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Issue Spotlight: Home Equity Contracts: Market Overview

By Office of Mortgage Markets – JAN 15, 2025

Executive summary

U.S. homeowners have over $35 trillion (https://fred.stlouisfed.org/series/OEHRENWBSHNO)[1] in home equity, making it a significant source of household wealth. Home equity is also illiquid, meaning that it isn't easy to use for spending. People who want to tap into their equity may sell their home or borrow money using common options like a cash-out refinance or home equity loan. However, some consumers are turning to complex financial contracts that are offered by financial companies and backed by Wall Street firms that are interested in their high returns.[2]

Home equity contracts—often called home equity "investments" (HEIs)—are relatively new financial products in which homeowners get an upfront payment from a company and, in exchange, must repay a single lump sum repayment in the future that is based, in part, on the home's value. The homeowner retains the right to occupy the home and assumes all ongoing financial obligations for the home. They must repay by the end of the contract term, often 10 to 30 years, or when a triggering event such as a home sale occurs. The repayment amount can be in the hundreds of thousands of dollars and is based on a formula that considers the home's value and generally ensures that the repayment amount is significantly larger than the upfront payment under most home price scenarios.

Key findings:

- **Consumers primarily use home equity contracts for debt consolidation and home improvements**,[3] though some consumers have reported that they use the funds for real estate investing or savings for or during retirement. The median home equity contract customer was in their 50s when they signed the contract and roughly 90% or more had mortgages that took a senior lien position to the home equity contract, according to a review of recent home equity contract securitizations.
- **Home equity contracts are often marketed as an alternative to a cash-out refinance, home equity line of credit (HELOC), or traditional reverse mortgage loan**, like a federally insured

home equity conversion mortgage (HECM). Advertisements for home equity contracts tout large upfront payments and claim home equity contracts are not debt. Marketing websites state that home equity contracts have "no monthly payments" and "no interest," and are available to homeowners who have no income and low credit scores.

- **The industry is small but has expanded in recent years**, driven in part by an emerging secondary market for securitizations. The first home equity contract company was founded in 2006 and competitors joined the market starting in 2015. The market got a boost in 2023 when Morningstar DBRS started rating securitizations with home equity contracts. In the first 10 months of 2024, the four largest home equity contract companies securitized approximately $1.1 billion backed by about 11,000 home equity contracts. Despite the expansion, home equity contracts are still a niche product in comparison to the 1.2 million HELOCs originated during the four quarters ending 2024 Q2.
- **Homeowners must repay a home equity contract with a single payment—the amount of which can be difficult to predict and can run in the hundreds of thousands of dollars**. Each home equity contract company has its own methodology for calculating the repayment amount, but all generally require full repayment by the end of the term, typically 10 to 30 years, or upon a trigger event such as the sale of the home. The repayment amount is based, in part, on the home's value at the time of the settlement, which makes the total financing cost uncertain.
- **Home equity contracts are expensive compared to other home-secured financing options.** Home equity contracts often carry features that boost the settlement amount due from the consumer and insulate home equity contract providers from losses in all but extreme home price declines. Under many contracts, the settlement amount grows at a rate of 19.5-22% per year in the early years, which is substantially higher than interest rates on most home-secured credit, and somewhat less than interest rates on unsecured debt like credit cards.
- **Home equity contracts are complex financial contracts that can be difficult to understand** or compare to other options, and companies currently provide non-standardized disclosures. The final repayment amount depends on a complex interplay of numerous factors, some of which won't be known prior to settlement. For example, some home equity contract companies credit the homeowner for renovations or improvements that increase the value of the home, while others do not. As another example, some home equity contract companies place an upper limit on the total settlement amount a consumer could owe them, while others have no limit to the amount a consumer might end up paying.
- **Consumer complaints are limited so far but provide a preview of consumers' issues with home equity contracts.** A review of complaints shows homeowners that felt frustrated or even misled about various aspects of home equity contracts—including confusion about the financing terms, surprise at the size of the repayment amounts, disputes about appraisal values, difficulty with refinancing due to the existence of the home equity contract, and frustration that they felt their only option to get out of the contract was to sell their home.
- **Consumers could be forced to sell their homes to pay off the contracts.** These contracts generally require that consumers repay the full settlement amount by the end of the term or upon a triggering event. Those who want to stay in their homes must either liquidate

other assets or qualify for enough financing to repay the home equity contract in full. Homeowners who cannot pay the full settlement amount at the end of term risk having to sell their home or face foreclosure.

What is a home equity contract or home equity "investment"?

Home equity contracts are financial agreements in which a homeowner gets an upfront cash payment from a company and, in exchange, must repay a lump sum amount in the future that is based, in part, on their home's value. These contracts are often called "home equity investments" (HEIs), "home equity agreements," or "shared equity agreements." We use the term "home equity contract" throughout this report. Additionally, this report focuses on home equity contracts designed for existing homeowners to tap their home equity, which is the primary use in the market today, as opposed to contracts that are aimed at consumers who are purchasing a home.

The homeowner must typically repay the home equity contract company with a single large payment, often called the "repayment amount" or "settlement amount." Repayment is due by the end of the term (usually 10 to 30 years) or upon a triggering event, such as when the homeowner sells the home. As an example, a homeowner who gets a $50,000 upfront cash payment would, after three years, repay between $68,045 (if the home depreciated by an average 1% a year) and $71,538 (if the home appreciated by any amount), according to one home equity contract company's online calculator. If the homeowner instead waited the full 30 years, the estimated repayment amount ranges from $25,183 (if the home depreciated by an average 1% a year) to $831,000 (if the home appreciated by an average 5% per year).[4] We discuss the repayment amount in detail with additional examples in a later section.

