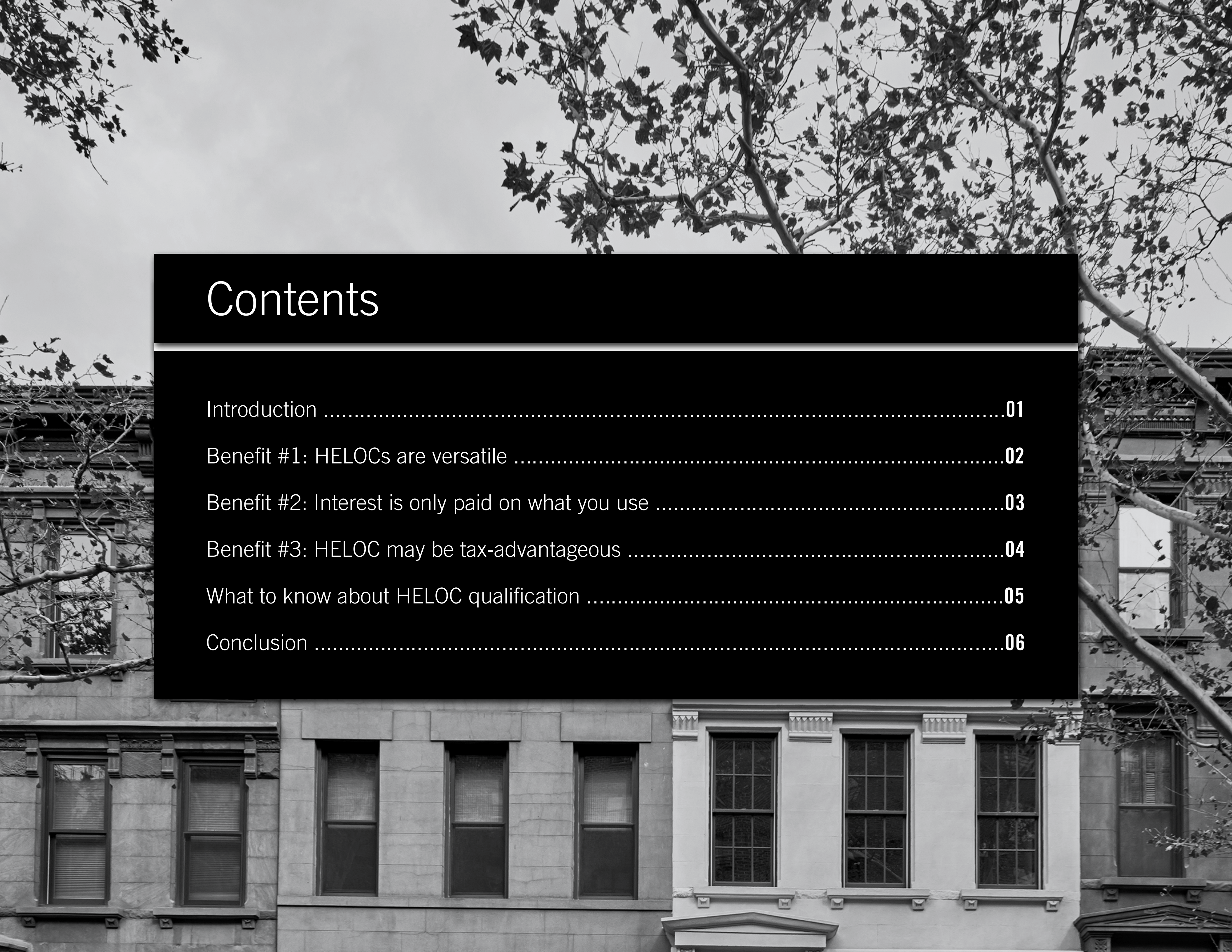
Comerica Bank®

3 Benefits of a HELOC



Contents

Introduction

For homeowners, making mortgage payment after mortgage payment will actually get you something: equity. Your home is likely one of your most valuable assets, and equity in your home can be tapped when you might need cash.

