



What are the Costs of a Home Equity Line of Credit?

Ideally, all of us would like to be able to pay for all of our purchases and investments upfront. Unfortunately we live in a world that credit where the mentality for most purchases is “buy now, pay later.” And the truth is that many times, there are things we have to borrow money for in order to obtain. A house is definitely one of those investments. Once you have a home though, there may still be things you need right away that you cannot pay for upfront. For example, college tuition for your kids may be more than your budget allows, especially if they choose to be Ivy Leaguers. In such a situation you may find it useful to borrow against your home with a Home Equity Line of Credit (HELOC) for some needed cash.

A HELOC can be a great solution to temporary financial needs. It works basically like a checking account. Let's say you owe \$150,000 on your home mortgage, but your house is worth \$200,000. So you have \$50,000 in equity. You could go to a mortgage lender and apply for a HELOC (which is based on the amount of equity you have in your home) and ask for a line of credit for, say, \$30,000. If you were approved your lender would then give you a draw period of between 5 and 25 years during which you could pull out money as needed up to the \$30,000 limit.

Now before you decide this is the perfect option for you, don't forget to consider the costs associated with creating and using a Home Equity Line of Credit. Below is a list of fees and costs that you may have to pay for the privilege of a HELOC.

The Costs

Property Appraisal Fee – Every time you apply for a loan that uses your home as collateral, the lender will want to get your home appraised. This means a licensed appraiser will evaluate the market value of your home based on the property itself as well as the property values of the surrounding neighborhood. The appraiser of course requires payment for his services, and the lender generally passes this cost off to you. Sometimes the lenders will waive this fee, so don't be shy about asking them to do so. It couldn't hurt!

Application Fee – A HELOC loan involves filling out and processing paperwork. Many lenders will charge an upfront fee for this service. You should look for lenders that will refund you this fee at closing. Be aware though, that some lenders will not refund this charge if you are denied the loan.

Points – You may also be required to pay points. One point is equal to 1% of the loan total. You pay these points to the lender as a way of 'buying down' the interest rate on your loan. Some lenders insist on them, others don't. If you must pay them, the upside is that they are tax deductible over the course of your HELOC loan.

Closing Costs – As with any mortgage loan, a HELOC usually comes attached with closing costs. This includes everything from title insurance and search fees to attorney fees. Sometimes you can get these rolled into the balance of the loan, and sometimes you can even bargain to have them waived.

Transaction Fees – Some lenders will charge you a fee every time you withdraw a sum from your HELOC account. Fortunately you can find lenders that don't charge this superfluous fee – look for those lenders!

Interest rate – Don't forget to factor in the cost of the interest. HELOC loans come with adjustable interest rates, not fixed rates. This means after a certain period of time, monthly or quarterly perhaps, your interest rate could change. This can sometimes create sizeable increases in your monthly payments, so make sure you are prepared to pay the higher rates before you enter into a HELOC.

HELOC loans do come with many fees, and these can often be prohibitive, especially if you



are not borrowing a large sum of money. If you do need a good chunk of cash though, a HELOC may be one of the least expensive ways to borrow that money.