TAKE CONTROL OF YOUR EQUITY

How to Use a Home Equity Line of Credit to Gain Financial Freedom and Build Wealth

CONTROL YOUR EQUITY™

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Hello.

Since you've downloaded this ebook, we're going to assume some things. Yes, we know what you get when you assume – but in this case, we have some basic information. You've shown interest in the topic of a HELOC. And the idea of controlling your equity sounds good to you. **So, here's what we're assuming:**

- **Assumption #1**
  First, we think you're interested in finding a way to gain financial freedom. Otherwise, you'd be sitting there writing another check to your mortgage lender without batting an eye.

- **Assumption #2**
  You're also probably hoping to build wealth. Otherwise, why would you want to pay off your home sooner? Even if all you want is to buy more stuff every month, that's still a kind of wealth-building. You want wealth of experiences, financial wealth, or the freedom-wealth that comes with not owing anyone anything.

- **Assumption #3**
  Last, you're curious. Curious if there's a better way than the one you're used to. Is there actually a better financial tool to pay for your home?

All things considered, you're in the right place. In this short, free, easy-to-digest ebook, we hope to answer all your questions. What is a HELOC? Why should you get one? And, how can you use a HELOC to gain control of your equity?

The answers are far less less complicated than some advisors will make it seem. (There's a reason for that: it's because they're selling "advice." We're not. We're explaining a simple strategy so you can take a running start and go for it.) In these pages, both the pros and the cons of this strategy will be clear. And you'll learn how to execute it to your advantage.

So keep reading. If a HELOC isn't right for you, you'll know by the end of the ebook. And, if it's the best thing you could possibly do … you'll know.

In the following pages you'll discover:

- How homeowners volunteer to pay more for their homes than they need to;
- How complacency keeps people in debt;
- How a home equity line of credit can help you take control of your equity.

Above all, you'll keep hearing one fact:

You can't take control of your equity until you move away from an amortization-based mortgage. What does that mean? You'll find out when we talk about how interest is calculated.

Using a home equity line of credit (HELOC) to pay down your mortgage, ***you may be able to reduce the time*** it takes to pay off your home.

We've heard from people who took longer by choice, as well as from some who paid their homes off within 3 years or less. No guarantees, of course. But the potential is there for you to tap into.

We're not your financial advisor, but we're here to provide a clear strategic option for success. It's an opportunity for you to regain control of your equity in how you access it, use it, and further grow it. Success depends on you and your dedication.

But first, the million-dollar question:

How Much Does It Cost?

After all, nothing good is free. And, most of the time, you'd be right.

However, we feel it's only ethical for us to give you this information for FREE. No games, gimmicks, or providing information that makes you uncomfortable.

Not $4,000 or $400 or even $40. Free, because it's information that can change your life. Your good is our goal. Hearing from homeowners who are in control of their equity is payment enough. Education and information are power, and **if a HELOC is used well it can create wealth**. Financial stability. But even better, it can empower you to do more. We understand that if you're successful you'll tell others – which can lead them to greater financial wellness that only benefits our communities and futures.

Now that we're clear about the cost, let's get into What, Why, and How.

What is a HELOC?

Simply put, a HELOC is a home equity line of credit.

It's a loan that:

- ✓ Is set up as a line of credit
- ✓ Can be drawn from up to a certain dollar amount
- ✓ Has a "draw period" during which you can use it like a checking account *(usually 10 years)*
- ✓ ... followed by a repayment period *(usually 10-20 years)*

Misconceptions

Let's take a moment to clear something up before we go any further.

Many of the internet's definitions of a home equity line of credit say something along the lines of "HELOCs are issued for the amount of equity you have in your home." So, if you have 20% equity, you can get a HELOC for something like 80-95% of that 20% equity.

However, a HELOC can serve as a first-lien loan. Most people think of HELOCs as a second mortgage only. This is false. You can refinance your home, but instead of refinancing into a new mortgage, you refinance into a HELOC for the full amount of your remaining principal.

Yes, it's called a "home *equity* line of credit." But that's just the name of the financial product. You're just using it in a different way than the average homeowner does. **If you follow this process, you will have only one loan to pay off – the HELOC.**

But There's One Big Question.

If you're going to owe money either way, why not just stick with your mortgage?

