

## Is a Home Equity Loan a Good Idea?

If you are a homeowner, you have a source of money that you live in every day. Unless you owe tremendous amounts on your home, you have probably built up some equity in it. Even if you recently bought the home and have not made many payments towards principle, your home has likely increased in value, helping you build equity. If you are in need of cash, is a home equity loan a wise way to get it? Here is what you need to know about this type of personal loan.

### Benefits of Home Equity Loans

Home equity loans have many benefits over other loan options. Because they are secured loans, they typically carry lower interest rates than unsecured loans. Also, because you are putting up your home as collateral for the loan, your chances of being approved are higher than they would be for a regular loan. Many home equity loans are fixed-rate loans, which is another benefit.

### Risks of Home Equity Loans

Home equity loans do carry risks, however. Since you are using your home as collateral against the loan, it can be taken from you if you do not pay. Before taking out a loan against your house, make sure you have the ability to repay it, or you could lose your home.

Another risk of home equity loans is the fact that they do reduce the equity in your home. If for some reason you need to put your house on the market before the loan is paid off, you will have less money from the sale of your home to use on your next home purchase.

### Times When Home Equity Loans Make Sense

There are times when getting a home equity loan is the best option. Many homeowners choose to use this type of loan when making expensive improvements to their homes. Since the improvements should increase the value of the home, this offsets the use of the home's equity.

Another time when a home equity loan may make sense is when it is used to pay off high-interest debt. If, for instance, you have a lot of credit card debt, you could save money by converting that debt into a home equity loan. This only works, however, if you are certain that you can make the loan payments each month. Also, you have to stop spending on the credit cards, because adding to your debt will only make your situation worse.

Using your home's equity to finance an education could be a sound investment as well. Education expenses are typically considered wise investments, because they have the ability to increase the earning power of the borrower. Use caution, however, that you do not fund an entire education using a home equity loan, as this would be too high of a risk against your home.

Remember, any time you put a loan against your home, you are putting your home at risk. This can be a good way to get some cash for an emergency or some necessary home improvements, but make sure you can pay the monthly payment amount each month. When used correctly, home equity loans provide homeowners with an affordable source of extra cash to be used for large purchases.