



Home Equity Loan: Your House as Collateral for a Loan

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In Italian culture, owning a property has always represented a milestone and a form of security. But what if this asset, traditionally seen as an end goal, could become a starting point for new projects? The **home equity loan** is the financial tool that makes this transformation possible, allowing you to use your home's value to get a loan. It's an innovative solution that unlocks the economic potential of "brick and mortar," turning it from a static asset into a dynamic resource for fulfilling dreams, handling unexpected events, or consolidating your financial position.

This type of financing is aimed at property owners who need a substantial sum of money without having to tie it to a specific purpose, like buying another house. Whether it's for starting a business, funding children's education, covering major medical expenses, or simply managing finances better, a home equity loan offers considerable flexibility. In this article, we will explore in detail how it works, what its advantages are, and what to watch out for, to fully understand how the tradition of homeownership can meet financial innovation.

What a Home Equity Loan Is and How It Works

A home equity loan is a mortgage loan that allows you to obtain a sum of money by using a property you own as collateral. Unlike a traditional mortgage, which is for purchasing or renovating a home, the funds obtained through this method have no restrictions on their use. The applicant can therefore use the

cash received for a wide variety of personal and family needs, without having to provide the bank with proof of expenses.

The process is similar to any other mortgage. When you apply, the bank evaluates two main elements: the **value of the property** offered as collateral and the applicant's **creditworthiness**. The property must be owned by the applicant and, ideally, be free of other liens. Once the application is approved, the bank places a lien on the property and disburses the agreed-upon sum. Repayment is made through periodic installments, consisting of a principal portion and an interest portion, according to a predetermined amortization schedule.

The Advantages of Using Your Home as Collateral

The main advantage of a home equity loan lies in the ability to access **significantly larger amounts** than what you could get with a personal loan. Since the bank protects itself with a mortgage lien, a very solid form of real collateral, it is willing to grant larger sums, which can be up to 70% of the property's value. This makes it ideal for projects that require substantial capital.

Another benefit relates to the loan's terms. Generally, they have [more competitive interest rates](#) compared to unsecured loans. The presence of the lien reduces the risk for the lending institution, which can then offer more favorable conditions. Additionally, the repayment period is much longer, potentially extending up to 20 or 30 years, which translates into **lower, more manageable monthly payments** compared to loans with shorter terms.

Requirements and Necessary Documents

To apply for a home equity loan, the fundamental requirement is to be the **owner of a residential property**. This property must be free of previous liens or, in some cases, have a very low remaining mortgage balance. The bank will also carefully evaluate the applicant's income and financial situation, who must demonstrate a stable and reliable repayment capacity. It is essential not to be listed as a "bad payer" in credit reporting agencies. An age limit is also set, which usually must not exceed 75-80 years at the end of the amortization plan.

The documentation to be submitted is similar to that for a purchase mortgage and includes personal identification (ID card, social security number), income documents (pay stubs, tax returns), and documents related to the property (deed, title report, and floor plan). A crucial step in the underwriting process is the [property appraisal](#), carried out by a technician appointed by the bank to determine the property's market value, which will dictate the maximum loan amount.

Calculating the Loan Amount and Associated Costs

The maximum amount you can get with a home equity loan is directly proportional to the value of the property offered as collateral. Banks use a parameter called *Loan to Value* (LTV), which for this type of financing is typically **between 50% and 70%** of the property's appraised value. For example, for a house valued at €200,000, you could get between €100,000 and €140,000 in cash. The minimum loan amount is usually around €30,000.

In addition to the interest on the principal, you need to consider a series of associated costs. Initial expenses include **underwriting fees** for processing the application, **appraisal fees** for valuing the property, and the **notary's fee** for drafting the mortgage deed and recording the lien. Added to these are the substitute tax, calculated as a percentage of the loan amount, and the cost of the [mandatory fire and hazard insurance](#) on the property, required by law to protect the mortgaged asset.

Home Equity Loan vs. Personal Loan: Which to Choose?

The choice between a home equity loan and a personal loan mainly depends on the **amount needed** and your **financial situation**. A home equity loan is the right solution when you need a large sum, over €30,000-€50,000, and you own a property to use as collateral. It offers the advantage of lower interest rates and longer repayment plans, which lighten the burden of the monthly payment.

A personal loan, on the other hand, is more suitable for smaller, immediate cash needs. The process to get one is faster and the initial costs are almost nil, as no appraisal or notary deed is required. However, the amounts are limited, the term is shorter, and the interest rates are generally higher, as it is not backed by real collateral like a mortgage lien. The main risk of a home equity loan is tied to the property: in case of default, the bank can initiate foreclosure proceedings on the house.