Because of the *way* interest is calculated.

Your "traditional" mortgage interest is calculated based on an ***amortization schedule.*** This means your payment stays the same every month, while the percentage of it that goes toward principal gradually rises and the interest gradually shrinks over the life of the loan. **Interest is calculated monthly**. Because of the nature of this model, it can be challenging for you as a homeowner to accelerate paying down your loan – unless you apply large payments to the principal balance. Even if you can, the monthly payment doesn't change. That doesn't seem to benefit you too much.

However, your HELOC balance fluctuates. One day, you may draw $2,500 to pay off the credit card. The next day, your paycheck is automatically deposited as a payment against your balance. *That's why HELOC interest is calculated each day, instead of each month.*

Read that line again.

Yes, HELOCs are ***simple interest*** loans for which **interest is calculated on a daily basis**... and it's only based on the amount you owe.

Understanding this principle is a key idea for this product. By reducing your principal balance, you reduce the rate of interest you're paying. In the big picture, that means you're paying less interest to the bank over time.

Let's look at a HELOC with a 5% rate, for example. Interest for each day is .05 divided by 365. That comes out to ~.000136 and we multiply it by the month's average daily balance.

If the simple interest-based HELOC balance is $200,000:

- ✓ Your daily interest accrued is $27.40
- ✓ During a 30-day month, interest is $821.92
- ✓ During a 31-day month, interest is $849.32

By comparison, interest for one month for a typical 5% mortgage is .05 divided by 12 or ~.00417 and it is multiplied by the previous month's ending principal balance.

If your amortized mortgage previous month's principal balance is $200,000:

- ✓ The interest payment is $833.33, no matter how many days are in the month

Your outlook by year 10 of a 30-year, $300,000 mortgage:

Loan amount:	**$300,000**
Annual interest rate:	**4%**
Loan period:	**30 years**
# Payments/year:	**12**
Scheduled payment:	**$1,432.25 (before any additional costs)**
Total principal paid by year 10:	**$63,648.12**
Total interest paid by year 10:	**$108,221.38**
Total interest paid at end of loan:	**$215,608.52**
Total cost of $300,000 loan, including interest:	**$515,608.52**

That doesn't sound great. Paying on an amortized mortgage for the full term isn't the smartest choice for people with positive cash flow *(income left over at the end of the month after all bills are paid – the more, the better!)*.

Because paying more interest is a terrible financial strategy.

Read this section again. It's important. **Simple daily vs. amortized monthly interest is the element of a HELOC that makes it such a special product for homeowners.**

Because positive cash flow means you could be paying the HELOC down much faster than you think.

But What's The Rate?

Don't HELOCs have higher rates than mortgages? And isn't that bad? Actually, it's just fine. Because …

Interest Is More Than Rate %

You may have been taught that the interest rate associated with a HELOC is less influential then the rate on your traditional mortgage. However, you need to understand how your rate is built – and what its limits are.

The majority of HELOCs, either 1st or 2nd position, are built on a variable interest rate. In traditional mortgage terms, this is known as an ARM, or Adjustable Rate Mortgage. Banks don't use that term with HELOCs since the last word ("mortgage") doesn't apply. Instead, they use "variable interest rate." That's exactly what it sounds like. The interest rate varies.

But how much does it vary, and how often? Those are the most important things to understand.

The fact is, the large majority of HELOCs — 90% or better — are built on a simple combination of Margin + Index. Let's go through what Margin and Index are so we can understand how they come together.

Margin

The Margin is the rate at which a bank prices a loan on a base level. This isn't your actual start rate. It's the minimum interest the bank can afford to charge a borrower for lending a minimum dollar amount to them.

This rate is fixed and is typically based on qualifying factors like credit score, loan to value, occupancy, and loan amount.

Index

The Index is the variable rate that is added to your Margin. This is the adjustable part of the combination and, based on the Index the bank uses, can adjust monthly, quarterly, semi-yearly, or at other times based on economic factors.

An Index you're undoubtedly familiar with (and is commonly used for HELOCs) is the Prime Rate. You can do a Google search for "Prime Rate" and pull up a historical chart of the rate's ups and downs to get a picture of its stability over time.

