

MORTGAGE LIBRARY • LOAN GUIDE 03

Home Equity & HELOCs

How to borrow against the value you've built — and how to choose the option that fits your plans.

Equity is the part of your home you truly own: its value minus what you still owe. As you pay down your mortgage and your home's value changes, that equity can become a resource for renovations, education, debt payoff, or a financial safety net.

There are several ways to tap it, and each works differently. This guide explains home equity lines of credit (HELOCs), home equity loans, and cash-out refinances in plain English so you can choose the one that fits — or decide to leave your equity alone.

At a Glance

WHO IT'S FOR

Homeowners with equity who want funds for a specific purpose and like their current mortgage.

THE BIG CHOICE

A flexible line of credit you draw from as needed, or a one-time lump sum.

KEEP IN MIND

Your home secures the loan, so borrowing should have a clear purpose and a repayment plan.

WATCH OUT FOR

Variable rates and payment changes when a HELOC moves from drawing to repaying.

How Home Equity Borrowing Works

The amount you may be able to borrow depends on your home's current value, what you still owe on it, your credit, and your income. Lenders generally allow you to borrow up to a portion of your home's value, minus your existing mortgage balance.

A HELOC and a home equity loan are usually second loans that sit alongside your current mortgage, so you keep your existing rate and terms. A cash-out refinance replaces your current mortgage entirely with a new, larger one.

Your Main Options

HELOC

A revolving line of credit, similar to a credit card secured by your home. You draw what you need during a draw period, then repay during a repayment period. Many have variable rates.

Home equity loan

A one-time lump sum with a fixed payment over a set term. Predictable — a good fit when you know exactly how much you need.

Cash-out refinance

Replaces your mortgage with a larger one and gives you the difference in cash. Can make sense when new loan terms are attractive for your whole balance.

Reverse mortgage

For older homeowners who want to access equity without a required monthly mortgage payment. See our Reverse Mortgages guide.

Your Questions, Answered

HELOC or cash-out refinance — which fits me?

If you like your current mortgage rate and need money over time or for an uncertain amount, a HELOC often fits. If new terms make sense for your entire loan, or you want one single payment, a cash-out refinance may be better. I'll compare both for you.

How does a line of credit actually work?

You're approved for a maximum amount. During the draw period, you borrow what you need and typically pay at least interest on what you've used. After that, you repay principal and interest, and payments usually go up.

What happens to my payment over time?

With a variable-rate HELOC, your payment can change as rates move. It also changes when you move from the draw period to the repayment period. Ask to see an estimate of the repayment-period payment before you sign.

What are good uses for home equity?

Projects that add value or security — renovations, accessibility updates, education, or replacing higher-interest debt with a plan to stay out of it. Vacations and everyday spending are usually not a good match.

Are there closing costs?

There can be, depending on the product and lender. Some HELOCs have low upfront costs but annual fees or minimum draw requirements. Ask for every fee in writing.

Can the lender freeze or reduce my line?

In some situations, such as a significant drop in home value or a change in your finances, a lender may reduce or freeze a line of credit. It's one reason not to count on a HELOC as your only emergency fund.

What to Expect, Step by Step

- 1 Define the purpose.** How much do you need, when, and for what? That points us to the right product.
- 2 Check your equity.** We estimate your home's value and your current balance to see what may be available.
- 3 Compare options.** Side by side: HELOC, home equity loan, and cash-out refinance — payments, costs, and risks.
- 4 Apply and appraise.** You share income and asset information; the home's value is confirmed.
- 5 Close and access funds.** After signing, you receive your lump sum or gain access to your line of credit.

Mike's Straight Talk

Your home is the collateral. Missing payments on a home equity loan can put your home at risk. Borrow for purposes worth that responsibility.

Plan for the repayment phase. Many HELOC surprises happen when the draw period ends. Know your estimated payment before it arrives.

Debt payoff needs a plan. Consolidating credit cards into home equity only helps if the cards stay paid down afterward.

Not borrowing is an option too. Sometimes the best advice is to keep your equity as a cushion. I'll tell you if I think that's the case.

Documents You'll Likely Need

- ☐ Your most recent mortgage statement
- ☐ Homeowners insurance information
- ☐ Recent pay stubs and W-2s (or tax returns if self-employed)
- ☐ Recent bank statements
- ☐ Property tax information
- ☐ Estimates or plans for the project, if borrowing for renovations

Your list may differ. See the full *What Documents Will I Need?* checklist in the Mortgage Library.

Have a question? Ask me directly.

Asking a question isn't applying for a loan. You'll get a straight answer from a real person.

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