Home equity lines of credit (HELOCs) are popular because they allow homeowners to access equity in a simple way. As opposed to a home equity loan, a HELOC works like a credit card. You have a balance you can draw from when you need it, but which eventually needs to be repaid.

Your limit is dependent on the equity you hold in your home, but generally HELOCs are a flexible, effective way for homeowners to meet different expenses or make certain investments. Need some convincing? Here are three benefits of a HELOC, plus how to qualify.

Home equity lines of credit (HELOCs) are popular because they allow homeowners to access equity in a simple way.

Benefit #1: HELOCs are versatile

Perhaps the No. 1 advantage of a HELOC is that it can be used for many different purposes. There are few conditions restricting what HELOC funds can be used toward, giving homeowners wide latitude to meet individual needs.

Some of the most common uses for a HELOC include:

Home repairs or renovations. Using a HELOC to upgrade certain home aspects may lead to a higher selling price down the line, recouping the cost and then some.

Big-ticket purchases. Considering a new roof or updated appliances? A HELOC can help you pay for it, and potentially with a lower interest rate than what a credit card normally offers.

Emergency savings. Funds from a HELOC can help supplement or temporarily replace income in emergency situations, an uncertain economy and more.

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Benefit #2: Interest is only paid on what you use

If you're considering a home equity loan vs HELOC, there is a big point of differentiation related to interest. When you take out a home equity loan, you get the full amount upfront. You're also locked into paying interest on that total amount you borrowed, even if you don't use all of it.

With a HELOC, you only pay interest on what you use. Remember, HELOCs work like credit cards, extending a balance to you. What you draw on is what you pay interest on; you don't pay interest across the full credit limit. This can help you reduce costs over the long term since you only pay interest on the funds you access.

There is an added benefit to HELOCs in that you can have a fixed or variable interest rate, giving you further flexibility.

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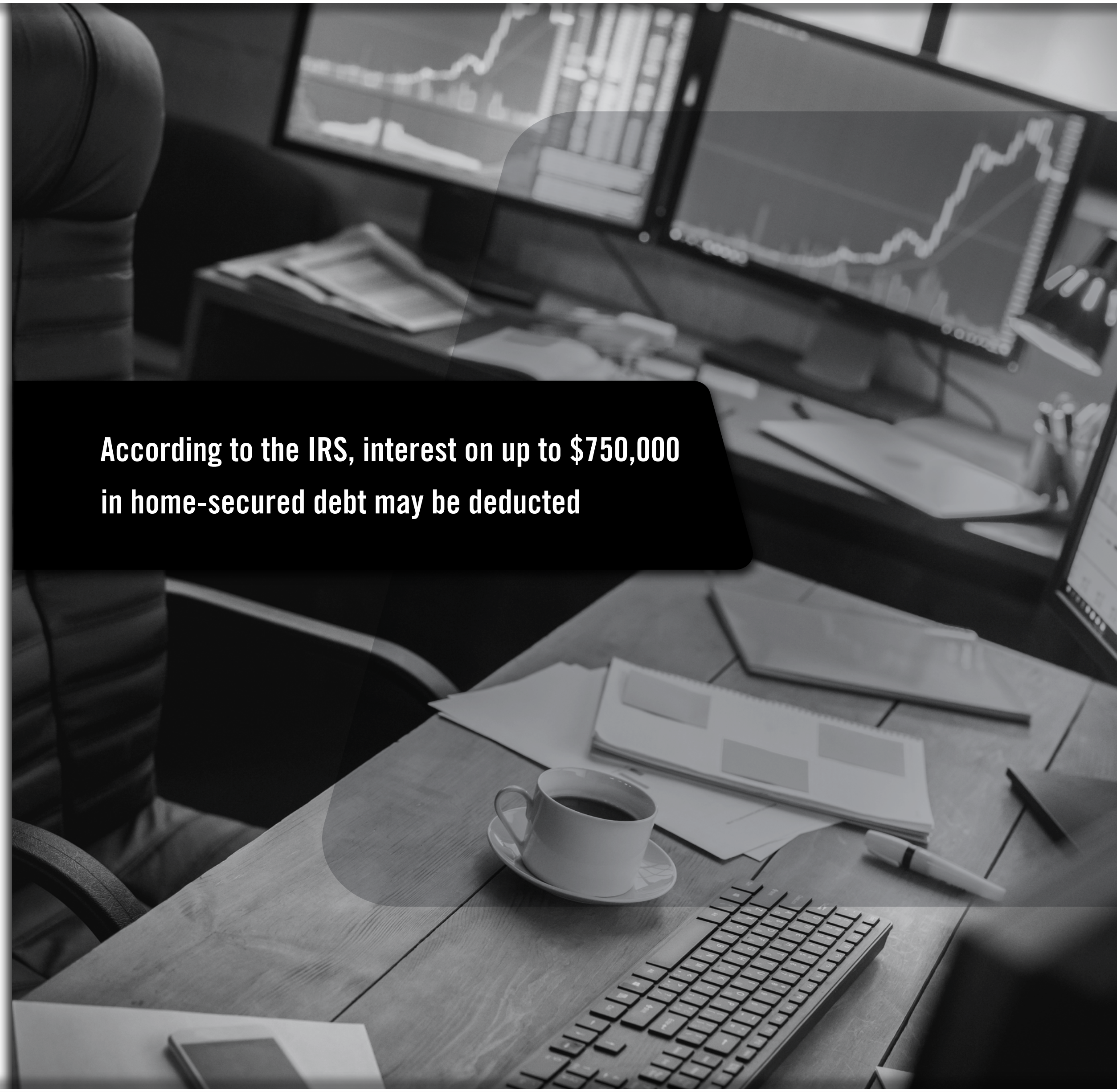
Benefit #3: HELOC may be tax-advantageous

