CAPTRUST



Q&A: Home Equity Lines of Credit (HELOCS)

Q: We have built quite a bit of equity in our house over the past couple of years. Is it a good idea to use a home equity loan to tap into some of that money?

A: The answer depends on your personal financial picture. To make this decision, examine your financial needs, your risk tolerance, and the economic climate. Before proceeding, ask yourself:

- What will I use the funds for?
- Can I afford higher payments if my interest rate rises?
- Am I disciplined enough to avoid overborrowing?
- Have I considered other options to access liquidity?

Also, make sure you understand how home equity loans work. Often called home equity lines of credit (HELOCs), these loans provide a credit line secured by your house. During a draw period of typically five to 10 years, you can withdraw funds and make interest-only payments. After that, a 10- to 20-year repayment period begins with both principal and interest payments. Most HELOCs have variable interest rates that will rise or fall with market conditions.

HELOCs offer a few distinct advantages:

- Interest rates are generally much lower than those on credit cards or personal loans.
- They provide flexibility, allowing you to borrow only what you need.
- In some cases, interest may be tax deductible.

- They can fund major expenses like home renovations or debt consolidation.

However, todayâ??s economic conditions require caution. Rising interest rates could raise your monthly payments; flexibility can lead to overborrowing; and falling home values could leave you owing more than your home is worth.

Remember, your home secures the loan, so missed payments could lead to foreclosure.

Another consideration: Preserving your home equity can be a strategic long-term move, offering financial resilience and future opportunities that might outweigh the immediate benefits of borrowing.

Deciding whether to use a HELOC is a personal choice. Yes, your home equity can be a powerful financial tool, but it requires careful consideration and a clear understanding of the risks and rewards. Take your time, do your research, and consult your financial and tax advisors for their perspectives.

Have questions? Need help? Call the CAPTRUST at Work Desk at 800.967.9948, or schedule an appointment with a retirement counselor today.

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