

Home Equity Loans: Low-Cost, Tax-Advantaged Credit

If credit card payments are eating up your disposable income each month, or if you need cash to remodel your kitchen--or to buy a new car--a home equity loan or home equity line of credit (HELOC) might be your best bet.

There's also a tax advantage. Unlike almost any other consumer loan type, the interest on a home equity loan or HELOC of \$100,000 or less is likely to be tax-deductible (\$50,000 if married filing separately).

Home equity loans and HELOCs are two distinct products. With a home equity loan, you borrow a lump sum of money repayable over a fixed term, usually 5 to 15 years, giving you the security of a locked-in rate and a consistent monthly payment.

People tend to use home equity loans for large, one-time expenses like a major home-improvement project. You also might use one to start a business, make a big-ticket purchase, or consolidate high-interest credit card debt. This type of loan makes sense if you don't foresee future borrowing needs.

On the other hand, a HELOC is much like a credit card or any other type of open-ended credit. You can borrow money as needed, up to the credit limit your lender assigns. If your lender offers online banking, you can transfer funds from your HELOC to your regular checking or savings account. A HELOC is usually a variable-rate loan, so your monthly payments will change based on your outstanding balance and fluctuations in the prime rate.

A line of credit offers flexibility and ready access to funds, making it ideal for unexpected expenses like large medical bills. A HELOC also can help finance a child's college education, especially for higher-income families who don't qualify for financial aid.

Since home equity loans and lines of credit use your home as collateral, if you don't make your payments, you could lose your home. But if you don't take on excessive debt and you do make timely payments, you can't beat the low interest rates and tax-deductible interest of a home equity loan or HELOC.

A Liberty First Credit Union loan officer can explain which type of home equity loan may work for you.