

Home Equity vs. HELOC

WHAT IS A HOME EQUITY LINE OF CREDIT?

A HELOC provides ongoing access to funds. Unlike a conventional loan a HELOC is a revolving line of credit, allowing you to borrow more than once. In that way, it's like a credit card, except with a HELOC, your home is used as collateral.

- A HELOC has a credit limit and a specified borrowing period, which is typically 10 years. During that time, you can tap into your line of credit to withdraw money (up to your credit limit) when you need it. You use the funds only when you need to, and you can continue to use the funds as you repay them.
- A HELOC can be opened to fund a specific need, or can be opened ahead of time so that access to funds is available when needed.
- You only pay interest on the money you use.
- Most HELOCs charge variable interest rates. Those rates are tied to a benchmark interest rate and can adjust up or down.
- You may be able to convert some or all of the balance you owe on a variable-rate HELOC to a fixed-rate loan.
- During the borrowing period, you'll need to make at least minimum monthly payments on the amount you owe, typically this payment includes portions of principal and interest.
- Once the borrowing period ends, you'll repay the remaining balance on your HELOC, with interest, just like a regular loan. The repayment period is usually 10 or 20 years.

WHAT IS A HOME EQUITY LOAN?

A HELOAN resembles a traditional loan. You borrow a specific amount, which is provided as a one-time cash payout at closing, and then you make regular payments during a fixed repayment period.

- With a home equity loan, you apply for the amount you need.
- Most charge a fixed interest rate that doesn't change during the life of the loan.
- Each payment, the same every month (if it is a fixed-rate HELOAN), includes interest charges and a portion of the loan principal.



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