

2026-4-19

What is a home equity loan and how do you get one?

curr re
to GTK

The Denver Gazette · 19 Apr 2026 · C4 · Bankrate

When you need extra money, a home equity loan can come in handy. But what is a home equity loan exactly? It's a type of second mortgage secured by the equity in your home. It offers a set amount at a fixed interest rate, so it's best for borrowers who know exactly how much money they need. You'll receive the funds in a lump sum, then make regular monthly repayments, amortized over the term of the loan, typically up to 30 years.



Because your home serves as collateral for a home equity loan, the amount you can borrow is based on its current market value. The interest rate you receive on a home equity loan (as with other loans) will vary depending on your lender, credit score, income and other factors.

-Note

While today's home equity loan rates are higher compared to their average of 6% in 2022, they're still significantly lower than other forms of consumer debt. Credit card rates are lingering around the 20% mark, and personal loans can stretch into the 25-35% range for borrowers with less-than-perfect credit scores.

How do home equity loans work?

When you take out a home equity loan, the lender approves you for a loan amount based on the percentage of equity you have in your home (among other factors). You'll receive the loan proceeds in a lump sum, then repay what you borrowed in fixed monthly installments that include principal and interest over a set period. Although terms vary, home equity loans can be repaid over a period of up to 30 years.

(1)

Since your home secures the loan, the property could be foreclosed upon if you can't repay what you borrowed. The lender has a right to seize it to recoup its money. If that happens, it can cause serious damage to your credit score, making it harder for you to qualify for future loans.

"Before getting a home equity loan, make sure you understand all the loan terms, including the interest rates, draw period and any fees and charges," says Linda Bell, senior writer for Bankrate. "It's important to only borrow what you can afford to repay comfortably."

Home equity loan requirements

Different lenders have different requirements for home equity loans, but generally, the standards include:

- Credit score: Mid-600s or higher.
- Home equity: At least 20% of the home's value.
- Employment and income: At least two years of employment history and pay stubs from the past 30 days.
- Debt-to-income (DTI) ratio: No more than 43%.
- Loan-to-value (LTV) ratio: No more than 80%.

If you fall short in any of these areas, your chances of approval decrease significantly. And times are getting tougher for borrowing in general. Nearly half

(48%) of Americans who applied for a loan or financial product between December 2023 and December 2024 were turned down, including the (4%) who were home equity loan and HELOC applicants, according to Bankrate's latest Credit Denials Survey.

Home equity loans in 2026

As of January, the median home sale price was \$396,800, according to the National Association of Realtors, up slightly from one year earlier and marking the 31st consecutive month of year-over-year price increases. That's good news for the net worth of American homeowners who are seeking to tap their home equity. According to the Board of Governors of the Federal Reserve System, U.S. households possessed over \$34.3 trillion in home equity in the third quarter of 2025. *Note*

That means many homeowners are sitting on a huge pile of equity they can leverage to access cash, including through a home equity loan. In the third quarter of 2025, the average mortgage-holding homeowner held around \$299,000 in home equity, according to property data analyst Cotality. Around \$239,000 of that is tappable (that is, able to be withdrawn while leaving 20% of the equity stake intact).

Adding to the temptation to tap: Borrowing costs for home equity loan rates — along with those of HELOCs, their line-of-credit cousins — have plummeted to a two-year low following a trio of rate cuts by the Federal Reserve in 2025.

Per TransUnion's latest report, home equity originations grew for the fifth consecutive quarter, rising 14% yearover-year as of Q2 2025. While Gen X and Boomers lead in total volume, Gen Z saw the most rapid growth with home equity loans rising 23%.

What should you use a home equity loan for?

You can use the funds from a home equity loan for any purpose. Some of the best reasons to use one include:

- Upgrading your home: Whether you're looking to remodel your kitchen, add an in-law suite or install solar shingles on your roof, a home equity loan can be a smart way to pay for the enhancements. You'll be improving your home, which means you'll enjoy living there more, and when you're ready to sell, the

upgrade can make it more attractive (and more valuable) to buyers. Plus, you can qualify for some tax benefits — a deduction on the interest — when you use a loan to invest in the property in this way.

- Consolidating high-interest debt: If you've been struggling to pay off debts with high costs like credit cards, a home equity loan can reduce the amount you pay in interest. However, if you're considering this route, there are two important caveats. First, you need to be genuinely committed to not letting those credit card balances build up again. Second, the amount of debt needs to be significant. Credit card balance transfers can be a better option if you're aiming to pay off less than \$10,000.

- Covering large medical bills: Health care can be costly, and medical problems often arise unexpectedly. If you or a family member needs a procedure, treatment or long-term care that isn't fully covered by insurance, a home equity loan could be a good way to handle these healthcare costs.

How much can I borrow with a home equity loan?

To figure out how much you can borrow with a home equity loan, you first need to understand how much home equity you have. Your equity is the difference between how much your home is worth and how much you owe on your first mortgage. For example, if your home's current fair market value is \$500,000 and you owe \$250,000, you have a 50% equity stake.

Most lenders will let you borrow up to 80% of your equity stake (some let you go as high as 85 or even 90%). However, most home equity loan lenders will cap your total amount of home-secured debt — including your first mortgage — at 80% of the home's market value. So, in that case, you would likely be able to borrow up to \$150,000, taking your total mortgage debt to \$400,000 (80% of \$500,000).

