

# What is a home equity loan or line of credit?

A home equity loan or home equity line of credit (HELOC) is a loan product based on your home's equity. The funds may also be used for any purpose, including renovations, travel, to consolidate debt, or fund your children's education costs.

Payments on a home equity loan or line of credit are not deferred. So, you will owe on them each month.

## Home equity loan

A home equity loan, often called a second mortgage, is guaranteed by the equity in your home. Like a traditional mortgage, this loan requires underwriting that verifies your financial standing, credit history, and the market value of the house, which will be used as collateral for the loan.

Home equity loans typically have a fixed interest rate, and the loan proceeds are paid out as a lump sum.

## Home equity line of credit (HELOC)

A home equity line of credit, or HELOC, is similar to a home equity loan in that it is secured against your home. But instead of a lump sum payment, you receive a revolving line of credit to draw on as needed.

With the line of credit, you only make payments on the amount of credit you are using. For instance, if you've got a \$100,000 line of credit but only use \$15,000, that's the amount you'll make payments on. HELOCs typically have variable interest rates.

You make payments on a home equity loan or HELOC on a monthly basis, beginning immediately after you take out the loan.

## Proceed with caution

When you take out a home equity loan or HELOC, they are secured by your home, and you make payments on them in addition to your mortgage. If you fall behind on any of these payments, you could put your house at risk of foreclosure.

