ESTRAFINANCE

Empowering Dreams, Enriching Lives.

# COMPLETE HOME LOANS GUIDE



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# TABLE OF **CONTENTS**


01 **INTRODUCTION**

02 **WHAT IS A HOME LOAN**

03 **WHY IS A HOME LOAN REFERRED TO AS “GOOD DEBT”**

04 **TYPES OF HOME LOANS**

05 **HOME LOAN PROCESS**

06 **FIXED VS VARIABLE INTEREST RATES**

07 **HOW TO PICK THE PERFECT BANK**

08 **TOP 5 MISTAKES TO AVOID**

09 **HOME EQUITY EXPLAINED**

# INTRODUCTION

Here at Estra Finance, we know that navigating the world of home loans can be overwhelming. We're so grateful that you have reached out to us for guidance during this exciting time in your life. For your reference, we have created this guide to help make the process clearer. Whether you're a first-time homebuyer or looking to refinance, this guide has all the essential information you need to make informed decisions and achieve your homeownership goals.

# WHAT IS A **HOME LOAN?**



If you're not paying for the house you want upfront and in full, then you will need a loan from the bank to cover the money you don't have. This is your home loan.

There are different loans used for different things. For example, a Construction Loan is used specifically for when you're building a property. There are different types of housing loans because banks have different requirements involved during the application process.

When you apply for a home loan, it is normal practice for you to have to cover at least 20% of the total purchase price. This is known as the deposit, or the down payment. This is because the banks will not lend you more than 80% of the total value. The reason for this is simple – you need to prove to banks that you're capable of money management, and this is the easiest way to show you know how to budget, save, and allocate funds appropriately.

Once you have your home loan approved, you will have to pay the borrowed money back to the bank within a set amount of time (anywhere from 1 - 30 years), plus interest. If you stop making payments, the bank can take your new house back. Home loans are the best way to afford a home if you don't have all the money upfront.



# WHY IS A HOME LOAN CALLED **"GOOD DEBT"?**

You might have heard that home loans are considered "good debt". Good debt is when you use a loan to purchase something that can increase in value. Bad debt is when you use a loan to purchase something that has no chance of increasing in value.

For example, if you purchase a house for 1 million pesos, due to the shifting market and demand for housing by the population, you could resell it for 3 million within a few years. As the property increases in value, the more wealth you have (even though you bought the property for less than it's worth now).

Examples of bad debt include cars, motorbikes, and electronics like mobile phones and televisions. It is very unlikely – nearly impossible – to sell these items at a profit. That is because they don't increase in value, unlike property.

Additionally, a home loan is considered "good debt" because it allows you to use a small amount of your own money upfront to buy something considerably more valuable. This is known as leverage. Leverage means you use a small amount of money (like a 20% down payment) to borrow a larger amount from the bank (the remaining 80% of the home's price).

By doing this, you're able to control and invest in a big asset, and as the house's value increases over time, you benefit from the appreciation on the entire property, not just the part you paid for. This use of leverage helps you build wealth, making a home loan a smart investment and "good debt."

# TYPES OF **HOME LOANS**

Additionally, a home loan is considered "good debt" because it allows you to use a small amount of your own money upfront to buy something considerably more valuable. This is known as leverage. Leverage means you use a small amount of money (like a 20% down payment) to borrow a larger amount from the bank (the remaining 80% of the home's price).

If you aren't purchasing a house and lot, you could also have:

A loan that's used just for vacant lots – these come under the "home loan" umbrella, but keep in mind that banks will usually only let you borrow 60% of the total value, meaning you have to save a deposit of 40%! (This is because most applicants apply for both a vacant lot loan and a construction loan in order to build the home).




A construction loan, which is used if you have an empty lot and want to build - are also known as Home Construction Loans, Property Construction Loans, or just Construction loans. These are shorter term loans compared to a normal home loan. The purpose of a construction loan is to finance the cost of building or renovating a home or another type of real estate project.

A refinancing loan, which is often shortened to a Refinance or a Loan Take Out. These are only relevant if you already have a home loan, and you think you can get a better deal elsewhere.

This means if you find the bank is offering a loan at a lower interest rate to what you are currently paying, a longer loan term, or cash back or other special promos, you can essentially swap your loan to this new loan offer or bank.