The ***30 Day LIBOR*** is another common and reliable Index. It's historically more stable in movement than Prime.

Other common Indexes are the T-Bill, COFI, CMT, MTA, and CODI. Lots of letters there, but all have their uses in lending.

A few other important words used with rate are Term, Floor, Ceiling, and Periodic Caps. Here's the simple definition of each and how it applies.

- **Term** The length of time that the HELOC is good for. Most are ten years, but some banks have options from 1 to 5 to 10 or even longer. Typically, shorter terms come with lower rates. Likewise, longer terms apply higher rates. The term typically includes the length of the "interest only" payment period.

- **Floor** The lowest the rate can drop. This will vary by bank. Some banks permit the Floor to equal the Margin. Some define the Floor as the rate at which your loan starts.

- **Ceiling** The highest your rate can go. By federal law, rates on lines of credit can go as high as 21% ... so ask what the Ceiling is when talking to a bank. You need to know how bad it can get. Thankfully, most banks understand that a rate going to 21% is not only terrible for a consumer, it's also bad for the bank. Many customers wouldn't be able to afford a payment at that rate, which could lead to default. And no one wants default. Banks will place a Ceiling on your rate so it can't spin out of control – even if the economy implodes.

- **Periodic Caps** The Periodic Caps on a HELOC are exactly what they sound like. They are the maximum amount a rate can adjust within a period of time on your HELOC. Some are 1% per month, while others are 3% per quarter. The Caps typically reflect the time within the Index adjustments. So, if you have a HELOC based on the 30 Day LIBOR, your PeriodicCap timeframe is likely monthly. These Caps protect both you and the bank from the interest rate going up too fast and making the loan challenging for all parties.

Okay, now that we're clear on how HELOC rates are calculated, we need to repeat ourselves: with **positive cash flow** and **simple interest**, higher rates are **no problem** – because you're continually paying down the balance on the loan.

And with that, we're starting to talk about why you should get a HELOC.

Is It Time to Make A Change For the Better?

The answer to that question is very personal. If you're okay with your financial position, we're happy for you.

But do you wish your mortgage payment was lower? Do you wish you had access to equity without having to hassle with a cash out refinance? Do you wish you had payment flexibility? Do you wish you simply had more control? You might:

- Pay off your home and be debt free
- Create the safety net you don't have today
- Be more generous with your income
- Make financing home improvement (or a second home) less stressful
- Save more for retirement
- Travel more and worry less about the cost
- Send the kids to college

Now, think about what you could do if you had no mortgage payment at all. **What if you could do everything on the list above** – without restricting or drastically changing your lifestyle?

But you can't … at least, not until you get rid of your current mortgage. Right now, you don't control your equity. **Instead, you're controlled by your debt.** You have to say "I can't" more often than you would like to. All because you're required to spend a large part of your monthly income to pay for your home. Are you tired of this? Don't you deserve better?

Maybe you bought your home for $275,000 at a 4% interest rate. Your payment in that case would be $1,312.89. **That's how much you pay the bank for permission to live in your home.**

But how much of that payment actually goes toward the value of your home, or the principal balance? If you've been making payments for 5 years, you've paid $26,753.13 toward principal – and $53,333.29 in interest. And by the end of your 30-year loan, you'll have paid $197,641.14 in interest.

Take that in. Math doesn't lie.

You just paid **$472,641.14** for a **$275,000** home.

Keep In Mind That the Bank Isn't the Enemy Here.

The bank that you borrowed the money from took a risk on you, and in doing so charged an interest rate. That's a fair trade. If you were lending $275,000 to someone, you'd want something in return as well. It's a big risk and a lot of money. However, as we're outlining, there's a better way to work with the bank, not against it.

To repeat, ***work with the bank, not against it.*** This is a guiding principle. And it's the proper mindset for you to adopt. Unless you're sitting on private wealth worth a lot more than you owe, you need help from the bank. You just need to create a better partnership.

Okay, now that we've got that straight, let's move on.

Historically, HELOCs in North America have mostly been second mortgages. However, more and more homeowners are realizing that they can break out of the typical (and costly) mortgage **by refinancing their existing mortgages into HELOCs.** The HELOCs then serve as first mortgages on those homes. It's a risk (more on why later) with a big reward if you're wise and disciplined.

