

# FTC CONSUMER ALERT!

## SHOPPING FOR A HOME EQUITY LOAN?

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## Shopping and Negotiating

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 or 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:

- **application or loan processing fee;**
- **origination or underwriting fee;**
- **lender or funding fee;**
- **appraisal fee;**
- **document preparation and recording fees;**
- **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 you 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 point for each factor, which helps predict who is most likely to repay a debt. A total number of points -- your credit score -- helps predict how creditworthy you are (meaning 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 you're shopping for the best deal. Ask each lender to lower the points, fees or 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.

## 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 or [www.econsumer.equifax.com/webapp/ConsumerProducts](http://www.econsumer.equifax.com/webapp/ConsumerProducts)

Experian (formerly TRW): (888) 397-3742 or [www.experian.com/consumer/index.html](http://www.experian.com/consumer/index.html)

Trans Union: (800) 916-8800 or [www.tuc.com/Personal/PersonalSolutions.asp](http://www.tuc.com/Personal/PersonalSolutions.asp)

These agencies may charge you up to \$8.50 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 Loan* (Section 32 Mortgages); and *Home Equity Loans: The Three-Day Cancellation Rule*. Or visit the FTC online at [www.ftc.gov](http://www.ftc.gov).

### Sample Questions for Lenders

	Lender A	Lender B	Lender C
What are the monthly payments?			
What is the Annual Percentage Rate (APR)? (The cost of credit expressed as a yearly rate; includes the interest rate, points, broker fees and other credit charges.)			
What is the interest rate? (The cost of borrowing money expressed as a percentage rate.)			
Will the interest rate change?			
When?			
How often?			
By how much?			
What will you have to pay in points?			
What will you have to pay in fees?			
Application or loan processing fee			
Origination or underwriting fee			
Lender or funding fee			
Appraisal fee			
Document preparation and recording fees			
Are any of the application fees refundable if you don't get the loan?			
How many years will you have to repay the loan?			
Is this an installment loan or a line of credit?			
Is there a balloon payment?			

What are the total closing costs?			
If you use a broker, how will the broker be paid?			
What is the penalty for late or missed payments?			
Does the loan include optional credit insurance? (You don't have to accept optional credit insurance to get your loan.)			
If you want optional credit insurance, can you pay for it monthly instead of financing the premiums as part of your loan?			
Did you get a copy of your credit score?			
Can you afford this loan?			

The FTC (Federal Trade Commission) works for the consumer to prevent fraudulent, deceptive and unfair business practices in the marketplace, and to provide information to help consumers spot, stop and avoid them. To file a complaint, or to get free information on any of 150 consumer topics, call toll-free 1-877-FTC-HELP (1-877-382-4357) or use the [online complaint form](#). The FTC enters Internet, telemarketing, identity theft and other fraud-related complaints in to [Consumer Sentinel](#), a secure, online database available to hundreds of civil and criminal law enforcement agencies worldwide.

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