Claude Loan

Free guide, October 2026 edition

HELOC vs Cash-Out Refinance: Decision Sheet (2026)

Compare a HELOC, a home equity loan and a cash-out refinance on your own numbers: blended rate, total cost, and what each lender can change later.

- Your starting point and combined loan-to-value
- The three tools in one table
- The blended-rate test, with an illustrative example
- A side-by-side table for real quotes
- Right to cancel, what a HELOC lender may change, cash-out conditions, interest deduction
- A decision grid

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Free online: the latest edition of this guide and the plain-English guides behind it are at claude-loan.com/free-guides/heloc-vs-cash-out-refinance-worksheet/.

INTRODUCTION

How to use this guide

You want to turn home equity into cash. Three tools do it: a cash-out refinance, a home equity line of credit (HELOC) and a fixed-rate home equity loan. All three put your home behind the debt. This decision sheet compares them on your numbers: the rate on your current first mortgage, how much you need and when, how long you will carry it, and what each option can change after you sign.

How to use it: fill in chapter 1, then the side-by-side table in chapter 3 with real quotes. Chapter 4 lists the federal rules that differ between the products. All examples are illustrative: the rates in them are not offers.

The rules quoted are those of Regulation Z in force in October 2026 (12 CFR 1026.15, 1026.23 and 1026.40), the Fannie Mae Selling Guide and IRS Publication 936. Section numbers are given so you can read the official text.

> **Important:** Claude Loan is an information publisher, not a lender, broker or tax advisor. Borrowing against your home puts the home at risk if you cannot repay. For free one-to-one help, contact a HUD-approved housing counselor.

PART 1

Your starting point

Line	Your number
Estimated home value	
First mortgage balance	
First mortgage interest rate	
Years left on the first mortgage	
Other liens (second mortgage, existing HELOC)	
Cash you need	
Needed all at once, or in stages?	
Purpose (renovation, debt payoff, tuition, other)	
How many years until you expect to repay or sell	

Your combined loan-to-value (CLTV)

Lenders cap all mortgage balances combined as a share of the home's value. Ask each lender for its own cap and write it here.

Step	Your number
All mortgage balances after the new loan	
Divided by the home value	
= Combined loan-to-value (%)	
Lender's maximum CLTV (ask)	
Maximum new cash at that cap	

PART 2

The three tools in one table

	Cash-out refinance	HELOC	Home equity loan
What it is	A new, larger first mortgage that replaces the old one	A revolving line of credit secured by the home, usually a second lien	A lump-sum second mortgage
Your current first mortgage	Paid off and replaced	Kept	Kept
Rate	Applies to the whole new balance	Usually variable, on the amount drawn	Usually fixed, on the lump sum
Money	All at closing	Draw as needed during the draw period	All at closing
Payments	New schedule on the whole balance	Often interest-only in the draw period, then principal and interest	Principal and interest from the start
Closing costs	Those of a full mortgage	Ask: some lenders charge few, some charge annual fees	Ask
What can change later	Nothing, on a fixed rate	The rate (with the index), and in some cases the credit line	Nothing, on a fixed rate

PART 3

The deciding question: the rate on your first mortgage

If your current first mortgage has a rate below today's, a cash-out refinance reprices your whole balance, not just the new cash. A second lien leaves the first mortgage alone.

Illustrative example

Illustrative numbers only. You owe $300,000 at 3.5% and need $50,000. A cash-out refinance of $350,000 at an illustrative 6.5% reprices all $350,000. A home equity loan of $50,000 at an illustrative 8.5% leaves the $300,000 at 3.5%.

	Cash-out refinance	First mortgage kept + home equity loan
Balance at 3.5%	$0	$300,000
New balance and illustrative rate	$350,000 at 6.5%	$50,000 at 8.5%
Blended rate on $350,000	6.5%	about 4.2%

The blended rate is the weighted average: (300,000 × 3.5% + 50,000 × 8.5%) ÷ 350,000. A refinance tends to make sense when your current rate is at or above what a new first mortgage costs, or when you also want to change the term or drop mortgage insurance.

