

A Home Equity Line of Credit (HELOC) functions very similarly to a credit card. You have an established limit of credit that you can borrow against whenever you would like, as long as there is credit available. So, if you're working on a home renovation project and you need \$2,000 now, \$1,000 in a month, and \$5,000 later on down the road, with a HELOC, you have the flexibility to take those funds when needed. But, you also need to be thinking ahead about repaying the balance. Here are the possible pros and cons of having a HELOC.



Pros:

- **Possibly lower rate** – Using your home as collateral means your HELOC could have a lower interest rate than other types of loans or credit, such as credit cards.
- **Interest-only payments** – On top of already having a lower rate, you'll only need to pay the interest due on your HELOC during your draw period, which could lower the burden on your budget.
- **Flexibility** – A HELOC allows you the freedom to use the money available when you need it.
- **Potential tax benefits** – Depending on your personal situation, the HELOC interest you pay may be deductible on your taxes. Please consult a tax professional to see if you qualify.

Cons:

- **Interest rates could rise** – Introductory rates could change in the future. Depending on the market, HELOC rates could rise.
- **Fees** – Depending on the lender, your HELOC may come with many fees that you wouldn't have if you used a different type of credit. These fees can start to add up.
- **More difficult to budget for payments** – A variable interest rate means you likely won't be paying the same amount month after month.
- **You need to be able to plan ahead** – Even though during the draw period you only have to make interest-only payments, you need to plan for the repayment period as well. The repayment period is when you start paying back the principal amount on your HELOC (the amount that you have actually borrowed from your line). This usually will result in a large increase in amount due.
- **Your home is on the line** – If you are suddenly unable to repay on your HELOC, you could possibly lose your house.

HELOCs are a great financial tool for many homeowners whether they want to make renovations on their home, send a child to college, or consolidate other high interest debt. But, as with any major financial decision, there are pros and cons that need to be weighed before making the final call. Please contact your SNBT retail loan officer with any questions.