



## Is a HELOC Better than a Second Mortgage?

Most homeowners know that their homes can be a huge source of financial wealth. It is an asset that can be tapped into and turned into cash for important projects like debt consolidation, home improvement, or college tuition. Yet many homeowners do not know the best route to take when taking advantage of this value. Two of the most popular loan choices are second mortgages and home equity lines of credit or HELOC loans.

A second mortgage is defined as another loan taken out on your home as collateral. The amount of money you receive will not be based on the amount of equity you currently have in your home, but it will be determined based on credit history, the interest rate of your first mortgage, and the price of your home. You can receive a lump sum at the close of the loan or you can open an equity line of credit. There are several different repayment options available with second mortgages. The biggest risk is that you are putting additional stress on your ability to repay your first mortgage, and in a worst case scenario you might lose your home.

A HELOC loan on the other hand, is a type of refinance loan and it acts more like a checking account. It is a "line of credit," meaning that the lender will determine with you the credit limit, which is based on the amount of your home equity. You will not receive a lump sum, but you will be able to withdraw money out of your HELOC whenever you need to. You will have a set time period during which you can make withdrawals. Typically you can get a HELOC with a time from of between five and ten years long. During this draw period, you are only required to start paying back the interest on the loan. After that period is over, you must start repaying both the principal and interest, a time frame which can last between ten and fifteen years, depending on your preference.

To determine which type is best for you, a thorough discussion with a mortgage professional may be necessary. However, there are a few basic guidelines that can help you decide.

First second mortgages are generally fixed rate loans while HELOCs are always adjustable rate mortgages (ARMs.) This means that if you anticipate a big one-time expense, like paying for a wedding, you will probably be better off with a second mortgage. If you are going to be doing a project that needs continual funding, like starting a new business or paying for tuition each semester, you will likely save more by choosing a HELOC.

HELOCs are also better for smaller expenses, like a specific home improvement project. More costly financial ventures will be better served by a second mortgage, as you can obtain more funding and can pay it off over time with a fixed rate. HELOCs though can save you money when you repay your withdrawals quickly, as it will save you more in the end in interest.

For more information, consult your trusted mortgage professional. He or she can help you understand the full consequences of using each type of loan to take care of your financial needs.