# Home Equity Agreements

***If you or anybody you know is considering a Home Equity Agreement, I would suggest that they read this first.***

The Home Equity Investment (HEI) arrangement is being heavily promoted right now on social media platforms. It is sometimes called a Home Equity Agreement (HEA). This is being presented as an alternative to HELOCs (*Home Equity Lines of Credit*). Those offering these arrangements are claiming that it is not technically a loan, and therefore, it is not subject to consumer protection regulations. *To clarify, a Home Equity Agreement is promoted under several different names. The two I see the most are Home Equity Investment (HEI) and Home Equity Agreement (HEA).*

In some ways this Equity Sharing Agreement model reminds me of the early days of Reverse Mortgages. When Reverse Mortgages were first introduced in 1961, it was a very creative and innovative concept. Unfortunately, it was almost completely unregulated. As you might expect, this created a lot of room for consumers to be misled and taken advantage of. Eventually, consumer protection regulations were added that allowed seniors to safely take advantage of the unique opportunities and solutions Reverse Mortgages can offer them.

In a way, Home Equity Investment (HEI) agreements are similar to Reverse Mortgages. They both allow people to access some of the equity in their home with much easier qualifying requirements than a standard mortgage. However, since the Equity Sharing Agreements are not constrained by consumer protection regulations, their qualifying requirements and loan process tend to be even easier than a Reverse Mortgage.

Based on the lawsuits that are being filed related to these equity agreements, there are regulations currently being added to provide some protection for consumers.

If you or someone you know is considering a Home Equity Investment agreement instead of a HELOC or Reverse Second Loan, there are some things they really need to know.

Below I included a table to help identify the best option for someone who is wanting to access some of their home's equity without refinancing their current mortgage. I also included a point/counterpoint response to an FAQ that one of the companies promoting these arrangements sent to a senior who we were able to provide a much better option for. *In his case, a Reverse Second Loan is saving him a minimum of $264,000 when compared to the HEI agreement he was about to enter into.*

| Financing Product Selection | | | |
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| **Financing Option** | **Home Equity Line of Credit (HELOC)** | **Reverse Second** | **Home Equity Investment (HEI)/Home Equity Agreement (HEA)** |
| **Minimum Age** | No Requirement | 55 | No Requirement |
| **Best Option For** | -Borrowers under the age of 55 who need to access funds at much more favorable terms than an HEI/HEA.<br><br>-Borrowers 55 and over who do not see a benefit in the payment flexibility of the **Reverse Second**.<br><br>-Borrowers who need to access a higher percentage of their homes equity than the **Reverse Second** will allow.<br><br>-Borrowers who wish to access and repay the funds as needed during the draw | -Borrowers who can benefit from the easier qualifying criteria when compared to a HELOC.<br><br>-Borrowers who do not want the exposure to the payment increase when a HELOC goes to the principal repayment phase, or the HEI comes to the end of its term.<br><br>-Borrowers who want the full payment flexibility to pay down the loan monthly or in lump sum payments; make interest only payments; or pay the | -Borrowers who have a crucial need to access funds but are unable to meet the requirements of a better option like a HELOC or a **Reverse Second**.<br><br>-Borrowers who need to expedite the process. (*Since HEI/HEA agreements are not following consumer protection and mortgage lending regulations they can generally be closed much faster than these regulated lending products)* |

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| | period. (*please note; this ability to access and repay the funds is also available under our first mortgage reverse loan product, but not the reverse second referenced on this table*) | balance down on a monthly schedule of their choosing.<br><br>-Borrowers who want to ensure that they are preserving more equity for their heirs than they could have with an HEI/HEA. | |
| **Drawbacks** | -Income and credit qualifying are generally much stricter than a Reverse Second or a HEI/HEA<br><br>-Monthly Payments are required.<br><br>- Payments can increase significantly after the draw period ends. | **-Reverse Second** loans are highly regulated by lending and consumer protection laws. This means that they cannot be closed as fast as products like the HEI/HEA agreements which bypass these regulations and can be closed very quickly.<br><br>-The funds are fully disbursed when the loan is done. A borrower can pay it back or pay it down at will, but they cannot re-access the funds like a HELOC (or **Reverse First** mortgage) | -Because the companies offering these programs take the position that their products are not technically a mortgage product, they state that they are not subject to federal regulations like the Truth-in-Lending laws, or restrictions on charging excessive interest rates to consumers.<br><br>-Borrower's need to be very cautious when entering into these arrangements. There are currently lawsuits pending (*including the one that AARP is supporting*) that would result in these products being required to adhere to consumer |

