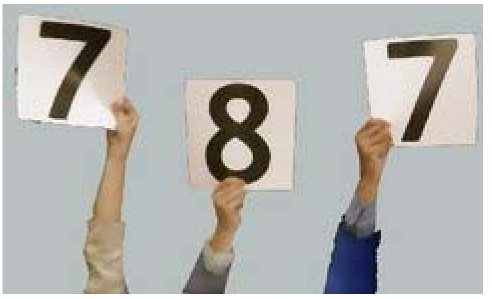
How lowering your available HELOC credit can affect your credit score

by Karin Price Mueller / The Star-Ledger

Tuesday June 09, 2009, 8:00 AM

Q. I'm refinancing my mortgage to 4.75 percent and I have a home equity line of credit, which is not being rolled into the new mortgage.



A nice fat credit score

The HELOC is $100,000, and I have $85,000 out on the loan from home improvements. The lender with the equity line won't give a "subordination agreement," which is needed by the refinancing bank, unless I agree to pay down the credit line to a balance of $60,000 at closing and agree to close the line.

The remaining balance can then be paid under the earlier conditions of the loan. I have the money to pay it, but will this hurt my credit? I have scores in the 720-750 range.

-- *Not sure what to do*

A: Lowering your available credit, which is what this move would do, would negatively impact your credit utilization ratio, but not by much.

One of the factors to be considered is the combined loan-to-value (CLTV), said Jody D'Agostini, a certified financial planner with AXA Advisors/RICH Planning Group in Morristown.

"Before, you would have had an available $100,000 HELOC, which is now reduced to $60,000, so the CLTV is increased," D'Agostini said. "The overall impact may not be too significant, but you need to weigh this against what other options are available to you."

Be sure to shop around, she said, as different lenders may not require this of you and you could secure your current good credit rating.

She suggests you reconsider rolling your HELOC into your new mortgage, but making sure you keep the mortgage at or below $417,000, which is where so-called jumbo mortgages start to kick in with higher interest rates.

Keep in mind you could face other problems if you pay down your HELOC, said Marnie Aznar, a certified financial planner with Aznar Financial Advisors in Morris Plains.

"The potential problem with a consumer paying down a large portion of an existing line of credit is that the bank may decide to either reduce or freeze the existing line," Aznar said. "If you would not qualify for your existing HELOC based on today's home values, if you pay it down, there is certainly a risk of it being frozen or suspended."

Aznar also recommends you make sure if the HELOC is closed, it's reported properly to the credit bureaus so there's no indication that the lender chose to close the line due to your inability or unwillingness to pay.