The homeowner retains the exclusive right to occupy the home and is responsible for the care and maintenance of the home, including property taxes, hazard insurance, and any other debt obligations secured by the home. The homeowner also bears all costs related to selling the home. If the homeowner does not maintain the property to the standards required by the agreement, the settlement amount may increase at the time of payoff. The home equity contract company secures their interest with a lien on the property, just as lenders do for traditional mortgages, potentially limiting the homeowner's ability to refinance their primary mortgage or take out new debt.

The median home equity contract customer is in their 50s at origination, though ages range from 20s to 100. In a review of home equity contract securitizations, 89% to 95% of home equity contract customers also had first-lien mortgages, and the remaining mortgage balance was typically about 40% of the value of the home. Most home equity contracts are for owner-occupied homes, and some home equity contracts restrict homeowners' ability to rent their homes or move elsewhere, even temporarily.[5]

Advertisements for home equity contracts emphasize the size of the upfront cash payment, speed of funding, $0 monthly payments, lack of income or employment requirements, and acceptance of low credit scores. A typical advertisement reads, "Access between $30,000 and $500,000 in home equity – without monthly payments and no interest charges, ever."[6] Some advertise that they have no income requirements and "no need for perfect credit."[7] Many tout the lack of monthly payments, but fail to highlight the homeowner's ongoing financial obligations during the term of the agreement to maintain the property, pay property taxes and hazard insurance, and stay current on any other debt obligations secured by the property.

Companies often claim that home equity contracts are "not a loan," have "no interest," and involve "no debt." Companies generally have a section of their website explaining how their product works with an online calculator. Many compare their contracts to financing options such as home equity loans, HELOCs, traditional reverse mortgages, cash-out refinances, or personal loans. Print advertisements may note that the company will have a lien, but not all ads disclose that consumers might be forced to sell their home at the end of the term or risk foreclosure. One provider notes that consumers have "financial flexibility for up to 10 years," but then emphasizes that homeowners can "settle whenever you're ready…You can buy out the Investment at any time with savings, a refinance, or sale of your home."[8]

The four largest companies have "success stories" on their website, promoting the claimed benefits and use cases of home equity contracts. In these customer testimonials, homeowners often describe difficulty in getting other types of financing, taking out a home equity contract, and using the funds for a mix of debt consolidation, home improvement, and savings.[9] Other customers say they used the funds for real estate investing or retirement savings.[10] While some customers mentioned plans for how they would repay the home equity contract, many did not.

Market overview

The home equity contract market has been growing in recent years. As of 2024, the market is dominated by four companies: Unison, Point, Hometap, and Unlock. Unison is generally credited with being the first to market with home equity contracts in 2006 and was the primary player in a small market for several years. Point was founded in 2015, followed by Hometap in 2017 and Unlock in 2019.[11] Home equity contract companies were often funded by private equity, which continues to be a major source of funding. All four companies specialize in home equity contracts and do not offer mainstream mortgage products. Smaller home equity contract companies in the market include Aspire, Splitero, Balance Homes, EquiFi, QuantumRE, and others.[12]

The home equity contract market has accelerated in recent years, particularly as the securitization market around the product has developed. The first unrated home equity contract securitizations (https://www.housingwire.com/articles/point-redwood-trust-issue-139m-home-equity-investment-securitization/) were completed in 2021. Morningstar DBRS released its methodology for rating home equity contract securitizations in July 2023, which analyzed home equity contracts based on a framework used for traditional reverse mortgages.[13] The first rated home equity contracts securitizations (https://www.insidemortgagefinance.com/articles/229090-unlock-technologies-and-saluda-grade-spearheads-growing-hei-market) were completed in October 2023. As of October 2024, the four largest home equity contract originators have securitized home equity contracts totaling more than $2.5 billion. In the first 10 months of 2024, home equity contract companies securitized $1.1 billion backed by about 11,000 home equity contracts.[14] In contrast, the number of mainstream HELOC originations is significantly larger, with lenders originating 1.2 million HELOCs during the four quarters ending 2024 Q2.[15]

The home equity contract market is relatively small, with its total volume estimated to be between $2 billion to $3 billion, but the industry predicts the market will continue to grow in the next decade as borrowers look for ways to tap their home's equity.[16] The CEO of one home equity investment company estimated that the industry could reach $200 billion a year in funded "investments" within the next few years.[17] Together, the top four home equity contract companies have reported over 37,000 home equity contract originations to date. In September 2024, Unison reported originating over 12,000 home equity contracts, while Point originated 10,000 home equity contracts in 2023. As of January 2024, Hometap originated more than 10,000 home equity contracts, totaling over $1 billion. To date, Unlock reports an origination volume of over 5,000 home equity contracts.[18]

Home equity contracts were designed as a way for companies to get exposure to the home price appreciation generated from owner-occupied residential real estate without the exposure to the operational risks involved in owning real estate. As mentioned above, the consumer remains responsible for the operational costs of the home (maintenance, repairs, insurance, taxes, or HOA dues) and the costs of selling the home, not the company. Accordingly, home equity contract companies benefit from the "passive income" associated with the home price appreciation. Unlike rental properties, which require substantial operations to buy, renovate, maintain, rent, and sell, home equity contracts are more purely a financial transaction.

How much do consumers have to repay?

Homeowners must repay the home equity contract by the end of the contract term, usually 10 to 30 years. The repayment amount can run in the hundreds of thousands of dollars. Most home equity contract companies have calculators on their websites that allow prospective customers to see potential repayment amounts, though it is unclear how well the settings on the calculators capture homeowners' actual repayment experiences.

