



Using Equity to Your Advantage

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If you have ever had a conversation with a REALTOR®, you have probably heard them expound on the virtues of home ownership. There is certainly no better long-term investment you can make, but it's also true that some sacrifices may need to be made to achieve, and maintain, home ownership.

The sacrifices we make as homeowners are however; returned in equity, unlike monthly rental payments. Equity is the difference between the price for which a property can be sold and your mortgage on the property. Essentially, it is the stake you have in your home.

Eventually, the equity that you have built in your home can be used to further your financial goals. Rather than using high interest credit cards for example, you can apply for a home equity loan to undertake a major purchase. In this scenario, you're required to make monthly payments to your lender and your home equity is used as collateral until the loan is fully re-paid.

Similarly, a home equity line of credit will allow you to access funds to a set limit. A minimum monthly payment must be made and the full amount owing can be paid back at any time. Unlike a traditional loan though, you are only charged interest on the funds you have withdrawn.

Although home equity loans and lines of credit offer the opportunity to realize your dreams at a manageable cost, they should be used responsibly. For example, rather than financing a vacation, a home equity loan could be used to increase the value of your home through renovations that offer solid return on investment. You may also use a home equity loan to consolidate debt, repaying it at a lower interest rate.

Given that the value of your home can vary based on market conditions, it's wise to only borrow within your limits and to repay loans as quickly as possible to avoid accumulating interest charges.

Be wary of unconventional loans such as reverse mortgages, which provide you with funds based on home equity. Although reverse mortgage loans don't have to be re-paid while your home remains your primary residence, they can drain you of all equity.

Be alert for unscrupulous lenders who often have hidden loan terms and extend funds that aren't possible for you to repay, so that they can claim your home. For example, some loans may only require you to pay monthly interest charges but include a substantial lump-sum balloon payment to be paid at the end. Never sign forms with blank spaces and in particular, never consider signing over the deed to your home without first obtaining legal advice.

Home equity loans and lines of credit can be a positive and well-earned financing solution for many homeowners. Be sure though, to utilize this option to protect rather than jeopardize your most important asset.

For more advice on homeownership talk to a REALTOR® or visit www.TorontoRealEstateBoard.com

Maureen O'Neill is President of the Toronto Real Estate Board, a professional association that represents 28,000 REALTORS® in the Greater Toronto Area.