



## How Does Home Equity Work?

If you're looking at purchasing a home, you've probably seen the phrase "home equity." While it may seem like common knowledge, many do not fully understand what home equity is. However, knowing about home equity and how it works is an essential part of purchasing a home and being financially responsible. So how does home equity work?

Put simply, home equity is the portion of your home that you have paid off. An easy way to think about it is as the appraised value of your home minus what you owe on it. Typically, home equity builds as you make your mortgage payments. Because it is such a valuable asset, it can be used for [home equity loans or line of credit](#).

### Home Equity Line Of Credit

With how home equity work is covered, let's move onto what a home equity line of credit (HELOC) is. A home equity line of credit is when you use your home equity as collateral. The amount of credit you qualify for depends on the value of your home and your amount of home equity.

Since they are tied to a valuable real-life asset (your home), a home equity line of credit tends to result in high credit limits and lower rates. They work in tandem with how home equity works. At the same time however, they introduce the risk of losing your home should you be unable to pay back the home equity line of credit.

### Best HELOC Loans

Now that we know how home equity works and HELOCs tie in to home equity, let's look at the best HELOC loans. When looking for the best HELOC loans, there are [many things to consider](#).

For example, always check how long the initial HELOC rate lasts. Many lenders will offer a low starting rate that later increases, resulting in a more expensive HELOC. Another thing to look out for are rate caps. Many HELOC loans have a maximum rate cap, which can be a huge life-saver when interest rates are rising. It's also important to keep in mind how does home equity works, as your equity will have a big impact on your HELOC loans.

### Home Equity Loan

Similar to HELOC loans, a home equity loan involves using your home equity as collateral to secure a loan. However, they also differ in what they offer to homeowners.

Home equity loans, unlike HELOC loans, have fixed rates. If you get a home equity loan, you will get the loan as a single lump sum. Once you get the loan, you start paying at a fixed interest

rate until the loan is paid off. Again, how home equity works is important since your loan amount is tied to the [value of your home](#).

Like HELOC loans, a home equity loan opens you up to the possibility of losing your home should you not be able to make the payments. Still, they can be a valuable resource for homeowners with an immediate need for a large amount of money, such as necessary home improvements or medical bills.

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Now that you understand how home equity works, as well as what options a home equity loan or a home equity line of credit, you should be able to make a more informed decision about your own home equity.

Remember that using a home equity line of credit or HELOC opens you up to the potential of losing your home if you cannot afford the payments. While they can be a great resource depending on the situation, they can also be a risky decision, especially if you do not understand how home equity works.

Before making any big financial decisions, it is recommended that you speak with qualified and trustworthy financial professionals. If you need help with your home equity, consider [reaching out](#) to Golden Eagle Mortgage Group. We are experienced and ready to help you with all your mortgage needs, so get in touch with us today.