Homeowners can usually repay in full prior to the end of the term if they choose, but they generally can't make partial payments. Some companies also have restrictions on repayment early in the term. As a result, consumers can typically repay the home equity contract early only if they have the full repayment amount. Repayment is often triggered by the sale of the home, but can also be triggered by other events, such as default on any senior lien (such as the primary mortgage), failure to pay property taxes or insurance, or death of the homeowner. Homeowners must repay the contract amount by the end of the term, either by taking on new mortgage or other debt, taking on a new home equity contract, paying using other assets, or selling the home.

Each home equity contract company has its own methodology for calculating the repayment amount, but they all consider the upfront payment to the consumer, the starting and ending home values, and a multiplier. Some contracts have additional terms, such as a rate cap or a discount to the starting home value. For example, a homeowner may get an upfront payment worth 10% of the value of their home. In exchange, they may have to repay the lesser of: (i) an amount equal to 20% of their home's total value at the time of settlement, which is a 2x multiplier or (ii) a capped rate that is mathematically equivalent to 18% annual interest on the initial payment.[19]

Key features of home equity contracts include the following:

Upfront payment to the homeowner: The more money a homeowner takes out upfront, the more they will have to repay at settlement. The upfront payment to the homeowner can be reduced to cover closing costs, including processing fees paid to the home equity contract company and third-party fees such as those for appraisals, inspections, and government taxes or recording fees. Processing fees are often 3-5% of the initial payment.[20]

Home price appreciation: The more a home appreciates, the more the homeowner will pay to satisfy a home equity contract, subject to any rate cap. The home's starting value is determined at origination by an appraisal or automated valuation model. If the home is sold, the final value of the home is typically the sales price. However, the home equity contract company may dispute the final value of the home if, for example, it was a distressed sale. If there is a dispute or the home is not sold, a third party such as an appraiser hired by the home equity company typically determines the home's final value. Some home equity contract companies credit the homeowner for renovations or improvements that increase the value of the home, while others do not.

Nationally, home price appreciation has historically ranged from -5.6% to 16.8% per year, with a long-term average of about 5%, according to the Federal Housing Finance Agency (FHFA).[21] However, individual neighborhoods can see more dramatic swings. The Las Vegas metro area, for example, has seen dramatic swings in home prices in recent decades. The worst 10-year period for home prices in Las Vegas was following the Great Recession when home prices were down 37% over 10 years. Then, home prices rose 257% from 2012 to 2022. These translate to annualized changes of -4% and 14%, respectively.[22]

Multipliers: Home equity contracts are typically not structured to provide a cash payment to homeowners equal to the value of the consumer's home equity pledged. Instead, home equity contract companies require a multiple of their initial payment.[23] For example, a homeowner may get paid 10% of the value of their home in exchange for a 20% stake in their home's future value. This 2x multiple means that the company would double their money before factoring in any home price appreciation. Alternatively, the home would have to drop by more than 50% in value before the company lost money. Some companies apply the multiples to total value of the home (as discussed above), while others apply it to the change in the home's value (i.e., the home price appreciation), which can make it difficult to compare home equity contracts offered by different companies.

Discounted starting home values: Some home equity contract companies discount the starting value of the home (i.e., the value of the home used to calculate the amount of money that the consumer must repay). For example, a company may set the starting home value 25% lower than the actual appraised value, ensuring that the company comes out ahead unless the home's price decreases by more than 25%. At the end of the contract, the home equity contract company would calculate the home appreciation as the difference between the discounted starting value and the final *undiscounted* value.[24]

Rate caps: Home equity contract companies often have rate caps that limit how fast the repayment amount grows. Marketed to consumers as "homeowner protection caps" or "safety caps" and described in credit rating reports as caps on the internal rate of return (IRR), rate caps are mathematically equivalent to a maximum interest rate on the initial payment to the homeowner. As of 2024, several companies have rate caps around 18-20%, compounded monthly, meaning the settlement amount can't grow faster than about 19.5-22% per year.[25] Companies often use rate caps when they use a multiplier based on the total home value or when they have a large discount on the starting home value. Without the rate caps, the projected repayment amount on Day 1 of the contract would be 25% to 100% higher than the amount the consumer received.

A few simplified examples can illustrate how home equity contracts work and how much they can cost. These examples are hypothetical and do not reflect the terms of a specific company or product. Instead, they aim to capture some of the key elements common in home equity contracts with ranges that are illustrative of home equity contracts in the market, as described in promotional materials and reports from credit rating agencies.

