HOME EQUITY SHARING AGREEMENTS IN WASHINGTON STATE

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WHAT ARE HOME EQUITY SHARING AGREEMENTS?

- Also known as **Home Equity Investments** or **Home Equity Agreements**

- Financial products that provide homeowners with an **upfront lump-sum payment** in exchange for a **percentage of the future value or appreciation of their home**.

- Do not require any monthly payments, but instead, a **balloon payment** at:
  - The end of the term (10 to 30 years).
  - Upon the occurrence of a triggering event (e.g., death, sale of the house).
  - At the buyout – based on homeowner's choice.

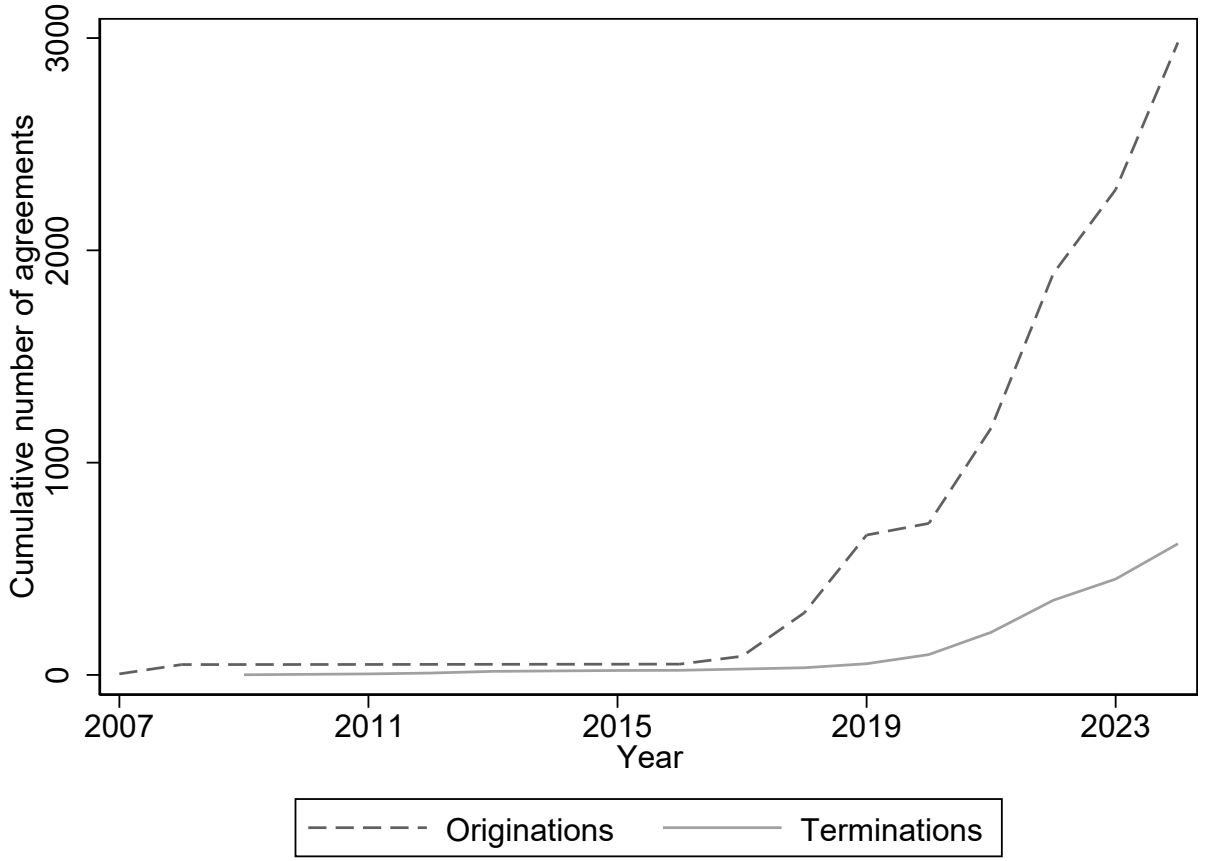
HESA CONTRACTUAL TERMS

- Some **similarities** between providers and HESAs vs. other mortgage products:
  - Homeowners are responsible for origination fees and other third-party costs
  - Investment secured through a Deed of Trust on the property
  - HESAs impose certain limitations on the homeowners' ability to refinance their existing mortgage or take out new loans.
  - HESA providers have occupancy requirements, maintenance requirements, insurance clauses.

