Advantages of Equity Lines
For Real Estate Investors

We like to get as many equity lines as possible. By equity lines, I mean that I want loans that I can pay down and borrow against every day if I want. The reason that I want to do this is that if I have a lot of equity lines, I can take my profits and pay down equity lines. When buying and selling more than 5 houses a month, we have large amounts of cash going into and out of checking accounts. Unfortunately, without equity lines, I would typically have to pay 7.5% interest on a loan, while at the same time, keeping large amounts of cash in checking. As a result, I have to pay 7.5% interest on loans, and only earn 1.5% interest in checking.

Instead of using the traditional financing methods, I like to have as many equity lines as possible. This way, when money comes in, I pay down the equity line and when money goes out, I use the equity line to write the check. This keeps me from having to pay 7.5% interest on a loan and earning only 1.5% interest from checking. If we have the scenario on 4 to 5 properties, the interest savings can be hundreds or thousands of dollars per month. E.G. If you sell a $300,000 house and put that money into checking for 30 days, under normal lending situations, you would earn $375 at 1.5% interest. But if you had an equity line on another $300,000 house, you could temporarily pay down that house to zero balance for the month. Thus, you might save about 7.5% interest. Thus, your interest savings for the month would be $1,875 and your net savings was a full $1,500 for that month alone. When you need the cash again, you can simply use your equity line and access that $300,000. This savings would only be possible with the use of an equity line.

If you are looking for a way to find equity lines, one method is to establish an equity line against your pre-existing stock or mutual fund account. Pledge your stocks as collateral with your local bank. They will probably give your 50-75% of the value of the stocks at prime or less. Check with your accountant first to make sure you are structured to write off this interest.

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