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Know Your Rights with Home Equity Loans

Home equity loans have been a very popular way for homeowners to turn their home equity into cash for their various needs. These loans are advantageous because they allow borrowers to get loan funding at lower interest rates than with an unsecured loan, and the interest and points are generally tax deductible. One serious consideration however, is that these home equity mortgages use the house and property as collateral. That means if you take out one of these loans and have trouble paying it back, you face the possibility of losing your home.

Because of this risk, you should exercise extreme caution as you enter into a home equity loan contract. If, you start having second thoughts as the loan closes, you need to know your rights in terms of canceling the contract. Thanks to the Truth in Lending Act, you are guaranteed the “right to cancel” or the “right to rescind.”

If you decide to back out of your home equity loan, the law stipulates that you have three days to cancel the contract without legal penalty. (Your right to cancel only applies if the home equity loan is secured by your principal residence, not if you are getting the loan on a vacation home or rental property.)

Once you have signed the contract, have received a Truth in Lending disclosure form from your lender (this contains information about the costs and details of the loan), and you have received two copies of the Truth in Lending notice outlining your right to cancel, you have three business days (business days include Saturday, but not Sunday, or legal public holidays) to decide if you want to back out. By midnight on the third business day, the lender must have received your written statement of cancellation. The cancellation will not necessarily be valid if you simply alert the lender by phone or in person.

After you have cancelled the home equity loan contract, you are released from its terms and the lender must return all fees paid and any property in question to you within the next 20 days. You may have received money from the lender during as part of the contract. If this is the case you can hold on to it until you receive proof from the lender that your home is no longer being used as collateral or until the lender returns the fees he charged you in connection with the loan. The money from the lender is yours if he does not claim it within 20 days after you have offered to return it.

If you have any questions about your rights, you can contact a representative of the Federal Trade Commission (FTC). The organization’s self-stated mission is to “[work] 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.” You can contact the FTC via their website at www.ftc.gov and to learn more about the stipulations of the “Three Day Rule.”