

Everything

you should know about

HELOCs

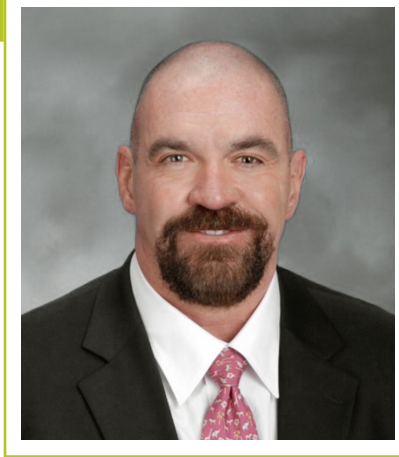
HOME EQUITY LINES OF CREDIT

HELOCs are more popular than ever these days

And with good reason. They can be a great way to tap into your home equity. And you can use the money as you wish, when you need it. **Get all the details inside.**



Welcome to PenFed!



Winston Wilkinson
President, Mortgage Lending

For most people, a home is their most valuable asset. You may be an experienced homeowner with years of monthly mortgage payments under your belt. Or a new homeowner, just starting out.

And at some point, you may find yourself in need of extra cash to help handle expenses. A HELOC can be a smart way to secure the cash you need to help build your financial future.

We've created this eBook to support you throughout the process of deciding whether a HELOC is the right choice for you. We share information, tips, and insight to help you make an informed choice. This eBook also includes links to our PenFed Knowledge Center, where you can take a deeper dive on topics you're interested in.

And remember, we're here to help — every step of the way.

Winston Wilkinson
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Get a closer look!

When you see this symbol, pick up more helpful tips in our Mortgage Knowledge Center at [PenFed.org](https://www.penfed.org) >

What is a HELOC?

A HELOC (*home equity line of credit*) is a loan that's secured by the equity in your home. It allows you to borrow and repay as you go, using your home as collateral.

What can I use a HELOC for?

You can use HELOC money for anything you wish, but for the most efficient use of your money, they're generally best for:

- Home improvements
- Debt consolidation
- Paying off student loans
- Other large or unexpected expenses

How does a HELOC work?

Typically, you can borrow up to a specified percentage of your home's equity with a HELOC. You can borrow as little or as much cash as you need, when you need it. You pay interest only on the cash you use.

HELOCs are revolving credit accounts. That means that as you repay your outstanding balance, the amount of available credit is replenished — much like a credit card. A HELOC has two periods: the draw period and the repayment period.

- **Draw period:** A specified period during which you can access the cash whenever you want it. The payments you make during this period are interest-only.
- **Repayment period:** A specified period during which you begin making regular monthly payments of principal and interest. The rate is variable based on current market trends.

PRO TIP!

PenFed HELOCs give you the ability to switch from a variable to a fixed rate on all or some of your interest payments.

- **Pros of getting a fixed-rate HELOC:** It safeguards your loan from rising interest rates, and allows you to know exactly the amount you'll be paying per month.
- **Cons of getting a fixed-rate HELOC:** It can have a higher initial APR than a variable-rate HELOC, and you may be limited in the number of times that you can lock in a rate.

How much can I borrow with a HELOC?

You will be approved for a specific amount of credit. That amount is typically based on:

- The available equity you have in your home
- Your credit score and financial history
- Other considerations including employment history, monthly income, and monthly debts

Many lenders set the credit limit on a home equity line by taking a percentage (say 75%) of the home's appraised value and subtracting from that the balance owed on the existing mortgage. For example:

\$400,000	APPRAISED VALUE OF HOME
× 80%	PERCENTAGE
\$320,000	MAXIMUM POTENTIAL HELOC AMOUNT
-\$200,000	BALANCE OWED ON EXISTING MORTGAGE
\$120,000	POTENTIAL LINE OF CREDIT



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Using a HELOC for home improvements >

Compare HELOCs to other money sources







Before you take out a HELOC, it makes sense to consider other options that might be available to you, including the ones below.

