



A GUIDE TO Home Equity Loans

Using your home's equity can be a smart way to finance major expenses, but choosing between a Home Equity Loan and a Home Equity Line of Credit (HELOC) depends on your financial needs and goals. This guide will break down both options, explain key differences, and provide helpful insights so you can make an informed decision.

TELCOMM CREDIT UNION

As a member owned cooperative, this credit union is dedicated to providing high quality financial services to the members, remaining responsive to member needs and goals, and pursuing the philosophy of "People Helping People" within the constraints of sound business practices.

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YOUR GUIDE TO Home Equity Loans & HELOCs

Home Equity Loan vs. Home Equity Line of Credit (HELOC)

Home Equity Loan (HE Loan)

A Home Equity Loan is a lump sum loan secured by your home's equity. It has a fixed interest rate and is repaid over a set term with equal monthly payments.

Best For:

- Large, one-time expenses (home renovations, debt consolidation, major purchases)
- Borrowers who prefer fixed payments and predictable interest rates

Key Features:

- One-time lump sum
- Fixed interest rate and fixed monthly payments
- Terms typically range from 5 to 15 years
- Cannot borrow more without applying for a new loan

Home Equity Line of Credit (HELOC)

A HELOC is a revolving line of credit that allows you to borrow against your home's equity as needed, similar to a credit card. It has a variable interest rate. It also includes a specific time period where you can access funds called your draw period.

Best For:

- Ongoing expenses (home improvements, education costs, emergency funds)
- Borrowers who want flexibility in borrowing and repayment

Key Features:

- Revolving line of credit (borrow as needed)
- Variable interest rate (rates may fluctuate)
- Cash access period (up to 10 years)
- Payment terms up to 20 years

HOME EQUITY LOAN

Pros & Cons

PROS

- Fixed interest rate = predictable payments
- One-time lump sum for large expenses
- Longer repayment terms available

CONS

- Less flexibility—cannot borrow more without reapplying and additional closing costs and appraisal
- Interest accrues immediately on the entire loan balance
- Requires a refinance to take advantage of lower rates

HELOC


Pros & Cons

PROS

- Flexible access to funds over time
- Payments calculated using only the borrowed balance
- Takes advantage of lower rates without a refinance

CONS

- Variable interest rate can increase over time
- May encourage overspending
- Harder to budget since payments adjust with more borrowing and rate changes



What You Need to Qualify for a Home Equity Loan or HELOC

General Requirements:

- **Good Credit Score** – Most lenders prefer a credit score of 620+, though higher scores may secure better rates.
- **Stable Income & Employment** – Lenders review your income to ensure you can afford repayment.

Documents You'll Need:

- Proof of income (pay stubs, tax returns, W-2s/1099s)
- Recent mortgage statement
- Proof of homeowners insurance
- Property tax records

Do's & Don'ts FOR HOME EQUITY LOANS & HELOCs

DO

- Understand your loan terms, rates, and repayment schedule
- Use funds for value-adding expenses (home improvements)
- Make on-time payments to protect your credit score
- Compare lender offers to get the best rate and terms

DON'T

- Borrow more than you can comfortably repay
- Use home equity for risky investments or non-essential expenses
- Ignore interest rate changes (for HELOCs)
- Skip payments—your home is collateral, and missed payments can lead to foreclosure

Process & Timeline

FOR HOME EQUITY LOANS & HELOCS



1. Pre-Application & Research

(1-2 Weeks)

- Review your home equity & credit score
- Compare lender rates & fees
- Gather required documents

2. Application & Approval

(2-4 Weeks)

- Submit application
- Lender orders home appraisal to confirm value
- Underwriting reviews creditworthiness & ability to repay

3. Loan Closing & Fund Access

(3 Business Days)

- Loan is finalized and the funds are disbursed

4. Repayment Period

- Home Equity Loan: Fixed monthly payments until paid off
- HELOC: Flexible borrowing during draw period





FINAL THOUGHTS: Choosing the Right Option

When deciding between a Home Equity Loan and a HELOC, consider:

- How you plan to use the funds (one-time vs. ongoing expenses)
- Your comfort with interest rates (fixed vs. variable)
- Your repayment ability (fixed monthly payments vs. flexible access)



Still have questions?

Our team is here to help you explore your options and find the best solution for your financial needs. **Reach out today!**

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