Home owner's equity is the difference between the market value of your home and the amount owed to the lender.

Q. I often hear people talking about equity. Home owner's equity, sweat equity, business equity. All sorts of equity, but I cannot say I fully understand what it means. Can you explain this, please?

-- *Curious in Cleveland*.

A. Thank you for your question. Quite simply, equity is the size and value of your slice of the proverbial pie. Equity is the ownership stake to which a person is entitled as the result of, or in exchange for, their contributions. The contribution is your investment and the equity is the return on that investment.

There are two primary ways to contribute to a business in exchange for a return: (a) you can lend money to a business in exchange for a fixed return equal to the principal amount of the money loaned plus interest calculated at a certain rate or (b) you can make an investment in the business in exchange for some degree of ownership of the business.

In the business context, equity is often distributed in the form of shares, units or interests in a company. So, in exchange for your contribution of cash, equipment, other property and assets, or your time, service and/or expertise to a company, you may be entitled to a certain number of shares of the stock or percentage ownership interest of the company. When a person

purchases a share of the stock of Coca-Cola or Ford Motor Company, that person has purchased equity in the company. That individual is now an owner of a portion of the company and entitled to a piece of the pie that represents the company's value.

The beauty (and the beast) of an equity investment is that the value of the return to which you, as the owner of the equity, are entitled is not fixed or finite. The value of one's equity is subject to increase or decreases due to market conditions. Equity investors are able to participate in the growth of the company and in the increase of the company's value overtime. So when times are good and riding in convertible Mustangs while throwing back cold soda is the thing to do, the value of your equity stake in Coke and Ford may be at a high. However, while, there is unlimited upside potential associated with an equity investment there is also a bottomless pit beneath the feet of an equity investor. If the company is poorly managed and its value plummets so does the value of your equity in the company. Unlike a loan, where the lender is entitled to repayment of the loan amount plus interest in accordance with the loan agreement or note, there are no guarantees that there will be any value in the company to return to an equity investor when he or she chooses to cash out. The automobile industry bail-out crisis and the tech-bubble period show demonstrate the risks associated with equity investments and the reality that a lot can be won, but all can also be lost.

Home owner's equity is the difference between the market value of your home and the amount owed to the lender. Not unlike equity in the business context, your home owner's equity will be impacted by market conditions. If market conditions cause home values to decrease below investment levels then your investment will be in the red and you will not be able to cash out without accepting a loss on that investment.

If you have more questions about equity or anything else we have discussed, feel free to contact the Counselor at counselorsdesk@call-post.com

Be well and Godspeed.

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in support of economic empowerment.