A home equity loan is a type of loan that allows homeowners to borrow money using the equity they have built up in their home as collateral. People use home equity loans to get money for large expenditures like renovations or school tuition, but the money you get from your loan can be used for anything, whether that's for a business, your home, or personal reasons.

The last loan is a Home Improvement loan. These are relatively small loans so you can't use them for much besides renovations, remodeling or buying furniture. Again, this would be a shorter loan term with a lower interest rate.




# HOME LOAN PROCESS

There's no need to worry about actually applying for a home loan beyond preparing your documents. For clarity, this is the entire process the banks will go through in order to process your application – but remember, so long as you provide all your documents and are honest in your information, there's no reason to be concerned.

## STEP 1: **APPLICATION & APPRAISAL**

Whilst it might seem more convenient to fill out an application form online, the fact is it's actually significantly slower to do so. If speed is important to you and you're ready to get a home loan, head on into a branch and talk to a customer service representative.

But that doesn't mean applying online is useless! It's a great way to prepare for your application, especially if you're not sure what information might be asked of you. You'll see that every bank also has their own list of documentary requirements, so it's good to prepare these ahead of time, as some documents can take time to organise.

In general, you can expect to prepare:

- Personal Documents: 2x government IDs with photos and signatures (such as a driver's license, a passport, or even a postal ID), and a marriage contract (if married)
- Income documents: 3 months of your most recent payslips, an ITR, or a Contract of Employment with Compensation (COEC)
- Property documents: for example, the Contract to sell, Tax Declaration, or Authorisation of Tax Mapping. The exact required property documents vary depending on whether you're purchasing through an accredited developer, a secondary market (individual seller), or if you plan to build your own home.

The number one reason why loans are delayed is because of unreadable, incorrect or outdated documents. For that reason, we suggest getting fresh photocopies of your original documents and double checking they're readable before applying. A simple mistake like a cut-off scanned document can delay your application by days, if not an entire week if you're not careful!

Once your documents are confirmed, the next stage in the Application phase is paying the Appraisal Fee. This is a fee banks make you pay upfront and in full so they can evaluate the value of the property you wish to buy. They will determine what the property is worth, and they will lend you up to 80% of that number.

**WARNING: Only purchase property you're certain of, and confer with a real estate agent if you're not. The Appraisal does mean you can pay 2 million pesos for a home, have the bank appraise it at 1 million pesos, and only get a loan for 800,000 pesos.**

If you do not pay this appraisal fee, the bank cannot identify the value of the property you want to buy and this will either delay your application or will cause it not to be processed.

You do not have to pay an appraisal fee for properties being built/sold by accredited developers.



## STEP 2: **THE BANK INTERVIEW**

After your documents have been received by the bank, a credit officer will call you to verify the information you have supplied. If you miss this phone call, it is important that you call them back as soon as you are able, because your loan application will not continue to be processed without it. Banks check information like your legal name, residential address, current employer details, and your income in order to avoid complications when writing your loan, and also to prevent fraudulent activity.

## SITUATIONAL STEP – **THE APPRAISAL**

Whilst your documents are being verified by the credit officer, another staff member known as the Appraiser is physically inspecting the property you are purchasing. The purpose of this inspection is to determine the value of the property, and therefore, how much the bank is willing to loan to you.

All banks charge an Appraisal Fee to cover the costs involved with doing this, and that amount is usually around 5000 pesos for properties within Metro Manila.

Appraisers look at certain factors to determine a property's value, such as where it's located, its size, its condition, and how it compares to other properties in the surrounding area in the current market.

Typically, a bank will lend you up to 80% of the home's appraised value.

# STEP 3 – **GO THROUGH UNDERWRITING**



You might have heard of “underwriting” before but not fully understood what it meant. This is the bank's way of ensuring you have told the truth regarding your income and  employment, and also doing some background checks to ensure you’re a not a high-risk client for the bank. And underwriter typically looks at the following during this process:

1. They’ll look at your credit report to get an idea of your credit history.

2. They’ll look at your report from the Bankers Association of the Philippines.

3. They’ll check their internal records if you’re a current client of the bank.

4. They weigh your income against any debts to have to ensure you can afford the loan you’re asking for.

5. They’ll review the appraisal report to make sure you can afford it with the loan they give you.

6. They’ll review your personal details again.

All these steps are designed to ensure that the loan is a good fit for both you and the bank. This is also the final step before a bank will approve your loan, which takes us to the next step.

