cfpb Consumer Financial Protection Bureau

UPDATED FEB 24, 2017

My lender offered me a home equity line of credit (HELOC). What is a HELOC?

A home equity line of credit (HELOC) is an "open-end" line of credit that allows you to borrow repeatedly against your home equity.

You "draw" on the line over time, usually up to some credit limit, using special checks or a credit card. As you repay the principal, you can draw that amount again. This part of the plan is known as the "draw period," which usually lasts for some fixed term, such as ten years. After the draw period ends, you typically then enter the "repayment period," during which you must pay off the outstanding balance in regular periodic payments of principal and interest. The repayment period is also a fixed term of years.

Depending upon your lender and your HELOC agreement, you may have to pay back the whole amount you borrowed as soon as the repayment period begins. HELOCs usually have a variable interest rate that changes over time, so your payments may not be the same from month to month.

If the value of your home decreases significantly, your lender may decide not to allow you to take out additional credit under your HELOC plan, which may result in you not having access to as much money as you thought you would. The lender may also freeze your ability to take out additional funds if your financial circumstances change and your lender does not believe you will be able to make your payments.

If you are having trouble with your bills, taking out a HELOC to pay down your debt may cause more trouble for you and put your home at risk.

Before taking out a HELOC to consolidate your debts, talk to a U.S. Department of Housing and Urban Development-approved housing counselor.

A HUD-approved housing counselor can:

- Advise you on managing your money and debts
- Help you develop a budget
- Give you free educational materials or workshops

Avoid firms that ask for big fees up-front or that make unrealistic promises - like restoring your credit or repaying your debts for pennies on the dollar. You can check whether a housing counselor is HUD-approved or find a HUD-approved housing counselor by visiting HUD's website or by calling HUD's housing counselor referral line (1-800-569-4287).

Tip: If you are considering a home equity line of credit, shop around to compare all your options. Just like other mortgages, HELOCs have costs and fees associated with them. Also, be sure you review the risks of this type of credit. If you do not understand the terms and conditions for your loan, ask your lender, broker, trusted financial advisor or housing counselor. The best way to avoid problems is not to sign anything you don't understand.

Take the next step

Buying a House

We've built tools to help you understand the mortgage process and compare options.

Visit our "Buying a House" guide

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UPDATED AUG 04, 2016

What is the difference between a Home Equity Loan and a Home Equity Line of Credit?

With a home equity loan, you receive the money you are borrowing in a lump sum payment and you usually have a fixed interest rate. With a home equity line of credit (HELOC), you have the ability to borrow or draw money multiple times from an available maximum amount.

Unlike a home equity loan, HELOCs usually have adjustable interest rates.

If you are having trouble paying your mortgage, before taking out a home equity loan or home equity line of credit, talk to a housing counselor to see if there may be other options that make better financial sense for you. Call the CFPB at (855) 411-CFPB (2372) to be connected to a HUD-approved housing counselor today.

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UPDATED AUG 30, 2019

What is a reverse mortgage?

A Home Equity Conversion Mortgage (HECM), the most common type of reverse mortgage, is a special type of home loan only for homeowners who are 62 and older.

A reverse mortgage loan, like a traditional mortgage, allows homeowners to borrow money using their home as security for the loan. Also like a traditional mortgage, when you take out a reverse mortgage loan, the title to your home remains in your name. However, unlike a traditional mortgage, with a reverse mortgage loan, borrowers don't make monthly mortgage payments. The loan is repaid when the borrower no longer lives in the home. Interest and fees are added to the loan balance each month and the balance grows. With a reverse mortgage loan, homeowners are required to pay property taxes and homeowners insurance, use the property as their principal residence, and keep their house in good condition.

With a reverse mortgage loan, the amount the homeowner owes to the lender goes up-not down-over time. This is because interest and fees are added to the loan balance each month. As your loan balance increases, your home equity decreases.

A reverse mortgage loan is not free money. It is a loan where borrowed money + interest + fees each month = rising loan balance. The homeowners or their heirs will eventually have to pay back the loan, usually by selling the home.

Watch out for scams related to reverse mortgages

Contractor scams

Beware of contractors who approach you about getting a reverse mortgage loan to pay for repairs to your homes. It may be a scam. Don't let yourself be pressured into getting a reverse mortgage loan.

Scams targeting veterans

The Department of Veterans Affairs (VA) does not offer any reverse mortgage loans. Some mortgage ads falsely promise veterans special deals, imply VA approval, or offer a "no-payment" reverse mortgage loan to attract older Americans desperate to stay in their homes.

You have a three-day right to cancel a reverse mortgage

With most reverse mortgages, you have three business days after the loan closing to cancel the deal for any reason, without penalty. This is known as your right of "rescission." To cancel, you must notify the lender in writing. Send your letter by certified mail, and ask for a return receipt so that you have documentation of when you sent and when the lender received your cancellation notice. Keep copies of any communications between you and your lender. After you cancel, the lender has 20 days to return any money you've paid for the financing of the reverse mortgage loan. If you believe there is a reason to cancel the loan after the three-day period, seek legal help to see if you have the right to cancel.

Note: This information only applies to Home Equity Conversion Mortgages (HECMs), which are the most common type of reverse mortgage loans.

Take the next step

Submit a complaint

We'll forward your issue to the company, give you a tracking number, and keep you updated on the status of your complaint.

Submit a complaint

Don't see what you're looking for?

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