

What is a HELOC?

A home equity line of credit (HELOC) is an “open-end” line of credit that allows you to borrow repeatedly against your home equity.

You “draw” on the line over time, usually up to some credit limit, using special checks or a credit card. As you repay the principal, you can draw that amount again. This part of the plan is known as the “draw period,” which usually lasts for some fixed term, such as ten years. After the draw period ends, you typically then enter the “repayment period,” during which you must pay off the outstanding balance in regular periodic payments of principal and interest. The repayment period is also a fixed term of years.

Depending upon your lender and your HELOC agreement, you may have to pay back the whole amount you borrowed as soon as the repayment period begins. HELOCs usually have a variable interest rate that changes over time, so your payments may not be the same from month to month.

If the value of your home decreases significantly, your lender may decide not to allow you to take out additional credit under your HELOC plan, which may result in you not having access to as much money as you thought you would. The lender may also freeze your ability to take out additional funds if your financial circumstances change and your lender does not believe you will be able to make your payments.

If you are having trouble with your bills, taking out a HELOC to pay down your debt may cause more trouble for you and put your home at risk.