HELOC	Personal loan	Personal line of credit	Cash-out refi
You borrow against the equity in your home	You borrow from a lender and repay in installments over a fixed term	You borrow based on your credit, without using your home as collateral	You replace an existing mortgage with a bigger one — and take the difference in cash
How much can you borrow?			
A percentage of the appraised value of your home	Based on your creditworthiness, as determined by the lender	Up to the amount of your credit limit, as determined by the lender	Generally a percentage of the appraised value of your home; the amount of your existing loan plus the amount you want to cash out
Variable or fixed rate?			
Variable, typically	Fixed	Variable, typically	Variable or fixed
Typical advantages			
Continue repaying and borrowing for several years with no additional paperwork or approvals	Provides stable, fixed monthly payments. You can often get the funds within several business days	Continue repaying and borrowing for several years with no additional paperwork or approvals. Approvals are often faster than other types of credit	Lower rate because it's a loan secured with your home as collateral
Typical disadvantages			
Repayment amount varies from month to month; repayment is often required when you sell your home	The amount you're approved may be a lower loan amount and have a shorter payback period, which could mean higher monthly payments	Closing costs are generally higher; interest rate may be higher than your current mortgage	You'll need to make all remaining mortgage payments at the new refi rate, which could be higher than your original rate

Pros and cons of HELOCs

Here are a few things to keep in mind when you're deciding whether a HELOC is right for you.

PROS






-  **Lower interest rates.** Typically, HELOCs offer lower interest rates than unsecured options, including unsecured credit cards and loans.
-  **There are no fees to access your cash.** With a HELOC, you have access to a line of credit when you need it, not a lump sum supplied to you all at once like a home equity loan. Therefore, you can take out a HELOC as a safety net and only access the cash when you need it — and when you do, there won't be a fee to withdraw the money. Keep in mind that some lenders charge an annual fee, similar to a credit card.
-  **Flexibility.** You don't need to provide any specific plans for your money to obtain a HELOC. You can use the money as you wish, when you need it.
-  **You only borrow what you need.** You can borrow as little or as much as you need throughout your draw period up to your credit limit.
-  **Easy access to cash.** Typically, you can access your HELOC cash via online banking.
-  **Flexible repayment options.** You may be offered different options for paying back the amount you borrowed via your HELOC.



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CONS

-  **Your home is the loan collateral.** Defaulting on a HELOC means that you could lose your home.
-  **It can take a few weeks to get access to your cash,** depending on how long the approval process takes.
-  **May not reduce your overall debt.** Since you may be able to make monthly payments on just the interest — if you don't pay down the principal, you will continue paying interest without reducing your overall debt.
-  **Variable rate.** HELOCs have a variable rate during the payback period, so there's always a chance your interest rate could increase with market forces.
-  **Possible reduction in home equity.** It's possible that over time during the term of your HELOC, your home can lose value. That could mean that you borrowed against equity that no longer exists. If that happens, then when it comes time to sell your home, you'll need to make up for that lost equity at closing. Most HELOCs have a clause that states a decline in property value can result in a freeze — or termination — of your HELOC.

Special HELOC options

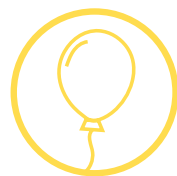
Here are a few special options available with some HELOCs. It's a good idea to carefully weigh the potential benefits against the possible costs of these options.



Piggyback mortgage HELOC is a HELOC that is opened at the same time as a main mortgage.

ADVANTAGE: Allows borrowers with lower down payments to draw additional money in order to qualify for a main mortgage without paying for private mortgage insurance (PMI).

DISADVANTAGE: Typically carries a higher interest rate than the main mortgage, and is also often variable based on current market trends.



Balloon payment HELOC Based on your creditworthiness, as determined by the lender.

