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The Secrets to a Great Rate on Your Home Equity Mortgage

Home Equity Mortgages can be a great source of extra funds for important projects. If it's time to refinance your current home loan to pull out some needed cash for that bathroom remodeling project or your daughter's college tuition, there are several things you should know in order to snag the best interest rate possible on your home equity mortgage.

The interest rate you secure on a home equity loan will be determined by several factors. Probably the most important will be simply the lender you choose. While the Federal Reserve and other economic conditions heavily influence the market interest rates, your lender actually has the power to deviate from the market trends and charge whatever he wants. He assesses the risk he is taking on by lending you money and can charge you a rate he feels reflects that risk. For this reason, be sure to get mortgage quotes on rates from several different lenders to find the best rate and fees available to you.

Next, as mentioned market interest rates are based on the federal funds rate set by the Federal Reserve. They meet almost monthly to decide which way rates should move, up or down. It would be a good idea to follow the current actions of the Fed to determine the market rate trend. During 2006, the Fed has worried about inflation and continually pushed interest rates higher until just a few months ago. While lenders can choose the interest rates they charge, to be competitive, most keep their rates close to the national market averages. Monitoring those averages will help you know when it's a good time to refinance and what sort of rates you can expect.

Your credit history will also be very important in determining the interest rate on your home equity mortgage. Because lenders reflect their risk factor in your rate, it pays to have a good credit score. It is possible to get an equity mortgage with a poor credit history, but generally lenders prefer if you have a credit score above 620. You can pull a free copy of your credit report once a year from any one of the three major credit reporting agencies. Once you have your report, do your best to clean up any errors. While preparing for a home equity mortgage, you should also build up a good history of timely payments to show your lender you'll be a good risk. The better your credit history, the better the rate you'll get on your loan.

Another factor influencing your home equity mortgage interest rate, is the amount of money that you want to borrow. This amount will always depend on how much equity you have built up in your home, but lenders will typically allow you to borrow up to 80% of that equity and some will even let you borrow up to 125%. The more money you borrow the greater risk you become to your lender though, which of course means higher rates. So be wise when you decide how much you really need for that new project.

Finally your rate will be calculated using the length of your requested equity loan as a component. A 15-year loan will produce lower interest rates for you because lenders will get their money back faster and incur less risk in the process than they would with a 30-year loan. Shorter loans will come at the cost of larger payments though, so take that into consideration.

A home equity mortgage can be just the right loan to finance your life needs. Do your research and you'll be able to find a great interest rate on your venture.