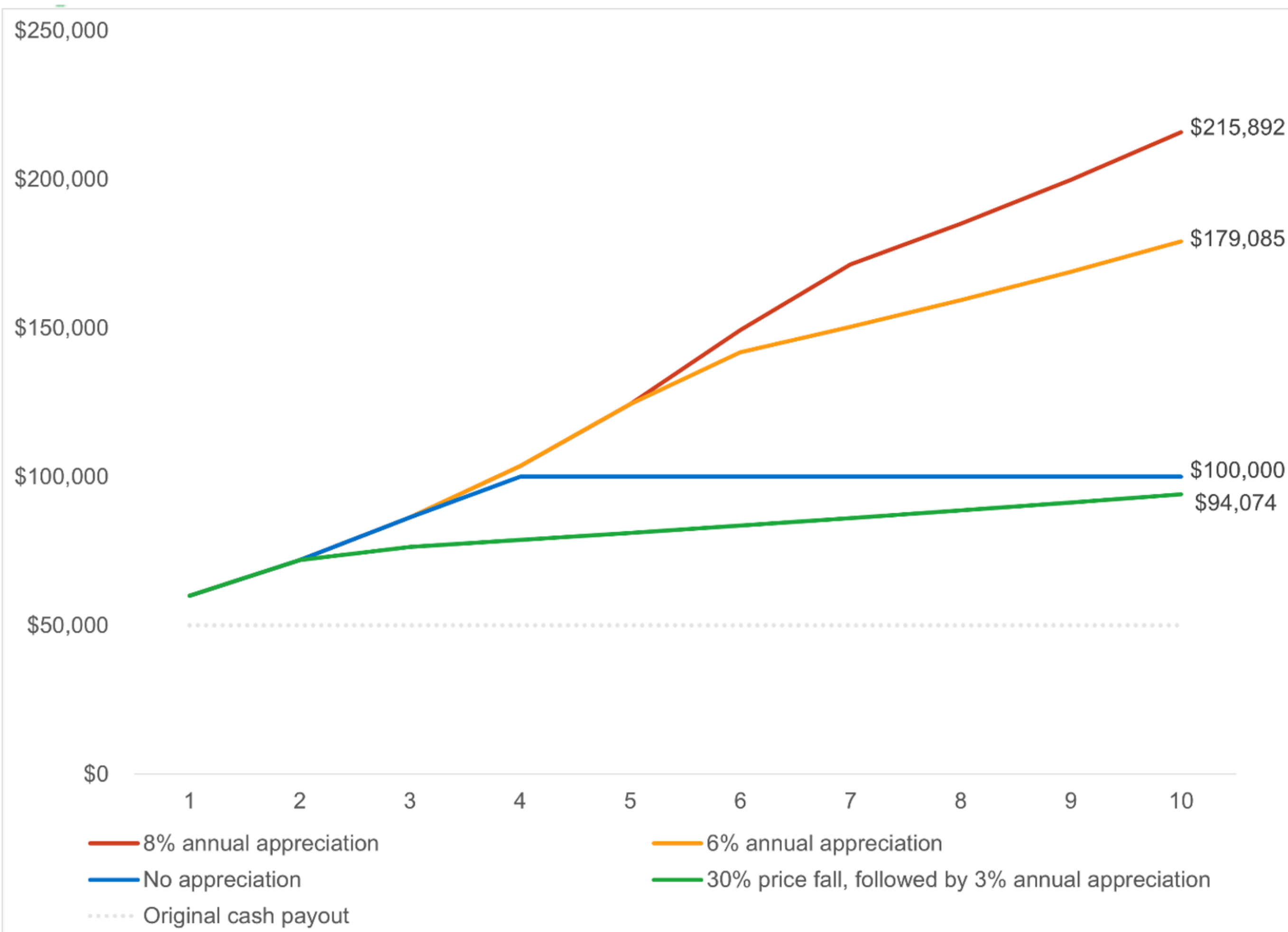
Suppose a consumer gets a home equity contract under the following assumptions:

- Home value starts at $500,000
- Consumer gets a cash payment of $50,000 (10% of the value of the home)
- Company gets a 20% stake in the value of the home (a 2x multiple of their initial payment)
- Home equity contract has a 20% annual return cap
- Consumer has a 30-year fixed-rate mortgage at 4% with 25 years remaining and a $300,000 balance

Additionally, the calculations only show the company's share. Consumers also pay origination fees and other closing costs when they get a home equity contract. In our example, the homeowner would see their proceeds reduced by $4,000 if they had a 4% transaction fee paid to the company and another $2,000 in third-party fees. If they sell their home to repay the home equity contract, the company's share is calculated based on the total sales price, while the consumer is solely responsible for all the costs of selling the home.

Figure 1 below shows the repayment amount over a 10-year term under scenarios where the home value goes up 8% per year, up 6% per year, does not change in value, or falls immediately by 30% and then recovers slowly. The combination of the “rate cap” and the “multiplier” means that the consumer will pay the equivalent of 20% interest every year for the first two to six years, depending on the scenario. These scenarios also illustrate the wide range of potential outcomes, with the final repayment in Year 10 ranging from $94,074 to $215,892.

Figure 1: Repayment amount for a $50,000 payment to the consumer under four scenarios for home price appreciation



If the consumer’s home appreciates 6% per year, she would have to pay $86,400 to settle the home equity contract in Year 3 or $179,085 to settle at the end of Year 10. In this scenario, the cost of the home equity contract is 20% per year for the first five years.

-	If a $500,000 home appreciates 6% per year…	Equivalent to zero payment loan with an annual interest rate of…
Consumer receives	$50,000	-
In 3 years, she owes…	$86,400	20%
In 10 years, she owes…	$179,085	14%