ADVANTAGE: Helps keep your monthly payments at a lower rate.

DISADVANTAGE: Generally, a balloon payment is more than two times the loan's average monthly payment. If you're considering a HELOC with a balloon payment, it's important to consider whether and how you can make the balloon payment when it comes due.

4 TIPS for getting the most from your HELOC

There are lots of options available when it comes to choosing and using a HELOC. Here are some tips to maximize the value and usefulness of yours:

- 1 **Increase your home's value.** You can use your HELOC money however you wish, but using it on projects that increase your home's value are a great way to get a good return on your investment.
- 2 **Pay for an emergency.** Take care of any unexpected medical bills or costly car repairs.
- 3 **Repay as you go if possible.** Making payments will decrease your balance and free up more credit.
- 4 **Be disciplined about what you withdraw.** For example, if you're using your HELOC to consolidate higher-interest loans, be careful of racking up credit card debt again.



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Here are some efficient benefits a HELOC offers:

- **Making home improvements can help boost your home's value.** Renovations can help boost your home's value, help it sell more quickly, and sell at a higher price. That's a win for you.
- **They can be a great way to invest in real estate.** Many people use HELOCs to put money down on an investment property or second home. Having a HELOC to draw on when making an offer on a property means the money is already available. This helps the buyer compete and pull the trigger quickly.
- **They offer tax advantages.** Interest on a HELOC may be tax deductible. Please consult a tax advisor for details regarding tax deductibility for your unique situation.



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Top 10 benefits
of a HELOC >

Additional considerations

Can I sell my home if I have a HELOC?

Having a HELOC doesn't prevent you from selling. However, you are generally required to pay off your HELOC in full upon the sale of your home. If you are considering selling your home in the near future, consider carefully whether a HELOC is the right way to go. Also keep in mind that renting your home may be prevented under the terms of some HELOC agreements.

What should I do if the economy or my situation changes?

HELOCs generally permit the lender to freeze or reduce your credit line if the value of your home falls or if they see a change for the worse in your financial situation. If this happens, it's a good idea to talk to your lender. Find out the reason for the freeze or reduction. You might need to check your credit reports for errors that might have caused a downgrade in your credit.



How do I get a HELOC?

First, you complete and submit a basic application to your lender — usually available online. And remember, you're free to get a HELOC from any lender. Your HELOC doesn't have to be from the company you send your monthly mortgage payments to.

How long does it take to get a HELOC?

Applying for and obtaining a HELOC usually takes about two to six weeks. How long it takes to get a HELOC partially depends on how quickly you, as the borrower, are able to supply the lender with the required information and documentation, in addition to the lender's underwriting and HELOC processing time.

Here are some things you may need:

- A minimum credit score of 680
- Proof of income — typically one to two months of paystubs
- At least one year of W2 forms
- Mortgage statements for all the properties you own

Possible additional financial verification:

- Self-employment income (two years of tax returns)
- Current debts (auto, alimony, credit card, etc.)
- Favorable *debt-to-income ratio* (DTI)



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How much HELOC
can I get? >



Check out all our PenFed Mortgage Knowledge Center references:

Page 4, Using a home equity loan for home improvements

<https://www.penfed.org/mortgage-knowledge-center/using-a-home-equity-loan-for-home-improvements>

Page 7, Ten ways to use the equity in your home to your advantage

<https://www.penfed.org/mortgage-knowledge-center/10-ways-to-use-the-equity-in-your-home>

Page 8, HELOCs and home equity loans - Top FAQs

<https://www.penfed.org/mortgage-knowledge-center/helocs-home-equity-loans-top-faqs>

Page 10, Top 10 benefits of a HELOC

<https://www.penfed.org/mortgage-knowledge-center/top-10-benefits-of-a-heloc>

Page 13, How much HELOC can I get?

<https://www.penfed.org/mortgage-knowledge-center/how-much-heloc-can-i-get>

CREDITS

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