Glossary of Home Equity Loan Terms

Adjustable Rate Mortgage (ARM): A home loan where the interest rate can go up or down during the time you are repaying the loan.

Annual Percentage Rate (APR): The cost of a loan expressed as a percentage rate. It includes both the interest rate on the loan and many of the costs in getting the loan. APRs are the best way to compare loans.

Balloon Payment: This is the very large payment that is due at the end of some loans. A balloon payment means that the borrower's monthly payments are used to pay the interest on the loan and that little of the payment is used to pay back the amount that was borrowed. Unless you know how you will make this payment, these loans can be risky.

Bid: A written estimate of what your home improvement project will cost.

Closing Costs: All of the "other" costs that you have to pay when borrowing money. They could include fees for credit reports, land survey, appraisal, title search, title insurance, document preparation, notary, points, credit life insurance, and attorney fees.

Credit Insurance: An insurance policy (such as life, disability, or unemployment) that pays the lender the balance of the loan if something happens to the borrower before the loan is paid off. Sometimes the lender adds the entire price of the policy to the amount you are borrowing and this is very expensive because you pay interest on that amount.

Credit Report: Credit bureaus collect information about your credit history—where you owe money, how much you owe, your credit cards, and your payment history. Lenders determine whether to give you a loan and how much to charge you based on information in your credit report.

Credit Score: Your credit score is a number that is used by lenders to decide whether to give you credit and at what cost. It is based on information in your credit report.

Equity: The difference between what your house is worth and what you owe on it. For example, if your house is worth $150,000 and you owe $100,000, your equity is $50,000.

Fraud: Dishonest business practices that lead to your doing something against your best interest.

Housing Counselor: Counselors can help you explore your options, find a loan, and explain loan documents. They also offer help with foreclosure problems. The Department of Housing and Urban Development (HUD) certifies housing counselors.

continued on another page

Glossary of Home Equity Loan Terms

continued from another page

Installment Payments: Partial payments made to home improvement contractors as the work is being done.

Interest: The percentage rate lenders charge you for using their money. The higher the percentage, the more you pay.

Line of Credit: A pre-approved amount that you can borrow. You only borrow what you need, when you need it.

Mortgage Broker: A person you pay to help you find a lender.

Points: Each point is 1% of the amount you are borrowing.

Predatory Lenders: Lenders who take advantage of borrowers and make loans that the borrowers cannot afford. They may charge very high interest rates or fees, hide costs, or lie about loan terms.

Principal: The amount of money that you borrow.

Reverse Mortgage: A home loan you do not have to pay back for as long as you live in the home. Repayment of the loan is due when the last surviving homeowner dies, sells the home, or permanently moves away.

Settlement: The meeting where you review and sign your loan papers. Also called a "closing."

Total Amount to Repay: This is the total amount of fees, points, and all monthly and balloon payments that you will pay over the life of the loan.