

Borrow on home's equity, and save

By Harold Chmara, CA (NC)— If you have built up some equity in your home over the past few years, then you have access to some of the cheapest money around.

You can borrow cheap money through what's known as a home equity loan — which is fast becoming a hot means of borrowing these days, as more and more homeowners do it. But what exactly is a home equity loan?

Although technically a second mortgage, it is actually a line of credit (borrowing power) given to you on the strength of the present equity of your home. And you can get up to 75 per cent of the appraised value of your home — less, of course, any outstanding mortgage balance. Take an example:

Suppose your home is worth \$125,000, your mortgage balance is \$50,000, and the lender's maximum ratio is 70 per cent. That means you qualify for an immediate line of credit of \$37,500 (70 per cent of \$125,000 - \$50,000). You can either take the whole \$37,500 at once, or any lesser amount you happen to need. Because it is a line of credit, you do not pay any interest until you draw on it.

The nice thing is that you can use the money for any purpose. The lender will not even ask.

The other nice thing is the interest rate — which will be very close to prime. Depending on the lender, the rate can range from half a point to 1.75 points over prime. Even so, the rate is most likely the lowest around — far better than for most other loans.

It all sounds good so far. But there



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are two negatives to these loans: set-up costs and uncertain interest rate. As far as set-up costs go, count on it costing you several hundred dollars (the range is from \$225 to \$1,000). And because the interest rate is tied to prime, it will move up and down in step with prime.

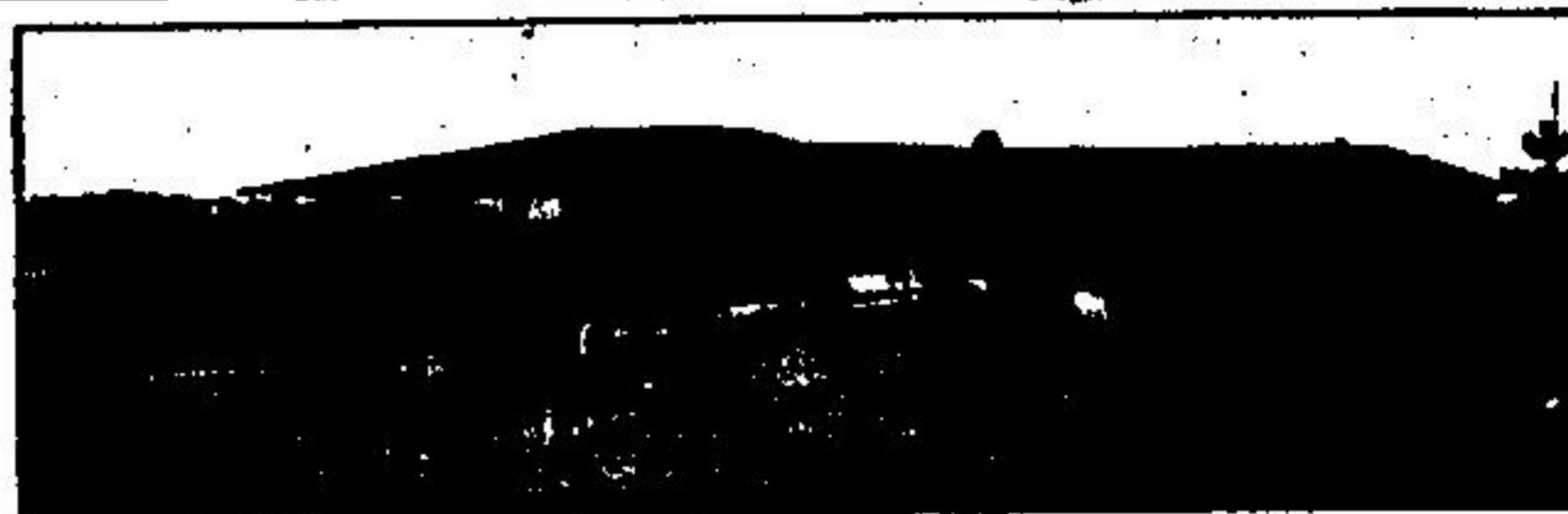
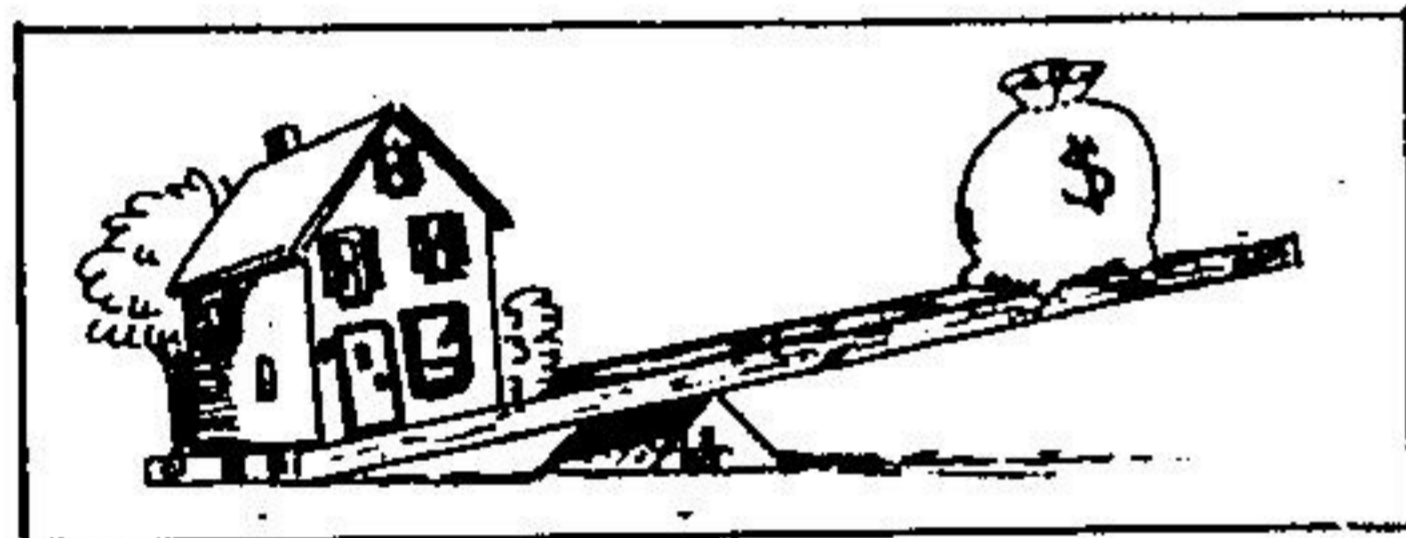
How do you go about deciding if a home equity loan makes sense for you? As with anything else to do with finance — get the details and compare.

