



Home Equity Loans

Contact: Sarah Grano, ABA Public Relations (202) 663-5470 or sgrano@aba.com

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.
- Unlike credit card debt, interest on the first \$100,000 of a home-equity line generally is tax-deductible.

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:

Home equity lines of credit, a variation of a traditional second mortgage, took off following the 1986 tax reform, which limited interest deductions on virtually all loans except mortgages. Concern quickly grew that consumers might fritter away the equity in their homes, which for most people is their most valuable asset. However, evidence suggests that a vast majority of borrowers have been careful with their home equity loans, and ABA continues to urge prudent use.