Bankrate's home equity calculator can help you estimate your exact borrowing power.

Tips to get the best loan rates

Here are some practical ways to boost your chances of getting approved for a home equity loan:

- Improve your credit: Home equity borrowers generally need better-than-average credit. You can improve your score by reducing your debt, paying bills on time and fixing errors on your credit report.

- Increase your equity stake: "Equity-rich" borrowers, who own more than 50 percent of their homes outright, make the strongest candidates. Increase your home equity stake by making extra mortgage payments and investing in renovations that enhance your home's value. The more equity you have, the lower the lender's risk.

- Pay down debt: Lower your debt-to-income ratio (DTI) by paying down your outstanding balances — try not to use more than about one-third of your available credit on any card. A lower DTI shows lenders you have a good balance between income and expenses, and that you can handle an additional monthly obligation.

- Shop around: Compare home equity loan terms and rates with at least three banks, credit unions or online lenders. Each lender has different criteria, so it's best to shop around. Don't be afraid to ask for a better deal. The worst they can say is no.

Home equity loan pros and cons Pros

- Attractive interest rates: Home equity lenders typically charge lower interest rates than those on personal loans and credit cards. This is because home equity loans are secured debt, meaning your home serves as collateral for the loan. This makes them less risky for the lender than unsecured debt, which isn't collateralized.

- Fixed monthly payments: Home equity loans offer the stability of a fixed interest rate and monthly payment, simplifying budgeting. This also eliminates the risk of a sudden increase in costs with a variable-rate product, such as a credit card or a home equity line of credit (HELOC).
- Tax advantages: You could be eligible for a tax deduction of the loan interest if you use the loan proceeds to substantially improve or repair the home. Check with an accountant or tax professional to learn more about this deduction and to determine whether you qualify.

Cons

- Risk of foreclosure: Your home is the collateral for a home equity loan, so if you can't repay the debt, your lender could initiate foreclosure proceedings.
- No flexibility: If you aren't sure how much money you need to borrow, a home equity loan might not be the best choice. Because home equity loans only offer a fixed lump sum, you run the risk of borrowing too little. On the flip side, you might borrow too much, which you'll still need to repay with interest (though you might be able to settle the debt early, if that's the case).
- Lengthy, costly application: Applying for a home equity loan is akin to applying for a mortgage. It often means lots of paperwork, a long process and closing costs.

Home equity loan alternatives

A home equity loan isn't your only option for borrowing against your ownership stake. Some alternatives include:

- Home equity line of credit (HELOC): A HELOC — short for home equity line of credit — is also secured by the equity in your home and has similar requirements, but it operates a bit differently. With a HELOC, you can borrow money on an as-needed basis, up to a set limit, typically over a 10-year draw period. During that time, you'll make interest-only payments on what you borrow. This means your payments may be smaller than those for a home equity loan, which includes both interest and principal. When the draw period on the HELOC ends, you'll repay what you borrowed and any interest, usually over a repayment term of up to 20 years. Unlike home equity loans, HELOCs have variable interest rates, which means your monthly payments can change.
- Shared equity agreements: Investment companies like Unlock and Hometap offer shared equity agreements, which let homeowners access cash now in exchange for a portion of the home's value in the future. These arrangements vary, but they all have one upside: You don't have to make monthly payments, because the money is technically not a loan, but an investment — funds in exchange for a share in your home. However, they all have the same downside: You're going to make a big payment eventually, and it's likely to come out of the proceeds when you sell the home.
- Cash-out refinance: Another option to convert a portion of your home equity into cash is a cash-out refinance. Unlike a home equity loan, a cash-out refi replaces your current mortgage with a new one for a higher amount, and you take the difference in cash. You'll need to carefully consider a cash-out refi based on the rate on your current mortgage. If you managed to lock in a super-low rate during the pandemic, a cash-out refinance is almost certain to lock you into a significantly higher rate.

Frequently asked questions

- Does taking out a home equity loan hurt your credit? Applying for and receiving any new debt, including a home equity loan, has an impact on your credit score. After you close on a home equity

loan, your score might decrease temporarily. Over time, as you continue to make timely payments on the loan, you might see your score recover and even improve.

- How long do you have to repay a home equity loan? It varies by lender, but most home equity loans come with repayment periods between five and 30 years. A longer loan term means you'll get more affordable monthly payments. That said, you'll also pay far more in interest with a longer term. If you can afford the higher monthly payments, selecting a shorter term maximizes overall cost. The ideal is to find a compromise between the two: the maximum manageable payments and the shortest loan term.

- Are there fees associated with home equity loans? Fees for home equity loans vary by lender, which makes it very important to compare offers. Some home equity lenders require you to pay an origination fee and other closing costs, typically between 2% and 5% of the loan balance. You might also pay a home appraisal fee. Once the loan proceeds are disbursed to you, late fees could apply if you remit payment after the monthly due date or grace period (if applicable).

- What is the best time to get a home equity loan? The best time to obtain a home equity loan is when you have accrued significant equity in your property while also maintaining a small mortgage balance, a strong credit score and a low debt-to-income ratio. Although most lenders require that you have at least 20% equity, there is typically no waiting period to apply for a home equity loan after purchasing a home.

