CAPTRUST

Q&A: Home Equity Lines of Credit (HELOCS)

A: The answer depends on your personal financial picture. To make this decision, examine your financial needs, your risk tolerance, and the economic climate. Before proceeding, ask yourself:

- What will I use the funds for?
- Can I afford higher payments if my interest rate rises?
- Am I disciplined enough to avoid overborrowing?
- Have I considered other options to access liquidity?

Also, make sure you understand how home equity loans work. Often called home equity lines of credit (HELOCs), these loans provide a credit line secured by your house. During a draw period of typically five to 10 years, you can withdraw funds and make interest-only payments. After that, a 10- to 20-year repayment period begins with both principal and interest payments. Most HELOCs have variable interest rates that will rise or fall with market conditions.

HELOCs offer a few distinct advantages:

- Interest rates are generally much lower than those on credit cards or personal loans.
- They provide flexibility, allowing you to borrow only what you need.
- In some cases, interest may be tax deductible.
- They can fund major expenses like home renovations or debt consolidation.

However, today’s economic conditions require caution. Rising interest rates could raise your monthly payments; flexibility can lead to overborrowing; and falling home values could leave you owing more than your home is worth.

Remember, your home secures the loan, so missed payments could lead to foreclosure.

Another consideration: Preserving your home equity can be a strategic long-term move, offering financial resilience and future opportunities that might outweigh the immediate benefits of borrowing.

Deciding whether to use a HELOC is a personal choice. Yes, your home equity can be a powerful financial tool, but it requires careful consideration and a clear understanding of the risks and rewards. Take your time, do your research, and consult your financial and tax advisors for their perspectives.