What Does That Look Like In the Real World?

Let's say that you have a typical mortgage for $250,000. You put 20% down, which leaves $200,000 to be paid.

Now, you're 10 years into your 30-year mortgage. Your home is now worth $300,000 and you owe $150,000. Solid progress but you've still got a long way to go. If you get a HELOC equal to pay off the principal remaining on your mortgage ($150,000), you can potentially provide yourself access to equity up to another $135,000 whenever you decide to draw the funds. You still only owe $150,000 on your home. However, by obtaining a HELOC for $285,000, you've given yourself the ability to access equity if needed. You just freed up $135,000 to have at your disposal. You've also given yourself a better loan vehicle to pay off that $150,000 – if that is your goal.

> *"There are risks and costs to action. But they are far less than the long range risks of comfortable inaction."*
>
> *- JFK*

Perhaps your goal is to buy an investment property to start a second stream of income. Having access to $135,000 will make a down payment easy.

Sounds like a simple process, right? With focus, discipline, and a HELOC with the right terms, it can be. **But nothing will help you take control of your equity unless you decide to act.**

If you're like many Americans, you work hard, sometimes pull long hours, and spend time commuting. Your time and effort are rewarded with a decent salary. Then, you turn around and use a huge chunk of it to pay interest. You'll do that every month for the rest of your 30-year mortgage unless you do something about it.

And your mortgage interest is the biggest factor in keeping you in debt.

If you are cash-flow positive and have equity in your home, we're convinced that refinancing your current mortgage into a HELOC is the right solution, for the right price, at the right time.

But Isn't This Risky?

Like any investment, whether monetary or in yourself, there is a level of risk. If you don't know what your monthly income vs. outflow is, ***stop now*** and calculate it. If you don't have an idea of what your credit score is, ***stop now*** and find out. If you don't know the interest rate on your mortgage and what you owe on your home, ***stop now*** and find out.

You need to know the answers to these questions in order to know if this strategy is even an option for you.

If you want to have control rather than be controlled, if you want a better way and a more debt-free life, then you need to pay down your principal as soon as possible. You can do it on the income you have today by simply using it smarter and following a better strategy.

Let's look at who routinely uses lines of credit to build wealth.

- Businesses
- Corporations
- Wealthy individuals
- Anyone with positive cash flow

It's all about smart allocation of resources. Borrowing money is less expensive when you're able to automatically send revenue or income directly into your line of credit. You're placing a priority on paying down the balance – so you can pay less interest sooner.

In just a minute, we'll go through exactly how to leverage your income and equity to grow wealth with a home equity line of credit. We'll see how simple the process is through a few true-to-life examples. It's not rocket science! It's just a matter of consistency, determination, and self-control.

But before we do that, we want to make sure you're on the right track. Your time is valuable. **So, let's find out if a HELOC is right for you.**

Is a HELOC the Right Solution For You?

Before we go any further, there's an elephant in the room. So, we might as well address it.

Various financial professionals discourage using a HELOC to accelerate your mortgage. On the other hand, other financial experts have shown that this is a viable solution. **In the right circumstances.**

Don't try to use a HELOC to access your equity if you:

- ✓ Have expenses roughly equal to your monthly income
- ✓ Have a credit score below 660
- ✓ Have had recent financial trouble like foreclosure or bankruptcy
- ✓ Have a hard time controlling your spending
- ✓ Have sizeable debts in other areas, like credit card or college debt

However, you may be a good candidate to benefit from a HELOC if you:

- ✓ Have a credit score of 660 or higher
- ✓ Have more income than you spend each month (the more, the better)
- ✓ Have had no financial trouble recently (during the last 4 years, resulting in a bankruptcy, short sale, etc.)
- ✓ Have good financial discipline (this is vital!)
- ✓ Have few other debts and plan to keep it that way
- ✓ Have at least 10% home equity built up
- ✓ Have absolute determination to gain financial freedom
- ✓ Have strong motivation to see the process through

If that bottom list sounds like you, keep reading.

Don't worry – we'll get to the pitfalls of taking this approach. We do recommend using a HELOC to control your equity. We're convinced that a HELOC will help you unlock your income's full potential. However, we never want anyone to get into a negative situation.

