

OPEN THE HOUSE

# HOME WEALTH PLAYBOOK



Homeownership is more than just having a place to live—it's a powerful way to build wealth and create a lasting legacy.

Whether you're a new homeowner or have owned a home for years, this guide will provide you with essential information, including ideas to help you **build and leverage equity** while ensuring your investment is secure for the future.

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# Understanding home equity

Home equity is the portion of your home that you actually own. More specifically, it's the difference between your home's current market value and the amount you still owe on your mortgage. It includes any down payment you made, the portion of mortgage payments made against your principal, and any appreciation on the value of your home.

## 1 Why it matters

- **Wealth building:**

Home equity can be a strategy for building wealth, as it allows you to own an increasingly valuable asset over time. For many people, it's a significant part of their net worth, accounting for nearly a third of household wealth, almost equal to retirement savings, according to the U.S. Census Bureau.

- **Source of funds:**

You have the option to borrow against your equity for home improvements, college tuition, or consolidating debt.

- **Flexibility for future moves:**

When moving or upgrading, home equity can contribute to the purchase of a new home.

- **Generational wealth:**

Equity in a home is a tangible asset that can be passed on to future generations.



## 2 How home equity increases

- **Making mortgage payments**

When you make mortgage payments, your equity stake increases as you pay down the principal.

**TIP**

Any extra payments on top of your monthly mortgage go directly toward your principal, reducing long-term interest and helping build equity faster.

- **Market appreciation**

Home values can increase in healthy housing market conditions. How much equity you gain can depend on many factors, including timing, location, property type, interest rates, and home improvements.

**TIP**

Some experts recommend “the five-year rule”—the minimum window of time to live in a home and build enough equity to recoup initial purchase costs if you decide to sell.

- **Home improvements**

Improvements that enhance functionality, quality, and appeal can significantly impact a home's value, increasing your equity stake. Some features that may positively impact your home's value include updated kitchens and bathrooms, hardwood flooring, extra storage, finished basements, and modern heating/cooling systems.

## Calculating your home equity

Having a general idea of your home's value helps you assess your home equity to make informed decisions. Here's how to calculate it:

### 1 Determine the estimated value of your home

- **Real estate websites** such as Zillow or Realtor.com offer online estimators using public data and custom algorithms to provide estimated home values and general pricing trends. Each has proprietary methods for estimating value, so results can vary across sites.
- **Public records** of recent home sales can help you estimate your home's value by comparing it to similar properties. They're usually available on your county auditor's website or through your state tax department.
- **Mortgage lenders** often provide borrowers with an automated estimate of their home equity or tools to help them calculate it.
- **Real estate agents** have access to tools for assessing property value that are not available to the general public.
- **Home appraisals** are commonly part of the mortgage process, but homeowners can hire a licensed appraiser at any time to evaluate their property's value.

#### TIP

Planning to use your home's equity through a loan or home equity line of credit? Most lenders will require a home appraisal or another type of valuation. If an appraisal is needed, our [home appraisal help](#) offers tools and tips to help you prepare and present your home at its best.



### 2 Determine your loan payoff amount

Contact your mortgage lender or go to their online platform to get your loan payoff amount, also called an estimated settlement statement. Your loan payoff includes interest up to your estimated closing date and is different than the loan balance on your monthly statement.



### 3 Calculate your home equity

**ACTION** Drop in your estimates to see how much value you've built through your home.

\$	-		=	\$
Estimated value of home		Loan payoff amount		Estimated home equity

#### REMEMBER

Your home equity is not the same as the profit you'll receive when you sell. At closing, you'll pay closing costs, which will be deducted from your equity.

## Leveraging home equity

Once you've built home equity, there are several options for accessing it outside of selling your home, including a home equity loan, a home equity line of credit (HELOC), and cash-out refinancing.

### OPTION 1

## Home equity loan

#### DEFINITION

A lump sum loan against your current home equity, paid back in fixed installments at a fixed interest rate. Typically, no more than 80% of your home's equity. May include origination fees.

#### OFTEN USED FOR

Large, one-time expenses like renovations, consolidating debt, or paying for tuition.

### OPTION 2

## HELOC

#### DEFINITION

A revolving line of credit that provides more flexibility. You borrow only what you need, pay it off, and can then borrow again, similar to a credit card. Variable interest rates can increase.

#### OFTEN USED FOR

Ongoing or variable expenses like phased home improvements or medical bills.

### OPTION 3

## Cash-out refinancing

#### DEFINITION

Replaces your existing mortgage with a larger one, using the difference as cash. Resets mortgage term and may include closing costs.

#### OFTEN USED FOR

Refinancing for better rates while accessing equity.

#### BEFORE CHOOSING ANY OF THESE OPTIONS

Take the time to consider your individual needs, your long-term financial goals, and a repayment plan. You may also consider consulting with a financial professional.

**PROGRESSIVE**

**CONGRATULATIONS**  
on starting your path to prosperity!

*Please note: Whether and how you choose to build home equity, and whether and how much of that home equity you choose to access, is ultimately your decision. This tool is intended to assist in that decision-making process, but neither its applicability to your individual circumstances nor successful outcomes are guaranteed. You may want to consult your own financial, legal, or real estate advisors regarding your particular circumstances.*