# STEP 4: **SIGNING LOAN DOCUMENTS**

If you’ve been approved for a home loan, expect to be contacted via phone call, SMS, or email from your bank representative. You will be invited in to your nearest branch to sign your loan documents. This will be scheduled for a specific day, so the bank can have your documents ready upon your arrival.

This is your final opportunity to ask any questions you may have or express any doubts or concerns about your loan. If you've changed your mind and no longer want the loan, now is your final chance to cancel it. There are lots of reasons why people don't proceed with a loan, so banks keep your information on file for up to 6 months if you choose not to go ahead.

Nothing is finalised until your wet signature is on the paper, meaning you can cancel at any time up until this point – but so can the bank. Do not do anything that could jeopardise your approval, including spending large amounts of money or telling your account officer that your situation has changed significantly since your application.

Once you sign the documents, the loan is yours. You are legally obligated to pay it off, in full, as per your loan agreement. Therefore, be completely certain before you sign.

Documents that will be given to you during the loan signing include a payment schedule, where the bank outlines exactly how much you'll be paying on what dates. You will also be asked to settle some fees for processing your loan.



## STEP 5: **POST APPROVAL FEES**

Every bank has a different process for paying fees; some include them in your loan upon request, others expect them to be paid for in full on the day. Exactly what's included will be outlined in your loan documents provided by the bank. In general, expect to pay for:



- documentary stamp tax
- transfer tax
- title registration fee
- any notarisation fees
- and some insurance fees like Mortgage Redemption Insurance and Fire Insurance.

Generally these fees add up to between 2-4% of your total loan amount depending on which bank you go with.

## STEP 6: **TITLE TRANSFER**

The title transfer is the final step in the home loan process, and it's also the most lengthy. The Property Title is the most important document because this is proof that the home is yours.

The title transfer isn't as important if you're buying from an accredited developer, as banks will typically pay their accredited developers the loan immediately and give them a certain amount of time to transfer the title, so you don't have to worry about this delaying you becoming a homeowner.

However, if you're buying from a private seller or non accredited developer this step can cause some delays as a bank typically won't transfer the funds to the seller until the transfer is completed, and this can take several months.

Don't be afraid to ask your bank or real estate agent for assistance during this process. It's something that can be done yourself, but due to the amount of visits required to various government offices, it could be worth asking for help. Some banks will charge you a small fee for doing this, but it's also usually faster with their help, so definitely ask what their time frame is to complete it for you if this is a service they offer.

## STEP 7: **YOU'RE A HOMEOWNER!**

It's time to celebrate because your loan has been fully approved and settled. This is one of the best feelings in the world and it's a great life accomplishment you should be proud of!

# FIXED VS VARIABLE INTEREST RATES

Choosing between fixed and variable interest rates is one of the most crucial decisions you'll face when taking out a mortgage or loan. This choice can significantly impact your financial stability, monthly payments, and long-term costs. Understanding the differences between these two options will help you align your loan with your financial goals and risk tolerance.

With the importance of choosing the right type of interest rate in mind, let's dive into the specifics of fixed and variable interest rates. Understanding how each option works will help you determine which is better suited to your financial situation and future plans. Here's a closer look at the key differences between fixed and variable interest rates.



# WHAT IS **RISK TOLERANCE?**

This is a scale one can use to determine how happy they are taking on risk. Someone who has low risk tolerance is likely to prefer fixed interest rates for long term stability. They like to know what to expect. Someone who has high risk tolerance is the opposite; they don't need to know what to expect, because they are happy taking the chance that interest rates could drop and they could save money. This also means they are willing to pay more if interest rates increase.

No one can tell you what risk tolerance you have except for yourself, so seriously consider what you'd be happy doing with your finances long term.