So far three chartered banks (Nova Scotia, Toronto-Dominion, and Montreal, one trust company (Canada Trust) and one credit union (CUNA) are offering home equity loans. More will no doubt follow.

How does the home equity loan compare with other types of loans? For a loan running several years, the equity loan will probably be far cheaper. For one year, the costs will be very close. But don't forget, once the equity loan is set up you can use it again any time.

So even if it is not cheaper at first, it might be very useful to have around for the next time.

For CA's advice on TV — see Your Wealth, available on broadcast channels in Ontario and on satellite across Canada, or see Money in the Bank, on your community cable channel. Moneycare is general financial advice by Canada's chartered accountants. Harold Chmara is with the Hudson's Bay Company.



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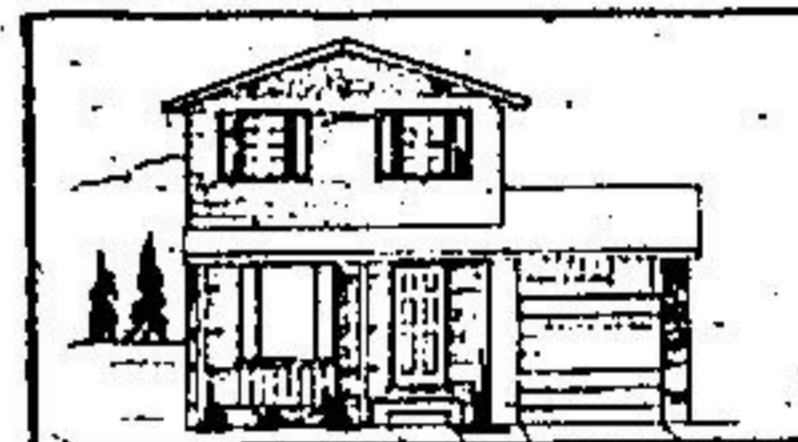
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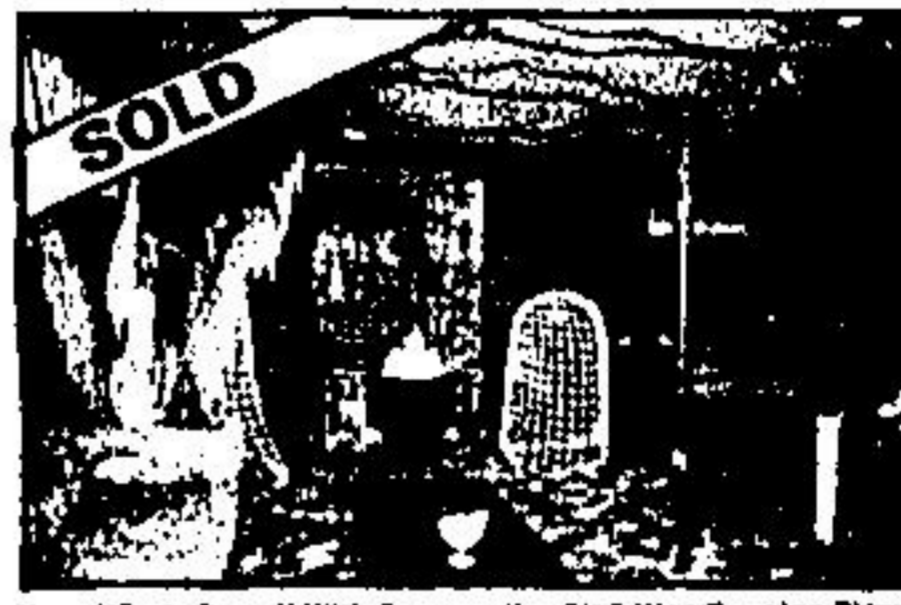
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