

Consolidate Your Debt With Your Home's Equity!

For many people with high-interest credit card debt, it may make good financial sense to consider consolidating that debt using your home's equity. When you consolidate debt, you're using your home's equity to pay off higher-interest creditors, while "rolling" that debt into your mortgage. When you do this, you're not reducing the amount of your debt. Instead, you're only *lowering the interest* rate on your debt, which makes it easier to pay off.

Why Consolidate Debt Using Your Home's Equity?

Using your home's equity to consolidate debt gives you the advantage of turning non-tax-deductible or "bad" debt into tax deductible or "good" debt. But remember: once your high-interest debt is paid off, don't charge up your credit cards again.

Here are the top three reasons why consolidating debt using your home's equity might make sense for you:

1. You're paying a lower interest rate with a home loan than you would on a credit card, making it easier to pay off your debts.
2. The interest on your mortgage is usually tax deductible (as always, check with your tax advisor), whereas the interest on a credit card is usually not tax deductible.
3. When you consolidate your debt, you only have to make one monthly payment as opposed to several. By having one lower monthly payment, you could be paying less each month than you would have if you hadn't consolidated.

Generally, there are a three ways to consolidate debt using your home's equity:

1. Cash-Out Refinance

With a cash-out refinance, you're refinancing your *existing* mortgage loan amount to a *new* loan amount greater than what you owed on the old mortgage and taking the difference in cash. For instance, let's say you have \$10,000 in credit card debt and your existing mortgage balance is \$100,000. You could refinance your old mortgage to a new loan amount of \$110,000. In essence, you are adding \$10,000 to your mortgage balance, which you will use to pay off your credit card debt. Keep in mind that the interest rate on the cash-out refinance loan should be considerably lower than the interest rate on your credit cards.

2. Home Equity Loan

Home equity is the difference between the current market value of a property and the total debt obligations against the property. On a new mortgage loan, the down payment represents the home equity in the property.

A second mortgage is an additional mortgage placed on a property that has rights that are subordinate to the first mortgage. A second mortgage is a lien in which you are given a lump sum amount that

you pay off in installments over a specified period of time. In the case of a foreclosure, the lender who holds the second mortgage gets paid only after the lender holding the first mortgage is paid.

A home equity loan is a second mortgage that allows you to turn your home's equity into cash without refinancing your first (or existing) mortgage. With a home equity loan, you receive your money in one lump sum and it will usually close in less time than it would take to refinance your first mortgage.

3. Home Equity Line of Credit (HELOC)

A Home Equity Line of Credit (HELOC) works very similar to a credit card except that it uses your home's equity as the revolving line of credit. Instead of receiving your money in one lump sum, you draw from your account only when you need to and make payments only when you use the money. You can close on most home equity lines of credit type loans in as little as 15 days. Check with your local lender today for more information.

Remember, when you consolidate your debt, be very careful not to run up the balances on your credit cards again. Consider cutting them up and keeping one for emergencies only. And if you increase your monthly cash flow by consolidating, you should consider saving more money, investing it or using it to pay down your debt faster.

For more information on using your home's equity to consolidate your debt, call us today!



Not for Reprint

The 10 Most Common Problems Found by Home Inspectors

Listed below are some of the most common items found on home inspectors' reports around the country. If you have any of these problems, you'll need to fix them before selling your home. So why not fix them now? Your home will be safer, more comfortable, and may even last longer.

1. Water Heater Strapping

In areas prone to earthquakes, when a home is sold the water heater must be strapped to prevent it from falling down in an earthquake and starting a fire. The strapping technique has been recently changed, so even people who think their water heater is strapped correctly may have to do it over to comply with the current code.

2. Roof Repairs

Many times roof leaks are not detectable from inside the living areas of the home. The inspector checks the attic area and may find evidence of roof leaks there. Especially suspect are areas around flashings such as vent pipes, chimneys and skylights. These areas are usually sealed with a black mastic compound, and the mastic deteriorates over time.

3. Improper Drainage

Standing water near the home can cause problems, especially if there is wood close to the ground. Having the ground level slope away from the home usually takes care of this. Another good precaution is to have rain gutters that carry the water from the roof away from the house. While some houses don't come with gutters, a minimal investment may save you many drainage headaches.

4. Breach of Firewall

The wall between your garage and the rest of the house is sacred. It's intended to keep a fire in the garage from spreading into the house

quickly. The door from the house to the garage is a solid core door, rather than the hollow doors used elsewhere in the house. Many people cut holes in this firewall to run cables, or cut a pet door in the solid core door. This destroys the integrity of the firewall, and will need to be repaired.



5. Ground Fault Interrupters (GFIs)

A Ground Fault Interrupter protects you from an electrical shock in case the ground wire is faulty. These circuits are usually required wherever there is water, such as in kitchens, baths, garages, and outdoors. Many older homes don't have these GFI outlets and they will need to be added. More recently constructed homes have them, but after a few years they may stick and stop working. You should test yours periodically by pushing the test button on the GFI outlet. If it kills the circuit, it's working properly—push the reset button to turn the circuit back on.

6. Self Closing Door

The door from the garage to the house needs to have self-closing hinges on it to preserve the integrity of the firewall. The hinge makes sure that the door will shut and latch automatically. Sometimes people have a tendency to wedge this door open to make it easy to get in and out of the garage, but this is a fire hazard. If a fire starts in the garage, it will spread rapidly into the house.

7. Smoke Detectors

Some smoke detectors just die of old age. You can keep them working by changing the batteries periodically. Make a habit of changing yours when you change the clocks in the Spring and Fall. To make sure it still works, push the test button after you've changed the battery.

8. Dishwasher Drains

There is a flexible hose that drains the dishwasher into the garbage disposal and then out the sink drain. Should this become clogged, water will come out of the overflow vent on top of your sink. This is your signal that the drain is clogged, and needs to be cleaned.

9. Loose Toilets

The wax ring that your toilet bowl rests on deteriorates over time, and causes the bowl to wobble. You might not notice it, but here's how to check it. Stand facing the bowl one leg on each side, squat down a little, and grab the bowl with the inside of your knees. Rock side to side, and if the toilet moves, it needs a new wax ring.

10. Heater Air Intake

If your heater is in the garage, it sits on a platform and takes in air from the house through that platform. This platform must not have any holes in it, and the heater itself should be sealed where it sits on the platform. The object here is that no air from the garage should be able to get into the furnace, causing a carbon monoxide hazard.

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