

What Can You Do With Your Home Equity? 4 Ways to Put It to Work

Key Takeaways

- **Home equity can help fund major life expenses.** Depending on your financial situation, you may be able to use it for home improvements, debt consolidation, education costs, or the purchase of another home.
- **You have more than one way to access your equity.** A home equity line of credit (HELOC), home equity loan, and cash-out refinance all work differently, and the right fit depends on your goals.
- **A HELOC offers flexibility.** You can draw funds as needed up to your credit limit during the draw period, making it an option for ongoing projects or expenses that unfold over time.

Could Your Home Help With Your Next Big Thing?

Maybe you've been putting off a kitchen renovation for years. Perhaps you're watching several monthly debt payments compete for space in your budget. Or maybe a major milestone, like college tuition or buying your next home, is coming up faster than expected.

These are the kinds of expenses that can make you look at your finances a little differently, especially when borrowing costs are higher than you'd like.

If you've owned your home for a while, there's another financial resource you may want to consider: your home equity.

Home equity is the difference between what your home is worth today and what you still owe on it. As you pay down your mortgage or your home's value increases, you may build equity that you can potentially borrow against.

Interest rates, repayment terms, your existing mortgage, and your overall financial picture all matter, but understanding your options can help you make a more informed decision when a big expense comes along.

Let's look at four ways homeowners may use their equity, along with the types of home equity financing that can help make those plans possible.

1. Consolidate High-Interest Debt

If you're managing credit card balances, personal loans, or other high-interest debt, keeping up with multiple payments can feel like a financial juggling act.

A home equity loan or HELOC may allow you to borrow money to pay off some of those balances and consolidate them into one payment. Depending on the terms you qualify for, the borrowing cost may be lower than what you're paying on certain existing debts.

Before making a decision, compare the total interest you could pay over the life of the loan, any upfront fees, and the length of your repayment period.

When it might be a good fit: You have a clear plan for paying down your debt and have compared the costs of your alternatives.

2. Make Home Improvements Without Draining Your Savings

Some home projects are about making your space feel more like you. Others are harder to put off.

Maybe the bathroom needs an update, the roof is nearing the end of its life, or your family needs more room. Whatever the project, home improvements can come with a significant price tag.

A HELOC can provide access to funds as you need them, which may be helpful when you're working through a renovation in stages. A home equity loan may be a better fit if you've received a firm estimate and know how much you need upfront.

The decision may also depend on the project itself. An unexpected repair might call for a different financing approach than a planned addition or a series of upgrades over several months.

It's also worth considering how the project fits into your long-term plans. Some improvements may make your home more comfortable or functional, while others may help support its value.

When it might be a good fit: You have a realistic project budget, understand the financing costs, and can comfortably manage the new payment alongside your existing mortgage and household expenses.

3. Cover Major Milestones, From College Tuition to Life's Unexpected Turns

Some of life's biggest expenses don't arrive on a convenient schedule.

College tuition, helping a family member through a major transition, a significant medical bill, or another significant expense can put pressure on savings, even when you've planned carefully.

A home equity loan can provide a lump sum for a known expense, while a HELOC may offer more flexibility if costs will arrive over time. For example, a

family planning for several semesters of tuition might prefer to explore borrowing in stages rather than taking out a larger sum all at once.

Before using home equity for education or another major expense, compare it with alternatives such as education-specific financing, available financial aid, payment plans, or savings. Student loans, for example, can have different repayment protections and terms than a loan secured by your home.

When it might be a good fit: You've compared other financing options, understand the long-term costs, and have a reliable plan for repayment.

4. Buy Your Next Home Before Selling Your Current One

Buying a home while selling one can be complicated enough on its own. When the timing doesn't line up, things can get even more complex.

Perhaps you've found a home that checks every box, but your current home hasn't sold yet. Or you want to make an offer without relying on the proceeds from a future sale to cover your next down payment.

Depending on your available equity, income, credit, and other financial factors, a HELOC may help you access funds for the next purchase.

For some homeowners, a HELOC can provide funds toward a down payment or other eligible purchase expenses. Bridge financing or a second-lien HELOC are other options worth discussing with a mortgage professional. These loans are designed to help eligible borrowers manage the financial gap between buying a new home and selling their existing one.

When it might be a good fit: You have a realistic timeline for selling, enough financial flexibility to manage the transition, and a clear plan for repaying the funds used for your next purchase.

What Are Your Options for Accessing Home Equity?

Once you've identified a potential use for your equity, the next step is understanding how different financing options work.

The terms can sound similar, but the structure of each loan affects how you receive the money, how interest is calculated, and how you repay what you borrow.

Home Equity Line of Credit (HELOC)

A HELOC is a revolving line of credit secured by your home. Instead of receiving all the funds upfront, you're approved for a credit limit and can draw money as needed during a specified period.

As you repay the principal, that credit generally becomes available to borrow again during the draw period.

HELOCs commonly have variable interest rates, meaning your rate and payment may change over time. Some lenders also offer options to convert part or all of an outstanding balance to a fixed rate, subject to the loan's terms.

A HELOC may be worth considering for renovations, expenses that arrive in stages, or certain home-buying situations where flexible access to funds is useful.

Home Equity Loan

A home equity loan generally provides a lump sum that you repay according to an agreed schedule. Depending on the loan, the interest rate may be fixed or adjustable, although fixed-rate structures are common.

