Equity is the part of your property that you actually own. If you own property that's worth $250,000, and you have a mortgage with a remaining loan balance of $100,000, your equity in the property is $150,000. Repeat home buyers usually rely to some extent on the equity in their current home to help buy their next home. The more equity you have, the larger the possible down payment for the trade-up home.

Home equity also equals security, especially at the beginning of a mortgage loan, so little of your payment goes to principal that equity builds slowly.

Naturally, building home equity comes at a price, usually in the form of larger payments. If building home equity means incurring debt to make ends meet, then you’ve defeated the purpose of building equity in the first place.

**One way is to make additional principal payments.** Additional principal payments make sense when you save more on your mortgage interest expense on an after-tax basis than you would earn on your investments on an after-tax basis.

If you are able to deduct your mortgage interest from your income taxes and your marginal federal income tax rate is 27 percent or higher, then your after-tax cost of mortgage debt is between 3 and 4 percent. For instance, if you earn 4 percent pretax on a five-year CD, and you’re in the 27-percent bracket for federal income taxes, the after-tax return is less than 3 percent.

Before you start making additional principal payments, use one of the many amortization calculators you can find on the internet to do the math - how much interest you would save if you made additional principal payments and how much it would shorten your loan and increase your home equity.

The other way to build home equity faster is to refinance. Recently, the reason most people have refinanced is to lock in a lower interest rate and/or lower their monthly payment. But you can also refinance to shorten the term of your mortgage, which builds equity.

If you had a $200,000 30-year ARM at 8.13 percent and replaced it with a 15-year fixed rate loan at 6.75 percent, your monthly payment would go from $1485.69 to $1769.82.

Most sellers use part of their equity to pay selling costs, such as brokerage commissions and transfer taxes. Also, if you are delinquent on your property taxes, or have other liens secured against the property, such as an IRS tax lien, these would have to be paid at closing.