PENSION & WEALTH MANAGEMENT ADVISORS

IMPROVING FINANCIAL SECURITY

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HOME EQUITY LINE OF CREDIT
(HELOC)

OVERVIEW

A **Home Equity Line of Credit** is a flexible, revolving line of credit secured by the equity in your home. Unlike a traditional loan, you draw funds as needed, repay, and draw again up to your approved limit. Many clients hold a HELOC not because they plan to use it immediately, but because it is far easier to secure while income and credit are strong than to obtain one under financial stress. Approval of HELOC depends on income, credit, home equity and lender requirements.

FLEXIBILITY

A HELOC can be an important and useful financial tool to help manage cashflows, and unexpected expenses, such as:

- **Emergency Liquidity:** Open a HELOC and leave it undrawn as a standby reserve. Costs can be minimal, and having access to liquidity may avoid selling investments during a market downturn - Retaining Investment does not prevent further losses. It is generally best to establish a line while you have stable income and strong credit, as lenders may reduce or freeze lines during periods of financial stress.

- **Large Expenses:** A HELOC can help cover expenses such as medical bills or tax payments when paying the full amount immediately may be difficult or when other financing options are more expensive. It works best when there is a clear plan to repay the balance within a defined timeframe.

- **Home Improvements:** HELOC proceeds can be used for improvements that add value to or protect the home, such as kitchen or bathroom renovations, roof replacements, or additions. For taxpayers who itemize deductions, interest on debt used to buy, build, or substantially improve the home securing the loan may be deductible, subject to IRS limits.

- **Bridge Financing:** A HELOC can provide funds for a down payment on a new home before the current home is sold. The balance can then be repaid when the existing home sells, limiting the amount of time you are exposed to the HELOC's variable interest rate.

- **Refinancing Debt:** A HELOC may be used to consolidate higher-rate debt, such as credit card balances, potentially reducing interest costs. As per Bankrate, average credit card rate is around 19%-20% and HELOC at approximately 3.99%–11.85%, so it could result in significant savings. However, HELOC rates, fees and eligibility vary, and a firm repayment plan is important.

HELOC payments may initially be structured as interest-only, depending on the lender and terms of the line, with principal payments made as needed during the draw period. Interest may be tax deductible depending on how the funds are used and applicable IRS rules. Principal can generally be repaid at any time, subject to the terms of the HELOC.

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ELIGIBILITY

- You must own a home with sufficient equity to qualify. Most lenders require you to retain at least 15%–20% equity in the home after the HELOC is established.

- Lenders typically consider your credit score, income, employment history, existing debt, and debt-to-income ratio when determining eligibility and the size of the credit line. A property appraisal or other valuation may also be required.

HOW IT WORKS

HELOC interest rates are typically variable, meaning your interest rate and monthly payment can change as market interest rates change. It is also important to understand the two phases of a HELOC:

- **Draw Period (10 years):** You can borrow funds, repay what you have borrowed, and borrow again as needed, up to your approved credit limit. Depending on the terms of the HELOC, payments during this period may be interest-only or may include principal.

- **Repayment Period (10 -20 years):** Once the draw period ends, you can no longer borrow additional funds. You must repay the outstanding balance, generally through payments that include both principal and interest.

FEES

- **Interest Charges**: Interest is charged only on the amount you borrow, not on the entire available credit line.

- **Potential Fees**: Depending on the lender, a HELOC may include appraisal, application, annual, origination, or early-closure fees. Fees and terms vary by lender, so it is important to review the costs before opening a line.

TAX BENEFITS

Interest paid is deductible, if you itemize, when funds are used to buy, build, or substantially improve the home that secures the loan, subject to IRS limits.

It is not deductible if used for other purposes such as debt payoff and personal spending.

RISKS

- **Interest Rate Risk**: Rates are typically variable, so payments change as interest rates change.

- **Line Reduction or Freeze**: Lenders can reduce or freeze your line of credit if home values decline or your credit weakens. This often happens when liquidity is needed most.

- **Home Foreclosure**: Your home is the collateral and missed payments can result in foreclosure.

SUMMARY

A Home Equity Line of Credit (HELOC) can be an effective source of liquidity, providing flexibility to manage both planned and unexpected cash needs. If you are considering HELOC, please contact your financial advisor. Our team can help you evaluate whether a HELOC is appropriate for your situation and how it may fit within your broader financial and advanced planning strategy.

We can also provide referrals to reputable lenders that have worked with our clients and received positive feedback for their competitive terms, service, and overall experience for your independent consideration. Approval, rates, fees, and terms are determined by each lender, and you should compare available options before borrowing.

Pension & Wealth Management Advisors does not render advice on tax or legal matters. You should discuss any tax or legal matters with the appropriate professional. This material is for general educational purposes and is not a recommendation that any person obtain or use a HELOC. Borrowing decisions should reflect your financial circumstances, repayment capacity, and applicable loan terms.

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