

Use Your Home Equity Wisely

by (ARA)

For most Americans, their home is their biggest investment and their most valuable asset. Home equity, or the value of your home after all loans have been paid off, can be a source of value and long-term wealth. In fact, according to SMR Research, Americans have more than \$11.2 trillion in home equity.

More and more homeowners are choosing to use the equity in their home instead of waiting to reap the profits when they sell. The easiest way to do this is with a home equity loan or line of credit, which allows you to borrow money using your home's equity as collateral. A home equity loan provides you a lump sum, while a home equity line of credit, sometimes called a HELOC, functions more like a credit card that you can use as needed.

Before you borrow against your home, it's important to have a plan for repaying the home equity loan. "You don't want to put your home at risk. But if you need to renovate your home or pay for college, using your home equity could be the right choice," says Matt Coffin, president and founder of LowerMyBills.com, a free online service where consumers can shop around for the lowest rates on monthly bills and reduce the cost of living.

Chances are the interest rate on a home equity loan or line of credit will be substantially lower than the interest on your credit cards. And in many cases, the interest payments on a home equity loan are tax deductible, making them even more attractive.

To get the best rates and the most appropriate loan for your needs, it pays to shop around for the best deal.

Web sites like www.LowerMyBills.com make it easy to find and compare various loan options. Here are some tips on how to use your home equity wisely.

* Pay off outstanding debt - "Credit card interest rates can be 10 or more percentage points higher than home equity loans or line of credit, so if you are dealing with mounting debt, it can make sense to pay off those credit cards using a lower-interest home equity loan," says Coffin. Just make sure to cut up the credit cards first. It would be a mistake to use your home equity to pay off your credit card debt, only to start racking up a new round of debt.

* Improve your home - Upgrading your kitchen, updating your bathroom or fixing your roof can increase the long-term value of your home. But check with a local realtor before you decide on any home improvement projects to be sure you won't be pricing your house out of the market, especially if you plan to sell your home

within the next few years.

* Pay for college - Many families are stuck in an awkward position where they make "too much" money to qualify for low interest student loans or scholarships, but too little to realistically be able to pay for college tuition out of pocket. A home equity loan can be a smart solution.

* Finance big ticket purchases - Tapping into your home's equity is an attractive way to pay for larger one-time expenses, such as a wedding or the trip of a lifetime, even a new boat. "But don't spend it like you've just won the lottery," cautions Coffin. "Remember, this is money you have to pay back."

Best - and Worst - Home Improvement Investments

If you're considering using a home equity loan or line of credit for home improvements, take a look at this list from the experts at LowerMyBills.com first. Some home improvements can actually work against you when you're selling your home, while other upgrades almost always enhance the value of your home.

Best Investments

- Painting interior and exterior (keep the colors muted - no purple, please) • Upgrading or adding heating/air conditioning systems
- Creating more habitable space (finishing the attic or basement)
- Adding a bathroom
- Updating the kitchen (this can also be a "worst" investment - see below) • Replacing the roof

Worst Investments

- Building a swimming pool or hot tub (creates liability and aesthetic issues) • Overdoing the kitchen (for example, adding tile with "cute" little piggies or bright red cabinets)
- Installing fancy-shaped windows
- Adding new carpet (although replacing worn carpet can justify the asking price)

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