

Understanding HELOCs

Know the pros and cons of using a home equity line of credit

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If you have high-interest debt, you could consider paying it off with your home's equity. One way to do this is with a home equity line of credit, or HELOC.

Since HELOCs are secured by your home, you can usually get lower interest rates than with credit cards or personal loans. This can make debt consolidation appealing for borrowers struggling to make progress on high-interest debt.

However, HELOCs come with a tradeoff: lower interest rates in exchange for higher risk. If you can't keep up with monthly payments, the lender can foreclose on your home. Before using home equity to consolidate debt, it's important to understand both the potential savings and the risks involved.

UNDERSTANDING HOW HELOCs WORK

HELOCs work a little differently than other kinds of loans, so carefully review the terms of any lender quotes so you know what to expect. Lenders set their own guidelines when designing these products, but most HELOC options will adhere to certain industry standards.

For instance, most HELOCs have a 10-year draw period and a 20-year repayment period. During the draw period, you're usually only required to pay interest on funds you've used. After the draw period is over, you can't borrow any more, and you have to pay both interest and principal for the remainder of the term.

A HELOC is also a type of second mortgage, and you should consider how it will impact your timeline for owning your home outright. For example, if you've got 15 years left on your primary mortgage when you decide to get a 30-year HELOC, you could extend the amount of time you'll be paying a home loan.

HELOCs usually have variable interest rates, which can move up or down with the market. On a 30-year time horizon, this is unpredictable. Some lenders offer a fixed rate on some (or all) of the line balance.

KNOWING WHEN YOUR DEBT HAS BECOME A PROBLEM

If you've found your debt ballooning and are looking for a solution, you're not alone. Debt has become increasingly normal for Americans in the years since the pandemic, says Elizabeth Renter, NerdWallet senior economist.

"It's one thing to take on this debt, but another to stay on top of it, and delinquency levels are rising," Renter says. "Many households are struggling to stay ahead of their debt payments, and interest rates on credit cards are at historic highs, making it even more difficult."

According to Regina McCann Hess,



CFP, president of Forge Wealth Management in Malvern, Pennsylvania, the key to knowing if your debt is growing to an overwhelming degree is whether you're able to make real progress with your monthly payments.

"Where I see people making mistakes is that they have debt and tell themselves that they're paying it off, but if they're paying off \$800 a month and charging \$1,000 a month, they're not actually making headway," McCann Hess says.

If your current interest rates are too high for you to meaningfully lower your debt each month, restructuring with a HELOC might be a smart move — provided that you're also in a position to change your spending habits.

CHANGING THE CYCLE OF SPENDING AND DEBT

"You don't want to use it as a license to spend," says John Jones, CFP, at Heritage Financial in Newberry, Florida. "You want to use it as an opportunity to rebalance your financial life."

It's important to stay disciplined with spending and debt so that you don't fall back into a cycle of overspending, Jones says. The context of every individual's situation is different, and you may want to talk with a financial planner or advisor to help design a plan for paying off your debt with a HELOC.

"A lower interest rate on your debt may make it marginally easier to manage, but trading one or multiple debt types for another should only come after serious consideration," Renter says.

DECIDING IF YOUR DEBT IS THE RIGHT FIT

Before using a HELOC for debt consolidation, consider what kind of debt you have. For example, credit cards and other kinds of high-interest unsecured debt can be good candidates for consolidating.

Jones has seen clients dramatically reduce their average interest rate by getting a HELOC to consolidate multiple lines of outstanding high-interest debt,

and he often recommends HELOCs as a valuable financial tool.

To understand why borrowers consider consolidating, it helps to look at the numbers. NerdWallet's 2025 analysis found that households with credit card debt owed an average of \$11,413 as of September 2025. The average credit card APR was 22.3% in November 2025, so at that rate, a borrower would be paying about \$211 in interest each month.

Comparatively, the average HELOC rate in May 2026 was 7.5%, as reported by Experian. A HELOC with a balance of \$11,413 would have a minimum monthly payment of about \$70 during the draw period and \$90 during the repayment period.

Other kinds of debt may not make as much sense for consolidation with a HELOC. For example, even if you feel overwhelmed by student loan debt, a HELOC might not be able to help you get a lower interest rate. HELOC rates are typically higher than student loan rates.

CHOOSING A HELOC LENDER FOR DEBT CONSOLIDATION

If you do choose to use a HELOC to consolidate outstanding debt, you'll want to find a lender that gives you the best combination of low rates and fees. Seek out lenders that offer rate discounts (some offer this for enrolling in autopay, for example) and no origination or annual fees. Rule out any lenders that have a minimum initial draw requirement higher than your current debt balance.

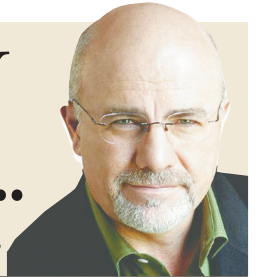
If a lender offers a low introductory rate, you could take advantage of that by front-loading principal payments. Borrowers who are wary of variable interest rates can also identify lenders that offer a fixed-rate option.

HELOCs may differ from lender to lender. You can benefit from shopping around to compare offers.

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MONEY TALKS ...

By Dave Ramsey



Pursue your dreams, but do it wisely

Dear Dave,

My husband and I are debt-free, including our home. My husband is a great guy, and a talented man, but he's also a bit of a dreamer sometimes.

He has written three or four novels that haven't been accepted by publishers. He feels he's close to a breakthrough, and he asked me the other day about my thoughts on selling our home and living on the money we make so he can really concentrate, and work on the new book full-time.

I want him to pursue his dream, but this idea scares me. What do you think about it?

— Emily

Dear Emily,

First of all, congratulations on being completely debt-free! That's a huge accomplishment, and I'm really happy for you two.

Now, about your husband's idea. It sounds to me like he's a good man.

And he obviously has drive, focus and discipline if he's been able to write that many novels in his spare time and be part of you reaching such a great financial point in your lives.

But I think it would be a huge mistake for you guys to sell your home, especially when he hasn't proven he can sell anything he writes.

I understand where his head is right now, believe me. He wants to write and be a successful, full-time novelist. That's a great dream to have.

It's one I sincerely hope he can achieve one day. But my advice right now would be for him to keep his day job, and continue working his tail off nights and weekends to try and make his dream a reality.

As part of that, I'd suggest drawing up a strategy to get some exposure for the books he has already written.

Develop a website highlighting his work. Maybe he could self-publish a few dozen copies, then contact local libraries and civic groups for an opportunity to speak. In the process, he might sell a few books and get his name out there.

It may take longer than he'd like, but that's honestly a much better idea than the one he has now.

It will allow him to pursue his passion, work toward a goal and not run the risk of putting his family in financial danger.

— Dave

Dave Ramsey is a nine-time national bestselling author, personal finance expert and host of "The Ramsey Show." He has appeared on Good Morning America, CBS This Morning, Today, Fox News, CNN, Fox Business and many more. Since 1992, Dave has helped people take control of their money, build wealth and enhance their lives. He also serves as CEO for Ramsey Solutions.