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Is Now the Right Time to Make Use of Your Home Equity?

Tapping into the home as a resource for cash has been a very popular mortgage choice for several years now. Homeowners during the recent housing boom were sitting on golden eggs of equity as home prices appreciated at unheard of rates. In some areas of the country, some people even saw their home prices double within the five year period. With such reserves of equity, people took great advantage of the market conditions, by taking out home equity loans or home equity lines of credit.

Now that the market has slowed, home price appreciation has also slowed or halted in many places. In some of the hardest hit areas, some home prices have even dropped. Now with the sub-prime mortgage market suffering from a high default rate, it seems the general market will take even longer to recover. So what does all this mean for home equity loans? Is it still a good time to tap into equity?

The answer depends on many factors. While it is true that there may be less equity available now for homeowners than the seemingly endless supply of a couple years ago, today's sluggish market means that interest rates are staying low and may even drop in the coming months. That could definitely make home equity loans more attractive. Right now the average rate on a 30-year fixed mortgage is about 6.20%. Because home equity loans are riskier than first mortgages (they put additional strain on your resources to repay both loans), lenders will charge you slightly higher interest rates on these secondary loans. Today you might find the average rate for a home equity loan (fixed rate loan) is about 7.90% while a Home Equity Line of Credit (adjustable rate) might be around 8.10%. These are rough averages though; each lender will offer a slightly different rate and set of fees. And remember that rates may continue to fall if the sub-prime market persists in its troubles.

So while interest rates are relatively low right now, there are many other important factors to consider to figure out if now is the right time for you to cash-out on your home equity. Because the housing market is weaker today than it was a year ago, you do need to be careful in how you use your now harder-to-earn equity. Taking out a home equity loan means creating another mortgage that uses your home as collateral; if your finances go sour, you will have a greater mortgage burden and may risk losing your house. Therefore, now is not a good time to get a home equity loan in order to buy anything frivolous. It is also not a good time to risk your equity on anything that will not be a good investment for the future. For example, using the cash from an equity loan for a car purchase or a big-screen T.V. or for a vacation is not the best idea right now. These things do not increase in value over time.

It may still be a great time to get a home equity loan or HELOC if you need the cash to put towards a purchase that will give you a good return on your investment. Making home improvements with the cash will increase the value of your home, making a future sale more profitable. You might also see good results by pulling out some cash to help you purchase a rental property, or in order to invest in a high-yield savings or bond account. Even school tuition may be a good investment, as you will be able to make more money with the degree after finishing school. Now may also be a good time to use your equity to consolidate your high-interest debt. While this situation will not make you money, it will potentially save you money as you repay your debts.

If you feel you could really use the cash right now from a home equity loan, talk with a trusted



mortgage professional to discuss the options and weigh the pros and cons for your situation.