HELOC vs HELOAN: What's the difference?

Watertown Savings Bank

Loan or Line of Credit…Which home equity is right for me? Use this as a brief overview of the different home equity loan products we offer as well as a guide to help give you a better understanding of your financing options.

What is Home Equity?

Home Equity is simply the difference between how much your home is worth and how much you owe on your mortgage. You build equity in two ways:

1. ***By paying down your mortgage over time.*** Building equity through your monthly principal payments is a critical part of homeownership that can help you create financial stability.
2. ***Through your home's appreciation.*** If you live in a neighborhood where property values are going up overall and you've maintained your property well, the amount of your equity will increase as well.

What is a Home Equity Loan (HELOAN)?

A **Home Equity Loan (HELOAN)** is a fixed-rate loan based on the equity in your home. HELOANs are often referred to as second mortgages and the debt is secured by your home. Borrowers apply for a set amount that they need, and if approved, receive that amount in a lump sum all at once. In addition to a fixed interest rate, HELOANs have a scheduled repayment term of either 5, 10, or 15 years for the term of the loan.

What is a Home Equity Line of Credit (HELOC)?

A **Home Equity Line of Credit (HELOC)**, though also secured by your home, works differently than a home equity loan. A HELOC is an adjustable-rate loan and acts as a revolving credit line allowing the borrower to take out money against that line up to a preset limit on an as-needed basis. Therefore, the line of credit remains open until its term ends – generally, up to 20 years, but can be customized to suit your needs. Because it has an adjustable-rate and the flexibility of the borrowed amount, the borrower's minimum payments can also change, depending on the credit line's usage.

What is a Home Equity with No Closing Costs?

We also offer **HELOCs and HELOANs with a No Closing Cost option.** They have the same set of terms as our other Home Equity products, but most of the fees (*not all*) are instead, covered by the bank. However, **the loan account must be kept open for a minimum of 3 years to avoid paying closing costs.**

Closing costs may include fees such as title insurance, abstract update, non-escrow, credit report, loan processing, appraisal, attorney fees and other expenses that are non-recurring (one time) charges at the beginning of the loan process. Because these fees are waived for the borrower, the interest rates for our No Closing Cost options are higher than our other home equity products.

Why pay a higher rate for no closing costs?

This is an option for those who may not have extra cash to pay for the fees associated with closing costs. Since the bank waives the fees and covers the costs for the borrower, the interest rates are higher.

Which type of loan is right for you?

Choosing the right type of home equity financing depends entirely on your unique situation. If you are trying to decide, think about the purpose of the financing. Are you borrowing so you'll have funds available as spending needs arise over time, or do you need a lump sum now to pay for something like a new roof? If you're still unsure, talk with us. We'll be happy to help and make sure you're getting the right type of loan to fit your needs.