05/03/2007

# How to Cope with Rising HELOC Payments

If you took out a home equity line of credit (HELOC) a couple of years ago, you may have seen your interest rate and monthly payment more than double in that time. That extra payment that used to be a slight pinch in your budget may have turned into a chock hold! Depending on your current financial resources and the level of your personal fiscal discipline, you can take any one of a number of courses at this point to pay off that HELOC loan.

First, if you are really desperate to lower your monthly rate and payment, you could consider applying for a cash-out refinance loan to pay off your original mortgage and the HELOC loan.  This means that if you have a $250,000 original mortgage and a $30,000 equity credit line, then you would take out a new home loan for $280,000 to pay off both loans. You may have to pay a higher rate on the new loan than you were paying on your original mortgage, but the new rate will likely be lower than the rate on your HELOC loan. This helps to make the refinance worth the cost. Plus, instead of making only interest-only payments on that adjustable rate HELOC, you would now be actually paying down the principal balance on the entire loan.

A second option if you are more interested in paying off the loan so that it now longer looms over you is to refinance your adjustable rate HELOC into fixed rate home equity loan.  The interest rate on the new loan will probably be lower than the fluctuating rates you had on the HELOC, but if you were in the habit of making the interest-only payment you should be prepared for an increased monthly payment with a home equity loan. Now you have to start paying back the principal and that unavoidably means paying more each month than you were doing.

You might also consider getting into a hybrid HELOC that allows you to have a fixed rate on some of the balance. For example, you may have a HELOC with an interest rate that may adjust upwards to around 13% or so. If you convert your loan into a hybrid HELOC, you can set the interest rate on part of the balance to a lower rate that will help you lower your payments while still paying off the principal over time.

Finally, if you are feeling the pinch, but do not want the added costs and hassle of refinancing, you may have to go the old-fashioned route of ‘buckling down’ and ‘tightening your belt’ in order to get serious about paying off that HELOC. If you are disciplined individual, you may find that cutting back in some of your other variable expenses may provide you with the needed funds to start paying down the principal and eliminating that HELOC. Of course, it is never fun to restrict your previous lifestyle and standard of living, but after paying off that weighty debt you will be able to go back to it and will probably be able to enjoy it more with less worry.