You May Need An Emergency Source of Money!

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You're counting down the days to your retirement, or perhaps you've already traded in your office and commute for that long-awaited leisure time. You're comfortable, because you have a good, safe retirement income from your Social Security and/or other annuity... but what happens when a large, unexpected expense knocks at your door?

These costly surprises can take many forms—a medical emergency; an automobile that needs early replacement; your home needs a new roof or other costly repair; or a family member temporarily loses their job.

When you are in or near retirement, and have an urgent need for a significant amount of cash, what's the best course of action?

The answer may be right under your feet: your home, condominium or precisely, the equity in your home.

You can borrow on that equity using either a Home Equity Line of Credit (HELOC) or a Home Equity Fixed-Rate Loan. In either case, you will benefit from some of the lowest interest rates available—and most, if not all, of the interest you pay is tax-deductible. What's more, lenders have made equity loans fast and easy to obtain because they are low-risk, and early repayment without any penalties is almost always permitted.

Home equity loans often are a much better source for emergency cash than your investments. They do not cause you to incur stiff brokerage commissions, mutual fund redemption fees, or lost interest and penalties for early CD withdrawals. They do not force you to reduce your investment portfolio's value (especially in a down market), which forms the foundation of your future retirement income. (They're also a great way to consolidate and repay higher interest loans, e.g., credit card balances, at less cost to you!)

Both types of equity loans are flexible regarding the amount that can be borrowed, and repayment is usually based on a 10-or 15-year payback period. The amount you can qualify to borrow typically depends upon how much equity you have in your residence in relation to its market value, added to the amount of paid-up equity in your mortgage loan. Loan amounts often start at $25,000. Generally, you can only deduct from your taxes the interest expense for loan amounts $100,000 or less. However, you can deduct higher interest amounts if they are related to home repairs, additions etc. So only borrow what you need to keep the monthly interests payments reasonable.

A Home Equity LOC offers a lower initial interest rate than its fixed-rate cousin, and operates like a checking account. This loan amount is accessible by simply writing a check against your available credit amount. A HELOC only charge you interest on the amount you borrow. The remaining HELOC amount, being unused, in not subject to interest rate charges until it is also withdrawn from the account.

The Fixed-Rate Home Equity Loan is just like a traditional loan–you receive the entire loan as a lump sum, and repay it with the same amount each month. The interest rate is constant over the life of the loan and the interest charged is also tax deductible for most uses. Therefore, the Fixed-Rate Home Equity Loan is best suited for a specific, known for an immediate spending project or cash need.

These loans must be made and handled with a sense of financial responsibility because they are a lien against your home. Therefore, a failure to repay the loan in full could result in a full or partial foreclosure of your home. You should also inquire with any lender as to if or how they might impact your credit score. The poorer your credit history the more likely getting a HELOC could impact your credit score. Those HELOC borrowers with good credit scores generally 740+ should not see any significant change in their credit scores. <u>When handled responsibly, LOCs represent a low cost way of borrowing money for any legitimate financial need or family emergency.</u>

Lenders are currently eager to make Home Equity loans; just make sure you get the best terms available. HELOC currently are offered only with variable interest rates that fluctuate with the Prime Interest Rate. Because interest rates are at an all time low, and probably will not decrease from this level, you may want to seriously considering an HELOC that you can convert to a Fixed Interest Rate later without penalty. Your best bets to obtain a Fixed-Rate Home Equity Loan or HELOC are your credit union, savings & loan, or bank. **Shop around! Ask around! Make sure you understand all the terms and conditions associated with you loan.**

<u>Never take on substantial additional debt unnecessarily; but if a genuine need arises, take a hard look at home equity loans. They’re probably your most economical choice.</u>

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