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| | | | protection and lender accountability laws and requirements. |

| Lawsuit Examples |
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| **Chuck & Kate Kane in Colorado**. Entered into a HEI agreement 8 years ago for $87,000. They just contacted the lender to determine what they would need to repay if they were to sell their house now. They were informed that they would now have to repay $278,618 for the $87,000 they borrowed 8 years ago. This works out to be almost 24% interest annually. They believe that they were very misled and deceived when they entered into this arrangement. They just filed a federal lawsuit and are seeking class action status. |
| **Patricia Gout in California**. She is an 80-year-old retiree who received $97,256 on an HEI agreement in 2017 to help with home maintenance expenses and medical costs. 8 years later she discovered that she owed $375,000. This equates to an effective interest rate of 34%. (*even if she could not have qualified for a HELOC, a Reverse Second for $97,256 taken out today would only have a balance in 8 years of approximately $210,000*.) She recently filed a lawsuit against the HEI provider in the Superior Court of California for the County of San Francisco. |
| **The National Association of Consumer Advocates** (NACA) has been **joined by AARP** to file a class action lawsuit in the Superior Court of the District of Columbia against Unison and its affiliates. This is one of the companies who are promoting these arrangements. The suit alleges that they were deceptively marketing the product as a “no-debt” home equity alternative, while actually offering unlicensed mortgage loans that can Leave homeowners owing hundreds of thousands of dollars and forced to sell their homes. |

I had a senior who was headed down the path to doing one of these HEI agreements. He asked me to look at their representations of their product. He wanted me to let him know if their statements were accurate and also let him know how this compares to his other options. I decided to do the review and comparison more generically so others could use this information for their situations.

**Here is a list of their statements with the relevant comparisons to the Reverse Second program and HELOC opportunities.**

I am including the link to their site where you can verify the statements used for the comparisons below:
https://point.com/blog/home-equity-agreement-pros-and-cons

| **Statements from their attached article** (These statements are unedited) | **Point by point comparison to the Reverse Second available to borrowers 55 and above** | **Comparison to a Home Equity Line of Credit (HELOC)** |
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| **How home equity agreements work** | **How a Reverse Second Works** | **How a HELOC Works** |
| A home equity agreement is different from traditional debt; rather, it's a partnership where you offer a share of your home's future value in exchange for access to money today. | Basically, it's the same with the **Reverse Second** loan since the accumulated balance on the loan will be deducted from the home's equity at the time of sale. However, this option will preserve significantly more equity than the HEI or HEA arrangement. | In a sense this is also the case with a standard HELOC. You are drawing on a portion of the home's current equity. If you have not repaid that loan at the time you sell the home, the balance of the loan will be deducted from the proceeds of that sale. |
| There are no monthly payments — instead, the agreement is settled at the end of the HEA term, typically 10 years, unless you sell the home or otherwise pay back early. | With the **Reverse Second** program the balance of the loan is also due upon the sale of the house. However, there is no ending term. If the borrower stays in the home for another 50 years, the loan still won't get called until they pass away or sell the house. | Monthly payments are required on a HELOC, but this is generally significantly less than the cost of the shared equity surrendered with the HEI arrangements. |
| When the term ends, you'll repay the amount you originally borrowed, the agreed-upon percentage of your home's new value, and any fees. | There is no term on the **Reverse Second**, so you never have to worry about outliving the term of the loan. | HELOCs are generally structured to ensure that there is no remaining balance when it gets to the end of the term. |

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| Lower credit and income requirements | This is generally a moot point because most people over the age of 55 have a credit score of at least 640. However, if their score is under 640 that may be a situation where the HEI/HEA is their only option. Just keep in mind, though, that we can often help people to bring their scores up to an acceptable level if they are below 640.<br>*(We also have **Reverse First** mortgage options with no minimum credit score requirement.)* | This is generally a moot point as most borrowers will have adequate credit scores to meet the lender's HELOC score requirements. If their score is not sufficient lenders can generally provide tips and suggestions to bring the score up to the minimum needed. |
| Another major benefit of HEAs is that they're often easier to qualify for than regular home equity debt products, especially in terms of your credit score and income. Loans and lines of credit require regular payments, and so typically require a high credit score and income. | The **Reverse Second** is similar in that they do not require monthly payments, and the income and credit requirements are generally much easier to meet than a standard mortgage. However, they do follow consumer protection lending laws. Thus, we need to ensure that there is sufficient income for someone to meet their first mortgage, taxes, and homeowners' insurance obligations. | Their statement on this point is *somewhat* accurate as it relates to HELOCs. Because HELOCs are subject to consumer protection laws and policies, the lender will review a borrower's income and credit to ensure that they are in a position to repay the loan. However, they generally only require an average score, not a "high credit score" |
| You can be approved for an HEA with a credit score as low as 500 in some cases; far below what most home equity loans or HELOCs require. | This can be an advantage for some people with the HEI product, although the credit score requirement is actually pretty low for the **Reverse Second**. There is a minimum required score of 640 to help protect the borrower's interests. Making a loan to someone unable or unwilling to meet their credit | This statement is somewhat accurate as it relates to HELOCs. Lenders are going to protect consumers from entering into a loan if they are already struggling to meet their credit obligations. They do not want to set a borrower |

