Home Equity Loans

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Home equity loans and lines of credit are convenient and popular financing tools.

- Demand for home equity loans has cooled under current financial conditions, but they have historically been a popular option for financing home improvements and other purchases.
- Borrowing against home equity is a cost effective source of credit. Interest rates are about half the cost of credit cards.
- Recent changes to the tax code generally eliminated the deductibility of interest on home equity loans, although interest deductions are allowable on debt incurred for qualified home improvements.

Home equity loans should be used for major purposes.

- Home equity loans should be used carefully since defaulting on such a loan can put the home at risk.
- Home equity loans should not be used to cover living expenses and should be used with caution when purchasing items that will depreciate in value over time.
- Low rates make these loans an attractive option for homeowners looking to pay off other debts, such as credit cards, or finance a major expenditure.

Tips if your home equity line of credit is reduced or frozen:

- Plans generally permit lenders to freeze or reduce a credit line if the value of the home "declines significantly" or when the lender "reasonably believes" that you will be unable to make your payments due to a "material change" in your financial circumstances. If this happens, you may want to:
    - **Talk with your lender.** Find out what caused the lender to freeze or reduce your credit line and what, if anything, you can do to restore it.
    - **Get copies of your credit reports** (go to www.annualcreditreport.com for information about free copies) to make sure all the information in them is correct.
    - **Shop around for another line of credit.** If your lender does not want to restore your line of credit, shop around to see what other lenders have to offer.

Background:

Evidence suggests that a vast majority of borrowers have been careful with their home equity loans, and ABA continues to urge prudent use. Because they are collateralized loans, home equity loans remain more affordable than other, unsecured loan products, but the changes in tax treatment may impact the desirability of such loans for financing anything other than home improvements.