Your numbers

Line	Cash-out refinance	HELOC	Home equity loan
Lender			
Amount			
Rate (fixed or variable; index + margin for a HELOC)			
Monthly payment now			
Monthly payment after the draw period (HELOC)			
Closing costs and fees			
Annual fee			
Total cost over the years you will carry it			
Blended rate with your first mortgage			

PART 4

Rules that differ between the products

Right to cancel

Both a HELOC and a cash-out refinance of your principal dwelling generally carry a right to rescind until midnight of the third business day after the transaction, the delivery of the rescission notice, or the delivery of all material disclosures, whichever occurs last (12 CFR 1026.15 for open-end lines, 12 CFR 1026.23 for closed-end loans). A refinance by the same lender is exempt, except that the right applies to the extent the new amount financed exceeds the unpaid principal balance, any earned unpaid finance charge and the costs of the refinancing (12 CFR 1026.23(f)(2)).

What a HELOC lender can and cannot change

Under 12 CFR 1026.40(f), a HELOC lender may change the APR only on an index it does not control and that is publicly available. It may terminate the plan and demand full repayment only for listed reasons, such as fraud, failure to meet repayment terms, or action that harms its security. It may freeze or reduce the line during periods listed in the rule, including when the home's value declines significantly below its appraised value for the plan, or when it reasonably believes a material change in your finances will keep you from repaying.

- [ ] I know my HELOC's index and margin: _____
- [ ] I know the rate cap (lifetime maximum): _____
- [ ] I know when the draw period ends: _____
- [ ] I have calculated the payment after the draw period ends

Cash-out conditions (conventional loans)

The Fannie Mae Selling Guide requires, among other conditions, that a first mortgage being paid off be at least 12 months old (note date to note date), and that at least one borrower has been on title for at least six months before disbursement, with exceptions (B2-1.3-03).

Interest deduction

IRS Publication 936 states that you can no longer deduct interest on a loan secured by your home to the extent the proceeds were not used to buy, build or substantially improve your home (IRS Publication 936). Check the current edition and ask a tax professional before counting on a deduction.

PART 5

Your decision

Question	Answer points to
My first-mortgage rate is well below today's rates	HELOC or home equity loan
My first-mortgage rate is at or above today's rates	Cash-out refinance may be worth pricing
I need the money in stages, amount unknown	HELOC
I need one known amount and want a fixed payment	Home equity loan or cash-out refinance
I cannot absorb a payment increase	Fixed-rate option
I want to change my first mortgage's term or drop mortgage insurance anyway	Cash-out refinance

- [ ] I compared at least two quotes for each option I am considering
- [ ] I know the total cost over the years I will carry the debt
- [ ] I know what happens to my payment if rates rise
- [ ] I have a plan to repay, not just a plan to borrow
- [ ] I read the Loan Estimate (closed-end) or the HELOC disclosures before committing

> Using equity to pay off credit cards turns unsecured debt into debt secured by your home. If you are behind on payments, talk to a HUD-approved housing counselor first: hud.gov/findacounselor or 800-569-4287.

NOTES

Sources and notes

Every rule in this guide is quoted with its source as in force on the date of this edition, so you can read the official text yourself. The main sources are:

- eCFR, 12 CFR 1026.40, requirements for home equity plans: https://www.ecfr.gov/current/title-12/chapter-X/part-1026/subpart-E/section-1026.40
- eCFR, 12 CFR 1026.15 and 1026.23, right of rescission: https://www.ecfr.gov/current/title-12/chapter-X/part-1026/subpart-C/section-1026.23
- Fannie Mae Selling Guide B2-1.3-03, cash-out refinance transactions: https://selling-guide.fanniemae.com/sel/b2-1.3-03/cash-out-refinance-transactions
- IRS Publication 936, home mortgage interest deduction: https://www.irs.gov/publications/p936

Numbers in worked examples are either taken from those sources or are assumptions stated as illustrative to show the arithmetic; illustrative interest rates are not offers. No testimonial, review or result in this guide is invented.

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