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| | obligations because they have a lot of home equity is setting them up for foreclosure.<br>(*We do have also Reverse First mortgage options that do not have a minimum credit score*) | up for foreclosure and take their house from them. |
| **Partial buyout** | | |
| Most HEA providers allow you to buy out of your contract early to regain control over your full home equity amount whenever you want. This can be a substantial cost, but some home equity sharing companies offer partial buyouts. Making smaller partial buyouts can be an easier route toward paying back your contract in full. Not every company offers this option, so make sure to do your research if this feature is a priority for you. | You can pay off any part of the **Reverse Second** at any time without "*substantial cost*." Any part of the balance that is paid down will no longer be accruing interest. | Like the **Reverse Second** option, a borrower does not generally incur any penalties or "*substantial cost*" for paying off a HELOC. |
| **Cons of home equity agreements** | | |
| True cost is unknown until later | On the **Reverse Second** the costs are very clear and transparent right up front. Per federal regulations they are fully disclosed before a borrower commits to this loan. | On a HELOC. The costs are determined up-front and they are presented very clearly to the borrower. This is required per federal regulations. |
| With debt-based financing, like credit cards, you know the exact cost of borrowing money before you even take out the loan. This is measured by a loan's annual percentage rate (APR), and it offers a handy way to compare | Their statement on this is correct, to an extent. However, you are able to determine the minimum amount that it's going to cost you and that is significantly higher than the cost of a **Reverse Second**. Although the costs | This statement is technically correct. The amount you will pay on the HELOC over the course of the loan will vary depending on factors like the interest rate and outstanding balance. However, the |

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| different financing options and calculate the exact dollar amount in fees and interest that you'll pay over the entire course of the loan.<br><br>That's not how HEAs work, however. The amount you'll have to repay is based on the future value of your home via a home appraisal. Since that's not possible to know in advance, there's no way to compare how expensive it will be next to your other borrowing options. | on a Reverse Second are fully disclosed up-front, there is no way to determine the full amount of the interest that will be owed as there is no set repayment term.<br><br>I just compared the **Reverse Second** option for a client who was about to enter into an HEI agreement for $75,000. Even using their very optimistic (and misleading) appreciation numbers, and assuming he never paid down the **Reverse Second** (*which he is allowed to do*), the net savings for him with the Reverse Second was over <u>**$240,000**</u>. | lender can tell you what the very maximum would be based on the worst-case scenarios. You need only look up the lawsuits that have been filed on HEI arrangements to see that the worst case on a HELOC is generally significantly better than the potential downsides of an HEI. |
| The good news, however, is that many shared equity agreement companies place a limit on the maximum equivalent interest rate you'll have to pay. This can be a good way to compare your borrowing options since your repayment amount won't be any higher than this. | Since the *minimum equivalent interest rate* of an HEI is <u>much</u> higher than a **Reverse Second**, the maximum equivalent is going to be significantly higher.<br>*In some of the recent lawsuits that have been filed against HEI providers, the equivalent interest rates were 24% to 34% annually.* | Like the Reverse Second product the rate for a HELOC will be significantly lower than the *minimum equivalent interest rate* of an HEI arrangement. |
| Short repayment term | This is another area where the advantages of the **Reverse Second** are <u>very</u> clear. There is no term on a **Reverse Second**. It doesn't have to be | The repayment terms on a HELOC will vary by program and lender, but it will be structured over a longer term to ensure that the |

