



LISA MADIGAN
ILLINOIS ATTORNEY GENERAL

Things You Should Know About... HOME EQUITY

Home equity is the money value stored up in your house that exceeds the amount of debt you owe on it. In many ways, the equity in your house is like money in your savings account at the bank.

Today, more and more lenders are offering home equity lines of credit. By using the equity in your home, you may qualify for a sizeable amount of credit, available for use when and how you please, at an interest rate that is relatively low.

KEEP IN MIND...when you borrow money against the equity in your residence you give the lender a security interest in your home - your house is collateral that secures the loan. You can lose your home if you cannot make the payments that become due on your loan.

If you are considering borrowing money, be a smart consumer and shop around. Remember, there is more than one lender in the marketplace, and that means you can cost-compare between competing lenders no matter how “good” or “bad” you think your credit rating happens to be. You can bargain with the lender for a better price and interest rate than the lender initially offers.

When shopping for a home equity line, look for a plan that best meets your particular needs. Look carefully at the credit agreement and examine the terms and conditions of various plans, including the annual percentage rates (APR) and the costs you will pay to establish the plan. Many of those costs will be similar to the ones you pay when buying a home:

- Property appraisal fee
- Loan application fee
- Up-front charges
- Closing costs including attorneys fees, title search, mortgage preparation and filing, property and title insurance
- Transaction fees

Borrowers Beware!

Watch out for these common home equity traps to avoid borrowing more than you can afford to pay back. Remember, if you can't pay a home equity line back, you could lose your home!

Padding of Loan Fees and Charges: Generally fees charged to originate a loan. They are also known as “prepaid finance charges” and can include the payment of discount points, loan origination fees, underwriting fees, and countless other charges, limited only by a lender's imagination.

Mortgage Broker Fees: Mortgage brokers function as middle men between you, the borrower, and the financial institutions that lend you the money. You pay a fee to the broker to find a lender willing to extend you credit. But there is no guarantee the broker will find you the best deal.

Teaser Rates: Some lenders lure borrowers into adjustable loans that initially have a low interest rate - called a “teaser rate” - but, over time, the interest rate will adjust up. You must be sure about how fast and how far your interest rate could adjust.

Adjustable Rate Mortgages With Hidden Margins: A loan that does not have a fixed rate of interest. The interest fluctuates based on changes in the “market index.” Some lenders will use large “margins” to inflate the variable interest rate. Depending on its size, the margin can raise the interest rate and cause the subsequent monthly payment to skyrocket in a very short period of time.

Loan Flipping: The practice in which the lender induces a homeowner to repeatedly refinance their home. With each refinance, the homeowner gets a relatively small amount of cash compared to the refinanced amount. The homeowner also pays a big fee to get that new loan, thereby adding to the homeowner’s overall debt load.

Prepayment Penalties: Fees charged by the lender if a homeowner attempts to pay off a loan before the end of the loan’s stated term. These fees can add thousands of dollars to the cost of subsequent refinancing or to the sale of your house.

Office of the Illinois Attorney General

www.ag.state.il.us

Chicago
(800) 386-5438
TTY: (800) 964-3013

Springfield
(800) 243-0618
TTY: (877) 844-5461

Carbondale
(800) 243-0607
TTY: (877) 675-9339