

# FTC Consumer Alert

Federal Trade Commission ■ Bureau of Consumer Protection ■ Office of Consumer and Business Education

## Shopping for a Home Equity Loan?

If you decide that the timing's right for a home equity loan, ask your friends or family for recommendations of lenders. Then, **comparison shop**. Comparing loan plans will help you get a better deal.

Contact several lenders, not just the ones that send you mail, call you, or knock on your door. Talk with banks, savings and loans, credit unions, mortgage companies, and mortgage brokers. Remember, brokers don't lend money: they help arrange loans.

Ask all the lenders you interview to explain the loan plans they have for you. If you don't understand any loan terms and conditions, **ask questions**. They could mean higher costs. Knowing just the amount of the monthly payment or the interest rate is not enough. **Pay close attention to fees**, including: the application or loan processing fee, origination or underwriting fee, lender or funding fee, appraisal fee, document preparation and recording fees, and broker fees which may be quoted as points, origination fees, or interest rate add-on. If points and other fees are added to your loan amount, you'll pay more to finance them.

Also ask for your **credit score**. Credit scoring is a system creditors use to help determine whether to give you credit. Information about you and your credit experiences – like your bill-paying history, the number and type of accounts you have, late payments, collection actions, outstanding debt, and the age of your accounts – is collected from your credit application and your **credit report**. Creditors compare this information to the credit performance of consumers with similar profiles. A credit scoring system awards points for each factor that helps predict who is most likely to repay a debt. A total number of points – your credit score – helps predict how creditworthy you are, that is, how likely it is that you will repay a loan and make the payments when they're due.

**Negotiate** with more than one lender. Don't be afraid to make lenders and brokers compete for your

business by letting them know that you're shopping for the best deal. Ask each lender to lower the points, fees or the interest rate. And ask each to meet – or beat – the terms of the other lenders.

Before you sign, **read the loan closing papers carefully**. If the loan isn't what you expected or wanted, don't sign the loan. Either negotiate changes or walk away. You also generally have the right to cancel the deal for any reason – and without penalty – within three days after signing the loan papers. The lender must return any money you've paid to date.

### Shopping List



#### Your Credit Report

Because your credit report is an important part of many credit scoring systems, it's very important to make sure it's accurate **before** you submit a credit application. To get copies of your report, contact the three major credit reporting agencies:

- ✓ Equifax: (800) 685-1111
- ✓ Experian (formerly TRW): (888) EXPERIAN (397-3742)
- ✓ Trans Union: (800) 916-8800

These agencies may charge you up to \$ 9.00 for your credit report.

#### To Learn More

For more information about shopping for a home equity loan and a glossary of home loan terms, call the FTC's Consumer Response Center toll-free at 1-877-FTC-HELP (382-4357). Ask for a free copy of **Looking for the Best Mortgage: Shop, Compare, Negotiate; High-rate, High-fee Loans (Section 32 Mortgages); and Home Equity Loans: The Three-Day Cancellation Rule**. Or visit us online at [www.ftc.gov](http://www.ftc.gov).