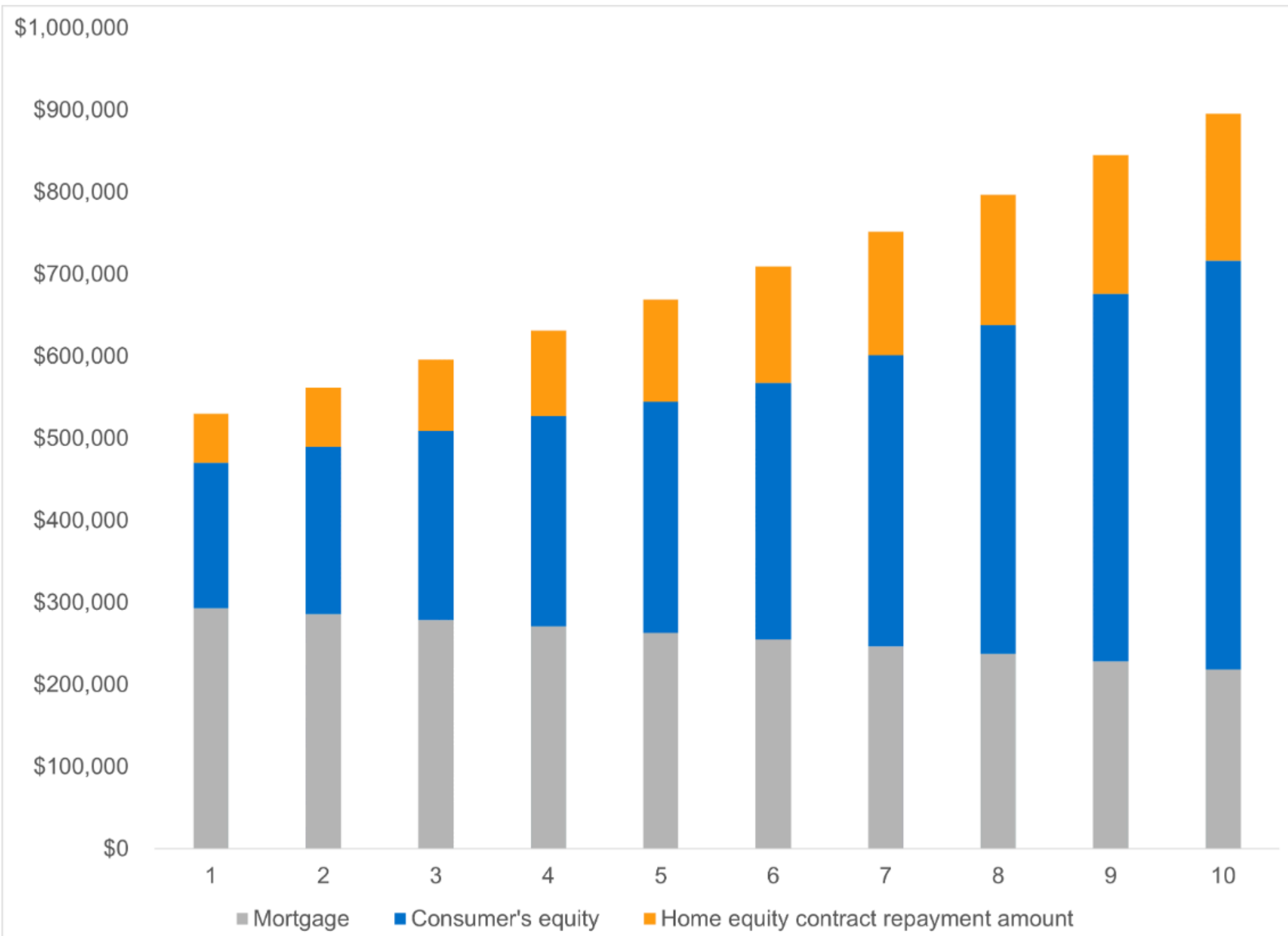
Suppose that instead, the housing market crashes in her area and her home's value falls to $350,000, or about 30% less than when she took out the home equity contract. After that, the market slowly recovers at a rate of 3% per year. These assumptions are intended to model a crisis-level fall in home prices. In this scenario, the consumer would repay $76,491 to settle in Year 3 or $81,149 to settle in Year 10.

-	If a $500,000 home depreciates by 30% immediately and then appreciates by 3% per year…	Equivalent to zero payment loan with an annual interest rate of…
Consumer receives	$50,000	-
In 3 years, she owes…	$76,491	15.2%
In 10 years, she owes…	$81,149	6.5%

We can also consider the home equity contract costs as a share of the home's total value. Home equity contracts are often in junior lien position behind a traditional mortgage, so we assume that the consumer has $300,000 and 25 years left on their mortgage. Prior to getting a home equity contract, the consumer has $200,000 in home equity.

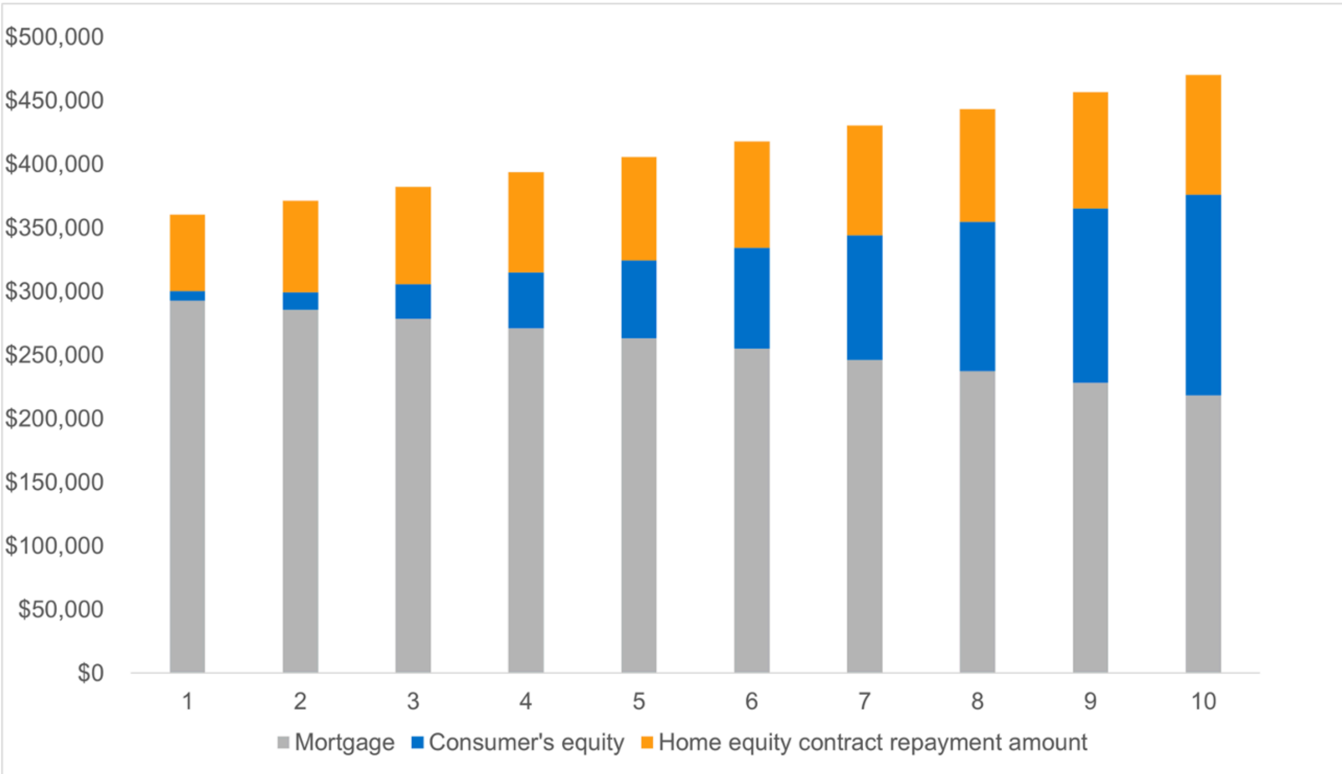
The home equity contract share will be the lesser of 20% of the home value or the capped amount. As shown in Figure 2, if home prices appreciate 6% per year, at the end of the home equity contract term, the consumer's equity will be 56% of the home's value, the home equity contract will have 20% of the home value, and the remaining amount will be the mortgage.