## FIXED INTEREST RATES

A fixed interest rate remains constant for a set number of years of the loan. This means that from the moment you secure your mortgage or loan, the interest rate is locked in and will not change, regardless of fluctuations in the broader economy. The primary benefit of a fixed rate is its predictability; you know exactly how much your monthly payments will be, which makes budgeting and financial planning straightforward. This stability can provide peace of mind, especially in times of economic uncertainty. However, fixed-rate loans can initially come with higher interest rates compared to variable-rate loans, particularly in periods of low market rates. This could mean higher monthly payments at the outset.

# VARIABLE INTEREST RATES

Variable interest rates, also known as annual interest rates or the market rate, can fluctuate at any time. This means that your interest rate and monthly payments can increase or decrease, depending on market conditions. The main advantage of a variable rate is that it often starts lower than a fixed rate, potentially offering lower initial payments.

This can be appealing if you're looking to minimize costs in the short term. However, because variable rates can change, there's an element of uncertainty. If interest rates rise, so will your payments, which can make budgeting more challenging and potentially increase the total cost of your loan over time.



# FIXED OR VARIABLE?

Choosing between fixed and variable interest rates depends on your financial situation, risk tolerance, and long-term plans. Fixed rates offer stability and predictability, making them a good choice for those who prefer consistent payments. Variable rates, on the other hand, can offer initial savings and flexibility but come with the risk of rate increases. Carefully consider your financial goals and how comfortable you are with potential changes in your payments before making your decision.

Ask yourself a few key questions to ensure you're making the best choice for your financial situation and goals:

1. **What is my risk tolerance?**
   - Am I comfortable with the possibility of my interest rate and monthly payments increasing in the future? Or do I prefer the certainty of a fixed payment amount?

2. **How long do I plan to stay in the home or keep the**
   - Am I planning on staying in the home or keeping the loan for a long period, or do I anticipate selling or refinancing in the near future?



3. **What is my current financial situation?**

- Am I planning on staying in the home or keeping the loan for a long period, or do I anticipate selling or refinancing in the near future?

4. **How important is predictability in my budget?**

- Do I need to have a consistent monthly payment to plan my finances, or can I manage fluctuations in my budget?

5. **What are the current and expected market conditions?**

- Are interest rates currently low or high? What are experts predicting about future rate trends?

6. **What is the difference in initial rates between fixed and variable options?**

- How much lower is the variable rate compared to the fixed rate? Is the potential short-term savings worth the long-term risk?

7. **Can I afford to make extra payments if rates go up?**

- Do I have the financial flexibility to make larger payments if the variable rate increases significantly?

8. **Do I understand the terms and conditions of both options?**

- Have I thoroughly reviewed the terms and conditions of both fixed and variable rate loans? Do I understand how rate adjustments are determined for a variable rate loan?

By considering these questions, you can better assess which type of interest rate aligns with your financial stability, future plans, and personal comfort level.

This careful evaluation will help you make an informed decision that supports your overall financial well-being.

# HOW TO PICK THE RIGHT BANK

Banks often seem similar in what they offer, so consider the following factors carefully when researching for a home loan.

## INTEREST RATES

When researching the market, your first question should be, 'Does this bank offer better rates than others or are they at least competitive?' Regardless of whether you choose a fixed or variable rate, even a tiny difference in interest rates can make a huge difference over the 10 to 20 years you'll be paying off your mortgage. So, it's essential to shop around and compare.

# LOAN TERM OPTIONS

Not all banks offer the same loan terms. On average, most banks will offer you a loan term of between 1-20 years. This can vary if you're buying from an accredited developer, or choosing your financing through Pag-Ibig.

Loan terms offer various benefits depending on what is important to you. A longer term, like 25 years, means smaller monthly payments, but you'll pay more in interest over the long run. A shorter term, like 10 years, means bigger monthly payments but you'll save money on interest in the long haul.

You might find that a longer term with more manageable monthly payments suits your lifestyle, even if it means shelling out more in interest over time. Or maybe you're all about saving on interest and can handle bigger monthly payments. That's up to you to decide.

Note here that your loan term is affected by how old you are. Banks usually won't let you get a loan if you're going to be older than 65 by the time it's paid off. So if you're already 50 years old, it's likely you won't get approved for a loan term longer than 15 years. Therefore, the younger you are, the better it is to get a loan.

