

## What is a HELOC?

### A HELOC allows an individual to borrow against the equity of their house

A HELOC or "home equity line of credit" is a way of borrowing money against the value of your home. If your house is worth more than you owe on your mortgage, you may be able to use your [home equity](#) to pay for improvements, pay down high-interest debt, or pay for college tuition.

### How does a HELOC work?

HELOCs are credit lines that let you choose how much money you borrow, up to a certain limit, and when you borrow the money, during a certain period of time. (This is often called the "draw period.") You don't need to take out a specific amount of money all at once with a HELOC like you do with a [cash out refinance](#) or home equity loan.

Home equity lines of credit can be useful when you need to borrow varying amounts of money over a period of time. People might get a HELOC when they are making home repairs but don't know how much money they will need or when they will need it. People might also get a HELOC to pay for college tuition when different bills might come due at different times.

Once you are approved for a HELOC, you will have a maximum amount of money you can borrow. HELOCs often have draw periods of 5 to 10 years, which means you can borrow money over the course of 5 to 10 years. Most of the time lenders require you to maintain a certain amount of equity in the home and there may be other requirements too.

### How do you pay off a HELOC?

During a HELOC's draw period, you may only need to make interest payments on the money you borrow. After the draw period comes the repayment period, during which you need to make both principal and interest payments. Repayment periods can often run between 10 and 20 years. You'll need to pay off the full amount of the loan by the end of the repayment period.

The interest only payments during the draw period can make the upfront costs of a HELOC more affordable. Keep in mind that HELOCs typically come with an [adjustable interest rate](#). This means that the cost of your interest payments might go up or down during the life of your home equity line of credit.



Also note that a HELOC uses your home as collateral. That means if you have trouble making payments or default on your HELOC, you may risk losing your home.

### **Is HELOC right for you?**

You can also get cash from your home's equity with a cash out refinance or a home equity loan as well as a HELOC. Learn more about the [differences between HELOCs and cash out refinances](#). Freedom Mortgage offers its customers cash out refinancing.



## **NOTES & REMINDERS**