

HomeWise

Free Educational Resources for Homebuyers

HELOC & Home Equity Booklet

Compare HELOCs and home equity loans: structure, rates, and use cases.

HomeWise is an independent educational resource. We are not a lender, mortgage broker, or financial advisor, and nothing on this site is an offer to lend or a commitment to make a loan. Rates, figures, and calculator results are illustrative estimates for educational purposes only and are not personalized financial advice. Always consult a licensed mortgage professional and verify current figures before making any financial decision.

HELOC vs. Home Equity Loan

Both a HELOC and a home equity loan let you borrow against the equity built up in your home. They serve similar purposes -- home improvements, debt consolidation, major expenses -- but they work differently. Understanding the distinctions can help you decide which, if either, fits your situation.

What is a HELOC?

A Home Equity Line of Credit (HELOC) is a revolving credit line secured by your home. You draw funds as needed during a draw period (typically 5-10 years), paying interest only on what you've borrowed. After the draw period, a repayment period begins (typically 10-20 years) during which you repay principal plus interest. Most HELOCs carry variable interest rates that adjust with a market index -- your payment can rise or fall over time.

What is a home equity loan (HELOAN)?

A home equity loan provides a fixed lump sum at closing, repaid over a set term with a fixed interest rate and equal monthly payments. It works like a traditional installment mortgage. You know exactly what you'll pay each month from day one, making budgeting straightforward.

Key differences at a glance

- Structure: HELOC = revolving credit line | HELOAN = lump-sum installment loan.
- Rate: HELOC = typically variable | HELOAN = typically fixed.
- Fund access: HELOC = draw as needed | HELOAN = full amount at closing.
- Payments: HELOC = interest-only during draw, then P&I | HELOAN = P&I from day one.
- Best for: HELOC = ongoing/phased costs | HELOAN = one-time known expense.

Which is right for you?

A HELOC suits flexible, ongoing needs -- phased home renovations, an emergency reserve, or costs you can't predict exactly. A home equity loan suits a single, defined expense where payment predictability matters, such as a full renovation project or high-interest debt consolidation.

Both products use your home as collateral. If you can't make payments, you risk foreclosure. Compare total costs -- including origination fees, closing costs, and variable-rate risk -- and consult a licensed mortgage professional before deciding.

Tapping Equity: Two Different Tools

Both a HELOC and a home equity loan let you borrow against the equity you have built, but they behave very differently. Choosing well starts with understanding that difference.

- A home equity loan (HELOAN) gives you a single lump sum at a fixed rate, repaid in steady installments.
- A HELOC is a revolving line of credit you can draw from as needed, usually at a variable rate.

How a HELOC Works

A HELOC functions a bit like a credit card secured by your home, with two phases.

- During the draw period you can borrow, repay, and borrow again up to your limit, often paying interest only.
- During the repayment period you can no longer draw and you repay principal and interest.

Because the rate is usually variable, your payment can rise or fall with the market -- flexibility that comes with uncertainty.

How a Home Equity Loan Works

A home equity loan suits a known, one-time expense where predictability matters most.

- You receive the full amount at closing.
- The rate and payment are typically fixed for the life of the loan.

This makes budgeting simple, but you cannot draw more later without a new loan.

Want the complete guide?

This is a free 3-page preview. The complete HELOC & Home Equity Booklet runs about 10 pages with the full details. To get the full version, just add your phone number when you download it on our website -- iqhomeloans.org. Your phone number is used only for sending you updated emails and/or support information.