# CAN YOU GET APPROVED WITH THIS BANK?

Different banks have different lending criteria, and not all of it is readily available to find online. You must consider other reasons why banks might refuse your application. Consider whether approval or rejection helps 1) protect the bank's reputation, 2) prevent the likelihood of clients not defaulting on a loan, and 3) ensures no money is at risk of being lost and never repaid.

With that in mind, let's look into some criteria banks might take into consideration but don't advertise. (Note that these are theoretical in nature only; we are simply suggesting reasons why banks accept or reject applications.)



How much debt do you already have in comparison to how much you earn each month? This is what banks call a “Total Debt Ratio”. TDR is computed by dividing your income by your current debt + what your monthly amortization for your home loan will be. If it equals below 30%, you are in excellent standing and are likely to be approved by any bank. If you are between 30% and 50%, some banks will decline you on this basis alone. If you are more than 50%, you will not get approved unless you are an extremely high earner and have positive lending history. This criteria means that you will need to pay off at least some of your debts in order to get a home loan. Banks use TDR as a way to ensure clients aren’t pushed into unneeded financial strain.

What’s your age? Even though most banks say they will lend to anyone between 21 - 65, the reality is a bit different. Many banks believe that 21 isn’t quite old enough to get a loan, due to the tendency for people of this age to frequently switch jobs. Therefore, you’re more likely to be approved for a loan at around 25 instead. In saying this, if you have an employment contract for more than 5 years in length and you’re 21, banks are more likely to approve you.

If you are going to be older than 65 at the time of loan maturity, this is a red flag as well. As you get older you are at more risk of getting sick or losing your job; for these reasons, banks prefer older applicants to have a co-borrower just in case. Again, if you have an employment contract that guarantees your employment for several years, this will help your approval. If you don’t have a contract or a coborrower, expect the banks to not offer you a loan beyond your 65th birthday.

What’s your employment situation? If you aren’t regularised, you won’t be approved. Banks require you to have at least 2 years of full time, consecutive employment. However, not just any job will do. Whilst some banks accept freelancers, virtual assistants, and casino workers, other banks are less inclined. The reason for this is because banks like to lend to people with stable income, and they don’t like to get involved with companies that are often associated with unlawful behaviour.

Where’s the property you intend to purchase? If you are buying in a war-torn area, what are the chances your property remains in perfect condition? This is not a good investment for you or the bank lending to you, especially as the property will decrease in value if it gets damaged.

Considering these factors is super important to ensure you get approval. It helps you figure out which banks are likely to give you the green light, so you don't waste your time—or worse, your hard-earned money - applying to them.

## HOW LONG TO BE APPROVED?

It’s not unusual for banks to have varying processing times – from bank to bank, but also from branch to branch. There are certain times of year where banks get busy processing loans, and your wait times are longer. So if you’re in a hurry, there’s a few ways to avoid this home loan rush.



Ask the Bank: Straight-up ask the staff how long it will take to get your home loan to be approved if you applied today. Branches usually have an average timeframe they can share with you. Around 2 weeks is normal processing time for most banks.
Match It With Your Timeline: Do you have a specific move-in date in mind? Compare the bank's estimated approval time with your personal timeline. If they don't align, you might want to look elsewhere.

Apply Early: you don’t want to lose your dream home just because you weren’t organised. You can start hunting for the perfect home loan as early as you want, but if you leave applying to the last minute, you’ll only hurt yourself. Ask your preferred bank when they would prefer you to apply, and ask them how long their approval is valid for - they usually have a bit of wiggle room for you to secure a home.

## DOWN PAYMENT

The downpayment, or the initial deposit, is usually equal to 20% of the total property price. It’s 20% because banks will only ever lend you a maximum of 80% of the property value. The deposit is also different from a reservation fee, which you may be asked to pay if you’re buying a pre-selling property from a developer.

The downpayment is the hardest part about a home loan for most applicants, because it takes a long time to save up that amount of money. That’s why it's a serious factor in choosing your lender.

**Affordability:** It’s expected that you prepare 20% of the appraised property value for the deposit. If you’re able to pay more, some banks are willing to negotiate on interest rates and loan terms. It’s always worth asking if you find yourself in a good financial situation.

