HOMEOWNERSHIP

My lender offered me a Home Equity Line of Credit (HELOC). What is a HELOC?

A HELOC is a line of credit that allows you to borrow against your home equity.

Equity is the amount your property is currently worth, minus the amount of any mortgage on your property. Unlike a home equity loan, HELOCs usually have adjustable interest rates. For most HELOCs, you will receive special checks or a credit card, and you can borrow money only for a specified time, from when you open your account. This time period is known as the “draw period.” During the “draw period,” you can borrow money and you must make minimum payments. When the “draw period” ends, you will no longer be able to borrow money from your line of credit.

After the “draw period” ends, you may be required to pay off your balance all at once or you may be allowed to repay over a certain period of time. During this time, known as the “repayment period,” you will not be able to borrow additional amounts and may have to make larger minimum payments than during the draw period.

Under some plans, if you make only the minimum payments you will not pay off your entire balance by the end of the term. At that point, you will have to pay the remaining balance as a single lump-sum, known as a “balloon payment.” If you cannot get another loan to repay this amount, or pay it off using your savings, you could lose your home.

HELOCs usually have a variable interest rate that changes over time, so your payments may not be the same from month to month.

If the value of your home falls significantly, your lender may decide not to allow you to take out additional credit under your HELOC plan, which may result in you not having access to as much money as you thought you would.

Tip: If you are considering a home equity line of credit, shop around to compare all your options. Just like other mortgages, HELOCs have costs and fees associated with them. Also be sure you review the risks of this line of credit. The best way to avoid problems is not to sign anything you don’t understand.
If you are having trouble with your bills, taking out a HELOC to pay down your debt may cause more trouble for you and put your home at risk. Before taking out a HELOC to consolidate your debts, talk to a U.S. Department of Housing and Urban Development-approved housing counselor. A HUD-approved housing counselor can, advise you on managing your money and debts, help you develop a budget, and give you free educational materials.

Avoid firms that ask for big fees up-front or that make unrealistic promises – like restoring your credit or repaying your debts for pennies on the dollar.