



Explainer: What is an LOC (line of credit)?

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If you plan to buy rental property – or boost your home's value via renovation – it is important to know your LOC from your LOL.

This nifty line of credit loan may give you reason to 'laugh out loud', but only if your budget-keeping resolve is rock hard.

"Think of it as a giant credit card – no interest is charged until you use it and once you have repaid some debt you can keep re-drawing up to an approved limit," explained Carolyn Sutherland from LNM Finance.

According to Mortgage Choice, just 3.4% of all home loans written in February this year were line of credit loans despite the fact most lenders offer a LOC product.

"Line of credit loans are one of the least popular variable rate mortgages," said Jessica Dambrough from the national mortgage broker.

Read more: [What is an offset account and should you get one?](#)



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So what is a line of credit?

LOC products can offer welcome relief to homeowners, particularly older-age investors who have huge equity locked in their own homes but no way to access it without selling.

An LOC can help investors use their homes' equity to cover the purchase costs of rental homes, or home renovations.

An LOC is usually capped at a maximum of 80% of the secured home's current value.

And while its interest rate is usually higher than a standard variable home loan it is lower than a personal credit card. A line of credit loan has no fixed term.

The freedom of being able to pull a cheeky \$50,000 cash from a mortgagee's home equity 'kitty' is a boon for savvy property investors.

"The benefits of being able to access the equity is that it can be treated like cash and used for investment or other purposes," said Property Mavens director Miriam Sandkuhler.

"Also, when the LOC is used for investment purposes, then tax deductibility benefits may apply."

The biggest shortcoming of a LOC is its effectiveness depends on its user's ability to manage their own money.

Only those with steely financial willpower should apply.

"If you aren't good with debt management or if you want to mix the use of the loan between investment and personal, you may be better off with an interest-only offset account (against your home loan) instead," Sandkuhler advised.

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LOC perks:

- Easy access to funds
- Unlocks equity in your own home
- Lower interest rate than a credit card or personal loan
- No fixed principle repayments

LOC lurks:

- Easy access to funds

"Often if someone has available money in the loan they will spend it" said property investment advisor Andrew Crossley, who personally owns 11 properties.

- Higher interest rate than standard home loans
- Unwise to use without a clear investment strategy and expert financial advice

Read more: [10 tips to get you started in property investment](#)

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