Figure 2: Share of home value, assuming 6% home price appreciation



As shown in Figure 3, below, if home prices fall dramatically (falling by 30% and then growing 3% per year in our example), the consumer loses most of their home equity in the early years. In Year 1, the consumer's home equity is just 2% of the home's value, while the home equity contract share is 17%, and the mortgage is the remaining 81%. At the end of the 10 years, 34% of the home's value goes to the consumer and 20% goes to the home equity contract. Obviously, had the consumer not gotten a home equity contract, they would have 54% of the home equity.

Figure 3: Share of home value, assuming crisis-level home price declines



Consumer risks

Home equity contracts carry various risks to consumers. As discussed in detail below, these products are often more expensive than traditional home-secured financing options, even if the home depreciates in value. They require homeowners to repay a large amount, sometimes in the hundreds of thousands of dollars, in a single payment. Homeowners who cannot pay the full settlement amount might be forced to sell their home or face foreclosure. Home equity contracts are complex financial contracts, and the current lack of standardized disclosures can make it difficult to understand them or compare them to other options. Consumers report feeling frustrated or even misled about a variety of home equity contract features—including the overall cost, the way the contract mechanics work, disputes about home values, hurdles to refinancing their first-lien mortgage due to the existence of a home equity contract, and surprise that they might be forced to sell their home.

Home equity contracts have risky features

Home equity contracts carry features that echo some of the risky loan structures that were common in the lead up to the 2008 housing crisis. Home equity contracts advertise "zero monthly payments," require consumers to assume all costs for property taxes, hazard insurance, and property maintenance, and require a large settlement payment, similar to the loans originated in the early 2000s that were negative amortizing and required a balloon payment at the end of the loan term. Home equity contracts also tout loose underwriting requirements, enabling them to reach homeowners with low credit scores or little to no income.

Few other home-secured options available today have these features. One notable exception is Home Equity Conversion Mortgages (HECMs), which are the most common kind of traditional reverse mortgages and that are insured and regulated by the Federal Housing Administration (FHA). Similar to home equity contracts, HECMs are repaid in a final lump sum rather than in monthly payments to the company and require consumers to pay hazard insurance and property taxes and to maintain the home. They also require the consumer to stay in their home as their primary residence and have limited income requirements. However, HECMs are only available to consumers ages 62 or older; require counseling with a HUD-certified housing counseling agency before origination; and generally allow consumers to stay in their home until they move or die rather than requiring repayment after a specified period of time.

Home equity contracts are expensive compared to other home-secured financing

As discussed above, home equity contracts are often structured so that the home equity contract company's returns are boosted because of a discounted initial home value or a multiplier. As a result, the potential settlement amount often grows by as much as 22% per year in the early years of the home equity contract, under nearly all home price scenarios. Costs in the 22% range are substantially higher than interest rates on most home-secured credit, though somewhat less than interest rates on unsecured loans such as credit cards. Even over longer terms, home equity contracts tend to be more expensive than other types of home-secured financing.

Suppose our example consumer instead got a mainstream $50,000 HELOC with a 9% interest rate and interest-only payments for 10 years. Their payments would be $375 per month for the first ten years. After 3 years, they would have paid $13,500 in interest. At 10 years, they would have paid $45,000 in interest and still owe the original $50,000.[26] In comparison, using the example home equity contract detailed above with a $50,000 upfront payment would result in a repayment amount at ranging from $94,074 to $215,892 under the home price appreciation scenarios discussed above. The home equity contract would be more expensive overall than the HELOC if the home appreciates. It would be less expensive overall only if the home value falls by at least 5% from its starting value 10 years earlier. However, under the strongest home price appreciation scenarios, the consumer would repay more than twice as much overall for the home equity contract than for the HELOC.[27]

Summary	Home equity contract	HELOC
Years 1 to 10	Pay $0 per month to home equity contract company	Pay $375 per month for interest
Consumer is responsible for paying taxes, insurance, and other maintenance costs	Yes	Yes
Amount needed to settle at 10 years	$94,074 to $215,892	$50,000
Total paid over 10 years	**$94,074 to $215,892**	**$95,000**

This simplified scenario illustrates some of the tradeoffs of home equity contracts compared to alternatives like mainstream HELOCs and does not include the impact of origination fees that are typically much higher for home equity contracts compared to HELOCs. However, HELOCs often have stricter underwriting standards, so a consumer may turn to a home equity contract after getting denied for a HELOC or cash-out refinance. Additionally, the HELOC requires an interest-only monthly payment, while the home equity contract defers payment until the end of the term and does not typically allow partial payments. The HELOC's higher monthly payment obligations may be more burdensome for the consumer, but they also keep the principal balance from increasing. Overall, the total amount the consumer pays will often be higher for a home equity contract than traditional mortgage-secured credit.

