

# HomeWise

Free Educational Resources for Homebuyers

## Solar Financing Booklet

FL solar economics: cost ranges, the 30% federal ITC, net metering, and which financing path actually wins.

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# 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.

## How the Mortgage Process Works, Step by Step

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Whatever loan type you choose, the journey from interest to keys follows a predictable path. Knowing the steps in advance removes a lot of the stress and helps you spot when something is off track.

- Get your finances in view. Pull your free credit reports, add up your monthly debts, and estimate a comfortable payment before you talk to anyone. The more you understand your own numbers, the better the questions you can ask.
- Compare loan options. Different programs suit different situations. Look at the down payment, credit expectations, mortgage insurance, and the long-term cost of each -- not just the headline rate.
- Gather your documents. Lenders typically want recent pay stubs, W-2s or 1099s, two years of tax returns, bank statements, and a photo ID. Having these ready keeps the process moving.
- Shop and compare offers. You are free to request figures from more than one lender. A standardized Loan Estimate makes it easy to compare rate, fees, and total closing costs side by side.
- Underwriting and appraisal. The lender verifies your finances and orders an appraisal to confirm the home's value. Respond quickly to any requests for more information.
- Closing day. You review and sign the final paperwork, pay your down payment and closing costs, and the loan funds. The home is yours.

Throughout the process you are the decision-maker. Take the time you need, ask for plain-English explanations, and never feel pressured to sign something you do not fully understand.

## Understanding the True Cost of a Mortgage

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A monthly mortgage payment is usually made up of four parts, often shortened to PITI: principal, interest, taxes, and insurance. Understanding each one helps you judge whether a payment really fits your budget.

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