A home equity loan is a form of loan which uses the equity of a home as collateral. Borrowers typically use these loans as a means of covering critical expenses. These can include tuition costs and out-of-pocket medical bills.

With so many uses comes the possibility of risk. Since this loan type depletes a home's built-up equity, there will be nothing left if needed again in the near-future, especially if the borrower delays repayment. In these situations, the bank is well within its right to take ownership of the home, and sell it to cover the remaining debt. This process is called foreclosure, and the borrower can lose his or her home in the process.

All told, home equity loans have equal capacity to be wonderful or devastating. Should the need outweigh the risk, in this instance, then there are eight things you should know before taking out a home equity loan:

- Types of interest rates
- Types of home equity loans
- Loan terms
- Loan-to-value
- Maximum loan size
- Home equity loan fees
- CFPB Complaints

1. Types of Interest Rates

Interest rates can come in two forms — fixed or variable. In the case of fixed interest loans, the rate will not fluctuate for the duration of the loan term. This is good for borrowers who prefer predictable payments. Variable interest rates, on the other hand, alter with the market. While a gamble, variable interest rates can average lower than those that are fixed.

2. Types of Home Equity Loans

Home equity loans come in two variants — as loans or as lines of credit. Both come from the same idea of using home equity as a form of collateral. The difference comes in how the money is loaned by the bank. In the case of home equity loans, the borrower is given a large sum, which is paid off over a long period of time. Home equity lines of credit, on the other hand, operates like a credit card, in that the money is used, paid off, and then borrowed again as needed on a short-term basis.

3. Loan Terms

The term of a loan refers to the duration of time the borrower will take to pay back the loan. Typically, loans come with either 15 or 30 year terms. Comparatively, 15 years loans will have lower interest rates, but higher monthly payments.

4. Loan-to-Value Ratio

The loan-to-value ratio (LTV) refers to the proportion between the size of the loan and the equity in the borrow's home. For instance, if a $200,000 loan is granted against a million dollars in home equity, then the LTV ratio would be 20%.

5. Maximum Loan Size

Generally speaking, lenders will cap home equity loans at a maximum loan size of 80% of the home’s value, minus what is still still owed from the first or second mortgage. In practice, if a home is worth $500,000, then $400,000 can be tapped for a home equity loan. That said, if $300,000 is still owed via mortgage, then that’s subtracted from the maximum loan size, making it $100,000.

6. Home Equity Loan Fees

By the conclusion of taking out a home equity loan, most financial institutions will charge fees for their ‘services’ to you. Among others, these services can include application processing, house appraisal and legal fees. Formally manifested as closing and origination fees, these additional costs usually total between three and six percent of the loan amount.

7. CFPB Complaints

The Consumer Financial Protection Bureau (CFPB) is a government agency meant to protect the average consumer from fraud, malfeasance, or other predatory practices in the financial sector. Should a consumer find the products or services of a given company suspicious, they can report their experiences on the CFPB’s consumer complaint database.

In the event that all questions have been answered, then you’re ready to begin looking into banks and lenders. For options and company specifics, then our list of the top 10 home equity lenders would be an excellent place to get started.