HOME EQUITY / GUIDE 03

HELOC or cash-out? Protect your equity.

The practical comparison guide for borrowing against your home: preserve a first mortgage, understand changing rates and test the real cost.

- Three borrowing structures
- Worked 5-year comparison
- Rate-shock calculator
- Fillable equity worksheet



BORROW WITH A PURPOSE. COMPARE THE FULL COST.

CHOOSE / 02

Start with the purpose, not the product

There are three common ways to borrow against a home. Each changes your risk in a different way.

Need money over time?

A HELOC can allow multiple draws during an agreed draw period. That flexibility matters for staged projects, but variable rates and repayment transitions deserve a stress test.

Need one known amount?

A cash-out refinance or fixed-rate home equity loan may fit a defined amount better. The question is whether replacing the original first mortgage is worth it.

Fast decision prompts

- Is your current first-mortgage rate materially **below the rate available on a new first mortgage**? Preserve it as a comparison benchmark.
- Are funds needed **in phases**, or entirely at once?
- Can your household cover the payment if a HELOC rate rises or the repayment period begins?
- How soon might you sell, repay this debt or refinance again?
- Could you achieve the same goal with savings, a smaller project or a non-home-secured option?

THE RULE BEFORE ANY COMPARISON

Both products use your house as collateral. If you cannot repay, you could face foreclosure. Borrowing to consolidate consumer debt replaces unsecured debt with debt secured by your home.

UNDERSTAND / 03

What happens to your mortgage?

The key distinction is whether the existing first loan stays in place.

HELOC / Two debts, one home

First mortgage stays

Your current first mortgage retains its existing rate, remaining term and required payment. You add a separate credit line secured by the same property.

HELOC adds a second payment

You pay interest only on balances drawn (subject to terms), may be able to repay and redraw, and later must meet the repayment schedule.

Cash-out refinance / One replacement first loan

Old first mortgage is paid off

A new, typically larger first mortgage pays off the old loan and supplies net proceeds after any amounts and costs at closing.

The whole balance gets a new rate

The new term, rate, upfront charges and payoff date apply to the entire replacement mortgage - not just the cash-out portion.

A THIRD OPTION YOU SHOULD QUOTE

A **fixed-rate home equity loan** is generally a lump-sum second lien with set payments. It can preserve an existing low-rate first mortgage while avoiding a HELOC's variable-rate exposure.

CALCULATE / 04

How much can you actually access?

Home equity is not the same as available borrowing capacity. Lender limits and property eligibility determine the line.

Illustration / Two hypothetical lender CLTV caps

ESTIMATED HOME VALUE	FIRST MORTGAGE OWED	RAW EQUITY
$500,000	$300,000	$200,000

Combined loan-to-value cap	Maximum total liens	Potential additional borrowing
80% of $500,000	$400,000	$100,000
85% of $500,000	$425,000	$125,000

The formula

(Property value x allowed CLTV) - all existing liens

- Other liens and closing charges may reduce usable cash.
- Appraisals or automated valuations can differ from your estimate.
- Maximum CLTV is program- and borrower-specific. The figures above are examples, not universal caps.

PROTECT THE MARGIN

Consider the equity and emergency buffer you want to retain. If the housing market falls, the balance remains owed even when your property value declines.

COMPARE / 05

All three options side by side

The HELOC-vs-refinance choice is easier when a fixed-rate second loan is on the table, too.

Feature	HELOC	Cash-out refinance	Fixed home equity loan
Existing first	Usually kept	Replaced	Usually kept
Funding	Repeated draws subject to terms	Lump sum at closing	Lump sum at closing
Rate	Often variable; some fixed conversion options	Often fixed; ARMs exist	Often fixed
Payment	May change with rate and transition to repayment	Based on entire new balance	Usually set amortizing payment
Upfront cost	Varies; possible annual, closure and other fees	New first-mortgage closing charges	Varies by lender
Key risk	Rate shock, restricted draws, payment jump	Losing current first rate; longer term	Added monthly second-lien obligation

Questions beyond the advertised APR

- For HELOC: index, margin, rate cap/floor, draw period, repayment period and minimum payment rule.
- For cash-out: new loan amount, points, refinance costs, 5-year total cost and remaining balance.
- For a fixed home equity loan: APR, fees, amortization, payoff charges and total monthly debt service.

WORKED CASE / 06

When protecting the first rate matters

Hypothetical homeowner: $300,000 first mortgage at 3.25% with 25 years left; needs $60,000 for a project.

KEEP FIRST P&I
$1,462

HELOC INTEREST-ONLY
$450

CASH-OUT NEW P&I
$2,335

Scenario	First 5 years: interest + assumed new costs	Balance after 5 years
Keep first + $60k HELOC 9% constant, interest-only; $0 fees	$72,467	$317,750
Replace with $360k cash-out 6.75%, 30 years; $8k fees paid cash	$126,050	$337,953

WHAT THE NUMBERS TELL YOU

The combined initial first-plus-HELOC payment is about **$1,912/month** versus **$2,335/month** on the new first mortgage. But the HELOC's **$60,000 principal is not paid down** by interest-only payments; its rate can change. A lower monthly payment is not the whole decision.