While you can use a HELOC for all sorts of expenses or investments, home-related uses may be tax-advantageous. That means you may be able to deduct the interest you pay on HELOC debt up to a certain amount if you use the funds to reinvest in your home.

According to the IRS, interest on up to $750,000 in home-secured debt may be deducted ($375,000 for a taxpayer who is married but filing separately). However, there are important caveats to this regulation. First, interest is only deductible if the qualified residence loan — a type which includes HELOCs — was "used to buy, build or substantially improve the taxpayer's home that secures the loan."



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Secondly, if a homeowner's primary mortgage and associated HELOC surpass the $750,000 threshold, not all of the interest will be deductible. Nor would interest be deductible if HELOC proceeds are used toward a second residence.

You can always use a HELOC to pay personal expenses, like consolidating high-interest personal debt, the interest you pay on those expenses will not be eligible to be deducted. You should always consult a tax adviser for further insight regarding the deductibility of interest and charges.

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What to know about HELOC qualification

Before you start the process of opening a HELOC, you'll need to calculate how much equity you hold in your home. This factors into how much credit you'll be able to access.

- First, determine the current value of your home.
- Subtract your outstanding mortgage balance — i.e., what you owe.
- The result is the amount of equity you hold.

Typically, lenders will only let you access up to 80% of your total equity in a HELOC. Keep this in mind when making plans or budgets for how you will use your HELOC funds.

Your credit score will be considered during the qualification process, as it would be with any loan or line of credit product. Information about your employment, income, mortgage(s) and other debts will be required as well.

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Conclusion

HELOCs make it easy for homeowners to tap their equity and unlock cash to use for a variety of projects or expenses. If you're looking to finance a new washer/dryer combo, a bathroom upgrade or emergency savings fund, consider how a HELOC can help you meet your goals.

In addition to being versatile, HELOCs can also be tax-advantageous in certain contexts, as well as come with lower interest rates than other credit products may offer.

Interested in learning more? Contact Comerica Bank to receive information on our HELOC products, including Comerica Home Equity FlexLine®, and interest rates.

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Sources:
https://www.irs.gov/newsroom/interest-on-home-equity-loans-often-still-deductible-under-new-law

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