A GUIDE FOR HOMEOWNERS

# HELOC

## YOUR EQUITY, YOUR MOVE

*Tap what you've built. Keep the rate you love.*

How a home equity line of credit works, how much you can borrow, how the draw and repayment periods work, and when a HELOC beats a cash-out refinance.



**BRIAN MARCHAND**
SR. LOAN CONSULTANT · NMLS #481563
(518) 396-7392 · brian.marchand@naf.com

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START HERE

# GOT A GREAT FIRST MORTGAGE RATE? KEEP IT.

Many homeowners have a first mortgage rate they'd never want to give up, and a lot of equity sitting in their home. A **home equity line of credit**, or HELOC, lets you tap that equity **without refinancing** your first mortgage.

It works like a credit line secured by your home. You draw what you need, when you need it, and pay interest **only on what you use**. Pay it down, and you can use it again.

I've been helping families into homes since 1993, first as a Realtor and now as a mortgage lender. Read this, then call me. I'll compare a HELOC against a cash-out refinance so you can see which costs less.

*Brian*

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# WHAT A HELOC IS

*A credit line secured by your home.*

A HELOC is a **second loan** on your home that works like a credit card with a much lower rate. You get a credit limit based on your equity, and you can borrow against it as needed.

### KEEP YOUR FIRST

Your current mortgage, and its rate, stay exactly as they are.

### DRAW AS NEEDED

Borrow what you need, when you need it, up to your limit.

### REUSABLE

Pay it down and the credit becomes available again.

### INTEREST ON WHAT YOU USE

Not on the full line. An unused line costs little or nothing.

### FLEXIBLE PAYMENTS

Interest-only payments may be available during the draw period.

**GOOD TO KNOW:** Most HELOCs have variable rates. Your rate and payment can change over time. More on that on page 09.

# WHO A HELOC FITS

*Built for homeowners with equity and costs that come over time.*

## USUALLY A GOOD FIT

- You have a low first mortgage rate
- You've built significant equity
- Your costs will come in stages, like a renovation
- You want an emergency reserve
- You're consolidating high-interest debt
- You're paying tuition over several years

## KNOW GOING IN

- Rates are usually **variable**
- Your home **secures the line**
- Interest-only payments **don't reduce principal**
- Payments can **jump** when repayment starts
- There may be fees or minimum draws
- Lenders can freeze lines in some situations

**REAL TALK:** A HELOC is a tool, not extra income. Have a plan for how you'll use it, and how you'll pay it back.

# HOW MUCH YOU CAN BORROW

*Your line is based on your combined loan-to-value.*

Lenders look at your **combined loan-to-value (CLTV)**: your first mortgage plus the HELOC, compared to your home's value. Many programs allow up to **80–90% CLTV**, depending on credit and property.

| | |
|---|---|
| Home value | **$400,000** |
| **Maximum combined borrowing at 85% CLTV** | **$340,000** |
| Less: current first mortgage balance | **($210,000)** |
| **AVAILABLE HELOC LINE** | **$130,000** |

EXAMPLE ONLY. CLTV LIMITS VARY BY PROGRAM, CREDIT AND PROPERTY TYPE.

### CREDIT

Higher scores usually allow higher limits and better rates.

### PROPERTY TYPE

Primary homes allow the most. Second homes and rentals may allow less.

### APPRAISAL

Your home's value is confirmed by an appraisal or valuation.

# DRAW & REPAYMENT PERIODS

*Two phases, with different payments.*

| | |
|---|---|
| DRAW PERIOD | Borrow and repay, often 10 years |
| REPAYMENT PERIOD | Pay back principal and interest |

ILLUSTRATION ONLY. PERIOD LENGTHS VARY BY PROGRAM.

### DURING THE DRAW PERIOD

Borrow as needed. Payments may be interest-only, so the balance doesn't go down unless you pay extra.

### DURING THE REPAYMENT PERIOD

No more draws. Payments include principal and interest, which can be much higher.

### PLAN FOR THE JUMP

If you've only paid interest for years, your payment can rise a lot when repayment begins. Paying down principal during the draw period softens that.

# HELOC VS. CASH-OUT VS. HOME EQUITY LOAN

*Three ways to tap your equity.*

| | HELOC | CASH-OUT REFINANCE | HOME EQUITY LOAN |
|---|---|---|---|
| YOUR FIRST MORTGAGE | Kept | Replaced | Kept |
| HOW YOU GET MONEY | Draw as needed | Lump sum | Lump sum |
| RATE | Usually variable | Usually fixed | Usually fixed |
| CLOSING COSTS | Usually lower | Similar to a purchase | Usually lower |
| BEST WHEN | Low first rate, costs over time | Today's rates near yours | Low first rate, one-time cost |

**REAL TALK:** If your first mortgage rate is well below today's rates, a HELOC or home equity loan is usually cheaper than refinancing everything. I'll show you the numbers.

# SMART USES OF A HELOC

*Best for things that last, or costs that come over time.*

## OFTEN SMART

- Renovations paid in stages
- Replacing a roof, furnace or windows
- An emergency reserve you hope not to use
- Paying off high-interest debt
- College costs spread over years
- Bridging a gap before you sell

## THINK TWICE

- Vacations and everyday spending
- Cars and other things that lose value
- Ongoing monthly shortfalls
- Risky investments
- Debt you're likely to run back up

**GOOD TO KNOW:** Ask your CPA whether any of the interest may be deductible. It depends on how you use the money.

# VARIABLE RATES & YOUR PAYMENT

*Know how your rate can change.*

Most HELOC rates are tied to an index, often the **prime rate**, plus a margin. When the index moves, your rate and payment move with it.

