



Home Equity Line of Credit: Frequently Asked Questions & Answer

A home equity line of credit, a type of mortgage, is a financing option made available based on the equity you have in your home. When considering a home equity line of credit, there are a number of factors to take into consideration by your lender to determine whether you qualify. These considerations often include the loan-to-value ratio on your home, your credit score, and your overall debt-to-income ratio.

If you need financing to consolidate debt, fund a home renovation, or subsidize another large expense, a home equity line of credit may be an option for you. Below are some frequently asked questions and answers for home equity lines of credit.

Q. What is the difference between a home equity loan and a home equity line of credit?

A. Home equity loans and home equity lines of credit are both secured by the equity you have in your home. The difference is that a home equity loan is taken out one time as a lump sum, and a home equity line of credit is open-ended and can be borrowed from, repaid, and reused at any time.

Q. What are the benefits of a home equity line of credit as a financing option?

A. The revolving nature of a home equity line of credit ensures that you have quick funds available at any time. Once you close on the loan, the full amount of the line of credit is available to you and can be repaid and used again at any time.

Q. How much can I borrow from my home equity line of credit?

A. The credit limit on your home equity line of credit will be dependent upon your home's value and the equity you have in your home. Your credit limit will be a percentage of the value of your home minus any balance you may still owe on your first mortgage.

Q. What can a home equity line of credit be used for?

A. A home equity line of credit can be used for any purchase. It is most often used for home renovations, debt consolidation, higher education costs, and other miscellaneous large purchases.

Q. Are there closing costs involved?

A. You can expect to pay some closing costs for your home equity line of credit. Expenses you may encounter include costs like appraisal and recording fees. Closing fees for a home equity line of credit are typically much less than those of associated with a cash-out refinance of a first mortgage.

Q. What are the required qualifications for a home equity line of credit?

A. As with any other loan, eligibility for a home equity line of credit depends on your financial status. Lenders will be looking at your credit score, debt-to-income ratio, and the current equity you have in your house.

Q. Are there risks involved in a home equity line of credit?

A. The biggest drawback to a home equity line of credit is that your home becomes the collateral for the loan. If you default on the loan, you risk losing your home. Thus, it is crucial to ensure that you will repay the amount borrowed against your home.

A home equity line of credit can be a handy tool for financing a variety of large purchases. Be sure to take steps to understand the details of your lender's home equity line of credit requirements and terms, and you will be well on your way to making informed financing decisions.

If you are interested in beginning your HELOC process or have any questions about it, don't hesitate to reach out to your Lampco team!