

Table of Contents

- 1 What Is a Home Equity Line of Credit (HELOC)?
- 2 How Should I Use a HELOC?
- 3 HELOC for Home Improvements
- 4 HELOC for Debt Consolidation
- 5 HELOC for an Emergency Fund
- 6 HELOC for Major Purchases
- 7 Conclusion

What Is a Home Equity Line of Credit (HELOC)?

A home equity line of credit, or HELOC, is a revolving line of credit based on the equity you've built up in your home. A home's equity is the difference between the value of your home and your mortgage balance. A HELOC works like a credit card but because the line of credit is secured by your home, you can access more money at a lower interest rate than a credit card or personal loan. Keep in mind that in exchange for the lower rate, your home acts as collateral for the line of credit.

It's also important to know that with a HELOC, there's a defined draw period from which you can borrow (usually 5–10 years). Once the draw period ends, you enter the repayment period (typically 10–20 years).



How Should I Use a HELOC?

In short, you can use the funds from a HELOC for any purpose. While home improvements are among the most common uses (remember: your home is the collateral for the HELOC), you may utilize your home equity to consolidate debt or finance a large expense.

However, before you apply, it's important to know what you want to use your HELOC for. Here are the four smartest ways to use a HELOC.

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1. HELOC for Home Improvements

While there are a number of ways to pay for your next home renovation project, as a homeowner with equity, a home equity line of credit (HELOC) may be the best way to finance your home improvements. Here's why:

A HELOC offers increased flexibility of funds, so you can use your credit when your projects are completed and invoices need to be paid.

You'll have less stress as delays and unexpected costs in house projects are common. With a HELOC, you can draw money when you need should costs and deadlines change.

Not sure which projects you want to start on first? A HELOC allows you to gradually withdraw money to pay in stages, as the work is booked and completed.

During the draw period, you may be given the option to make interest-only payments.

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2. HELOC for Debt Consolidation

Homeowners who are struggling with high-interest debt may be able to use their home equity to consolidate balances. A HELOC can offer you access to a larger sum of money as an option to consolidate your debt. Here's why a HELOC could be useful for debt consolidation:

Lower Interest Rates: A key benefit to a HELOC is you may be able to borrow money at a lower interest rate than you pay on your current debt. The lower the rate, the more you'll save as you pay off your consolidated debt.

One Easy Payment: Instead of keeping up with multiple payment due dates, consolidating your debt with a HELOC helps you manage it all with one easy monthly payment.

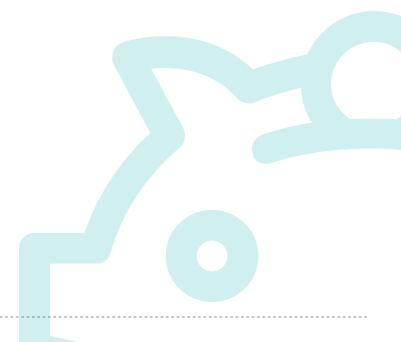
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3. HELOC as an Emergency Fund

If you're in need of cash fast, a home equity line of credit may be your best solution as a homeowner. A HELOC may offer a variety of benefits when you need access to money quickly, such as when covering an emergency situation like a roof leak or medical bill.

A HELOC allows you access to a revolving line of credit and usually, a HELOC offers a lower interest rate and a higher line amount than credit cards or personal loans. But it's important to understand you are using your home as collateral. You have to be mindful to only borrow what you can afford to pay back.



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4. HELOC for Major Purchases

Need to make a major purchase, but you don't have enough in your bank account to cover the upfront cost? A HELOC may help out in that situation. Because, as stated before, a home equity line of credit can provide you access to a large sum of money, depending on how much equity you have built in your home.

Here are some big-ticket items a HELOC can help you cover:



College



Car



Vacation



Wedding

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 Wondering What a HELOC Will Cost? Try Our HELOC Calculator

Conclusion

Now that you know the smartest ways to use a home equity line of credit, the next step is to figure out if it's the right option for you. While there are many advantages to a HELOC, if you aren't able to pay on time, your home is on the line. That's why it is so important to assess your financial wellness and use the funds appropriately so you can pay back the amount you owe in the time allotted.

If you feel certain a HELOC is right for you, you may want to check how much you can borrow using a <u>HELOC calculator</u>. From there, you can see how much you can borrow and begin the application process.



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