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| | repaid until the borrower moves out or sells the home, no matter how long it takes for one of those events to occur. | borrower is able to make this payment. |
| Many HEA companies offer only a 10-year term, which means that you'll have a shorter runway to pay back your HEA. If you'll be saving up money to repay using cash or building a good credit score to qualify for a loan, you may need a longer period to get ready. | The **Reverse Second** actually has no set repayment term, so you do not need to prepare for that large payment. | This is generally not an issue with a HELOC because the lenders practice responsible policies and follow state and federal lending regulations. This helps to ensure that a borrower is not going to run into a repayment requirement that puts them in a difficult position or causes them to lose their house. |
| A 30-year term can simplify repayment since you will almost certainly be done paying off your mortgage in 30 years. If the longer term is important to you, you may want to consider a home equity investment (HEI) vs. an HEA. An HEI gives you the security of a 30-year term with the flexibility to repay at any time. | Although that option might allow a homeowner to repay the obligations at any time, this can trigger the "*Substantial Cost*" they referenced above.<br>A **Reverse Second** gives you the security of not having any set repayment term, and you have the flexibility to repay at any time without incurring any penalties or "Substantial Costs". | This is only an issue if you are in an HEI (HEA) arrangement since those require full repayment at the end of their term. HELOCs are generally structured to be fully paid off at the end of their term. |
| Single payment | This is an *option* on the **Reverse Second**<br><br>Since the **Reverse Second** is payment optional you can choose to make a single payment when the house is sold, | Unlike the HEI and **Reverse Second**, HELOCs do require a monthly payment based on the outstanding balance. However, these payments will generally add up to a lot less than the total cost of a **Reverse Second**, and very |

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| | or you can make incremental payments at any time you choose. | significantly lower overall cost than the HEI arrangements. |
| Unlike most other types of financing that people are familiar with, HEAs require repayment in the form of a balloon payment; i.e., everything, including fees, your share percentage, and the original amount of money you borrowed, all at once. This one-time payment will be tens of thousands of dollars or even higher, depending on how much cash you pull out, which isn't exactly something most people can pay at the drop of a hat. | Since we also offer **Reverse First** mortgages for people all the way down to the age of 55, a **Reverse Mortgage** can be an advantageous option from the start. Whichever **Reverse Mortgage** product a borrower chooses, it doesn't have the ticking time bomb feature of the HEA/HEI products.<br>Borrowers may pay off or refinance this loan at any time.<br>Whenever we discuss a **Reverse Second** with a potential client, we also explain the options of just doing a **Reverse First** and eliminating their current monthly mortgage payment altogether. | A HELOC has an initial draw period which then transitions to a repayment period. That can create an affordability issue for borrowers due to a sharp increase in the required payment at that point. However, there is <u>no</u> balance remaining at the end of the loan term, so a borrower will not be forced to sell their home or find a way to refinance that debt. |
| Instead, many homeowners choose to repay an HEA out of the sale proceeds then they decide to sell their home. (Keep in mind this means that you won't receive the full amount of your home sale). Others may choose to use savings or take out another loan, such as a reverse mortgage. | The balance due on a HEI/HEA agreement can be very high at the end. Thus, the borrower's income may not be sufficient to qualify for a standard mortgage at that point. Since the amount required to pay off the HEI/HEA agreement can be so high, even options like a Reverse Mortgage may no longer be possible. Selling their home may actually be their <u>only</u> option if they have entered into an HEI/HEA agreement. | If a borrower chooses to sell their home, they will just pay off the outstanding balance on their HELOCs with proceeds from the home sale. |

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| Foreclosure possibility | Since there is no balloon feature like the HEA, there is no foreclosure possibility as long as a borrower is meeting the terms of the loan. | Like the **Reverse Second**, there is no large lump sum payment due at the end of the loan term on a HELOC so a borrower is not at risk of foreclosure due to this large payment obligation. |
| You always retain full ownership of your home when you borrow with an HEA. However, just as a mortgage lender isn't listed on your home's title but does have a lien filed on your home, so too will your HEA partner. If you're not able to repay the agreement as planned when payment becomes due, your home may be put into foreclosure. | Contrary to popular belief, you retain full ownership of your home with today's **Reverse Mortgages** also. However, since repayment does not come due until you sell the house or pass away, you don't have the risk of a foreclosure when you reach the end of the term. | A borrower retains full ownership of their home with a HELOC. However, they don't have the risk of a foreclosure that comes with an HEI agreement. |
| **Is a home equity agreement a good idea?** | | |
| Home equity agreements can be an excellent option if you need to take money out of your home, particularly if you're having a hard time qualifying for other financing methods due to income and credit challenges. | An HEI/HEA may be your best option if you have exhausted all other avenues. However, if you are 55 or above, the HEI/HEA programs are very rarely the best option because you have access to the **Reverse Second** with all of its advantages.<br>Many people are not aware of the **Reverse Second** option when they do not have sufficient income to qualify for a standard mortgage or HELOC. | Like the **Reverse Second** product, HELOC lenders are going to ensure that consumers are being protected. They will want to make sure that a borrower has the ability to meet their payment obligations. |
| However, it's essential to consider the long-term implications. Understanding HEA loan pros and cons can help | I agree with this statement completely. This is why it is so important to be | If a borrower is in desperate need of funds and they are unable to qualify for better options like a |

