HOME EQUITY GUIDE

HELOC Guide

How a home equity line of credit works, what changes between the draw and repayment periods, how variable rates and fees work, what can go wrong, and what to compare between offers.

Reviewed November 18, 2026 against the sources listed at the end of this guide.

Who might consider a HELOC

A home equity line of credit (HELOC) is a revolving line of credit secured by your home. It is usually a second mortgage that sits behind your existing first mortgage. A HELOC may fit if you:

- Want to use your equity without refinancing a low-rate first mortgage
- Have expenses that will come in stages, such as a remodel, tuition or a business need
- Want a backup source of funds that costs little or nothing until you use it
- Are comfortable with a payment that can change

How it works

A HELOC works a bit like a credit card with your home as collateral. You are approved for a credit limit and borrow what you need, when you need it.

The two phases

	Draw period	Repayment period
Typical length	Often around 10 years	Often 10 to 20 years
Can you borrow?	Yes, up to your limit	No
Payments	Many plans require interest only on what you have borrowed; some require principal too	Principal and interest on the balance
What to watch	Low early payments can hide a growing balance	Payments can rise sharply when the draw period ends

Some plans end with a **balloon payment**: the full balance due at once. Make sure you know whether yours does and how you would pay it.

Variable rates

Most HELOCs have a variable rate made of two parts: an **index** (often the prime rate) that moves with the market, plus a **margin** set by the lender that stays the same. When the index rises, your rate and your payment rise. Things to compare:

- The margin, which is the part you can shop

- Any **introductory rate**, how long it lasts and what the rate becomes afterward
- Rate caps: how high the rate can go over the life of the line
- Whether you can **convert** part of the balance to a fixed rate, and what that costs

How much you can borrow

Lenders look at your **combined loan-to-value** (CLTV): your first mortgage plus the HELOC limit, divided by your home's value. Each lender sets its own maximum CLTV, along with credit score and debt-to-income requirements. Lenders usually qualify you on a payment as if you had borrowed the full line.

Fees

Fees vary widely. You may see an appraisal or valuation fee, an origination or application fee, title and recording costs, an annual fee, a minimum-draw requirement, or a fee if you close the line within the first few years. Some lenders cover closing costs but charge them back if you close the line early.

> **Hypothetical example.** Karen's home is worth $1,200,000 and she owes $600,000 on her first mortgage at a low fixed rate. A lender with a hypothetical 80% CLTV limit would allow total loans of $960,000, so her maximum line would be $960,000 − $600,000 = **$360,000**.
>
> She opens a $150,000 line for a remodel and draws $60,000 for the first phase. At a hypothetical 8.25% rate, her interest-only payment is about **$413 a month** on the $60,000. If she later draws the full $150,000, the interest-only payment is about **$1,031**. If the rate rises to 9.25%, that becomes about $1,156. When the draw period ends, she will begin repaying principal too, and the payment will rise again. The figures are illustrations only.

Risks to understand

- **Your home is collateral.** If you can't repay, you could lose your home.
- **Payment changes.** Rates can rise, and the payment usually rises at the end of the draw period.
- **Your line can be frozen or reduced.** Under federal rules, a lender can suspend or lower your line in certain situations, such as a significant drop in your home's value or a material change in your finances. Don't count on unused credit for an emergency without a backup plan.
- **Selling or refinancing.** The HELOC must usually be paid off when you sell. If you refinance your first mortgage later, the HELOC lender must agree to stay in second position, or the line must be paid off.

Your rights

- HELOCs don't use the Loan Estimate form. Instead, lenders must give you specific HELOC disclosures and the CFPB's HELOC booklet, and generally must refund application fees if a key term changes before you open the line and you decide not to proceed.
- If the HELOC is secured by your **primary home**, federal law generally lets you cancel within three business days after closing, for any reason, without penalty.

What to gather

- ☐ Your current mortgage statement and homeowners insurance declarations
- ☐ Pay stubs for the last 30 days and W-2s for the last two years, or tax returns if self-employed

- [ ] Two months of bank statements
- [ ] A rough budget for what you plan to use the line for and when
- [ ] HOA statement, if applicable
- [ ] Trust documents, if your home is held in a trust

Questions to ask

- What index and margin determine my rate, and how high can it go?
- Is there an introductory rate, and what will the rate be after it ends?
- How long are the draw and repayment periods, and is there a balloon payment?
- What will my payment be if I draw the whole line, both now and after the draw period?
- What fees will I pay to open, keep and close the line?
- Can I lock part of the balance at a fixed rate?

Need the money all at once? See our short guide, HELOC vs. Fixed-Rate (Closed-End) Second Mortgage, for a side-by-side comparison.

Your next step

Tell us what you are trying to do and we will tell you, plainly, which options fit and what to gather. There is no cost to talk it through.

Start a free loan evaluation: journeymac.com/evaluation

Call: (626) 716-0585 **Email:** info@journeymac.com

Jason Leaf, President of Journey Mortgage Advisors, has worked in the mortgage industry since 1991. NMLS #308919 · DRE #01857242.

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This guide is general education, not a loan offer, a rate quote or legal, tax or financial advice. Program rules change and lenders add their own requirements; confirm details for your situation before you act. Examples marked “hypothetical” are illustrations only.

Sources

Reviewed November 18, 2026. Program rules change; check the current version of each source.

1. CFPB: Home equity lines of credit booklet (October 2026 edition)
   files.consumerfinance.gov/f/documents/cfpb_heloc-booklet-web.pdf_202610.pdf
2. CFPB: What is a home equity line of credit (HELOC)?
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3. CFPB: What is a home equity loan or HELOC?
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4. FTC: Home equity loans and home equity lines of credit
   consumer.ftc.gov/articles/home-equity-loans-and-home-equity-lines-credit