- Some **unique characteristics** of HESAs
  - Less strict eligibility requirements (based on income, age, and credit score)
  - No monthly payments (instead, a balloon payment)
  - Not reported to credit bureaus

HOW COMMON ARE HESAS?

- Available to a **greater share of homeowners** compared to other traditional mortgage products.
- Still small but **growing** marketplace.
  - 35-fold increase in the number of originations over 7 years.
- In Washington, about 1 in 5 HESA contracts have been settled.
  - About 50% were terminated through the sale of the home, most others through buyouts.



TYPES OF HESA CONTRACTS

- **Shared-Value Products**
  - Settlement payment is calculated as a set percentage of the **property's future value**
- **Shared-Appreciation Products**
  - Settlement payment is calculated as a set percentage of the property's **future appreciation**

SETTLEMENT PAYMENT ACROSS HESA TYPES

- **Hard to predict** and fairly variable across HESA companies.
- Generally, **greater home appreciation** scenarios are associated with greater HESA settlement amounts.
- Settlement amounts generally **grow faster in earlier contract years** compared to later contract years.
- Contracts **often** include terms **that protect providers against losses** due to short-term fluctuations in home prices

CALCULATING HESA SETTLEMENT PAYMENT FOR ONE TYPE OF CONTRACT

Shared Value HESAs	
Appraised home value	650,000
Upfront payment (U.P.)	**100,000**
UP as % of home value	15%
Multiplier (M)	2.0
Provider share of future value (% U.P. x M)	30%
Final value (2 years)	716,600
Settlement payment	**$214,990**
Annualized Cost Growth Rate	**46.6%**
Final value (10 years)	1,058,800
Settlement payment	**$317,635**
Annualized Cost Growth Rate	**12.4%**

This would not happen if the contract included a cost cap.

COST CAPS

- **Cost caps** are essential in limiting homeowners' settlement amounts.
- Today, all large companies in Washington implement cost caps (~19%, compounded annually), which are **voluntary.**
- About one-quarter of HESAs in Washington do not include cost caps (originated by one company, before 2023).

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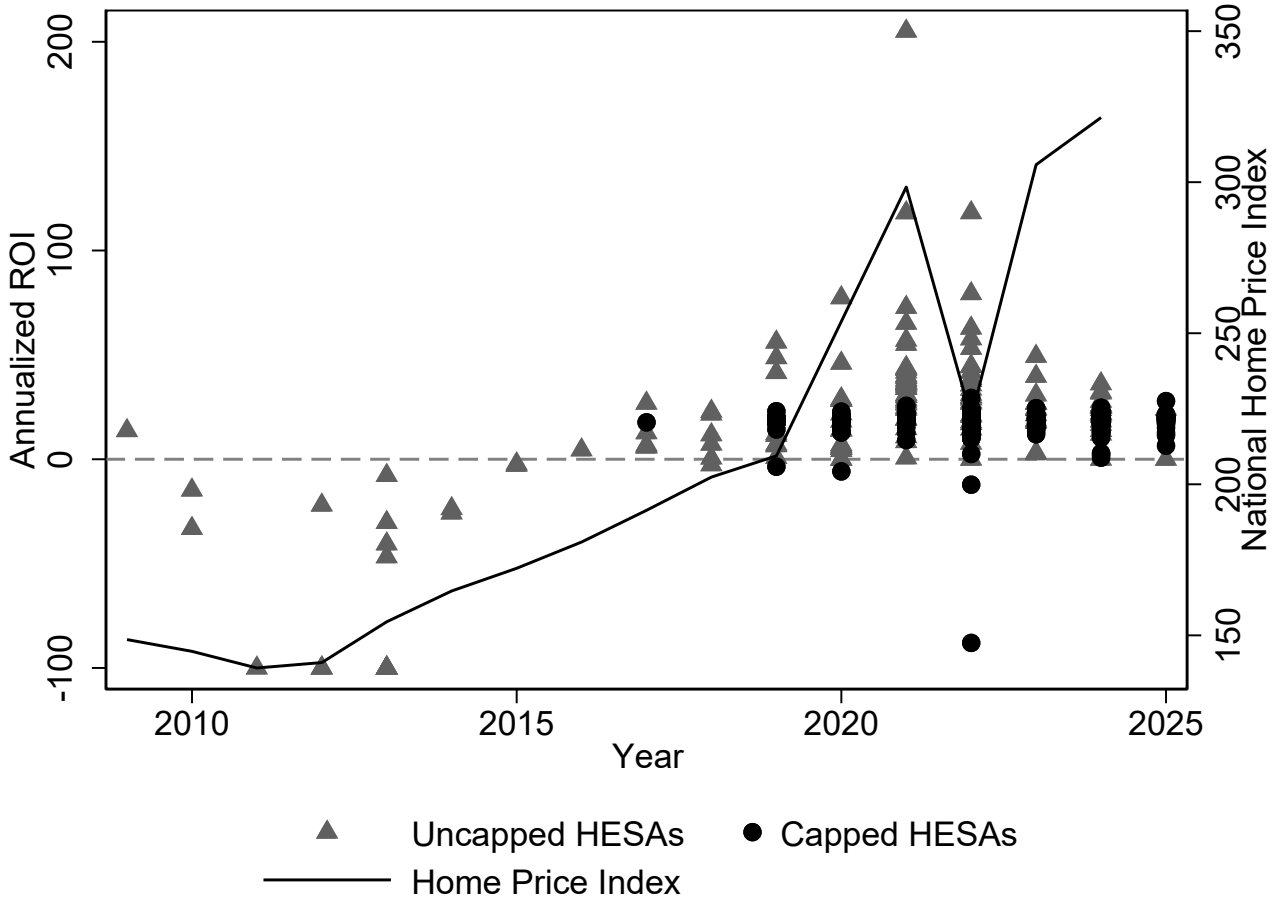
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Contracts with no cost caps also included less protection against losses for this company.

