



# THE HOME EQUITY PLAYBOOK

## WHAT IS HOME EQUITY?

Home equity seems to be a very simple calculation—the total amount of mortgages owed subtracted from the current market value of a home. One side of the equation is well defined and it is found on the monthly mortgage statement, the loan balance, the other side is less obvious—the current market value of the property.

As a homeowner, your down payment purchases your initial equity and your monthly (or additional) principal payments increase your equity. In strong real estate markets and in-demand locations, equity can increase quite rapidly as the property value increases, but the inverse can also happen—too much available inventory and market down-cycles can lead to falling home values and a reduction in homeowner equity.

HERE IS A SIMPLE EXAMPLE:

<b>Current Home Market Value</b>	<b>\$325,000</b>
<b>Minus Existing Mortgages</b>	<b>\$225,000</b>

<b>Homeowner Equity</b>	<b>\$100,000</b>
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## Creating Value is in Your Hands

Maintaining the condition of a home is vitally important to retaining and increasing value. Homes are judged against their peers—how do they compare to similar homes in the neighborhood. Another way to retain value is to not over upgrade, since it is rare to ever recoup the money spent if you exceed neighborhood value. Keep up the landscaping and do the little things to add curb appeal.

## Putting Home Equity to Work

Home equity represents the largest single asset of millions of Americans, and because it represents so much of an individual's net worth, it must be treated with respect. Home equity is not a liquid asset until a property is sold, or it is borrowed against.

### Home Equity Loan

Many home equity plans set a fixed period during which the person can borrow money, such as 10 years. At the end of this "draw period," the person may be allowed to renew the credit line. A home equity loan, sometimes called a second mortgage, usually has a fixed rate and a set time to pay it back, generally with equal monthly payments.

### Home Equity Line of Credit

A home equity line of credit is similar to a credit card. The lender sets a maximum amount you can borrow, and you can draw money as you need it, though many home equity lines of credit require an initial draw. The interest rate varies daily, and is usually prime plus a set number, but the required payment is usually interest only.

## How Much Equity can be Accessed?

Since the financial institution is lending money and using a home as collateral, they will not lend 100% of equity. Most banks will allow a qualified homeowner to borrow approximately 80% of their equity.

### It's Important to use Your Home Equity Wisely.

Because it is likely the biggest asset most people have, losing your home equity is hard to overcome. It must be used in prudent ways and the payments against the loan must be the loan payment is only acceptable for a short-term solution.

There are number of good reasons to use money from a home equity loan and some really bad ones.

### 1. Invest in Your Home

The best way to use the money is create more equity in the home. Among the very best returns on your investment (ROI) include kitchen and bathroom remodels, adding square footage or an extra bath, enhancing curb appeal and repairing/keeping the existing structure sound. Making prudent investments in your home is a wonderful win-win, you enjoy the upgrades and they can add value to the home.

### 2. Invest in your Children's Education.

Using your home equity to finance a child's higher education may be the greatest pay off of all. Not only is the rate much lower than a student loan, it is an investment in the child's future.

### 3. Supplement Retirement Needs.

Older homeowners spent their working lives paying down their mortgage. At retirement, when monthly income is reduced, a home equity loan could pay

for a dream vacation or an unexpected major expense.

## 4. Augment the Impending Sale of a Home

If you're planning to sell soon, a home equity line of credit may be the best way to finance improvements, and you can pay it off entirely when you sell. Investing wisely on upgrades and repairs may even reap a profit on your investment.

### Some Not Very Wise Choices

On the flip side, adding luxury amenities like a swimming pool, hot spa, lavish landscaping, expensive appliances and exotic countertops and flooring rarely pay off.

Purchasing a car or boat or most any personal luxury items is a poor use of the funds, since these quickly depreciate in value.

Also stay away from using money on risk-heavy investments. Financing stock purchases, start-up businesses and paying routine bills is not smart. If one cannot afford to purchase those items with available funds, using equity from your home means they should not be in your budget.

### Treat a home equity loan as an investment and not as extra cash when making financial decisions.

If your intended use of the money doesn't pay you back in some way, it's not the best use of your valuable equity.

### We are Happy to Assist You

if you would like an assessment of the market value of your home and the current equity you can access, give us a call for a comparative market analysis.

