Nurses Take Care Of Patients—Let Your Home Take Care Of You

How to use your home equity to reinvest in real estate and build your financial future

Job security was never in question for nurses until the global pandemic. Regardless of the fluctuations in other areas like stocks, investing in real estate remains one of the most stable and secure financial decisions that nurses can make to better protect their future. Real estate is booming across the US, with home prices rising by an average of 12 percent in the first quarter of 2021 alone. Some locations are even seeing a 15-20% increase.

If you happen to be a nurse that owns a home, now might be a great time to take advantage of the historically low interest rates. You could cash in some of the value of your home and reinvest it as part of a long-term wealth building strategy.

What is home equity and how does it work?

Home equity is the value your house gains over time, in relation to how much you owe on it. Many factors affect home values, but the areas with the fastest-growing home prices are generally in medium-sized city centers and their surrounding suburbs. These locations have seen an influx of new residents from primarily larger cities, who are now able to work remotely and find lower costs of living. This influx is reducing the supply of homes while increasing home values. You may be tempted to just sell and cash in, but you won't be given the same great deal as your first purchase.

How do you get the equity out?

There are several potential options to get the equity out of your home. The cash-out refi allows you to take some of the equity in your home as a straight cash payment and use all or part of that money as a down payment on a second property. You can usually borrow up to 85% of the value of your home, which leaves 15% in equity. However, keep in mind that having at least 20% equity will drop the primary mortgage insurance (PMI) requirement. While you do end up with two new mortgages, doing this correctly will result in interest rates that are lower than your original loan and perhaps even the length of it.

Pitfalls and Benefits

But wait—we're told to be paying mortgages down, not taking on more debt! Yes, but you now have your money building equity in *two* properties instead of one.

Monthly Debts vs Extra Income

If you decide to use the equity of your home to purchase a second property, whether that's a vacation home or a rental property, make sure to do the math on both mortgages. This could either create more monthly debt or provide a potential source of extra income. If you plan on renting the second property, consult with a real estate expert in your area. Get clear on the market value to ensure it will at least cover your new mortgage, and ideally a little extra.

Pay yourself, not the lender

Your first goal in homeownership should be to get rid of [that pesky private mortgage insurance (PMI)](), which usually lingers until you own at least 20 percent of your home. This can happen in two ways; you pay enough toward the principal loan to only have 80% of the loan left, or your home value increases and you can get a loan that reflects the new amount. In this case, the amount mortgaged will be dropped to less than 80%.

Second Mortgages - know the details

Based on the type of second property you are buying, be aware of different loan terms and requirements such as down payments and fixed or variable interest rates. It's also wise to know the length of loans, which can span from 15-30 years. Some loans will allow less than 20% down but most second homes will require 20-25%, so ask your mortgage adviser to walk you though your options. If you default on either loan, it can negatively affect the protection of your primary residence if they are not securely financed.

Your home, your future

The road to financial security is a long game. If you plan on owning your home or any home for the next several decades (which you should), you can rest assured that the average home price in the US has doubled over the last 20 years. After all, you work hard as a nurse and your money should work harder. For those who are lucky enough to already own a home, consider how the smart investment you made years ago can keep propelling you toward a secure financial future.

If you would like to learn more about how nurses are gaining financial independence through real estate, check out our class offerings at (insert link).

Disclosure: This article in no way represents professional or financial advice, and is for informational purposes only. Always consult a tax, financial, or real estate professional before taking on additional home loans.

Reference

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