Consumers report feeling frustrated or even misled about contract terms and costs

Consumers have submitted complaints about home equity contracts to the CFPB. Complaint volumes may be limited by the fact that the industry is still small. Additionally, it may be too early to see many complaints about repayment issues, as several home equity contract companies have not been in the market long enough for their contracts to reach the end of their terms.

In a review of 38 CFPB complaints about home equity contracts (https://www.consumerfinance.gov/data-research/consumer-complaints/search/?company=Real%20Estate%20Equity%20Exchange%2C%20Inc.%20d%2Fb%2Fa%20Unison&company=Hometap%20Equity%20Partners%2C%20LLC&company=Unlock%20Technologies%2C%20Inc.&company=Point%20Digital%20Finance%2C%20Inc.&date_received_max=2024-12-01&date_received_min=2021-01-01&page=1&searchField=all&size=100&sort=created_date_desc&tab=List),[28]

consumers reported surprise at the size of the repayment amounts, feeling misled about how rate caps work, difficulties refinancing their first-lien mortgage, disputes about home valuations that were too low at origination or too high at repayment, and frustration that they saw their only option was to sell their property to repay the home equity contract. Of the 21 complaints with published narratives, six (29%) called the products "predatory." For example, one **consumer** (https://www.consumerfinance.gov/data-research/consumer-complaints/search/detail/8471822) stated that they "believe strongly that [the home equity contract company] acted in a predatory and manipulative way. Their marketing and salespeople [emphasized] acting quickly, before potential customers could really understand the depth of how bad this deal is for the home owners. I feel like a victim of their greed, taken advantage of, bamboozled…"

Consumers may be forced to sell their homes to repay the contract

As discussed above, homeowners must repay the home equity contract company in full with a single lump sum by the end of the contract term. Some consumers might get a home equity contract and plan to repay it by selling their home. However, homeowners who wish to keep their homes generally need to either liquidate other assets or qualify for a loan. Those with insufficient credit or assets might be unable to repay the full settlement amount. As a result, they might be forced to sell their home or face foreclosure.

Consumer complaints show that some homeowners are surprised that they have to sell their home such as the consumer who **complained** (https://www.consumerfinance.gov/data-research/consumer-complaints/search/detail/8414525):

"[T]hey offer loans with the option to buy back your [e]quity [i.e., repay the home equity contract] with a cashout refinance or [by] selling the home. Unfortunately, they never explained that the only option I would only have is to sell [because] my debt to loan ratio exceeds what I can get to pay them back…. I feel it was predatory due [to] the reason I expressed [at origination that] I will not be selling my home in any circumstances… I have no way [of] paying them back because I [cannot] qualify for a refinance because I only make XXXX monthly."

Several home equity contract companies were founded less than ten years ago, so we have yet to see how their cohort of early customers will fare when they reach the end of the contract term. Home equity contracts with 10-year terms may allow consumers to rollover into a new home equity contract, but only if they have sufficient equity remaining. Consumers are less likely to keep a home equity contract to the end of a 30-year term. Home equity contract companies secure their contracts with liens and could choose to initiate foreclosures in some circumstances. However, foreclosure metrics won't capture the experience of consumers who want to stay in their homes but must sell to pay their home equity contract.

Home equity contract companies' actions

Some home equity contract companies have taken steps to help consumers better understand the terms of their products' risks. Some require homeowners to pass knowledge checks or get homeownership counseling prior to origination. They may also provide regular statements that show an estimate of the home's current value and repayment amount. Some home equity contracts are structured to have rate caps, as discussed above, that limit how quickly the settlement amount can grow. Many have disclosure forms, but they are not standardized.

Conclusion

Home equity contracts are financial agreements where consumers get an upfront payment and, in exchange, must repay a lump sum amount that can run in the hundreds of thousands of dollars. Although still relatively small in the marketplace, the home equity contract industry has grown in recent years. The four largest home equity contract companies have led the growth and are supported by an emerging infrastructure for home equity contract securitization. While home equity contract companies have taken some actions to educate consumers and limit risk, the products are complex, often come with non-standardized disclosures, carry high costs, and have other traits that can make them risky for consumers, especially when these agreements become due.

To date, home equity contract offerings have primarily targeted existing homeowners. However, as of late 2024, at least two companies have announced new home equity contracts aimed at homebuyers. Product details are limited, but these home equity contracts appear to be in second-lien position behind a more traditional mortgage and would replace part of the homebuyer's down payment. The CFPB will monitor the emergence of these products and seek to learn more about their similarities and differences to existing home equity contract offerings.

Overall, the lack of adequate understanding among consumers about home equity contracts, their complex terms, non-standardization in disclosures and other issues may prevent consumers from recognizing the true financing costs and risks of these products. The CFPB will continue to monitor and review the home equity contract market to ensure compliance with federal consumer financial laws.

