

Using Your Home as a Credit Source

Home Equity Credit Line of Credit (HELOC)

If you need to borrow money, home equity lines may be one useful source of credit. Initially at least, they may provide you with large amounts of cash at relatively low interest rates and they may provide you with certain tax advantages unavailable with other kinds of loans. (Check with your tax advisor for details.)

At the same time, home equity lines of credit require you to use your home as collateral for the loan. This may put your home at risk if you are late or cannot make your monthly payments. Those loans with a large final (balloon) payment may lead you to borrow more money to pay off this debt, or they may put your home in jeopardy if you cannot qualify for refinancing. If you sell your home, most plans require you to pay off your credit line at that time. In addition, because home equity loans give you relatively easy access to cash, you might find you borrow money more freely.

Remember too, there are other ways to borrow money from a lending institution. For example, you may want to explore second mortgage installment loans. Although these plans also place an additional mortgage on your home, second mortgage money usually is loaned in a lump sum, rather than in a series of advances made available by writing checks on an account. Also, second mortgages usually have fixed interest rates and fixed payment amounts.

You also may want to explore borrowing from credit lines that do not use your home as collateral. These are available with your credit cards or with unsecured credit lines that let you write checks as you need the money. In addition, you may want to ask about loans for specific items, such as cars or tuition.