

## What Is a Home Equity Loan?

### How It Works, When to Use It and What to Watch For

**F**or many homeowners, their house isn't just a place to live — it's also a financial asset. As you build equity over time, you may be able to borrow against it through a home equity loan.

But tapping into your equity isn't a decision to make lightly. Understanding how these loans work — and when they make sense — can help you avoid costly mistakes.

#### HOW A HOME EQUITY LOAN WORKS

A home equity loan allows you to borrow a lump sum of money based on the equity you've built. It's often referred to as a "second mortgage" because it's separate from your primary home loan.

Here's how it works:

- The lender determines your home's current market value
- They subtract what you still owe on your mortgage
- You may be allowed to borrow a percentage of the remaining equity

Most lenders cap borrowing at 80 to 85 percent of your home's value, including your existing mortgage balance.

Unlike a home equity line of credit — which works more like a credit card — a home equity loan typically



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has a fixed interest rate and fixed monthly payments. That predictability makes budgeting easier.

Homeowners often use these loans for:

- Major home renovations
- Debt consolidation
- Medical expenses
- College tuition

Because interest rates are usually lower than credit cards

or personal loans, a home equity loan can be a cost-effective borrowing option.

#### RISKS AND SMART USES

While the lower interest rate can be appealing, remember this — your house secures the loan. If you fall behind on payments, you risk foreclosure.

It's also important to consider the timing. Borrowing against equity during a rising market may seem safe, but if home values decline, you could end up owing more than your home is worth.

Before taking out a home equity loan, ask yourself:

- Is this expense necessary?
- Can I comfortably afford the additional payment?

• Am I using the funds for something that adds value? Using equity to improve your home may increase resale value. Using it for short-term spending may not.

A home equity loan can be a powerful financial tool — but like any tool, it works best when used carefully and strategically.



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### REAL ESTATE 101



### HOMEWISSE GLOSSARY

#### Your Home Is Collateral

A home equity loan is secured by your house. If you fail to repay it, the lender has the right to foreclose.

**Home Equity:** Home equity is the difference between what your home is worth and what you owe on your mortgage. As you pay down your loan — or as your home increases in value — your equity grows.

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