

## How to Capitalize on Your Home Equity

When you buy a home with a down payment—perhaps 10 percent to 20 percent—you automatically have that percentage equity in the home. Eventually, your mortgage payments and the home’s appreciation in value will provide a large equity stake. Lenders will allow you to borrow money against your home’s equity—the difference between your mortgage balance and the value of your home—if you qualify.

In a recent survey more than half of homeowners said they wouldn’t tap their equity for a loan or a line of credit, despite the fact that interest rates remain historically low. There are advantages to using your home’s equity, experts say. Home equity credit lines or loans can be an effective way to manage credit or to deal with major financial events.

Robert Gottlich, real estate lending manager for Share Plus Federal Bank, says that too often, consumers with high credit card and other debts turn to their fast-growing equity as an easy way out, but without the resolve to quit using credit cards. That can send them into a downward spiral of indebtedness and cost them their home.

“Paying off high-interest debt is a good way to use money from an equity loan,” he says. “I’ve seen people cut their monthly payments in half. But many consumers aren’t disciplined enough to restrain their spending. They run up their credit cards again and then they’re out of luck because they can’t get another home equity loan”.

He says that because home equity loans are secured by real estate, the interest and some related costs are tax-deductible—provided your total mortgage debt does not exceed 100 percent of the value of your primary residence. “That can be a real advantage,” he adds. “But loans tied to your home’s equity are by nature equity-depleting, and you don’t have an unlimited amount of equity to bank on.”

He says the wisest way to use equity is to reinvest. “Use home equity for capital improvements and investments that provide an equal or better return on your money than the cost of the loan,” he advises. “Home maintenance or improvement, financing a child’s education or starting a new business are relatively better uses of equity than buying big-ticket items or consolidating debt”.

Before borrowing anything, know what improvements you plan to make and how much they will cost. Contractor bids are the best way to get an idea of cost, although you should add 10 percent to 20 percent to account for cost overruns. Be aware that some improvements add more value than others. Replacing carpeting, improving landscaping or replacing appliances can be a great value compared to the cost. Adding a pool, on the other hand, will often cost more than the value it adds.

Recent surveys indicate that among homeowners who have either credit lines or loans or who have considered applying for them, more than half use the money for home improvement, about one-fourth use equity to consolidate debt and the remaining one-fourth use it to pay off credit cards. “When you refinance, most lenders give you one to two months without a payment”, Mr. Gottlich says. “So that frees up some money to pay off other debts.”