

Should you use a HELOC in a financial emergency?

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As a homeowner, you likely have a lot more equity in your house than you did just a few years ago.

U.S. homeowners gained almost \$3 trillion in equity in the fourth quarter of 2024 compared to the previous year, according to data from the Federal Reserve Bank of St. Louis.

While your home equity shouldn't be the first place you go to cover a cash shortfall, a home equity line of credit (HELOC) can be a useful resource in a short-term financial crisis.

How to know if a HELOC is best move

Before applying for a HELOC, consider whether it makes the most sense for your financial situation. HELOCs and other home equity products use your home as collateral, meaning you could lose it to foreclosure if you can't keep up with your monthly payments.

If your emergency poses a long-term threat to your financial stability, a HELOC may be more risk than reward. However, if there's a clear end in sight and you just need to get over an expensive hill, a HELOC could be the right move.

For example, you could be planning a leave of absence from work for medical reasons but know that you'll return within a few weeks or months. Even with emergency savings and insurance, you could find yourself in a "short-term cash crunch," says Thomas Carson McLean, certified financial planner and founder of Altruist Wealth Management in Charlotte, N.C. In this case, a HELOC could act as a financial bridge until you're back to work.

Talk to your mortgage lender first

If your financial emergency is going to make it difficult to pay your bills, you should contact your mortgage lender ASAP before borrowing from your home equity.

You may be eligible for forbearance, which would let you pause or reduce your mortgage payments temporarily. While interest will still accrue, you won't have to worry about your mortgage or losing your home while you recover from your financial setback.

If your emergency is going to have a long-term effect on your finances — like the loss of a spouse or a disability — talk to your lender to see if you qualify for a loan modification. This changes the terms of your loan without refinancing to make it more affordable and help you stay current on payments.

Consider the alternatives

"Always consider your other options," says Filip Telibasa, certified financial planner and owner of Benzina Wealth in Sarasota, Fla. Since accessing your equity means paying interest, consider other sources that may be more advantageous.

"First, take a look at your investment accounts," says Telibasa. "Can you liquidate any of these funds without paying high fees or taxes?"

You should also consider how much you need to borrow and how quickly you can repay it. For example, say you need \$5,000 for emergency HVAC repairs. You don't have the money on hand right now, but know you could save it within a few months. You might be better off opening a credit card with 0% interest for the introductory period (sometimes as long as 21 months) and paying off the balance before regular interest kicks in.

If you need a loan but want to avoid putting your home on the line, you could also consider a personal loan. These usually have higher interest rates than HELOCs, but they're not tied to your property.

Know how long you can afford to wait

When reviewing your options for accessing a large amount of cash, "your timeline is important too," says Telibasa. A HELOC needs to go through underwriting, "and the turnaround may surpass your specific emergency."

NerdWallet's 2024 mortgage lender survey found that the average time to close on a HELOC ranged from five days to 39 days. If timing is the most important factor, you can focus your search on lenders that specialize in fast funding.

Understand the risks

In addition to losing your home if you can't keep up with payments, you also risk biting off more than you can chew by only paying the minimum amount each month. During the draw period (typically 10 years), you're usually only required to pay interest. But during the repayment period (which usually lasts up to 20 years), you must pay both interest and principal.

If you haven't chipped away at the principal balance by the time the draw period ends, you might not be prepared for the larger bills coming your way.

You should also avoid borrowing any more than what you need to cover your emergency, says Telibasa. "This is a disadvantage, as you will end up paying more in interest charges than you actually need to."

A HELOC isn't right for everyone

Avoid using your home equity to pay for things that won't improve your finances in the long run, like cars or other depreciating assets.

You should also think about the source of your financial emergency. If you're in over your head in debt, a home equity solution may be a temporary fix that doesn't address the heart of your spending habits. A home equity loan would be a one-time deposit, for example, but a HELOC would enable you to borrow again and again, even if it's not a good idea.

"You may justify to yourself (we are good at this) that you can use the credit line for other things, outside the emergency," says Telibasa.

Compare your options and ask questions

Shop around with at least three lenders to compare your options.

Look closely at interest rates and closing costs when choosing your lender, as well as any annual fees and minimum draw requirements.

While you might feel like you need to act quickly, don't be rash in your decision-making.

Although your emergency is weighing on you, you won't regret taking the time to ask questions and read the fine print.

Whatever you're facing, you'll be better off knowing you were fully informed and in a clear headspace when you signed on the dotted line of a decades-long loan.