“When should I consider using my home’s equity?”

Before leveraging the equity in your home, think about these important tips:

Why would someone want to consider using the equity in their home?

The 2 biggest reasons are: 1) the interest rates are usually lower than credit cards or personal loans and 2) the interest paid might be tax deductible depending upon your tax situation and if you itemize your deductions.

What are good reasons to decide to tap the equity in your home?

If you are going to use the equity in your home, only use it for things that will have a lasting value – college education, major home improvements, or in a major life emergency. Really think twice about using your home equity for cruises, gadgets or splurges.

Are all home equity loans the same?

No, they really are not. Always review these important terms and conditions of your loan offers: application costs, any closing or processing fees you might have to pay. Determine if there are ongoing fees, and make sure you know if there are early payoff fees and if the rate is variable. Also, know the floor rate (how low it can go) and the cap rate (how high it can go) and the terms of when the rate can change.

Some financial advisors will suggest using the equity in your home to pay off other debt, is this a good idea?

It could be, in the right situation. If you are willing to address the underlying causes for having the high amount of credit card debt, and you are willing to not run up your debt again, this is a smart financial move. If you don’t have that discipline, you wouldn’t want to put your home at risk.