As you continue, you'll learn exactly how to make it work.

Requirements

You need a bank to get a mortgage. That's a fact. In the same way, you need a bank to get a home equity line of credit. It's private – originated by and backed by the bank. However, the vast majority of mortgages are backed or insured by the Fed.

What does that mean for you?

Instead of meeting standardized Fed guidelines for the HELOC, each bank sets their own guidelines and qualifications**. If you meet mortgage requirements, you probably meet HELOC requirements.** But because there are so many banks with various guidelines, it would be impossible for us to list exactly what standard you'll have to meet. However, here's a snapshot of typical requirements:

- **Debt ratio below 45%**
- **Decent credit (660 and up)**
- **10% equity** ***(not necessarily a requirement, but definitely recommended)***

Now we can look at the real-life math.

How To Take Control of Your Equity With a HELOC

Right now, your paycheck is probably directly deposited into your bank account via ACH. Then, you send portions of your income out to your creditors. Mortgage, credit card, car payments, school debt, etc.

A HELOC gives you a better vehicle to do personal finance. It can help you unlock your income's full potential and take control of your equity.

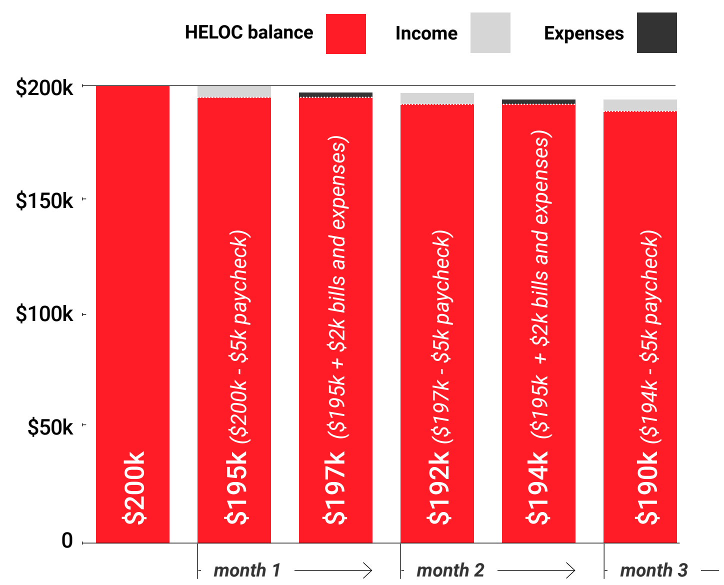
Instead of paying all your bills from your bank account, do this:

Handle your income and all expenses from the HELOC. For example:

1. Direct-deposit net income into the HELOC = **$5,000**.
2. Pay bills and other expenses from the HELOC = **$2,000 avg.**
3. Dedicate the remaining **$3,000** to paying down the HELOC balance

Notice that you have your paycheck deposited straight to your HELOC. At this point, Your HELOC is replacing your old checking account as your operating account. And you're paying bills from the HELOC instead.

Yes, you can keep using your traditional checking account if you want. **But consolidation helps you make your financial puzzle less complicated.**



Putting your income directly into the HELOC does 2 things.

1. **Brings down the balance**
   by the full amount of your paycheck

2. **Allows you to pay bills**
   from the HELOC using checks or a debit card

As a result, you will pay less interest and pay the loan off more quickly ***– because every dollar you don't spend that month goes straight to paying down the balance once your interest obligation is met***. And, because HELOC interest is calculated daily rather than monthly as we've discussed, you'll quickly see the benefit of following this proven strategy for success.

Here's what it looks like:

$200,000 HELOC Loan vs. Traditional Loans

Let's say your friend has a **net income of $5,000** *(what they actually bring home)*. They have an additional **$2,000 in expenses** besides their mortgage payment. This includes food, car payment, utilities, gas, day-to-day needs, and so on. That leaves your friend **$3,000 in positive cash** to dedicate to his HELOC each month for principal and interest payments.