This means more variation in outcomes!

- Average Annualized ROI (or "cost growth rate" for consumer) in the same range (17%-19.5%)
- More instances of losses for company (small or negative ROI) and of exorbitant costs for consumers (ROI> 50%)

COST CAP X TIMING OF SETTLEMENT



HOW DO HESAS COMPARE WITH OTHER PRODUCTS?

- HESAs can be objectively more expensive than existing mortgage products, particularly if:
  - The homeowner has a good credit score
  - The HESA is settled early
  - Settlement occurs under above-average appreciation rates

- Yet, it is hard to make clear comparisons because:
  - Some homeowners may not qualify for alternative products
  - The "value" of not having to make monthly payments or of potential improvements to credit score are hard to gauge.

- What we showed you, may not be reproduced in the future!
  - Some outcomes are linked to uncapped HESAs
  - Outcomes are highly dependent on historic moment of origination and settlement

QUALITATIVE EXPERIENCE OF HESA CONSUMERS (N=14)

- Most homeowners experienced **financial difficulties** before entering HESAs.
  - Most had taken 8,000-18,000 new debt before entering HESAs.
- Most HESA homeowners wanted to **pay off debt.**
  - Homeowners had varying levels of control over the use of their HESA upfront payment
- Most homeowners chose HESAs because it gave them access to **large lump-sums and required no monthly payments.**
- Homeowners didn't **fully understand** how HESAs worked
  - Many homeowners agreed that the HESA providers did not provide enough information
  - Homeowners generally had difficulties calculating or estimating settlement amounts, **despite companies' efforts** to make these calculations more accessible.

VARIED LIVED EXPERIENCES

Homeowners with positive experiences.

- They were more likely to have had alternative options to tap into home equity,
- They felt self-efficacious in pursuing information for themselves.
- They were willing to share large portions of their future home value gains to not have present debt obligations.
  - Their home was not their only large asset
  - Their future economic wellbeing was not seen as tied to that particular property.

Homeowners with negative experiences.

- They were more likely to have had no other alternative options to tap into their home equity
- They were experiencing financial hardships and time pressure
- They reported feeling confused, powerless, pressured, deceived at the time of origination.
- The HESAs were not enough to resolve their financial difficulties.
- These homeowners felt they might someday be forced to sell their home or were concerned about their ability to use their home to support themselves in the future.

CONCLUSIONS

- Expand access and create additional options, but also the potential for homeowner harm.
- HESAs costs are hard to predict and to compare to other products.
  - HESAs may be riskier and costlier, but also valued by homeowners who cannot afford monthly payments
- Homeowners' lived experiences may vary meaningfully – even if "objective costs" did not.
- There is a need for more data to understand homeowners' outcomes.

THANK YOU

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Acknowledgements: *We are thankful for the support and information received from the WA Department of Financial Institutions, WA homeowners, and from four large HESA companies – Unison, Hometap, Unlock, and Point.*