

Title:

Home Equity Loan - Fixed Rate or Lump Sum Loan

Word Count:

516

Summary:

Home equity loan is one type of loan where the homeowner uses whatever equity he has been able to build up in his home as collateral for a loan.

Keywords:

finance, loan, dept, home, consolidation

Article Body:

Home equity loan is one type of loan where the homeowner uses whatever equity he has been able to build up in his home as collateral for a loan. Obviously, therefore, this type of loan is secured. However, it is not secured by the home per se but by the owner's home equity.

Home Equity

Your home equity is that part of your home's value (in dollars) which is actually yours. To compute your home equity, do the following steps. First of all, find out what your home's current value is. Get the help of an appraiser if you want to get your home's accurate value.

Next, find out what you still owe for your home. To compute this, simply add up your downpayment and payments that have applied to the principal balance (do not include interest rate payments) then subtract the sum from the original amount of the mortgage. The result would be the amount of money you owe your home.

Now, subtract the amount of money that you owe on your home from your home's current value. The result would be your home equity which is, simply speaking, the combination of your downpayment, payments toward the principal and value from property appreciation.

Fixed-Rate or Lump-Sum Home Equity Loan

This is the home equity loan where a bank will loan you an amount that is equal to a certain percentage (the market standard is from 70 to 80%) of your home equity. The actual percentage allocation depends on various factors including

the borrower's credit record, payment history, etc. In some cases, a home equity loan may be made for the whole home equity, but such cases are rare. In cases where this happens, the borrower usually has a pristine credit record.

If you are going to get a home equity loan, you will have to apply for the loan, get your home appraised then wait for loan approval. Once approved, your money will be released in one, lump sum.

This type of home equity loan usually has a predetermined loan period. The loan period can vary from a few years to a few decades. The interest rate is also fixed for the whole duration of the loan.

There are also some home equity loans which have a balloon payment structure. In this type of home equity loan, the fixed interest rate is appealingly low. However, the loan period is usually less than 10 years. When the loan period arrives, the borrower will have to make a payment in full.

The Advantages of Lump-Sum, Fixed-Rate Home Equity Loan

The fixed rate ensures the security of your loan. You'll know exactly what your interest rate is every year for the whole of your loan period. You can therefore make financial projections with a high degree of certainty.

Moreover, getting your home equity loan in one big sum is great if you have debts that you wish to pay off. This way, you can deal with all of your debts in one fell swoop - therefore immediately making reductions in your overall interest rate payments.