

Is a home-equity loan a good idea when interest rates are rising?

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There exist two types of products to tap the equity in your home: home-equity loans and home-equity lines of credit.



With a loan, you get money today and a fixed interest rate and payment for the term of the loan. With a line of credit, you get advances as you need them and the interest rate and payments fluctuate based upon the balance and market rates.

If you need a lump sum, go with the loan and lock in your interest rate and payment. If you need money in intervals, go with a line of credit, and when done, refinance it to the loan.

Don't attempt to guess the direction of interest rates. Guessing wrong could cost you dearly if rates go up. If they go down, you can refinance at the lower rate.

Tapping the equity in a home is good for financing appreciating assets such as a room addition or if there is no other choice to pay for an important goal such as college tuition. It is a very bad idea if used to finance consumer items such as cars and vacations, because you'll be paying on the loan many years more than the items last.

You also risk being "upside-down" as many lenders appraise high. This makes a move very difficult and places your home at risk in the event of a crisis.

Consolidating debt is good if you are willing to pay off the debt quickly. Otherwise it's a sign that you're masking your overspending.

INTEREST RATE SAMPLER (RATE/YIELD)

Bank / phone	6-month CD	12-month CD	Money mkt. account	Reg. savings account
First Internet Bank of Indiana (888) 873-3424	5.10/5.22	5.10/5.22	3.83/3.90	2.72/2.75
Indiana Members Credit Union (317) 248-8556	4.31/4.40	4.51/4.60	4.7/4.15 ^a	2.47/2.50
National City (877) 622-7499	4.02/4.10	4.16/4.25	3.87/3.95 ^a	0.55/0.55

Bank / phone	6-month CD	12-month CD	Money mkt. account	Reg. savings account
Stock Yards Bank & Trust (317) 238-2800	2.97/3.00	3.94/4.00	5.01/5.10 ^a	0.50/0.50
Union Savings Bank (317) 843-4145	4.91/5.00	5.49/5.60	4.91/5.00 ^a	0.5 ^a /0.55