

Homeowners may be tempted to take out a Home Equity Line of Credit (HELOC) to satisfy their immediate needs or wants. Some uses for home equity are smarter and more legitimate than others. Before the 2008 recession, consumers were in the habit of using home equity borrowing to pay for everything from boats and casino trips to cars and kitchen renovations.

First, it's wise to remember that a HELOC is secured using your home as collateral. In more technical terms, it is an open ended line of credit where the line amount is based on your property value. Similar to a credit card, the line can be used in any desired increments and the credit line is rebuilt as you pay it back.



### Make the Best Use of Your HELOC

- *Home Improvement* - This is the number 1 use. Think about it: if the loan is secured by your home's value, doesn't it make sense to add more value directly back into it? A kitchen project will increase your home's value more than a fixed-up bedroom.
- *Debt Consolidation* - If you use a HELOC for nothing else, at least consider combining your credit card balances. You'll get out of debt faster by paying off all of your high-interest credit cards. Make one lump sum monthly payment, and most likely the interest rate will be significantly lower. Of course, you'll want to refrain from running up big balances on your credit cards again, or you'll defeat the whole purpose.
- *Emergency Preparedness* - Since it is relatively cheap to obtain, it can be very useful to open - just for the sake of knowing you have money for emergency expenses or quick cash. Just be vigilant not to justify frivolous purchases as "necessary."
- *College Tuition* - Parents, you can help your cash-strapped college grads get out from under student loan debt faster and help them start their careers without feeling an extra burden. Consider discussing your expectations with them regarding how much and when they will be making payments.

### A Word about Auto Loans

People may think the most important thing about a car loan is getting the lowest payment. That isn't always your best answer. If you use it to buy a car and pay little more than interest, you're spreading the payments over several years. But many people replace their car in 4 years. Would you want to make payments on a car you don't even own? Use caution when purchasing a vehicle with a HELOC.