

The term HELOC (Home Equity Line of Credit) is often used in the banking world, but not everyone knows what a HELOC really is, or how it works. A HELOC uses the value of your home as collateral. This makes it similar to a second mortgage, but because you can withdraw funds as you need them, it actually functions more like a credit card. To help you understand more about HELOCs, here are answers to frequently asked questions.



- **What is home equity?** Home equity is the difference between the outstanding balance of all liens on your property (i.e. your mortgage) and the fair market value of your property. For example, if your home appraises at \$200,000 and you owe \$100,000 on it, you have \$100,000 of equity in your home.
- **How does applying for a HELOC work?** Applying for a HELOC is very similar to applying for a mortgage. A lender would want to know what the appraised value of your home is, your credit score, how much debt you currently have, how much money you make, and of course how much equity is in your home. Once all of those pieces of information are verified, a lender would extend an offer to you.
- **How much can you borrow?** Most borrowers are only able to use up to 80% of the equity in their homes for a HELOC.
- **What are good uses for a HELOC?** There are many uses for a HELOC and while it can be tempting to use the funds available for vacations or to get a new vehicle, there are some options that may be more valuable than others. Some of the more beneficial uses of a HELOC include: consolidating high interest debt such as credit card debt, remodeling your home to further increase its equity, and financing an education for yourself or a child.
- **Who is best suited to have a HELOC?** Anyone that has equity in their home!

HELOCs are a great financial tool for many consumers. You just have to be careful not to abuse it. If you have more questions on HELOCs, please contact a retail loan officer at The Stephenson National Bank & Trust.