HELOC

Loan amount:	**$200,000**
Annual interest rate (variable):	**6.25%**
Total interest paid over life of the loan:	**$46,317.00**
Total monthly payments:	**83**
Total cost including interest:	**$246,317.00**

15-Year fixed

Loan amount:	**$200,000**
Annual interest rate (fixed):	**3.75%**
Total interest paid over life of the loan:	**$61,800.08**
Total monthly payments:	**180**
Total cost including interest:	**$261,800.08**

30-Year fixed

Loan amount:	**$200,000**
Annual interest rate (fixed):	**4.25%**
Total interest paid over life of the loan:	**$154,196.72**
Total monthly payments:	**360**
Total cost including interest:	**$354,196.72**

Now we'll mix in more variables and run another scenario for your friend. We'll use the same starting numbers.

- **Starting HELOC amount of $200,000**
- **Starting interest rate of 6.25%**
- **$5,000 net income**

- $2,000 in additional expenses after housing

= $3,000 in positive cash flow to put into the HELOC each month

Loan amount:	**$200,000**
Annual interest rate increase:	**.5%**
Annual account fee :	**$125.00**
Bathroom renovation (month 12):	**$15,000.00**
Emergency medical expense (month 30):	**$5,000.00**
Total monthly payments:	**97**
Total cost including interest:	**$269,564.00**

The reason for the higher interest?

We've accounted for an additional $20,000 in expenses throughout the loan. Is it still better than a 15 Year? **Yes, it is.**

Where would your friend have gotten $15,000 for the bathroom *(and later, $5,000 for the medical expense)*?

3 options:

1. They could have done a cash-out refinance. But that would have cost them $3,000-$5,000 in fees and reset their term. Not very helpful.
2. They could have used a credit card. At 19.99%, that's not a good option.
3. They could have gotten a second-lien HELOC. But do they want a second mortgage just to access a small amount of the home's equity potential? Not just that, but it would likely carry a higher rate and shorter term. Pass.

We won't bore you with the math, but here's how it works out: the first-lien HELOC is still the most efficient way to:

- **Maintain the payoff schedule**
- **Lower the rate of interest paid**
- **Build equity to access if needed**

One last example, but we'll adjust the numbers upward because your friend has a really nice house:

- Starting HELOC amount of $385,000
- Starting interest rate of 5.95%
- $9,800 net income

- $5,000 in additional expenses after housing
= $4,800 in positive cash flow to dedicate to the HELOC each month for principal and interest payments. Note the change in available income to the HELOC.

HELOC

Loan amount:	**$385,000**
Annual interest rate increase:	**1%**
Annual account fee :	**$75.00**
Total interest paid over life of the loan:	**$186,695**
Total monthly payments:	**120**
Total cost including interest:	**$571,695.00**

Just 10 years and they'll pay $186,695 in interest. Sound steep?

30-year Fixed-term Mortgage

Loan amount:	**$385,000**
Annual interest rate (fixed):	**4.25%**
Total interest paid over life of the loan:	**$296,828.69**
Total monthly payments:	**360**
Total cost including interest:	**$681,828.59**

In total, they'd have to pay $681,828.59 on the 30-Year fixed-term mortgage to own their home without needing permission from the bank.

That's a difference of $110,133.69 from the HELOC interest.

But the Interest Rate Will Probably Rise. Isn't That a Problem?

It would be if you only paid the minimum payment each month. But since you have positive cash flow, and you're getting your entire income directly deposited to your HELOC, you'll pay off the loan faster. The interest rate only affects your payment for each day.

Your higher payments do more to drop your total payment than any interest rate ever could.

Look at it this way: your interest rate starts off at 4.25%. Then, every year for 10 years, it goes up a full percentage point. That's crazy. And, believe it or not, it's happened a few times.

Here's a macro-historical Fed interest rate chart

https://www.macrotrends.net/2015/fed-funds-rate-historical-chart

If you follow that link, you'll notice that rising rates tend to correspond to broader economic issues. However, you'll also notice that rates drop again. They don't go from 4.25% to 14.25% and stay there. But, for this exercise, we'll assume they're on the rise the entire time you're paying off your HELOC.

Remember that infographic on page 18? It showed a net income of $9,800 deposited to the HELOC, and $5,000 of monthly expenses going out. **Even if the interest rate rises a percentage point each year, you'll still get the loan paid off in 120 months**. Just 10 years to pay a HELOC balance of $375,000 during a time of rising interest rates. That's incredible.

