



Is It a Good Idea to Take Out a Home Equity Loan?

If you are a homeowner, you know that your equity is a very valuable asset. While it is not as liquid as some other types of investments, there are definitely ways to tap into that equity. You may even find it to be a more profitable way to pay for your life's needs over other types of loans. Yet there are also times when using up your hard-earned home equity may be a really bad idea. Take a look at the following guidelines to determine when you should consider a home equity loan or home equity line of credit (HELOC).

Equity Tapping - Good Idea

Getting a home equity loan might be a good idea if you have a financial venture that will add value to your home or your earning potential. If you tap into your home's equity to make home improvements, your house will increase in value, hopefully by much more than the money you put into it, making a good return on your investment. Or it may be a good idea to help finance your college tuition through your home equity. Once you acquire new skills and degrees, you will be able to make more money and be able to put that back into your home.

It is also often smart to use a home equity loan to pay off any large, high-interest credit debt. If you have several thousand dollars of credit or auto loan debt and the interest is just piling up, you may want to consolidate that debt into just one home equity loan. While you will have pay some fees to create the loan, the interest rate on such loans are usually much lower than other consumer debt rates. Plus the interest on a home equity loan is tax deductible; other interest is not!

HELOCs or home equity loans may come in handy if you find yourself in financial straits due to some medical or other emergency. This may used as a means of last resort to pay for medical bills or other unexpected, but necessary debts.

Equity Tapping - Bad Idea

Borrowing against your equity is always a bad idea if you are simply using the money to buy frivolous or unnecessary items like vacations and ski boats. Tapping into your home equity means putting your home at risk of foreclosure if you are unable to repay both your mortgage and home equity loan. If the things you want to finance or purchase will not increase in value, just save up for them instead of adding more pressure to your mortgage. Or if you must have it soon, charge it to your credit card if the interest rate is not much different than your mortgage rate.

And even though investing in the stock market can often make your initial sum appreciate in value, it is by no means a sure bet. Taking money out of your home for such speculation is usually a bad idea because it creates a greater risk of losing the roof over your head should your ventures fail.

Finally, don't even think about touching your home equity if you are already unable to manage your current mortgage and other debts. Tapping into your equity at this point will only ensure that you will have nothing left when your bills come due. If you have found yourself in this



situation, it may be time to talk with a credit or debt counselor and to adjust your lifestyle to fit your budget!