FREQUENTLY ASKED QUESTION

Home-Equity Loans

Should I take out a home-equity loan to pay off my credit cards?

If you've struggled with debt for a long time, it can be tempting to grasp at any solution that seems half promising. If you're a homeowner, you may have considered tapping your ***home equity*** to consolidate your consumer debts.

Home equity is the difference between what your property is worth and what you owe on it. So if your home is worth $200,000 and your mortgage is $150,000, then you have $50,000 in equity. Since the recent credit crisis, home equity loans are harder to come by, but banks will still let many homeowners borrow against the value of their home to pursue other financial goals.

Using home equity to pay off debt may seem like an appealing option: You can get a loan with a low interest rate, probably half what your credit cards charge. If you're paying on multiple credit cards, it's likely that the combined payments are higher than the single payment on a home-equity loan would be. And in most cases, interest paid on a home-equity loan is tax deductible, the same as mortgage interest.

Sounds good, right? But home equity loans are ***not*** a panacea. They don't eliminate debt—they just shift it around. And if you don't change the habits that got you into debt in the first place, you'll just end up in deeper trouble down the road. Most importantly, a home-equity loan puts your house at risk—something credit cards don't do.

I'm not saying you shouldn't take out a home-equity loan to pay off credit card debt, but if you ***do*** choose to go this route, ***please*** make a commitment to avoid credit cards (and other consumer debt) completely until you've finished repaying the loan. Otherwise you'll just make things worse.