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Understanding Home Equity Lines of Credit (HELOCs)

This guide provides a comprehensive overview of what a HELOC is, how it works, when it's useful, and what to consider before using one.

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A Guide by The Housing Assistant

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Introduction

A Home Equity Line of Credit (HELOC) is a flexible borrowing tool that allows homeowners to access the equity in their home. This guide provides a comprehensive overview of what a HELOC is, how it works, when it's useful, and what to consider before using one.

What is a HELOC?

A HELOC is a revolving line of credit secured by the equity in your home. It functions much like a credit card, allowing you to borrow, repay, and borrow again within a set draw period. Funds can be used for any purpose—most commonly for home renovations, debt consolidation, or covering large expenses.

How Does a HELOC Work?

- Secured by Home Equity: The loan is secured by the borrower's house.
- Draw Period: Typically 5–10 years where funds can be borrowed and repaid.
- Repayment Period: After the draw period ends, a 10–20 year repayment period begins (no new borrowing allowed).
- Variable Interest Rates: Most HELOCs have adjustable interest rates based on the prime rate.
- Interest-Only Payments: During the draw period, you may only need to pay the interest on the amount borrowed.

When Should You Use a HELOC?

- To finance major home improvements
- To consolidate higher-interest debts
- For education or medical expenses
- For emergency or bridge financing (short-term)

THA Tip: Only borrow what you can repay and use HELOCs for well-planned expenses—not day-to-day cash flow.

Pros and Cons of a HELOC

Pros	Cons
- Flexible access to funds	- Risk of foreclosure if not repaid
- Lower interest rates (secured by home)	- Variable interest rates may rise
- Interest-only payments in draw period	- Can lead to overborrowing
- Reusable credit line during draw period	- Repayment period may require larger payments