

**John “J. J.” Harrison
260 Northland Blvd, Suite 301B
Cincinnati, OH 45246
(513) 771-2890
WriterJJ@Juno.Com**

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nonfiction
330 words**

Building Home Equity

One of the surest ways to increase your financial security is to buy a home. Why? The answer lies in a simple concept: Equity.

Equity is the difference between what you owe on your home and what your home is worth. If the balance on your mortgage is \$100,000 equity, which is what you have when you own the home free and clear.

You also usually build equity simply by owning the home. As a general rule, the value of real estate goes up over time. This is called appreciation. Let’s say the value of your home appreciates \$2,000 a year. That’s a \$2,000 that came to you by just keeping the lawn mowed and gutters cleaned out.

But that \$2,000 is added to the amount of the mortgage you paid off during the year. If your payment increased the amount of your mortgage by \$500, then you can add the \$500 to the \$2,000 your home value increased.

In other words, by owning your home, you not only paid for a place to live, you actually increased your net worth by \$2,500.

And you don’t have to wait until you sell the home to cash in on your equity. Plenty of lenders are willing to make so-called “home equity” loans, in which you use the equity as security for a loan.

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These loans are usually available at a much lower interest rate than you would pay for other types of credit, such as credit cards or unsecured personal loans. You can also set up a home equity line of credit, which you can then borrow against in an emergency.

There are other advantages, as well, to owning a home and building equity. Ask for an experienced Real Estate Agent for more information.

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John “J. J.” Harrison is a licensed Real Estate Broker in Ohio, Kentucky, and Indiana. He has worked at a Credit Bureau and several financial institutions. He is a published author and a Housing Consultant. He can be reached at (513) 325-4403.