



# IS A HOME EQUITY LOAN RIGHT FOR YOU?

## 9 QUESTIONS TO ASK YOURSELF BEFORE YOU BORROW

**1. I always pay my bills on time.**

Yes  No

*If you've declared bankruptcy within the last seven years, missed loan payments, or had other credit problems, your credit rating will probably only allow you to qualify for a loan with a higher interest rate and a higher monthly payment. A credit counselor can show you how you can eventually qualify for a lower-cost loan.*

**2. My equity in my home is bigger than the loan I want.**

Yes  No

*Your home equity equals the market value of your house minus the principal you owe on your mortgage. If your home equity is bigger than the amount you want to borrow, you're less of a risk to your lender and you're more likely to qualify for a lower-cost loan. If you don't have much home equity, you may be better off waiting until you've built up more before you borrow.*

**3. The balances on my credit cards and other consumer debt are low.**

Yes  No

*Lenders give the best terms to people who don't already have a lot of debt and can easily manage the debt they have. If you have a lot of credit card and other debt, pay down as much as you can before you apply for a home equity loan.*

**4. I've been working at the same place for at least one year.**

Yes  No

*People who've had the same job for a long time usually get better loan terms. If you change jobs a lot or just started a new job, you can probably save money by holding off on your loan for awhile.*

**5. I've looked at my monthly income and expenses to see how big a loan payment I can afford.**

Yes  No

*Use BorrowSmart's worksheet to compare your income with how much you spend every month. Be honest with yourself. If there isn't enough room in your budget for a loan payment, don't risk your home by getting a loan you can't afford.*

**6. I'm reasonably certain there won't be any big changes in my income or expenses while I have my loan.**

Yes  No

*You need to be sure that you can afford to make monthly loan payments not only now, but as long as you have the loan. If your job situation seems uncertain or you think you might be hit by a major expense (like education expenses for a child or nursing care for an elderly relative) that will strain your budget, you should avoid taking on a loan that puts your house at risk.*

**7. I consistently put money aside for savings every month.**

Yes  No

*If you aren't putting a little money aside every month to save for retirement, education, or just a "rainy day," then you can't afford a home equity loan. Talk to a credit counselor about putting together a plan to improve your financial health.*

**8. I plan to use this loan to improve the long-term quality of my life.**

Yes  No

*You should only borrow against your home equity if your going to use the loan to pay for things that*

*will make your life better, like a college education, needed home improvements or debt consolidation. Never use a home equity loan as a "quick fix" for financial problems or waste it on things like cars and vacations you couldn't otherwise afford. If you can't repay your loan, you could lose your house.*

**9. I'm sure I'll be able to avoid running up my credit card debt after I take out my home equity loan.**

Yes  No

*A home equity loan only makes sense if you can be sure you'll keep your credit card and other debt under control after you get your loan. If not, you're asking for financial trouble.*

If you answered "NO" to any of these questions, a home equity loan may not be right for you. Instead, think about alternatives to a home equity loan, or just hold off until you can improve your credit rating, build up your home equity, increase your savings, or establish a more stable job history.

*For more information on whether a home equity loan is right for you, or help with your finances, talk to a credit counselor in your area.*