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| determine if a home equity agreement aligns with your financial goals and timeline. | aware of more strategic options like the **Reverse Second.** | HELOC or Reverse Second, this may be their only option. |
| If you're looking for a longer term length or more flexibility in terms of your contract, an HEI from Point may be a better option. Homeowners today have a wealth of options when it comes to unlocking their hard-earned equity. Make sure you do your research and choose the best option for your finances and long-term goals. | If you're looking for an *even longer* term, and *much more flexibility*, and you're over 55, then the **Reverse Second** will clearly be a much better option for you as spelled out above. | Although I agree with this statement overall, it think that it is very important to realize that the entities offering these arrangements are insisting that they are not actually a "home loan" product and therefore they are not subject to all of the regulations that orthodox home lenders must follow. As a result, consumers should be very cautious about the representations and statements that are made by these companies. |
| What happens at the end of the term if I can't repay or refinance? | This doesn't even apply when it comes to a **Reverse Second** since there is no end of the term, eliminating the possibility of a forced home sale as long as the requirements of the **Reverse Second** are met. | This is also generally a moot point on HELOCs as they are designed to be fully paid down at the end of the loan term. |
| If you can't repay or refinance your home equity agreement at the end of the term, you may need to sell your home to satisfy the agreement. In some cases, the company may offer extensions or alternative repayment options, but these depend on your specific contract and situation. | This this is yet another reason why the **Reverse Second** offers such a significant advantage for borrowers 55 and over. There is no end of the term whereby someone could force you to sell your home. | Not an issue with a HELOC |

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| This is why a longer term — like 30 years with some HEIs — can be so valuable compared to a 10-year term. A longer term gives you far more time to plan, build equity, and choose the best moment to repay, rather than being forced into a decision by a shorter timeline. Always review your agreement early and explore options well before the term ends. | When you compare what would be owed at the end of 30 years on an HEI to what would be owed in 30 years on the **Reverse Second,** it becomes a very easy decision. The **Reverse Second** will preserve significantly more equity in the home. | Not an issue with a HELOC since it is fully paid off at the end of the term. |
| **Who typically benefits most—or least—from a home equity agreement?** | | |
| Home equity agreements can be a great fit for homeowners who have built up a lot of equity but might not qualify for a traditional loan because of credit issues, inconsistent income, or simply wanting to skip monthly payments. They work well for people who plan to stay in their home for a while and like the idea of choosing when to repay. However, if you expect your home's value to rise quickly, an HEA might not be the best choice since you'll share that increase when it's time to settle up. | From everything I have read or seen in regards to both the HEA and HEI options, the only ones who benefit from these arrangements are the companies who are offering them, and borrowers who are desperate for money, without any other options. For homeowners 55 and above, there is usually a much better option available to them in the form of the **Reverse Second.** | If a borrower is under age 55 and has a very good rate on their current first mortgage, they will almost always be better served with a HELOC than an HEI arrangement. |
| End of HEI Provider FAQ | | |
| Notes: Although there are some significant drawbacks to the HEI option, I do think there are some situations where it may still be the best option for a consumer. Most borrowers who are over 55 will be much better served with a **Reverse Second**, but I believe the HEI providers will often require less equity in the home (higher loan-to-values). **Reverse** | | |

**Mortgage** products base the loan-to-value (LTV) on the age of the borrower. The older the borrower, the higher the percentage of their equity they can borrow. Although the LTVs for the **Reverse Second** product are higher than the LTVs on **Reverse First** products, they may still not allow someone to leverage their property as high as a HELOC or an HEI provider might.

Today's **Reverse Mortgage** products are also highly regulated to ensure consumer protection so the process of securing a **Reverse Second** loan is certainly a bit more involved than it is to enter into an HEI agreement.

Although there have been significant changes to **Reverse Mortgage** products recently, many people are unaware of these updates and changes. If someone is 55 or above and has any home financing needs, I would strongly recommend that they speak with us directly to see if they would benefit from one of these options.