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Free Educational Resources for Homebuyers

Debt Consolidation via Home Equity Booklet

When using home equity to pay off cards makes sense -- and when it's a trap.

In this guide you'll learn:

- Home equity, explained: what you own and how to measure it
- What is a home equity loan (HELOAN)?
- What is a HELOC (home equity line of credit)?
- HELOC vs. home equity loan: side-by-side comparison
- Which is better -- a HELOC or a home equity loan?
- Tapping equity without refinancing: the rate lock-in effect

HELOC vs. Home Equity Loan (HELOAN): Tapping Home Equity Without Refinancing

Tap into your home equity -- without refinancing. A home equity line of credit (HELOC) and a home equity loan (HELOAN) both let you borrow against the value you have built in your home while leaving your first mortgage -- and its interest rate -- untouched. This guide explains, in plain English, how each one works, how they differ, what they cost, the risks to weigh, and how to decide which fits your situation. Educational only -- never a quote or personalized advice.

Home equity, explained: what you own and how to measure it

Home equity is the share of your property you truly own: the home's current market value minus everything still owed against it -- your first mortgage plus any other liens. If a house would sell for $400,000 today and the remaining mortgage balance is $250,000, the equity is $150,000.

Equity grows in two ways: as you pay down mortgage principal, and as the property's market value rises. It shrinks when values fall or when you borrow more against the home. Two products let homeowners convert some of that equity into cash while keeping the house: a home equity loan (often abbreviated HELOAN) and a home equity line of credit (HELOC). Both are usually second mortgages -- new liens that sit behind your existing first mortgage.

Lenders rarely let you borrow against all of your equity. They typically require you to leave a cushion of untapped value in the home, which is why the amount you can actually access -- often called your "tappable" equity -- is smaller than your total equity.

What is a home equity loan (HELOAN)?

A home equity loan gives you a single, one-time lump sum that you repay in equal installments over a set term. The interest rate is typically fixed, so the monthly payment stays the same from the first bill to the last. Because it is a fixed amount you cannot re-borrow once repaid, it is called a closed-end second mortgage.

The Consumer Financial Protection Bureau describes a home equity loan as a specific amount of money borrowed against your home's equity and delivered as a lump sum, in contrast to a line of credit (CFPB). This structure fits a known, one-time expense -- a defined renovation bid or a single large bill -- where the amount needed is clear up front.

What is a HELOC (home equity line of credit)?

A HELOC is a revolving line of credit secured by your home -- closer in spirit to a credit card than to a traditional loan. Instead of a lump sum, you receive a credit limit you can draw against as needed, repay, and (during the draw period) borrow again. The CFPB explains that a HELOC is a form of revolving credit in which the home serves as collateral, and it usually carries a variable interest rate (CFPB).

Because you borrow only what you use, a HELOC suits ongoing or uncertain costs that unfold over time -- a phased remodel, tuition paid semester by semester, or a standby reserve for emergencies. It is an open-end second mortgage, and it runs in two phases: a draw period followed by a repayment period, covered in detail below.

HELOC vs. home equity loan: side-by-side comparison

Both products let you borrow against home equity without disturbing your first mortgage, but they behave very differently day to day. The table below compares them across the features that matter most.

The typical draw-period length and repayment mechanics reflected in the table are drawn from consumer guidance (CFPB); the definitions come from the CFPB.

Which is better -- a HELOC or a home equity loan?

There is no universally "better" choice -- the right fit depends entirely on the expense, your comfort with payment changes, and how you plan to use the money. Rather than ranking one above the other, it helps to match the tool to the job.

A home equity loan may fit when you:

- Need a specific amount for a one-time purpose (a defined project cost, a consolidation payoff, a single tuition bill).
- Want a fixed rate and a payment that never changes.