

ASK THE EXPERT

WHAT ARE THE BENEFITS AND PITFALLS OF TAKING OUT A LINE OF CREDIT?

Almost all financial institutions offer some sort of line of credit whether it is unsecured or secured by the equity in your home.

One of the main benefits of this type of loan is that it offers the convenience of being able to write your own loan. This enables an individual to purchase big ticket items such as furniture or to make investments, home improvements or even to pay for a vacation without having to reapply for a loan each time. Ironically this convenience factor is also one of the main pitfalls of a line of credit. People often find this access to money too convenient and begin to rely on the line of credit rather than trying to save the money for these items. As a result, the line of credit is never paid off and is often kept at or near its limit.

Often lines of credit, especially those secured by a mortgage or some other asset offer a very attractive interest rate. These type of lines of credit are sometimes used to consolidate other debts such as credit cards. It is especially important to be careful in handling these types of lines of credit as you may quickly become overextended and potentially lose your home in the process.

Like any form of credit a line of credit can be a double edged sword so you need to be careful how you handle it.