That's because you're paying the balance down faster. The real problem is your loan balance, not your interest rate. Sounds counterintuitive to everything you've ever been told or sold, but remember – you're wanting something different.

The interest rate can only add cost to the balance amount. **Because it's calculated daily, and your whole paycheck goes in every 2 weeks, your principal shrinks faster than interest rates rise.**

But Isn't a 10-Year Mortgage Better?

If you think that a 10-year mortgage is the most efficient financial product you can get to pay off a home, you're not alone.

HELOC

Loan amount:	**$200,000**
Annual percentage rate:	**5.5%**
Annual interest rate increase:	**0.5%**
Monthly payment :	**$2,304.00**
Total interest paid over life of the loan:	**$76,476.00**
Total monthly payments:	**120**
Total cost including interest:	**$276,476.00**

10-year Fixed-term Mortgage

Loan amount:	**$200,000**
Annual percentage rate (fixed):	**4.5%**
Monthly payment :	**$2,072.77**
Total interest paid over life of the loan:	**$48,732.18**
Total monthly payments:	**120**
Total cost including interest:	**$248,732.18**

It's not looking good for the HELOC, right?

But what if you had the ability to dedicate $2,750 to the HELOC each month? Based on our examples above, if you have more income available as positive cash flow, the HELOC becomes a better financial instrument.

POSITIVE CASH
$2,750

REDUCED MONTHLY PAYMENTS
120-27 = 93

With $2,750 in positive cash, **payoff time now goes to 93 Months.** That's 7 years and 9 months for a few extra hundred dollars a month. **And the faster you can pay it down, the less interest you'll pay.**

You'd also maintain your access to equity, ability to draw money you need, and payment flexibility, **all three of which are not options with the 10-year fixed-rate mortgage.** That fixed mortgage payment will not change even if things in your life do, while the HELOC allows you to make a minimum interest-only payment if you absolutely need to.

Taking those factors into account, if you recognize yourself in this scenario, you have to decide what's most important to you. The good news is that you're probably in a good position either way. Just remind yourself that you want your money to work for you, not sit idly in an account that offers you zero interest savings or benefit.

A HELOC can offer you better results because you maintain access to your income while still using the full amount to pay down the HELOC.

One More Time

Yes. You can use this strategy with your current mortgage.

You can absolutely pay off your home quickly and pay less interest if you put your entire positive cash flow toward your mortgage principal.

But after you mail the check, **you will not have access to your money.** Life happens, and sometimes we need emergency funds.

For that reason alone, even with best intentions, it's nearly impossible to commit to this strategy with a mortgage.

A HELOC lets you use your entire income to pay down your debt, and still gives you the full financial access you need.

HELOC Pros & Cons

Just like everything, a home equity line of credit has positive and negative possibilities. They're all worth considering.

You'll probably end up making your own list of pros and cons as well, just like you would for any big decision. Just remember that the average homeowner will never make a list like this because they won't see an alternative to the typical mortgage. That can be pro number one – you're already more financially flexible because you can see a possibility other than the expected route.

PROS

1. **Flexibility** A low, interest-only payment leaves room for the unexpected. If you have a month where that's all you can pay, so be it. Just don't get in the habit of only paying interest. That would defeat the purpose of using a HELOC like a checking account. You need to leave as much money in there as possible to pay down the balance so you can control your equity.

2. **Simple Interest** Not amortized interest. Check out the infographic on page 6 for a reminder. You can knock down your interest payment each day by leaving all your income in the account.

3. **Lower Up-Front Costs** You won't have to pay mortgage insurance. And your bank will probably not assess lender fees, depending on your state, how large your loan is, and which bank you choose.

4. **Access to Equity** Properly executing this strategy can leave you with thousands or tens or hundreds of thousands of dollars to tap into. You can leverage your equity to build wealth. Buy an investment property. Get a vacation home. Fund your kid's education. And, if you want to go buy that Maserati, go for it. Just make sure you pay off your HELOC first.

HELOC Pros & Cons

We can't talk about the pros of a HELOC without talking about the cons of certain choices you can make.

So here's a list of financial habits that can change a home equity line of credit from an asset to a detriment.

Instead of referring to them as ***"cons,"*** we prefer to call them "***pitfalls."*** Because they're traps you can fall into if you lack discipline.

