

Home equity loans allow a homeowner to borrow money by pledging the house as collateral. Borrowers who want to borrow a relatively large amount of money or who don't have good credit often find the home equity loan to be attractive.

A home equity loan is a type of second mortgage, not to be confused with a home equity line of credit.

Lenders may be more liberal because they view home equity loans as relatively safe. You can't disappear with your house or hide it if you default on your loan, so the lender has a good chance of collecting the collateral. Also, you are likely to make your payments a priority if your home is on the line.

### Advantages of Home Equity Loans

Home equity loans are attractive to borrowers for a few main reasons: They typically have a lower interest rate (or APR) They are easier to qualify for if you have bad credit Payments on a home equity loan may be tax deductible Borrowers can get relatively large loans with this type of loan

### Common Home Equity Loan Uses

Borrowers use home equity loans for some of life's larger expenses, because homes tend to have a lot of value to borrow against. For example, you find that a lot of borrowers want to Remodel or renovate the house Pay for a family member's college education Finance the purchase of a second home Consolidate high-interest debts

### Pitfalls of Home Equity Loans

Before using a home equity loan for any purpose, you should be aware of the pitfalls of these loans. The main thing is that you can lose your home if you fail to meet the payment schedule required by the loan.

Another common pitfall of home equity loans is that scammers have found plenty of ways to cheat homeowners out of their most valuable asset. Be sure that you know who you're doing business with. If something smells fishy (like a high-pressure sales pitch or an inability to put things in writing), then take a step back and make sure the deal is legitimate.

### How to Find the Best Home Equity Loans

Finding the best home equity loan can save you thousands of dollars – at least. In order to get the best loan, I recommend that you: Shop around. Try a variety of sources (banks, brokers, and credit unions) Manage your credit score and make sure your credit reports are accurate Ask your network of friends and family who they recommend Compare your offers to those found on websites and advertisements

### Additional Home Equity Loan Tips

To make the deal work out in your best interest, make sure that it is the right deal in the first place. Is a home equity loan a better fit for your needs than a simple credit card account? If you're not sure, figure it out before you put your home at risk.

Plan out your budget ahead of time. Make sure that taking the loan will not overburden you.

Review and consider insurance to cover the payments if something happens. You may or may not need insurance. If you're going to include it in your program, try to pay the premiums monthly – not up front.