Let's Talk HELOC

Seven Questions to Ask When Considering a Home Equity Line of Credit

A HELOC (Home Equity Line of Credit) can be a great way to borrow money, but as with any loan, it's important to understand what you're getting into. As you consider whether a HELOC is right for you, ask yourself these important questions.

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What is a HELOC and how is it different from a Home Equity Loan?

HELOC is an acronym for Home Equity Line of Credit. Unlike a traditional lump sum loan, a HELOC is similar to a credit card in that it gives homeowners access to funds (a line of credit) up to a certain credit limit, with one important difference – a HELOC uses the borrower's home as collateral. A home equity loan, on the other hand, lets you borrow a lump sum of money. A home equity loan also uses your home as collateral, but works more like a mortgage – the lender issues a one-time loan and you make the monthly payments.

Is a HELOC more flexible than a traditional loan?

With a HELOC, you can withdraw as little or as much money as you need, up to your credit limit. Naturally, your monthly payment will vary depending on interest and the amount withdrawn, but a HELOC can be a great way to borrow money as circumstances and needs change.

How much money do you really need?

Because a HELOC allows you to borrow money against your home's value, your line of credit will depend on several factors, including your home's appraised value, the remaining balance on your existing mortgage, and your credit history. A HELOC allows you to withdraw cash periodically on an as-needed basis, but remember to act cautiously. If you fail to make payments, your home could be at risk.

What will you use the money for?

Again, there's no one right answer to this question – a HELOC can be accessed to pay for weddings, vacations, and even to consolidate debt. It's usually a good idea, however, to spend the money on things that will help build wealth, such as home repairs and remodels.

What will your interest payments look like?

Traditionally, HELOCs have variable interest rates, meaning your rate will rise and fall with baseline rates. While this could leave you vulnerable to market factors outside your control, many lenders place caps on rate increases and some provide the option of a fixed interest rate.

Can you afford the upfront costs?

A HELOC might be a good option if you plan to borrow smaller amounts over an extended period of time, but it's important to weigh the benefits of accessing these funds against the costs of initiating the loan, which may include application, appraisal, and title fees.

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Is a HELOC right for you?

If you have additional questions about applying for and using a HELOC, it might be time to stop talking and start acting. To learn more about whether a HELOC is right for you, call Utah First Federal Credit Union at ***800-234-0729*** or apply online at ***Home.UtahFirst.com.***

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