

Home Equity Loan basics

07/16/2024 2:04 pm EDT

What is a Home Equity Loan?

In short, it's a type of loan secured by the equity in your existing, mortgaged property. You receive one lump sum of money at closing and repay it over a fixed period, with a fixed rate, on a fixed monthly payment.

How does it differ from a traditional mortgage?

Unlike a traditional mortgage used to purchase a home, a Home Equity Loan is a second mortgage on a property that already has a first mortgage in place. Rather than being used to buy a home, it allows homeowners to access the equity in their property to use for whatever purposes they have in mind.

What do people typically use a Home Equity Loan for?

Homeowners often use Home Equity Loans for major expenses such as home renovations, debt consolidation, education expenses, or other large purchases. Some also use them for investment purposes or to cover unexpected financial emergencies.

What are the advantages of a Home Equity Loan?

- Low interest rates compared to credit cards and personal loans.
 - Access to a larger amount of funds compared to other types of loans.
 - Fixed monthly payments for easier budgeting.
 - Loan Terms: Typically, a fixed rate for 20 years, providing certainty with a one-time lump sum of cash at closing.
 - No prepayment penalties, allowing early repayment without additional costs.
-