Understanding equity:

What is it, and what it means for your borrowing power

Borrowing against the equity you have in your home can be a smart way to make your money work for you and fund a variety of purchases, including another property. However, there is a variety of factors impacting on what your equity can do for you.

What is equity?

Let's start at the basics. Equity is the difference between the current value of your home and how much you owe on it. So, if your home is worth $500,000 and you still owe $200,000, your total equity is $300,000.

What can equity do?

It's important to remember that **total equity** and usable equity are two different things.

Banks will typically allow you to borrow up to 80% of the value of your home.

The difference from the 80% and what you owe is the **usable equity** (subject to serviceability).

Based on the example above, let's look at the numbers:

- Value of your property - $500,000
- Value of your property at 80% - $400,000
- Minus your mortgage - $200,000
- This means your **potential useable equity** would be $200,000.

However, there are no guarantees.....

Even if you have significant equity in your home, it is not guaranteed that you can borrow against it. You will need to seek out advice from us as your financial specialist to understand the variables and how you can maximise your chances of using your equity to your advantage.

Factors such as income, additional debts, dependents, and loan history will all determine **whether you can borrow the equity in your home.**

Play it smart

If equity is all you have, and you have no other significant funds outside the equity in your home, it is a good idea to keep that as a safety measure should you need to borrow against it in the future.

Using your equity to buy a second property can be a great financial move, but it does not come without risk, depending on your circumstances.

And there is always the discussion about 'good debt' and 'bad debt'. If you want to use the equity in your home it is wise to save this for additional investment opportunities (good debt) as opposed to everyday living and frivolous spending.

You will need to be advised by experts to understand the consequences involved to ensure your equity works best for you.

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