

## **What You Need to Know About Home Equity Loans**

If you have outstanding debt that is eating up your monthly income with high interest rates and minimum payments, you may be considering a home equity loan to pay them off. However, using the equity in your home should not be taken lightly; there are a few considerations that should be examined prior to pursuing your possible loan.

Let's start by discussing what a home equity loan is and does. With this type of loan, a bank or other lender will assess the value of your property and the amount you currently owe on it. Any difference in these amounts is considered your "equity", or amount of the property you own free and clear. Home equity loans use this to secure funds to be released to you or directly to the creditors to be paid off, creating a new lien on the property.

One such type of loan is called a HELOC, or Home Equity Line of Credit. These are typically issued to finance home improvements, but can be used to reduce other forms of debt. This saves money in the long-term because home equity loans typically are issued at lower average interest rates than unsecured loans, and interest paid is also tax deductible.

A HELOC also allows you to only use as much as you need when you need it, rather than pulling the entire amount out at once. This is still a great option for home renovations that may vary in cost when compared to original estimates.

However, even with all of these benefits, you must be aware that these lines of credit work much like a credit card, and will increase your debt load. If you have trouble refraining from impulse purchases or spending beyond your means, this may not be a great option for you. Remember that you will still need to pay the debt back!

Home equity loans can be a great tool to get you on the right track in your debt reduction and management program as well. If you've resolved to change your ways and want to use the line of credit only to reduce your expenses and pay off old debts, this is a great option.

Before applying for a home equity loan, also consider if you plan on selling your home within the next few years. If so, it's probably not a good idea to max out your equity and risk selling for less than what you owe; not having this second mortgage will allow you to be a little more flexible in selling price for the sake of a speedy sale.

Look online for a handy debt reduction calculator and compare how much you will save with your current situation compared to your proposed interest rate with a HELOC. This will allow you to reflect monthly and thus yearly savings, which can also be applied toward payments on your line of equity to reduce that balance in a reasonable amount of time as well.