

# HELOC

## DO'S AND DON'TS



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*WITH CREDIT CARD RATES AS HIGH AS 24%, A HELOC AT JUST AROUND 8.5% CAN MAKE A LOT OF SENSE. BUT BEFORE YOU RUSH OFF TO THE LENDER TO TAP YOUR SIGNIFICANT EQUITY, FIRST CREATE A PLAN FOR THE USE OF YOUR HELOC SO THAT YOU DON'T GET IN A BIND. HERE ARE THE DO'S AND DON'TS.*

### **DO CHOOSE A HELOC OVER A HOME EQUITY LOAN.**

With a home equity loan you are given a fixed amount of money and must pay that back at a fixed rate. Whereas with a HELOC (home equity line of credit)

you can draw down the amount you need when you need it, similar to using a credit card but better, because the interest rate is much lower and it's variable. If interest rates fall (as they are at this moment) then your HELOC rate will also fall.

Example: Suppose that over the course of next year you'll need to make \$5,000 of repairs to your home. If you take a home equity loan of \$5,000 now and put that money in the bank in preparation for your repairs, you'll start paying it back right away at a fixed rate. Whereas if you open a HELOC, you don't need to use \$5,000 right now. You may only need \$2,000 now, so you can take out just \$2,000 and possibly benefit from a lower rate going forward. If rates rise, you can choose whether you want to use more of the equity line or not.

### **DO USE IT WISELY FOR FINANCIAL REASONS.**

A HELOC is a financial tool. It should be used in a way that advances your wealth. That might mean using it to pay off more expensive credit card debt, but only if you have a plan that prevents you from accumulating more credit card debt again.

Other ways to use a HELOC include remodeling your house, if it increases the value of the home

significantly. Or making serious repairs or upgrades, if your quality of life is suffering.

You might add an extra unit to your house if you can use it for income, or use it as a down payment on a new property, as long as the lender allows it and you can comfortably cover the HELOC payments on top of the new real estate debt. In other words don't treat your HELOC as a piggy bank that's easy to crack open whenever you want to, but rather treat it as a bank vault on a time lock.

**DON'T ASSUME YOU NEED TO USE THE SAME LENDER WHO HOLDS YOUR MAIN MORTGAGE.**

As with any loan you can shop around for the best rates and terms on HELOCs. There are many options out there, including online banks, your personal bank, your current mortgage holder, and your credit union.



## **DO KEEP YOUR EYE ON THE FINANCIAL MARKETS.**

If it seems like interest rates are projected to rise significantly, you'll want to make plans, if possible, to pay down or pay off the HELOC debt you carry.

The point is to use your HELOC strategically with a plan in place for how you'll benefit from the money, how you'll pay it back and how you'll monitor the financial markets to ensure you maintain the interest rate you're comfortable with.

***NEED A GREAT LENDER TO SPEAK WITH ABOUT HELOCS? OR GETTING A NEW MORTGAGE? JUST CALL OR TEXT ME AND I'LL SEND YOU MY BEST LENDERS.***