How To Build Equity In A Home

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Trying to figure out how to build equity? We have some ideas. Some will provide a little bit of equity pretty quickly, while others will take some time. All ideas will require some money and patience.

1. Make A Big Down Payment

One way to gain equity instantly is through your down payment, which is a sum of money you pay when you purchase the home. When financing a home purchase, you're required to pay a minimum down payment, which is a percentage of the purchase price. It's typically 3% – 3.5%, but can be as much as 20%, depending on your loan.

If you're able to make a bigger down payment, you may want to. The amount you pay will become equity in the home because it's not money you're borrowing; it's the amount you're paying into the home out of your pocket. That means the bigger your down payment, the more equity you instantly have in the home.

2. Refinance To A Shorter Loan Term

Once you pay off your mortgage, you'll have 100% equity in your home – as long as you don't have any other liens on the house. By refinancing to a shorter loan term, you'll pay the loan off earlier. You'll also save thousands of dollars on the interest you would've paid during the longer term. Keep in mind, when you shorten your loan term, you increase your monthly payments because you have less time to pay the loan balance. You may also have to pay closing costs for your new loan, so make sure you're able to afford to refinance to a shorter term before you apply.

3. Pay Your Mortgage Down Faster
Even if you can't or don't want to refinance to a shorter loan term, you can still work toward paying your mortgage off early – just beware of any prepayment penalties attached to a mortgage. These are fees that the lender charges you for paying off your mortgage earlier than its term.

The more you pay down, the more equity you have. And the faster you can pay it down, the faster you'll have that equity.

By making extra payments to your mortgage, you can also save money on total interest paid over the life of the loan. The more you pay down, the less money

4. Make Biweekly Payments
We know that making extra payments can help you pay your mortgage off faster and build equity. Switching to biweekly mortgage payments can add one extra mortgage payment toward your mortgage each year. Instead of paying your mortgage once per month, you pay half of the monthly payment every 2 weeks. You end up paying an extra mortgage payment because you end up making 26 payments. That's because there are 52 weeks in a year, and you're paying every other week. Since those payments are half payments, you'll make 13 full mortgage payments in a year. When you make one mortgage payment per month, you make 12 payments in a year, since there are 12 months. By making an extra mortgage payment each year, you could pay your mortgage off 6 – 8 years earlier.

5. Get Rid Of Mortgage Insurance

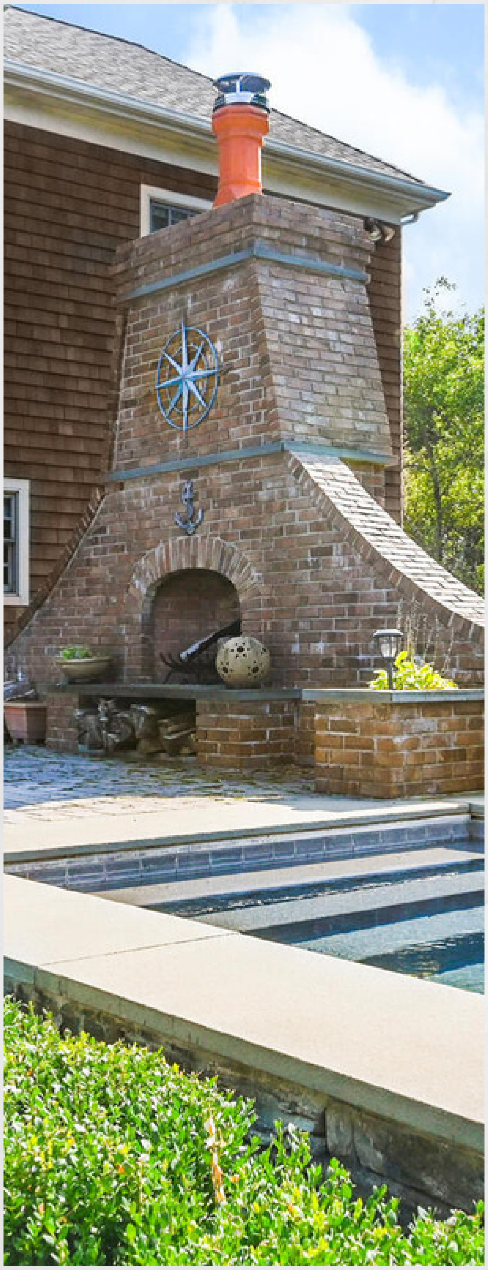
Private mortgage insurance (PMI) is what the lender charges you, the borrower, to protect its investment if you don't pay back your loan. The only way to avoid PMI is to put at least 20% down when you purchase the home. PMI typically costs about 0.1% – 2% of your loan balance each year. The amount is broken into monthly payments that are added to your monthly mortgage payment. This can add an extra amount to your monthly payment and keep you from building equity faster. If you can get rid of PMI, you could apply that extra money you're currently paying to the principal balance of the loan and build more equity faster.

To get rid of PMI on a conventional loan, you'll need to have at least 20% equity in the home. Once you do, you can contact your lender and request your PMI be removed. Once you have 22% equity in the home, your PMI will come off automatically.

The insurance for an FHA loan is known as mortgage insurance premium (MIP). If you make a down payment of at least 10%, you'll pay MIP for 11 years. If your down payment is less than 10%, you'll pay MIP for the life of the loan. So, you can only remove PMI by refinancing your FHA loan to a conventional loan or waiting 11 years – if you put down at least 10%.

6. Throw Extra Money At Your Mortgage
From bonuses, inheritances, tax refunds and other windfalls to extra money in your budget, whenever you have extra cash, use it to put toward your principal balance to help pay it down faster.

7. Make Home Improvements
Making updates and adding certain amenities can help increase the value of your home. Bathroom and kitchen remodels or updates are high on the list of things that add value to a home. Energy-efficiency updates can also increase the value of your home – and save you money on utilities and could provide a tax credit.
Not all home improvements have to be big ones. Adding a fresh coat of paint or increasing curb appeal can go a long way, too.



8. Wait For Your Home's Value To Increase
A house is one asset that typically appreciates over time. One reason is that the land that the property sits on tends to increase in value because land itself is limited. Like the need for land, several other factors impact home appreciation and are out of your control. These include housing supply and demand, market value of nearby homes, commercial development and larger economic trends. When the market is hot, due to any number of these factors working together, your home value will naturally increase without you having to do any work. Just make sure you continue to maintain your home. If you let it fall into disrepair, its value may not increase as much or, worse, its value could drop. Remember, too, that the factors listed above could cause home values to drop. During this time, your home equity could decrease. If you're able, it could be best to wait it out as home values tend to bounce back eventually. A real estate professional could help provide guidance in those instances.