**Future Budget and Life Goals:** Whilst a big deposit is usually preferable, you need to think long term. Are you planning to start a family soon? Going back to school or launching a business? A hefty down payment could put a serious dent in those plans by tying up a lot of your available funds. So, it's not just about what you can afford now, but also how this down payment fits into your life for years to come.

**Do The Math:** Take some time to look at your finances. Can you afford the down payment and still live comfortably? Will you still have an emergency fund left over? And most importantly, does it align with your other financial goals?

**Shop Around:** If your bank has appraised the value of your home at lower than you expected, meaning they're asking you to make a bigger down payment, consider going to other banks and seeing what they'll appraise your property at. Whilst this can be an expensive ask (at an average of 5,000 pesos per appraisal), if it's something you can afford to do, it's worth considering if you truly feel the bank has wronged you by their appraisal value.



## DO THEY PRICE MATCH

If you've got your eye on Bank A because they have incredible customer service and their branch is just around the corner from your house but Bank B has them beat on interest rates, there's an easy way to get the benefits of both.

Ask your bank if they rate match. Most banks will require proof of approval or a quote of some kind to prove your approved interest rate, but once you have it, it's easy enough to get it matched. Most banks will match or even beat a competitor's interest rate to win your business.

In saying that, it's not guaranteed. It's judged individually for each client, so if you've never been a client of that bank and you have no history with them, don't expect miracles. But a small percentage point here or there can make a big difference over the life of your loan.

## ARE THERE SPECIAL PROMOS ON?

When it comes to home loans, banks will occasionally roll out special promotions that can save you some serious cash. For example, in 2023 Metro Bank had a promo where they waived up to 50,000 pesos in home loan fees. That is a significant amount of money.

**Do Your Research:** Look online on bank websites and social media. Sign up for newsletters to your email to stay in the know.

**Ask Explicitly:** Don't be shy. When you're talking to a bank, ask if they have any ongoing or upcoming promos. These types of offers aren't always advertised prominently, so it never hurts to ask. It could be your ticket to some major savings on your home loan.



## AVERAGE DAILY BALANCE DISCOUNT

If you've been a long-term client of the bank you wish to avail a home loan from, note their Average Daily Balance and whether you've managed it. Banks are likely to lower your home loan interest rate slightly if you've been keeping a nice, plump daily balance with them in a term deposit account and you're in good standing with them. Your ADB is a great way to prove to banks you're a reliable, trustworthy lendee.

To take advantage of this benefit, you do have to ask your account officer for it.

## YOUR RELATIONSHIP WITH THE BANK

Banks do take into consideration your history with them, even if it's not a major deciding factor. If you've been a model client—always paying off your credit card in full, not overdrawing your account, and no history of bouncing checks—it can be a good tool in your favour when you're negotiating with your AO, or it might cause a bank to be more lenient on you when it comes to approving your home loan.

But there's also a flip side. If you've made mistakes like overdrafts, or you have a negative history like cancelled cards, your bank might just reject your application. In this case, you're better off applying elsewhere.

# TOP 5 MISTAKES TO AVOID WHEN GETTING A HOME LOAN

## 1. NOT COMPARING HOME LOAN OPTIONS

One of the biggest mistakes you can make is settling on the first home loan option you come across. Banks offer varying interest rates, terms, and conditions, so it’s crucial to shop around. By comparing different home loan options, you can find the best deal that suits your financial situation. Failing to do this could mean missing out on lower interest rates or better terms, potentially costing you thousands over the life of the loan. Take the time to research and compare, as this effort can lead to significant savings and a smoother loan experience.

## 2. NOT CONSIDERING WHICH ONE WILL IMPROVE YOUR NET WORTH

Your net worth is equal to the difference between the total value of what you own (assets) and what you owe (debts). Basically, the higher your net worth, the richer you are.
Therefore, focusing on a bank that offers you the best chance to increase your net worth through the right home loan is essential to improving your overall financial position. You need to analyse each bank to determine which will help you save the most money, and also allow you to leverage your home for other investments.

## 3. TAKING ON TOO MUCH DEBT

While it might be tempting to borrow as much as you're approved for, taking on too much debt can lead to financial strain. It's essential to be realistic about what you can afford and consider future expenses and emergencies. Overextending yourself with a high mortgage payment can leave little room for other financial goals, like saving for retirement or investing. Make sure your mortgage payment fits comfortably within your budget, allowing for a safety net and flexibility for future financial decisions.