CONS *(Pitfalls)*

1. **Spending Your Entire Paycheck** If you're in the habit of spending all your net income each month, you won't pay down your HELOC fast enough. This strategy only works for people with a decent-sized positive cash flow. Lack of discipline is a sign you should stick with your mortgage.

2. **Desire to Keep Using Your Checking Account** Don't treat the HELOC like a separate loan. If you split your money up into separate accounts, known as income segregation, it doesn't work for you as well. If you don't replace your checking account with the HELOC, you won't be direct-depositing your whole paycheck to pay down the balance.

3. **Plans to Use the HELOC for Large *(and potentially dumb)* Purchases** Don't go buy a Maserati. Seriously, we know a guy who did … not good. That would remove some of the benefit of using a HELOC instead of a mortgage. You can always buy the car when both your home and the HELOC are fully paid off. Then, your income will truly be free.

How to Choose a HELOC

Okay, so you like the idea of a HELOC.
But there are so many banks out there. And so many different HELOCs with different terms. What should you look for? We recommend that you start with this short list. **Any program that can't deliver all the items on this list can be disqualified because it's not optimal.**

1. **Automation**
   Traditional HELOCs are a very manual process. You get your paycheck direct-deposited to your cash account, then need to transfer it to pay down the HELOC balance. There's a higher possibility for human error.

2. **A HELOC Access Card**
   It's like a credit card, but draws from the HELOC. You can use it to pay any bills you'd normally use your credit card for. It's an element that adds flexibility to your life and enables you to use the HELOC to its full potential.

3. **True Interest-only Payment**
   Interest-only payments enable you to use more of your income to pay down the balance. You don't want to make mandatory payments of interest + a percentage of the balance, or interest + a percentage of the HELOC limit.

4. **Direct Deposit to HELOC**
   Most HELOCs use a sweep account to transfer money into the HELOC. A sweep account is a bank account set up to automatically transfer all funds over a certain dollar amount into another account at the close of business each day.
   Why don't you want that?
   a. Every time your paycheck is deposited, it hits the sweep account
   b. It's transferred at close of business
   c. You lose at least 1 business day of lower interest as a result because of the time it takes the transfer to hit the HELOC

Instead, you want a HELOC that accepts direct deposit. It's a huge benefit.

Consider This:

- If you are perfect at moving money into a sweep account, you still pay higher interest than you should for 24 days every year
- If you aren't perfect at moving money, and miss a day every so often, or forget to before the weekend a couple of times, you pay higher interest than you should at least 45 days every year
- While your money is in transit from the sweep account to the HELOC, you do not have access to it. That could lead to a painful situation.

There aren't many banks that offer direct deposit to HELOC. That feature keeps you in control of your own money, rather than alienating you from it. **We highly recommend making direct deposit a priority.**

Now What?

You've just read a whole load of information about what a HELOC is, reasons to get one, and how to use it to control your equity.

Now you just have to make it work for you. You already know that it can if you're:

- **Cash-flow positive**
- **In good financial standing**
- **Disciplined**
- **Motivated to gain control**

At this point, you can choose to keep paying your mortgage for the next decade or more. You'll pay more interest. But it's safe, predictable, and normal in our economy. Feel free to do so. If you'd rather keep your mortgage, chances are that a HELOC would indeed be the wrong choice for you.

But what if you're undecided?

Spend some time thinking about it. Talk about it with your partner. Look at your finances. Pay attention to how much interest you're blowing your income on each month vs. the amount of principal you're paying down. Take note of how much income you're not spending. Cash-flow positivity is a major indicator that the HELOC approach could work.

And if you know that you're ready to take control of your equity with a HELOC, do it. We're happy to connect you with our preferred lender. Finding the right one can be a time-consuming process. So, we've done the research and gathered background information to find the best HELOCs and save you time. **Our lender's HELOC terms are objectively the most borrower-friendly.**

It's time to get out of debt and gain greater financial flexibility. There's no reason to keep paying interest on a long-term loan. Use a HELOC to free up your earning power so you can invest, save, spend, and build wealth. **This can be the beginning of your family's generational success.**

Go to www.controlyourequity.com for more resources and information about how a HELOC can help you put your entire income to work.