's web site for consumers, <http://www.consumer.gov> (see the Home and Community section). If you don't have access to the Internet, ask a friend or relative to get the information for you. Or visit your local library or senior center, which may offer you free access to the Internet on their computers.

FOR MORE INFORMATION

State Chartered Bank Members of the Federal Reserve System

Federal Reserve Consumer Help
PO Box 1200
Minneapolis, MN 55480
(888) 851-1920
(877) 766-8533 (TDD)
(877) 888-2520 (Fax)
Email: ConsumerHelp@FederalReserve.gov

Federally Insured State Chartered Banks That Are Not Member of the Federal Reserve System

Federal Deposit Insurance Corporation
Consumer Response Center
2345 Grand Boulevard, Suite 100
Kansas City, Missouri 64108
(877) 275-3342
customeralerts@fdic.gov

National Banks and National Bank-Owned Mortgage Companies

Office of the Comptroller of the Currency
Customer Assistance Group
1301 McKinney Street
Suite 3450
Houston, TX 77010
(800) 613-6743
customer.assistance@occ.treas.gov

Savings and Loan Institutions Associations

Office of Thrift Supervision (OTS)
Consumer Affairs
1700 G Street, N.W.
Washington, DC 20552
(800) 842-6929

(800) 877-8339 (TDD)

Federally Chartered Credit Unions

National Credit Union Administration
Office of Public and Congressional Affairs
1775 Duke Street
Alexandria, VA 22314
(703) 518-6330
www.ncua.gov

For state-chartered credit unions, contact your state's regulatory agency.

Mortgage Companies and Other Lenders

Federal Trade Commission
Consumer Response Center
600 Pennsylvania Avenue, N.W.
Washington, DC 20580
(877) FTC-HELP (877) 382-4357, toll free)
(866) 653-4261 TDD
www.ftc.gov

Other Information Sources

U.S. Department of Justice
Civil Rights Division
950 Pennsylvania Ave., N.W.
Housing and Civil Enforcement Section, NWB
Washington, DC 20580
(202) 514-4713
www.usdoj.gov/crt/housing

Federal Housing Finance Board
1777 F Street, N.W.
Washington, DC 20006
(202) 408-2500
www.fhfb.gov

Department of Housing and Urban Development
451 7th Street, S.W.
Washington, DC 20410
800-669-9777 (voice)
800-927-9275 (TTY)
www.hud.gov

Office of Federal Housing Enterprise Oversight (OFHEO)
1700 G Street, N.W.

4th Floor
 Washington, DC 20552
 (202) 414-6922
www.ofheo.gov

Comparison Shopping for a Home Equity Loan

Use this worksheet to help you shop for the best deal.

Compare answers to these questions	Lender A	Lender B	Lender C	My Current Mortgage
What are the monthly payments?				
What is the Annual Percentage Rate (APR)? <i>the cost of credit expressed as a yearly rate; includes the interest rate, points, broker fees, and other credit charges</i>				
What is the interest rate? <i>the cost of borrowing money expressed as a percentage rate</i>				
Will the interest rate change?				
When?				
How often?				
By how much?				
What will you have to pay in points?				
What will you 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 application fees refundable if you don't get the loan?				
How many years will you 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 and how much will he or she be paid?				
What is the penalty for late or missed payments?				
What is the penalty if you pay off or refinance the loan early?				

<p>Does the loan include optional credit insurance?</p> <p><i>You don't have to accept optional credit insurance to get your loan. If you want optional credit insurance, ask about paying for it monthly instead of financing the premiums as part of your loan.</i></p>				
<p>Can you afford this loan?</p>				

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