A Bridge Between Tradition and Financial Innovation

In Mediterranean culture, and particularly in Italy, a family home is more than just a material asset: it's a symbol of stability, a legacy built through sacrifice, and an inheritance for future generations. The idea of "using" the house to get money can seem, from a traditional perspective, almost contradictory. However, a home equity loan represents an **intelligent evolution** of this concept, turning "frozen" capital into a financial lever for personal and family growth.

This financial solution builds a bridge between the value of *tradition* (owning the ultimate safe-haven asset) and the opportunities of *innovation*. It allows you to finance important life projects, like starting a business, or manage complex situations, such as [consolidating existing debts](#) into a single, more manageable payment. In this way, the value of the home is not just protected but is actively put to work for the well-being and ambitions of its owners.

Alternatives and Related Solutions

Besides a "pure" home equity loan, there are other financial solutions for property owners seeking additional funds. One of the most common is a **cash-out refinance**. This option is designed for those who already have a mortgage: the old loan is paid off and a new, larger one is taken out, thus providing the desired extra cash. It's a practical solution for those who want to renegotiate their mortgage terms while also getting new liquidity.

Another alternative, aimed at a specific demographic, is the **reverse mortgage**. This product is reserved for homeowners over 60 and allows them to get a sum of money without having to make any monthly payments for the

rest of their lives. The debt, including principal and interest, will be settled by the heirs, who can choose to pay off the loan, sell the property, or turn it over to the bank. It's a formula that allows homeowners to monetize their home's value to supplement their pension or cover expenses while retaining ownership.

Conclusion

A home equity loan is a powerful and versatile financial tool, capable of turning a property's value into a concrete opportunity to achieve life goals. It offers undeniable advantages, such as access to large amounts of capital, competitive interest rates, and long amortization plans that make payments manageable. It represents a meeting point between the traditional concept of the home as a safe haven and a more modern, dynamic view of real estate assets.

However, it is a major financial decision that should not be taken lightly. The lien on the property is real collateral for the bank and a significant risk for the borrower in case of repayment difficulties. Before proceeding, it is essential to soberly analyze your financial situation, carefully compare offers from different banks, and assess whether the benefits outweigh the costs and risks. When used wisely, a home equity loan can truly be the key to unlocking your home's potential and building the future you desire.

Frequently Asked Questions

What is the maximum amount I can get with a home equity loan?

The maximum amount you can get with a home equity loan depends mainly on the value of the property you offer as collateral. Generally, banks will finance up to 70% of the property's market value, as determined by an appraisal. For self-employed individuals, this percentage might drop to 50%. The disbursed amount can range from a minimum of around €30,000 up to a maximum that can reach €250,000 or even €500,000, depending on the bank's policies and the applicant's financial strength.

Can I get a home equity loan without a salaried job?

Yes, self-employed individuals, freelancers, or those with a VAT number (Partita IVA) can also apply for a home equity loan. However, the bank's evaluation process is generally more rigorous. Unlike a salaried employee, a self-employed person must demonstrate the stability and continuity of their earnings, often by submitting tax documents from the last few years, such as the Modello Unico, and bank statements. The bank will more carefully assess the business's history to ensure the applicant's ability to repay.

What are the initial costs for a home equity loan?

Taking out a home equity loan involves a series of initial costs, similar to those for a purchase mortgage. The main expenses include: the bank's underwriting fees, which can range from 0.5% to 2% of the loan amount; the cost of the technical appraisal of the property (usually between €200 and €300 plus VAT and contributions); the notary's fee for drafting the mortgage deed and recording the lien; the substitute tax; and the premiums for mandatory insurance policies, such as fire and hazard insurance.

What happens if I can't make the mortgage payments?

Failure to pay the installments on a home equity loan has serious consequences, as the loan is secured by a lien on your house. In case of a late payment, the bank first applies late fees. If the default continues, the debtor's name is reported to Credit Information Systems (SIC), such as CRIF, making it very difficult to obtain future financing. In cases of serious and prolonged delinquency (for example, after missing 18 consecutive payments for mortgages taken out since 2016), the bank can initiate legal proceedings for foreclosure and the subsequent auction of the property to recover the debt.

Can I sell my house if I have an active home equity loan?

Yes, you can sell a house even if it has a lien from a home equity loan. Being the owner of the property gives you the right to sell it at any time. The most common solution is to pay off the remaining debt at the time of the sale closing (rogito), using part of the sale proceeds to settle the loan with the bank. Once the debt is paid off, the bank will proceed with releasing the lien, freeing the property from any encumbrances for the new owner.