Home Equity Fixed Loan vs. Home Equity Line of Credit: What Are The Differences?

It’s not uncommon for homeowners to use their residence as collateral to obtain cash. Such funds are often needed for pricier endeavors, like paying for a renovation or college tuition. When these funds are needed, there are two possible avenues to take when using your home as collateral: a home equity loan or a home equity line of credit.

Both of these loans are based primarily on the borrower’s credit history and home equity, with other criteria impacting the decision. If you have equity in your residence, homeowners can borrow against their home at relatively low interest rates. These loans are also advantageous because, depending on how the funds are used, interest payments may be treated as tax-deductible. However, despite the similarities between a home equity loan and a home equity line of credit, the differences between them are significant. The road you take often depends on your financial situation and personal preferences. Get a glimpse into each loan type to see which is right for you.

Home Equity Fixed Loan

Practically speaking, a home equity loan, often called equity loans (HE) could also be referred to as a second mortgage because the borrower essentially uses their home equity as collateral to take out another mortgage to pay back over a term with set interest rates. This is the more straightforward of the two options: it comes with fixed interest payments over a fixed term, offering borrowers a steady repayment schedule to abide by. Some prefer this type of loan because it allows for better financial forecasting and predictable payments.

The term of a HE loan can be set up for one to 20 years, with interest rates varying case to case (based on such things as the borrower’s credit history, lien position of the property and term) but currently fall somewhere just north or south of 2.75%. For those who like to zoom out and see what their financial path is over a set period, a reliable HE might be the path to take.

Home Equity Line of Credit

Unlike a HE, a key difference with the home equity line of credit (HELOC) is understanding its overall cost over time. These types of loans have two major parts: the draw period and the repayment period. If the draw period is 10 years and the repayment another 20, then a HELOC can function similarly to a 30-year loan. The draw period allows you to take out and pay back money depending on your needs, up to the credit limit, while generally only paying interest on the amount borrowed. The key difference is during the repayment period you have to pay back everything that was borrowed plus interest, which may be at a variable rate. If these payments (often higher than the interest charged during the draw period) are not met, the price could be the collateral itself — your home.

With a HELOC, borrowers may know the maximum of their loan as it is the top of their approved credit limit. However, it can be harder to predict how much they will owe back as interest rates for these loans can swing with the economy.

Ask What You Need

HEs can be beneficial if you like stability and to plan ahead; on the other hand, HELOCs are worthy choices for those who aren't sure how much they'll need to borrow, or when they'll need it. With the latter, you can take funds out and pay them back at multiple times over a decade-long period. As long as homeowners properly plan what they need the borrowed funds for, how they'll manage that money, and when it will be repaid, either option is doable for those seeking reliable loans.

In need of a loan but aren't sure which is right for you? First Hope Bank works with clients on their specific needs to advise on the best loan options available. For further information, contact us at (908-459-4121) or [visit us online](#) to apply today.