

Why a home equity credit line makes sense

Making home improvements? Making a major purchase? Facing a big college tuition bill? For homeowners a home equity line of credit may be the most economical and flexible way to borrow money.

Here's why

Because your line of credit is secured by the equity in your home, interest rates are, generally speaking, lower than for auto and personal loans. Often, interest rates are adjustable or variable, meaning that they can fluctuate over the life of the loan. Typically, lines of credit are available in time periods of five, ten or 15 years. And many lenders require that the line of credit be set at a specified minimum amount.

Then there is the tax angle: Unlike other loans the interest that you pay *may* be tax deductible. We recommend that you contact your tax advisor to find out more about a tax deduction for the interest that you pay on your home equity line of credit.

Just as important as the tax savings is the flexibility that comes with a home equity line of credit. With a line of credit, you may borrow what you need—up to your credit limit—for any length of time during the line's term.

This flexibility is the chief difference between a home equity line of credit and a home equity *loan*. With the latter you receive all of the loan proceeds at once and pay the loan back in monthly installments, much like a traditional first mortgage.

Better still, unlike a traditional car or personal loan, with a home equity line, there's no schedule of fixed repayments over a number of years. Generally, you only are required to pay the interest on your outstanding loan each month. You may choose to pay: a portion of principal regularly with each of your interest payments; pay off what you owe in a lump sum; or use any schedule of payments that you wish.

Here's what to look for

What should you be shopping for in a home equity line of credit?

- Look for a lender that charges no up-front closing costs.
- Ascertain that there is no prepayment penalty.
- Determine the maximum (the cap) and minimum interest rates, if the rate is adjustable.
- Always ask about annual fees. Although an annual fee is common, they can vary by home equity line offers.

Finally, consider a lender that can offer you a chance to convert your line of credit to a fixed-payment loan. With a line of credit, it's easy to borrow what you need without making any repayments of principal. But if, at any time, you feel that you need a more disciplined approach to paying off your loan, it's good to know that you can begin a program of regular payments of principal and interest.

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