Title:
Advantages of a Home Equity Loan

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524

Summary:
A home equity loan is often referred to as a second mortgage and it allows homeowners to borrow money using the equity they have already built in their homes.

Keywords:
finance, loan, dept, home, consolidation

Article Body:
A home equity loan is often referred to as a second mortgage and it allows homeowners to borrow money using the equity they have already built in their homes. With a home equity loan, homeowners can borrow up to $100,000. The interest on the loan is tax deductible, which brought home equity loans to popularity in the 1990s when the economy was not so good.

There are two types of home equity loans. One type is a fixed rate loan and one is a line of credit. Both loan types have terms ranging from five to fifteen years and both must also be paid in full if the house is ever sold.

A fixed rate home equity loan provides the borrower with a lump sum payment. It’s assumed that the borrower will pay the loan off over a set period of time with interest. The payments are usually paid monthly and remain the same amount over the entire life of the loan. The interest rate also remains the same over the life span of the loan.

A line of credit home equity loan works with a variable interest rate and uses the same principles as a credit card. It generally even comes with a credit card. Borrowers will be approved for a certain amount by the lenders. The borrower can then use this money by using the card or the special checks that the lender will provide. These payments will also be made monthly however the monthly payment will vary depending on what the current interest rate is and how much money was borrowed that month. When the term of the loan is up, any outstanding balances borrowed must be paid in full.

Home equity loans work well for homeowners who need a large amount of money fairly quickly. The homeowner may need the money for such things as paying off another loan, tuition money, home improvements, or other unexpected expenses. Home equity loans are a good option over other loans because the interest rate on them in generally quite low and is definitely lower than the interest on credit cards and other loans. Because of this, it makes good financial sense to pay off a credit card loan while using a home equity loan. It allows the homeowner to have one single monthly bill, a lower interest rate, and a loan that is partly tax deductible.

Home equity loans have many advantages for lenders as well. After the lender has collected on the original mortgage, they then are able to collect more payments and more interest. The lender is also entitled to keep all the money from the original mortgage and the home equity loan if the borrower defaults on payments. The lender is also allowed to repossess the home, sell it again and begin the cycle all over again with the next owner.

Home equity loans can be a very wise financial decision when homeowners are trying to lower their interest rates and pay off unforeseen expenses. Borrowers must carefully weight the advantages and disadvantages of taking out a home equity loan to see if it is the right choice for them.