Because you receive the funds upfront, this option can be easier to plan around when you know exactly how much you need.

For example, if you've received a contractor's estimate for a major renovation, a home equity loan may provide a more predictable repayment structure than a variable-rate credit line.

First- and Second-Lien HELOCs

Many homeowners are familiar with a HELOC that sits behind an existing first mortgage. This is commonly called a second-lien HELOC, and the payment is in addition to the existing mortgage payment.

A first-lien HELOC works differently. It occupies the first-lien position on the property and may replace an existing mortgage as part of the financing structure. Some products combine a line of credit with a checking account or other cash-management features.

Cash-Out Refinance

A cash-out refinance isn't a HELOC, but it's another way to access home equity.

With this option, you replace your existing mortgage with a new, larger mortgage and receive the difference in cash, after accounting for the existing balance and applicable costs.

The key consideration is that you're refinancing your entire mortgage, not just borrowing against your equity separately. If your current mortgage has a lower interest rate than the one available today, refinancing could increase the cost of your existing mortgage balance.

Compare the new rate, closing costs, loan term, and total interest before deciding whether a cash-out refinance is worth considering.

Find the Home Equity Option That Fits Your Plans

Your home has likely played a big role in your financial life already. Depending on your circumstances, the equity you've built may help you manage a major expense, improve your space, or plan your next move.

The important part is choosing a financing option that supports your goals without putting unnecessary pressure on your budget.

One of our mortgage professionals can help you compare a HELOC, home equity loan, cash-out refinance, or other financing options based on your current mortgage and financial needs.

About Luminate Bank

Luminate Bank is a nationwide, FDIC-insured bank and full-service mortgage lender headquartered in Minneapolis, Minnesota.

Luminate Bank combines personalized service, modern technology, and experienced guidance to help individuals and families navigate their financial journeys. Whether you're exploring mortgage options or looking for banking solutions that support your goals, Luminate Bank is here to help you move forward with greater clarity and confidence.

Frequently Asked Questions About Home Equity

What is the best way to use home equity?

The best use of home equity depends on your financial goals, borrowing costs, and ability to repay the loan. Homeowners may use equity for home improvements, debt consolidation, education expenses, or certain home-buying costs. Compare the available financing options and their risks before deciding.

How do I calculate my home equity?

Subtract your outstanding mortgage balance and any other loans secured by your home from your home's current estimated market value.

For example, if your home is worth \$400,000 and you owe \$250,000 on your mortgage, you have approximately \$150,000 in equity before accounting for other liens or changes in value.

Your available equity isn't necessarily the amount you can borrow. Lenders consider factors such as your loan-to-value ratio, credit history, income, existing debts, and property value when determining eligibility.

What is the difference between a HELOC and a home equity loan?

A HELOC provides a revolving credit line that you can draw from as needed during the draw period. A home equity loan generally provides a lump sum that you repay over a set term.

HELOCs commonly have variable interest rates, while home equity loans often have fixed rates. However, terms vary by lender, so compare the specific products available to you.

Is a HELOC a good idea when interest rates are high?

A HELOC may still be useful when interest rates are higher, but the decision depends on the purpose of the loan, the rate and fees offered, and your repayment plan. Because many HELOCs have variable rates, payments can increase over time. Compare alternatives and make sure you can afford the payments if borrowing costs rise.

Can I use a HELOC to pay off credit card debt?

Eligible borrowers may use HELOC funds to pay off credit card balances or other debts. This could reduce interest costs or simplify payments, depending on the terms of the new loan.

Can I use home equity to pay for college tuition?

A home equity loan or HELOC may provide funds for education expenses, depending on the lender's terms and your eligibility. Before using your home as collateral, compare the option with financial aid, education-specific loans, and tuition payment plans, which may have different protections and repayment terms.

Can I use a HELOC for a down payment on another house?

Depending on the lender's requirements and your financial situation, you may be able to use HELOC funds toward a down payment on another home. The additional debt will affect your finances and may influence your qualification for the new mortgage. Ask your mortgage professional how the HELOC payment, your current mortgage, and the proposed new loan will be evaluated together.

What is the difference between a HELOC and a cash-out refinance?

A HELOC lets you borrow against your available equity through a separate credit line, often while keeping your existing mortgage in place. A cash-out refinance replaces your existing mortgage with a larger mortgage and gives you the difference in cash, minus applicable costs.

If your current mortgage has a lower interest rate than today's available rates, compare the cost of refinancing your entire mortgage with the cost of taking out a separate home equity loan or HELOC.

Does a HELOC affect my existing mortgage?

A traditional second-lien HELOC generally leaves your existing first mortgage in place, so you'll have two separate obligations to repay. A first-lien HELOC has a different structure and may replace your existing mortgage, depending on the product.

A cash-out refinance, by comparison, replaces your current mortgage with a new loan. Ask your lender how each option would affect your current mortgage terms, monthly payments, and total borrowing costs.

Is the interest on a HELOC tax-deductible?

Interest may be deductible in certain circumstances, depending on how the funds are used and whether applicable IRS requirements are met. For example, special rules may apply to debt used to buy, build, or substantially improve the home securing the loan. Other uses, such as paying off personal credit card debt, generally don't qualify under those home mortgage interest rules.

Tax rules depend on your individual situation, so consult a qualified tax professional about your specific circumstances.