Ocean Financial
Federal Credit Union
Catholic Values You Can Bank On.

3 Questions to Ask Before Tapping into Your Home's Equity

Your home's equity is the difference between the current market value of your home and how much you still owe on your mortgage loan. Moreover, this equity is the portion of your home that you actually own. As the value of your home increases, you gain equity in your home.

Since the equity in your home is owned by you, and is not pledged toward a mortgage, you are able to borrow against that equity. You can choose between a Fixed Home Equity Loan or a Home Equity Line of Credit (HELOC).

With a Fixed Home Equity Loan you borrow a lump sum amount of money, usually at a fixed interest rate. A HELOC functions as a line of credit, and like a credit card, you can draw funds as needed up to your available maximum. Your interest rate is typically linked to the prime rate, so when the Federal Reserve raises interest rates, you can expect your HELOC rate to be adjusted accordingly.

In a survey from Bankrate.com, homeowners were asked why they would tap into their home's value. Seventy-five percent of respondents said they wanted to use the funds to make home improvements or repairs.

Other reasons included:

- Consolidating debt (44%)
- Paying tuition/educational expenses (31%)
- Covering household expenses (15%)
- Funding investments (12%)

Before borrowing against your home, here are three (3) questions you should ask yourself to make sure you are ready and prepared:

1. **How much will this cost?** Do your research. Compare interest rates and make sure you understand exactly what is involved. What are the fees? Are there minimum withdrawal requirements? Is the interest rate just an introductory rate? If so, how high could it rise? What are the pros and cons of getting a HELOC or a home equity loan?

2. **Will it improve your financial standing?** A home equity loan is not "free" money. If you are already struggling to pay your bills, adding to your debt by using your home as collateral won't make "everything better." If you can't make the payments, you could lose your home. Know what you are working with and calculate if this is the right move for you.

3. **What's my plan?** How do you plan to use your home equity? How can you maximize your return on investment? How will you manage your payments? How long will it take to pay down? With the new tax law, if you are borrowing to make home improvements, you may be able to deduct the interest. If you are trying to pay down your debt with your home, then have a plan on how you will manage your spending moving forward so you don't dig yourself into a deeper hole.

If you are having trouble answering any of these questions, a Loan Officer at Ocean Financial can help. Visit a branch or call 516-620-8100 to speak with a Loan Officer to help make the decision that is right for you.