

## Is a Home Equity Loan Right for Me?

Taxes are becoming an ever-increasing burden to Americans. Through the Tax Reform Act of 1986, Congress reduced or eliminated many of the ways that taxpayers can lower their taxes.

Interest deduction is one of the areas that has been strongly affected by this tax reform legislation. Since tax year 1991, interest on consumer debt has not been deductible for income tax purposes.

In order to minimize the impact of these limitations, it may prove advantageous for you to shift your debt by means of a home equity loan — borrowing money using your home as collateral. The law allows your interest payments on these home equity loans to be fully deductible up to \$100,000.

You are not even compelled to use the money for home improvements. It may be used to clear personal debts, to fund a college education, to pay medical expenses, or to purchase items on a cash rather than a credit basis. The real benefit to you is the deductibility of the interest payments.

Bear in mind that home equity loans are generally repayable over 15 years. Other types of debt tend to have a shorter repayment period. As a result, the total amount of interest paid may be higher with home equity loans. However, the interest rates on a home equity loan, including origination fees, tend to be significantly lower than other consumer debt.

If you do not require a large sum, you may be interested in establishing a “home equity line of credit.” You only withdraw the money as you need it, so your interest payments are reduced.

You must examine these options carefully, however, recognizing that these loans are secured by your home.

Also, if you use a home equity loan to pay off credit card debt, consider canceling most of your credit cards to avoid the temptation to build new debt.

Before moving ahead, determine whether this shifting of debt is in your best interest, and seek professional advice on whether it will subject you to the alternative minimum tax.

If debt-shifting is suitable for you, consider taking advantage of these cost-effective means to borrow money.

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