## 4. NOT CONSIDERING LONG-TERM FINANCIAL GOALS

Many homebuyers focus on the short-term aspects of a mortgage, such as the initial monthly payment, without considering how it aligns with their long-term financial goals. It’s important to choose a home loan that not only fits your current situation but also supports your future plans. Whether you aim to pay off your mortgage quickly, save for future investments, or plan for a comfortable retirement, your home loan should align with these objectives. Consider how different loan terms, interest rates, and payment plans will affect your financial future and make a choice that complements your long-term aspirations.

## 5. **NOT SEEKING PROFESSIONAL ADVICE**

Navigating the complexities of home loans can be daunting, and going it alone can lead to costly mistakes. Not seeking professional advice from a mortgage broker can leave you unaware of the best options available to you. Professionals can provide valuable insights, help you understand the fine print, and offer strategies to secure the best possible deal. They can also assist in aligning your loan choice with your financial goals, ensuring that you're making an informed decision. Don't underestimate the value of expert guidance—getting the right advice can save you time, money, and stress.



# HOME EQUITY EXPLAINED

## WHAT IS HOME EQUITY?

Home equity is the portion of your home's value that you truly own. It represents the difference between the market value of your home and the outstanding balance on your mortgage. Think of it as your stake in the property. For instance, if your home is worth 1 million pesos and you owe 400,000 pesos on your mortgage, you have 600,000 in equity. As you pay down your mortgage and your home's value potentially increases, your equity grows. Home equity is a valuable asset because it can be a source of financial leverage, providing you with options for borrowing, investing, or cashing out.

# WHY IS IT IMPORTANT TO TRACK YOUR EQUITY?

Tracking your home equity is important because it can be used to purchase other things without you saving up money yourself. However, many homeowners don't know that they can access their equity without selling their home. It is a simple loan process that can allow you to increase your net worth quickly.

By keeping an eye on your home equity, you can take advantage of opportunities like getting a loan to fund home improvements, pay off debt, or invest in something else. It's a valuable resource that can help you financially, but only if you know it's there and how to use it.

# HOW CAN YOU RELEASE YOUR EQUITY?

You can release your home equity mainly by getting a home equity loan. This type of loan allows you to borrow money using the equity in your home as collateral. Essentially, the bank or lender gives you a lump sum of money based on the value of your home minus what you still owe on your mortgage. This loan is paid back over time with interest, similar to your primary mortgage. It's a great way to access cash for big expenses, like home improvements, paying off high-interest debts, or increasing your net worth by purchasing another property.