Assumptions: no changes to first loan, no change in other property costs, constant HELOC rate for illustration, no HELOC fees, no early principal prepayments, all cash-out fees paid in cash, no tax effect. Loans, terms and fees are hypothetical - not available offers.

STRESS TEST / 07

Can you handle the payment jump?

A HELOC may begin with an interest-only draw payment and then require principal plus interest during repayment.

Example / $60,000 outstanding

HELOC stage	At 9.00%	At 12.00%
Interest only (during draw, if permitted)	$450 / mo	$600 / mo
Fully amortizing over 15 years	$609 / mo	$720 / mo
Principal remaining immediately after IO period	$60,000	$60,000

Write down the terms you must verify

- [ ] What is the index and margin? What is today's fully indexed rate?
- [ ] How frequently can the interest rate adjust, and what are the periodic / lifetime caps?
- [ ] Is a fixed-rate balance conversion allowed? What extra charges or rate apply?
- [ ] Does the plan amortize at end of draw or require a balloon / large payment?
- [ ] Can the lender suspend or reduce unused borrowing availability under applicable terms?

WHAT A 3-POINT MOVE MEANS

On a $60,000 interest-only balance, a rise from 9% to 12% adds **$150 every month**. Actual HELOC limits, rate caps and payments depend on the agreement. A 15-year repayment amount also begins paying down principal.

KNOW / 08

Fees, documents, taxes - the fine print that matters

A HELOC is not a closed-end cash-out refinance, so the federal disclosure set is different.

Ask for the right paperwork

Product	Documents / terms to request
HELOC	Program / Truth-in-Lending disclosures; margin, index, cap, draw / repayment dates, payment calculation, annual fees, early termination and fixed-conversion options.
Cash-out refinance	Loan Estimate with loan costs, lender credits, new balance, new term and cash to close; Closing Disclosure at the required stage.
Home equity loan	Written closed-end credit terms and applicable federal disclosures; compare fees, rate and amortization.

Fee categories that change the result

- **HELOC:** appraisal, origination, annual, inactivity, early closure, minimum-draw or fixed-conversion charges, if applicable.
- **Cash-out:** lender origination / points, appraisal, title, recording, plus prepaid interest and escrow funding.
- **Taxes:** Deductibility of home-secured interest generally depends on how proceeds are used and tax rules; buying, building or substantially improving the securing home may qualify subject to other limits.

> **NEVER ASSUME A TAX WRITE-OFF**
>
> Interest for spending on credit cards, cars or vacations is generally not converted into deductible home-acquisition interest simply by borrowing against your house. Consult a tax professional for your situation.

PROTECT / 09

When equity financing is the wrong move

Borrowing against your home should solve a defined problem, not hide a recurring shortfall.

Reasonable uses still require a repayment plan

Home improvement

Verify contractor bids, phased draw timing and contingency. The project may cost more than expected and not increase value dollar-for-dollar.

Debt consolidation

Calculate fees and total repayment cost; address the spending pattern first. Lower monthly payments can hide longer repayment and new foreclosure risk.

Tuition or another asset

Model the chance the financed asset or income benefit is lower than expected. Your home remains at risk regardless of the outcome.

Emergency needs

Do not treat a HELOC as guaranteed emergency cash: undrawn availability may be frozen or reduced under permitted circumstances.

Stop signs

- [ ] I have no reliable way to repay the additional principal.
- [ ] I need the lowest initial payment and cannot survive the HELOC stress scenario.
- [ ] I am borrowing to cover recurring shortfalls with no budget change.
- [ ] The quote requires me to replace a favorable first mortgage without showing total-cost comparisons.

THE BEST ALTERNATIVE MAY BE SMALLER

A smaller project, a fixed-rate second loan, savings or delaying borrowing can be better than either headline option. Choosing neither is an informed decision.

WORKBOOK / 10

Your equity comparison sheet

Fillable fields keep the quotes organized. Use the same requested cash amount and holding period.

Estimated property value

Existing first balance / rate

Other liens outstanding

Amount of cash needed

Expected months keeping debt

Max monthly extra payment

HELOC index + margin / APR

HELOC worst-case payment

HELOC fees / end-of-draw terms

Cash-out new rate / term

Cash-out total fees / balance

Fixed second-loan quote

The decision

Option I prefer and the specific numbers that support it

Compare: initial and worst-case payment, total interest and fees over your horizon, principal remaining, rate stability and risks to your first mortgage. For a HELOC, include a plausible higher-rate scenario.

REFERENCES / 11

An informed borrower keeps control

Sources and tools used for this guide. Checked October 15, 2026.

01 **CFPB / How HELOCs work**

Draw periods, changing payments, freezes and repayment transitions.

02 **CFPB / Home equity loans**

Fixed second-lien alternatives and home-collateral risk.

03 **CFPB / Loan / closing disclosures**

Why HELOC disclosure requirements differ from standard closed-end mortgages.

04 **CFPB / Compare Loan Estimates**

Compare cash-out refinance interest rates, closing charges, APR and cash to close.

05 **IRS / Publication 530**

Rules and limitations on potential deductibility of home-secured borrowing.

Your next move: Request one HELOC illustration, one cash-out Loan Estimate and, when useful, a fixed-rate second-loan quote. Model the same cash need over the same years. Explore mortgage calculators →

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