



What is a HELOC?

Taking out a second mortgage or a refinance loan can be a great way to pull cash out of your home for new projects or financial ventures. There are all sorts of refinance loans available to those interested in taking advantage of their home equity. If you are looking to use your home as your piggy bank, one option you should consider is a Home Equity Line of Credit or HELOC loan.

A traditional refinance mortgage loan allows you to take out a new loan that pays off your original mortgage, and if you so desire, you can make the new loan large enough to also pull out some cash for your personal needs. This money is usually given to you in one lump sum at the close of the loan.

A HELOC loan, while still a type of refinance loan, 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 frame 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.

These loans are great for projects like home improvements, paying off credit card debt, or making college tuition contributions. You could take out non-collateral loans for these large types of financial obligation, but the interest would not be tax deductible. With a HELOC, all the interest you pay on the loan will be and can net you great tax savings.

Another great feature of HELOC loans is that the closing costs are usually lower than you would have to pay with a traditional refinance mortgage. Your closing costs with a normal refinance loan might be as much as five times as much as the costs for a HELOC.

There are some risks associated with these loan types however. You cannot get a fixed rate HELOC. They only come with adjustable rate mortgages, meaning the interest rate is able to reset periodically based on certain market factors. The interest on your loan will also be computed every day rather than on a monthly basis because the balance of your loan could change daily based on your withdrawals. You should realize though that HELOCs do not have interest rate adjustment caps, which means your payment amount could jump around quite a bit, and could potentially be very difficult to repay if interest rates get too high.

A Home Equity Line of Credit could be a great way to go if you do not know exactly how much money you would like to pull out or if you would like the freedom to pull out a little bit at a time. Talk with your trusted mortgage professional to find out if it is the right choice for your refinance loan.