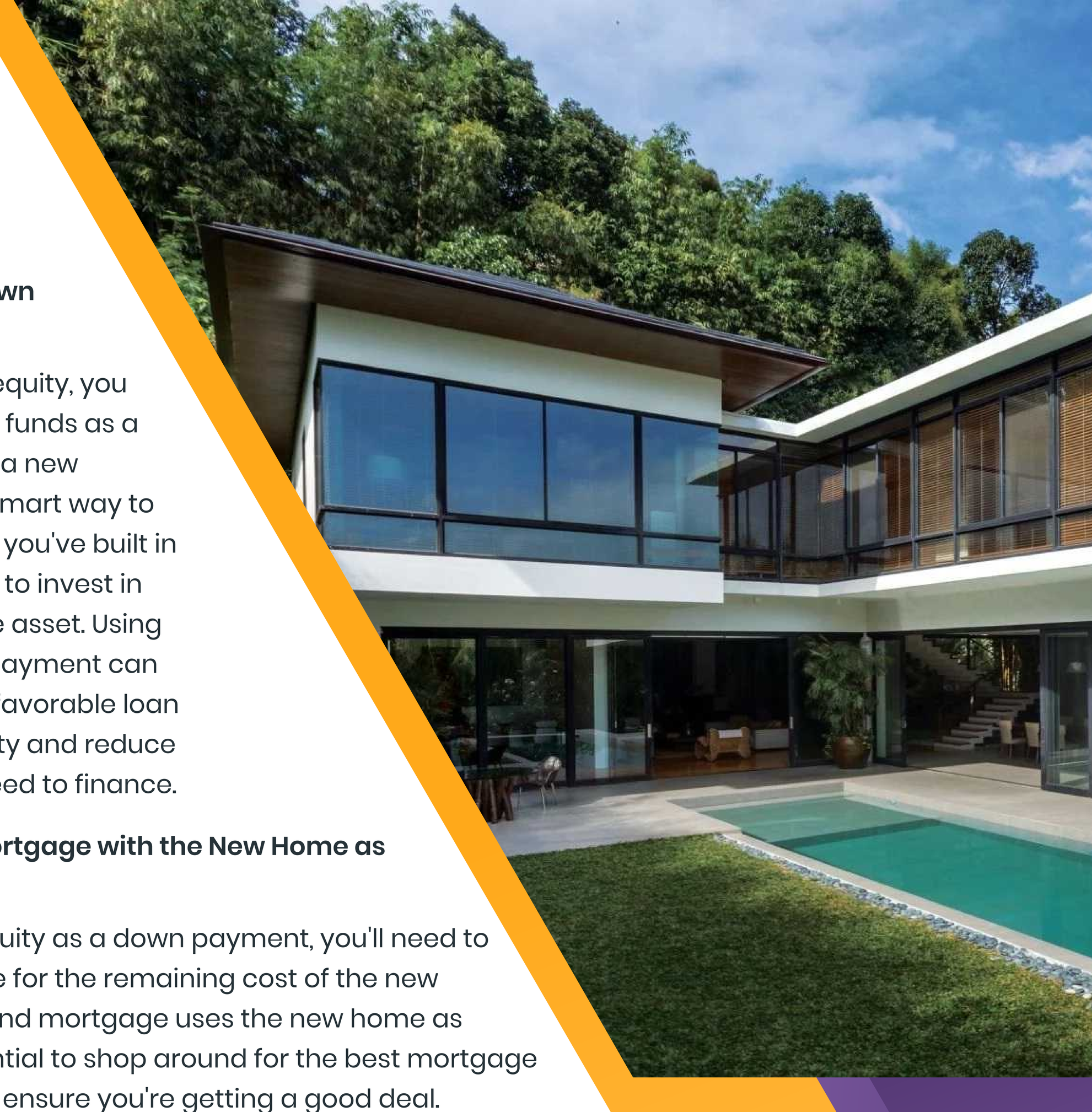
# STEPS TO USING YOUR HOME EQUITY TO PURCHASE ANOTHER PROPERTY

1. **Build Up Equity**

The first step is to build up equity in your current home. This happens as you pay off your mortgage and as the value of your home increases over time. The more equity you have, the more financial leverage you gain, giving you more options when it comes to accessing funds.

2. **Release Equity Using Current Home as Collateral**

Once you've built up sufficient equity, you can release it by taking out a home equity loan or a home equity line of credit.These loans use your current home as collateral, allowing you to borrow against the equity you've accumulated. This gives you access to a lump sum of money or a flexible line of credit, which can be used for various purposes, including purchasing another property.



3. **Use Equity as Down Payment**

With the released equity, you can now use these funds as a down payment on a new property. This is a smart way to leverage the value you've built in your current home to invest in another real estate asset. Using equity as a down payment can help you secure a favorable loan for the new property and reduce the amount you need to finance.

4. **Get a Second Mortgage with the New Home as Collateral**

After using your equity as a down payment, you'll need to secure a mortgage for the remaining cost of the new property. This second mortgage uses the new home as collateral. It's essential to shop around for the best mortgage rates and terms to ensure you're getting a good deal. However, remember that purchasing another property can be difficult if you don’t have the income to support two home loans.

5. **Rinse and Repeat**

Once you've successfully used your home equity to purchase a second property, you can potentially repeat the process. As you pay down the mortgage on your new property and its value increases, you'll build equity in it as well. This can be used in the future to invest in additional properties, creating a cycle of growth in your real estate investments.

**This strategy can help you build a portfolio of properties, increasing your wealth and financial security over time.**

**Disclaimer**

This Home Loans Guide contains information that is current as of August 2024. While we strive to provide accurate and up-to-date content, we do not guarantee that the information in this guide is 100% correct or complete. This guide is intended for informational purposes only and should not be construed as financial advice.



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