Home Equity Line of Credit (HELOC)

A revolving credit line secured by the equity in your home

A HELOC is an open-end, revolving credit line secured by your home. Unlike a mortgage or a home equity loan that hands you a lump sum, a HELOC lets you draw funds, pay them back down, and draw again during a set period — using your home as collateral the entire time.

KEY BENEFITS

- **Borrow Only What You Need**
  It's revolving credit, not a lump sum — draw, repay, and draw again during the draw period.
- **Interest May Be Tax-Deductible**
  Only if funds are used to buy, build, or substantially improve the home securing the loan.
- **Often Interest-Only at First**
  Many HELOCs allow interest-only payments during the draw period, keeping early payments low.
- **3-Day Right to Cancel**
  Federal law lets you rescind a HELOC on your primary residence within 3 business days of closing.
- **Reusable Credit Line**
  Once you pay down the balance, that credit becomes available to draw again — no re-applying.

HOW IT WORKS

- **Home Equity**
  Lenders typically cap combined loan-to-value (existing mortgage + HELOC) around 80–85% of home value.
- **Draw Period**
  Commonly about 10 years; you can borrow, repay, and re-borrow up to your credit limit during this time.
- **Repayment Period**
  Often 10–20 years after the draw period ends; payments include principal and can rise sharply.
- **Rate Type**
  Usually variable, tied to an index plus a margin; some lenders let you convert part of the balance to a fixed rate.
- **Fees**
  Varies by lender — may include an appraisal, annual fee, or early-closure fee; ask before you sign.

The Life of a HELOC

Draw Period
~10 years; borrow, repay, and re-borrow; interest-only payments common

Repayment Period
Often 10-20 years; principal + interest; payment increases

Variable Rate
Tied to an index (e.g., Prime) plus a lender margin

Fixed-Rate Conversion
Some lenders let you lock part of the balance at a fixed rate

What Happens, and When

Milestone	What Happens
Loan closes on your primary residence	You have 3 business days to rescind (cancel) at no cost, in writing, under federal law
Funds used to buy, build, or improve the home	Interest may be tax-deductible, up to $750,000 in combined qualified mortgage debt
Funds used for other purposes (debt payoff, tuition, etc.)	Interest is NOT tax-deductible under current federal law
Home value drops significantly	Lender may freeze or reduce your available credit line
Draw period ends	New draws stop; repayment period begins and monthly payments often rise

Tax-deductibility rules come from the Tax Cuts and Jobs Act, made permanent by the One Big Beautiful Bill Act (signed July 4, 2025); consult a tax professional about your specific situation.

What to Know Before You Borrow

- **It's secured debt.** Because your home is collateral, falling behind on payments — or failing to repay at the end of the draw period — can put your home at risk.
- **Rates usually float.** Most HELOCs carry a variable rate, so your minimum payment can change from month to month.
- **Payments can jump.** If your draw period only required interest, moving into the repayment period (principal + interest) can significantly raise your bill.
- **No federal cap on how many you can have** — the real limit is how much equity your home has and how much combined debt a lender will allow against it.

SOURCE: Consumer Financial Protection Bureau (consumerfinance.gov) — "What is a HELOC?" and the "What You Should Know About Home Equity Lines of Credit" booklet; 12 CFR Part 1026 (Regulation Z) right-of-rescission rules; IRS guidance on home equity loan interest deductibility.

EFFECTIVE DATE OF DATA: CFPB guidance last reviewed June 2024; the $750,000 debt cap and buy/build/improve deduction rule were made permanent by the One Big Beautiful Bill Act, signed July 4, 2025; other details current as of August 2026. Specific rates, fees, and CLTV limits vary by lender.

DISCLAIMER: This fact sheet is for general information only and is not exhaustive. The author is not a licensed mortgage lender, financial advisor, or tax professional. Consult a lender and tax professional for guidance specific to your situation.