



Understanding and Utilizing Home Equity

One of the greatest benefits of home ownership (besides owning your own home!), is the equity that you build.

What is home equity?

Your home equity is the value of your property LESS the remaining balance on your mortgage. For instance, if you have a homeworth \$800,000 and you still owe \$350,000 on your mortgage, then your home equity would be\$450,000.

What is home equity used for?

One of the biggest questions is, what do you DO with all that equity?! Here are three main reasons that individuals tap intotheir home equity:

1. To pay for home renovations

When using home equity for home renovation projects, you have two options. The first is utilizing a home equity credit line. With this, you would only pay interest on the amount you borrow and, as you payit down, you can re-up theborrow limit. This is ideal for projects that have a drawn-out timeline or are smaller in nature.

Alternatively,if you need a lump sum for a large supply purchase, you can utilize a fixed-rate mortgage or loan component with lower interest rates and payments.

2. To purchase a second property

If you're looking into using your home equity to purchase a second property for vacation or rental, your home equity can assist in paying your down payment and reducing (or eliminating!) theoverall second mortgage. Using your home equity for your down payment will allow you more flexibility with repaying.

3. To make a large purchase (such as a new vehicle or child's education)

When utilizing equity for this reason, you have

multiple choices for getting those funds such as a home equity loan, a home equity line of credit (HELOC), or cash-out refinancing.

Pros and cons of utilizing home equity

PROS	CONS
You only have to apply once! You will not need to requalify to borrow more, as long as thetotal value does not exceed the original lending limit	Potential legal, administrative and appraisal fees depending on whether you are refinancing, registering a new mortgage, etc.
You'll get a lower interest rate as borrowing against your home equity isless risk for lenders	Be aware of potential decreases in property value as you could find yourself owing more than your home is worth if you max outyour home equity usage and have to sell
No restrictions on the funds (can use for any purpose such as large purchases, schooling, vacation properties, renovations, etc.)	Serial borrowing can become a bad habit if you're not careful about when and how you utilize your home equity funds
Potential tax deduction benefits if you borrow against your home equityto invest	Your home secures your borrowing can benefit you by reducing interest rates, but be mindful your home is the collateral

Before utilizing your home equity, it is always important to reach out directly to discuss the impacts on your finances andmortgage product. Contact me today to get started!

