

Using Personal and Home Loans to Finance Your Small Business

If you own your home and need to borrow money for your business, a home equity loan may be an option. As with any loan, there are risks, but home equity loans are unique in that if you default on your loan, you may lose both your home **and** your business.

Borrowing against home equity has become a popular source of credit, especially for small business owners. To accommodate the demand, lenders are offering home equity credit lines in a variety of ways.

Here are some of the advantages of taking out a home equity loan to finance your business:

- Relatively large loan amounts (up to the value of your home, less existing liens)
- Low interest rates
- Tax advantages on interest payments

There are disadvantages too, of course. In addition to putting up your home to secure your loan, you may be asked to pay up-front fees, closing costs, or annual fees. Some home equity loans also require large balloon payments at the end of the loan, while others require higher monthly payments instead.

If you choose a loan with a large balloon payment, be sure you know how you will cover the expense. In some cases you may have to borrow more money to make the balloon payment.

Home equity loan terms and conditions vary, as do the needs of borrowers. Before you sign a loan agreement, contact various lenders to compare your options, and select the home equity credit line best suited to your needs.

When you do find a loan, review the contract carefully before you sign. Do not be afraid to ask questions about the terms and conditions.

If you are not comfortable taking out a home equity loan, consider a second mortgage installment loan. Although these plans require an additional mortgage on your home, unlike an equity line of credit, second mortgage funds are typically loaned in a lump sum. In addition, second mortgages usually have fixed interest rates and fixed payment amounts.

There are also lines of credit that that don't require you to use your home as collateral. A line of credit lets you withdraw funds, as needed, for routine operating expenses up to the maximum amount of the credit line. They usually carry a much lower interest rate than credit cards but somewhat higher than bank loans. Credit lines, like bank loans, are usually only available to profitable, established businesses.

You may also be able to borrow against your 401(k) or stock purchase plan. You can borrow up to a maximum of \$50,000, but not more than 50 percent of the balance in your 401(k) account. Taking a loan instead of a distribution may also help you avoid tax penalties generally associated with early withdrawals.

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