10/04/2006

When Is It a Good Idea to Get a Home Equity Line of Credit?

If you're a homeowner, you've probably thought once or twice about taking advantage of your home equity for some extra cash. Whether this would be a great idea or a great loss in the long run, will depend on what you use the cash for and how you monitor your spending habits.

If you do want to take our some much-needed cash, your best option might be a home equity line of credit (HELOC.) These home equity loans are a good way to go if you have an on-going expense to deal with. The HELOC works more like a credit card where you are authorized to withdraw a certain amount of money. Your payments are then based on how much you have withdrawn rather than on how much you are authorized to use. The interest rates are more likely to variable on HELOCs than on other equity loans like second mortgages. Before you choose this option however, be sure that the cash you pull out will truly be a wise investment. Remember that if you default on your mortgage or equity credit line payments you could lose your home.Consider the following uses:

Home Renovation/Remodel
These projects are generally a good use of HELOC funds as they will add value to your home's worth and increase your equity. You will also be eligible for tax deductions on HELOC interest payments where other loans do not provide that break. You might also be able to receive government tax incentives for installing energy efficient and environmentally safe innovations in your home.

Debt Consolidation
If you are struggling under the burden of several different debts, an equity line of credit may be a good idea to solve the problem. You could use cash from your credit line to pay off credit card bills and other loan debts. If you are careful to avoid further debt after doing so, you'll probably save yourself a great deal by consolidating your debt into one interest rate and payment. Plus as noted earlier there are tax deductions on mortgage interest debt, but not on credit card interest payments.

Tuition Costs or Business Ventures
Higher education provides a great return on your investment. Whether funding your own or a child's tuition, you'll find using your HELOC funds can sometimes save you in interest and fees, and provide tax deductible benefits. Or if you've already gotten your degree, you might need funds to start that new business and a little cash from your equity line of credit could go a long way in creating a profitable enterprise and protecting your ability to pay your mortgage bills.

Creating a Safety Net
Some people like to open an equity line of credit for rainy days. This way they will have a safety net in case of unemployment or natural disasters. In this case of course, you would only pull cash out for emergencies.

When considering applying for a home equity line of credit, make sure your purchase is more than a frivolous whim. If you just want to add to your high-tech gadget and gizmo collection, you'd be better off just saving up than bargaining against your home. A sound decision about an equity line of credit will be based on the return you'll make on your investment.

Copyright © 1999-2008 Homeloanbasics.com, Etrafficers, Inc., or its affiliates