

Consumer advisory: Beware of costly, risky, and complex home equity “investment” contracts

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With rising interest rates in recent years, homeowners are looking for ways to reduce the costs of getting a home equity loan. Some companies offer what sounds like a great deal: the company will pay you money now, as an “investment” in your home, and you pay them back later with a share of how much the house increases in value.

What the company may not tell you is that, even if your home loses value, you will probably still have to pay the company more than you received and might have to sell your home.

[The CFPB published a report \(cfpb.gov/data-research/research-reports/issue-spotlight-home-equity-contracts-market-overview/\)](https://cfpb.gov/data-research/research-reports/issue-spotlight-home-equity-contracts-market-overview/) about how home equity contracts work. It describes some of the problems homeowners experience with home equity contracts.

You have the right to get help if you have trouble paying the contract.

Home equity contract companies may not give standard loan disclosures or follow other home loan protection laws

Many homeowners expect that when they put their house on the line in exchange for getting money, they will also get certain protections. But right now, some home equity contract companies say that they don’t have to follow those laws. [The CFPB filed a brief in a court case where one home equity contract company said exactly that \(cfpb.gov/about-us/blog/mortgage-lenders-must-comply-with-the-law-not-invent-loopoles/\)](https://cfpb.gov/about-us/blog/mortgage-lenders-must-comply-with-the-law-not-invent-loopoles/). Here’s what you stand to lose:

- Home equity contract companies usually don’t give the standard mortgage disclosures that let you see how much you will pay and compare options. And they probably won’t tell you about other options you might have.

- Home equity contract companies may not be checking to see if you can pay back the money they give you.
- Home equity contracts often have arbitration clauses in them to try to keep you from going to court.
- Home equity contract companies may not be willing to work with you if there’s a disagreement about how much you owe them or if you have trouble making the large balloon payment at the end.

Home equity contracts are expensive

Even if you don’t make monthly payments on a home equity contract, as the advertisements promise, you still pay plenty. You will pay:

- Thousands of dollars upfront for closing costs: origination fees, appraisals, recording fees, and other closing costs
- A balloon payment at the end, often two to three times as much money as you got at the beginning. In most cases, you’ll pay much more—often tens of thousands of dollars more—than for most loans against your home.

You may have to sell your home if you can’t pay the full amount at once

For most people, paying off the full amount due will mean either borrowing the money or selling the home. You may not be able to borrow enough money to pay off the contract. You might have to sell your home to pay off the contract, and you might not have any money left over after you sell.

There will likely be a lien on your home

Some companies hide it in fine print, but generally the company will put a lien on the house. You will probably have trouble taking out a new loan or refinancing an existing loan without paying off the home equity contract. If you don’t keep up the terms of the contract or pay the contract in full and on time, the company could foreclose.

Ways to seek help if you got a bad deal on a home equity contract

You can submit a complaint to multiple places, and you can also consult an attorney at the same time. [See tips for finding an attorney in your state.](#) (cfpb.gov/askcfpb/1549) In some cases, you might have the right to get out of your contract.

Submit a complaint to the CFPB

You can submit a complaint about a problem with a financial product or service at consumerfinance.gov/complaint (cfpb.gov/complaint/) or by calling [\(855\) 411-CFPB \(2372\)](https://www.fcc.gov/record/2015/02/03/855-411-cfpb-2372).

Whether a company responds to you or doesn't, your complaint makes an impact by helping us, other agencies, and law enforcement find bad business practices, spot problems and patterns, and regulate companies.

With your consent, we also publish your description of what happened, after taking steps to remove personal information.

Report fraud to the Federal Trade Commission

If a business doesn't make good on its promises or cheats you out of your money, the Federal Trade Commission accepts tips: [ReportFraud.FTC.gov](https://reportfraud.ftc.gov/) ↗ (<https://reportfraud.ftc.gov/>) .

Submit a complaint to your local enforcement agency

Complaints about companies doing business in your area can be submitted to [your state's attorney general](https://www.naag.org/find-my-ag/) ↗ (<https://www.naag.org/find-my-ag/>).

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