### INDEX

A published rate, like prime, that moves with the market.

### MARGIN

A fixed amount added to the index. It's set when you open the line.

### CAPS

Your agreement may limit how high the rate can go. Read it.

### FIXED-RATE OPTIONS

Some HELOCs let you lock part of your balance at a fixed rate.

### STRESS-TEST YOUR PAYMENT

Before you borrow, figure out your payment if rates rose by a few points. If that payment would strain you, borrow less or pay it down faster.

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**REAL TALK:** A low intro rate is nice. The rate after the intro period is the one that matters.

# COMMON HELOC MISTAKES

*Most of these are easy to avoid.*

**1 ONLY PAYING INTEREST**
Your balance won't shrink. Pay principal when you can.

**2 IGNORING RATE CHANGES**
Plan for a higher rate, not just today's.

**3 USING IT FOR DAILY SPENDING**
It's secured by your home. Treat it that way.

**4 FORGETTING THE REPAYMENT JUMP**
Know what your payment will be when draws end.

**5 BORROWING THE FULL LINE**
Borrow what you need, not what you're offered.

**6 OVERESTIMATING VALUE**
Your valuation, not an online estimate, sets the line.

**7 NEW CREDIT DURING THE PROCESS**
Hold off on new cards or financing.

**8 NOT COMPARING OPTIONS**
A home equity loan or cash-out may cost less.

**REAL TALK:** Almost every one of these is avoidable with a 15-minute conversation before you apply. That's the cheapest time to fix a problem.

# CREDIT & QUALIFYING

*Your credit, income and equity all matter.*

HELOC lenders look at your **credit score**, your **debt-to-income ratio** including the new line, and your **combined loan-to-value**.

| | |
|---|---|
| **STRONG CREDIT, SOLID DOWN PAYMENT** | The most program choices and the best pricing. Usually the smoothest path. |
| **MIDDLE OF THE RANGE** | Still plenty of options. Rate, down payment and reserves vary more from program to program. |
| **SCORES ON THE EDGE** | Fewer programs fit, and the down payment carries more weight. This is where shopping the file matters most. |

### INCOME

You'll document income like any mortgage, though some programs are simpler.

### PROPERTY

Primary homes get the best terms. Second homes and rentals may be eligible with limits.

**GOOD TO KNOW:** Minimum scores and maximum CLTVs vary by program and change often. Ask me for current guidelines on your scenario.

# DOCUMENT CHECKLIST

*Have these ready, and the process moves a lot faster.*

- [ ] Most recent first mortgage statement
- [ ] Property tax bill
- [ ] W-2s for the last 2 years
- [ ] Bank statements, last 2 months, all pages
- [ ] Contractor bids, if renovating
- [ ] Homeowners insurance declarations page
- [ ] Pay stubs covering the last 30 days
- [ ] Tax returns, if self-employed
- [ ] Statements for debts you want to pay off
- [ ] Government-issued photo ID

Every situation is a little different. I'll give you the exact list for your scenario before you gather anything.



**BRIAN MARCHAND**
SR. LOAN CONSULTANT · NMLS #481563
(518) 396-7392 call or text
brian.marchand@naf.com
naf.com/brianmarchand

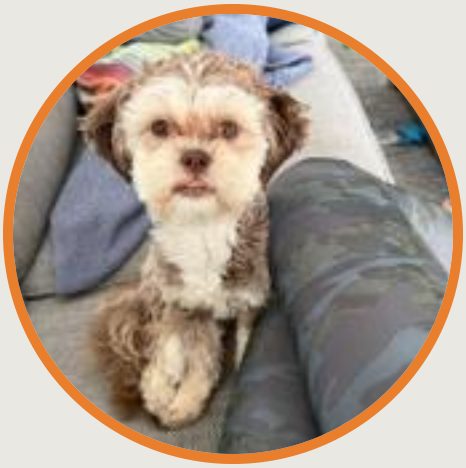
BOOK 15 MINUTES

EQUAL HOUSING OPPORTUNITY

**This guide is for educational purposes only and is not a loan commitment or guarantee of approval.** All loans are subject to credit, income, asset, property and appraisal approval; not all applicants will qualify. A home equity line of credit is secured by your home; failure to make payments could result in foreclosure. HELOCs typically have variable interest rates that can increase, subject to any rate caps in your agreement, which may increase your payment. Interest-only payments during the draw period do not reduce principal and can result in a significantly higher payment when the repayment period begins. Maximum combined loan-to-value, draw and repayment periods, fees and minimum draw requirements vary by program. Your lender may freeze or reduce your line under certain conditions. Brian Marchand and New American Funding do not provide tax advice; consult your CPA about deductibility. Examples are illustrations only and are not a rate quote or Loan Estimate. Program availability and guidelines are subject to change without notice. © 2026 New American Funding, LLC. NMLS #6606 (nmlsconsumeraccess.org). 1 MacArthur Place, Suite 800, Santa Ana, CA 92707 · newamericanfunding.com · (800) 450-2010. Licensed Mortgage Banker, NYS Department of Financial Services. Equal Housing Lender. October 2026.

# PENNY'S CORNER

*A few words from our Chief Belly-Rub Officer.*



## PENNY SAYS

CHIEF BELLY-RUB OFFICER

A HELOC lets you keep that great first mortgage rate and still use your equity. It's like keeping your favorite bed and still getting a new one for the living room.

Dad will remind you the rate can move. Plan for it. I plan for everything, mostly snacks.

## CONNECT WITH PENNY ON FACEBOOK

*Tips, updates and plenty of Penny.*

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