**[HELOC 101]**

**Headline: HELOCs can provide cash when you need it**

**Subhead:** A home equity line of credit (HELOC) uses the equity in your home to give you access to cash. It might be the right choice if you want to make repairs or ongoing improvements that will enhance the value of your home or to pay for medical expenses or large purchases.

**Intro:** There are many advantages to homeownership, and one of the most important is the ability to access your home’s cash value.

One way to do that is through a HELOC, which you can think of as a revolving line of credit that you can use as necessary. With a home equity line, you only borrow money as you need it, so you avoid paying interest on extra funds you don’t need.

Here’s a look at HELOCs, how they work, and what they’re commonly used for. Your credit union mortgage officer is also a great resource to determine if a HELOC is right for you.

**Remember: A HELOC is different from a home equity loan**

It can be easy to get these two loan products confused, and while they have some similarities, there are some important differences:

* Interest rates on a HELOC are variable, but usually are lower than a home equity loan when you obtain it.
* A HELOC allows you to borrow money as you need it, while a home equity loan is a one-time lump sum.
* During the first 5 to 10 years of a HELOC, you generally repay only interest on the amount borrowed; home equity loans have a set period of fixed repayment, usually 10 to 30 years. (We’ll discuss more specifics about HELOC repayments and periods later).

**Determine if you can qualify for a HELOC**

In general, you need to have at least 20 percent equity in your home to get a HELOC. A simple way to estimate equity is to determine the current market value of your home, then subtract the amount you owe on your mortgage.

Most HELOC lenders require a credit score of at least 620 to qualify. Generally, the higher your credit score, the lower your interest rate. You debt-to-income ratio — the percentage of your monthly income that’s used to pay your debts — usually must be 40 percent or less.

**Applying for a HELOC**

As a line of credit, you will apply for a HELOC in much the same way as you applied for a loan when you purchased your home.

You will need to gather documentation to demonstrate your employment and income, such as W-2 forms or recent paystubs. Get copies of your recent bank statements as well as proof of other assets, like retirement accounts.

Finally, gather information on your monthly debts, such as student loans, car payments, and your current mortgage. Check with your credit union mortgage officer for other documentation that may also be required.

**Review the disclosure documents**

These documents spell out the terms of the home equity line of credit and the amount you can borrow. Some HELOCs require you to borrow a specific amount of money upfront, called an initial draw.

Take time to read the disclosure document carefully and understand the terms of the HELOC. Ask questions to make sure the HELOC fits your needs.

**Accessing funds and paying them back**

Once you’re approved, you can generally access your HELOC funds as you need them for a fixed term, usually up to 10 years. This is called the draw period. During this time, you usually are required to make interest-only payments, though some HELOCs allow you to pay more towards the principal.

During the draw period, you can typically access your HELOC funds through an online fund transfer or a credit card linked to your HELOC. The ability to draw funds only when you need them is one of the most attractive features of a HELOC.

At the end of the draw period, you can no longer access funds, and you enter the repayment period. Now you make monthly payments that include principal and interest. The repayment period can last up to 20 years.

Keep in mind that during the repayment period, your monthly payment will be higher than during the draw period. It’s wise to plan for this well before you reach the repayment period.

**HELOC considerations**

There are some main points to keep in mind if you’re thinking about a HELOC:

* HELOCs usually have low or no closing costs, which gives you greater financial flexibility.
* Using a HELOC to make repairs and renovations can pay off in the long run by enhancing the value of your home.
* A HELOC is often a good option for education expenses, like college tuition or large purchases.
* Interest rates on HELOCs are usually lower than on a home equity loan, but HELOC rates are also variable. Be sure you can afford an increase in your monthly payment if interest rates rise.
* If you might move relatively soon, think carefully before applying for a HELOC. If you sell your home, you must pay off the remaining HELOC balance. That could lower any profit from the sale.

*Ready to get started? Contact your mortgage loan officer to learn more about applying for a HELOC.*