Endnotes

1. This Issue Spotlight includes links and references to third-party resources or content that consumers may find helpful. The Bureau does not control or guarantee the accuracy of this third-party information. By listing these links and references, the Bureau in not endorsing and has not vetted these third-parties, the views they express, or the products or services they offer. Other entities and resources also may meet your needs. ↩

2. At a conference on home equity contracts, it was noted that demand for home equity contract securitizations had "completely exploded" and that the attractive returns on the products meant that the "sky's the limit." See Inside Mortgage Finance, "Strong Demand for Home Equity Investment ABS" (October 2, 2024), available at https://www.insidemortgagefinance.com/articles/232095-strong-demand-for-home-equity-investment-abs (https://www.insidemortgagefinance.com/articles/232095-strong-demand-for-home-equity-investment-abs). ↩
3. Kroll Bond Rating Agency, LLC., *Navigating the HEI Contract Landscape* (September 3, 2024). ↩
4. Aspire HEI, Pricing calculator, https://aspirehei.com/pricing (https://aspirehei.com/pricing). ↩
5. Unison, for example, prohibits homeowners from being away from their home for 60 consecutive days, https://www.unison.com/faq (https://www.unison.com/faq). ↩
6. Unlock homepage, www.unlock.com (http://www.unlock.com/). ↩
7. Point homepage, https://point.com. (https://point.com./) ↩
8. Hometap homepage, www.hometap.com (http://www.hometap.com/). ↩
9. For example, "Drew had debt and medical bills. Unlock helped him pay them off and increase savings," (Unlock, "Customer stories," https://www.unlock.com/customer-stories (https://www.unlock.com/customer-stories)) and Hometap, "Brenda Chose Hometap to Help Her Tackle Home Repairs and Eliminate Debt," https://www.hometap.com/stories/brenda-k (https://www.hometap.com/stories/brenda-k). ↩
10. For example, Hometap, "Sacco Leveraged His Home Equity to Build Up His Investment Portfolio," https://www.hometap.com/stories/sacco-n (https://www.hometap.com/stories/sacco-n). ↩
11. Kroll Bond Rating Agency, LLC., *Navigating the HEI Contract Landscape* (September 3, 2024). ↩
12. Washington State Department of Financial Institutions, *Home Equity Sharing Agreement Inquiry Report* (September 12, 2024), https://dfi.wa.gov/news/press/dfi-issues-report-home-equity-sharing-agreement-inquiry (https://dfi.wa.gov/news/press/dfi-issues-report-home-equity-sharing-agreement-inquiry). ↩
13. Morningstar rating report methodology. ↩
14. CFPB analysis of home equity contract securitizations. ↩
15. Moody's Analytics, https://www.creditforecast.com (https://www.creditforecast.com/). ↩
16. See HousingWire, "Why Hometap is betting on the growth of the home equity investment market" (March 8, 2024), https://www.housingwire.com/articles/why-hometap-is-betting-on-the-growth-of-the-home-equity-investment-market/ (https://www.housingwire.com/articles/why-hometap-is-betting-on-the-growth-of-the-home-equity-investment-marke

t/) and Information Management Network, "HEI & Home Equity Capital Markets Forum - Early Speaker Insights" (August 5, 2024), https://imn.org/blog/home-equity-investments-forum-early-speaker-insights (https://imn.org/blog/home-equity-investments-forum-early-speaker-insights). ↩

17. Inside Mortgage Finance, "Splitero Raises More Capital for HEI Business," (November 8, 2024), https://www.insidemortgagefinance.com/articles/232632-splitero-receives-new-capital-for-hei-business (https://www.insidemortgagefinance.com/articles/232632-splitero-receives-new-capital-for-hei-business). ↩
18. See Unlock Investor page, https://www.unlock.com/investors/ (https://www.unlock.com/investors/). ↩
19. Home equity contracts generally calculate repayment using either the *total* home value or the *change* in the home value. As an example of the latter, a different HEI company may offer the same payment in exchange for a 40% share of the *change in home value*, with an adjustment that discounts the starting home value by 30%. ↩
20. For example, Unlock charges a 4.9% origination fee at closing and Aspire charges a 3% processing fee at closing. *See* Unlock, "What it costs," https://www.unlock.com/what-it-costs (https://www.unlock.com/what-it-costs/) and Aspire, "FAQs," https://aspirehei.com/faqs (https://aspirehei.com/faqs). ↩
21. Federal Reserve Bank of St. Louis, "All-Transactions House Price Index for the United States" (January 1975 – January 2023), https://fred.stlouisfed.org/series/USSTHPI (https://fred.stlouisfed.org/series/USSTHPI). ↩
22. Zillow, "Zillow House Value Index for all homes in Las Vegas metro area." Available at www.zillow.com/research/data (http://www.zillow.com/research/data). ↩
23. A few companies and nonprofits do offer HEIs or shared equity programs that are 1:1 sales of the home's value. See, for example, Homium. ↩
24. Some industry observers have argued that discounted home prices may be a more transparent way for consumers to understand the cost of a home equity contract than multiples. ↩
25. Kroll Bond Rating Agency, LLC., *Navigating the HEI Contract Landscape* (September 3, 2024). ↩
26. After 10 years, the consumer would need to begin paying down the principal on the HELOC. If the consumer had a 20-year amortization period, the monthly payment HELOC would increase to about $450. ↩
27. In our example, the HELOC will be less expensive only if the home is worth $475,000 or less after 10 years, which is a 5% or greater loss in home value from Year 0 ↩
28. Complaints accessed on January 8, 2025. ↩

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CFPB Report Finds Cash-Out Mortgage Refinance Borrowers Improve Credit Scores (cfpb.gov/about-us/newsroom/cfpb-report-finds-cash-out-mortgage-refinance-borrowers-improve-credit-scores/)

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