Home Equity Agreements

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

Home Equity Investments (HEIs), also commonly called Home Equity Agreements (HEAs), are being heavily promoted on social media as an alternative to HELOCs (Home Equity Lines of Credit). These arrangements are often marketed as an "*Interest Free*" way to access the equity in your house. Providers of these agreements are claiming they are not subject to many of the consumer protection and Truth-in-Lending regulations that apply to traditional mortgage lenders.

In some ways, the HEI model reminds me of the early days of Reverse Mortgages. When Reverse Mortgages were first introduced in 1961, they offered an innovative way for homeowners to access their equity. However, the product was largely unregulated, creating opportunities for consumers to be misled or taken advantage of. Over time, consumer protection regulations were established to help seniors use Reverse Mortgages more safely.

HEIs do have some similarities to Reverse Mortgages. Both can allow homeowners to access equity without the qualifying requirements of a traditional mortgage. However, because HEIs may operate outside many of the consumer protection regulations governing mortgage loans, their qualification requirements and process can be even easier.

However, that convenience can come at a significant cost to homeowners. Lawsuits involving these agreements have raised concerns about consumer protections, and regulations pertaining to these arrangements are beginning to emerge.

If you or someone you know is considering an HEI instead of a HELOC or Reverse Second Mortgage, it is important to understand how the options compare—not just today, but over the long term.

Below, I have included a comparison table to help homeowners evaluate ways to access their equity without refinancing their existing first mortgage. I have also included a point-by-point response to an FAQ provided by one HEI company to a senior we recently helped.

In his case, a Reverse Second Mortgage is going to save him** *at least $264,000* **compared with the HEI agreement he was about to enter into.

Financing Option	HELOC	Reverse Second	HEI / HEA
Minimum age	**None**	**55**	**None**
Best option for	• Borrowers under 55 seeking better terms than an HEI/HEA. • Borrowers 55+ who do not need Reverse Second payment flexibility. • Borrowers needing access to more equity than a Reverse Second permits. • Borrowers who want the ability to draw, repay, and redraw during the draw period.	• Borrowers who need easier qualification than a HELOC. • Borrowers who want to avoid HELOC payment requirements or a large HEI/HEA end-of-term obligation. • Borrowers who want flexible repayment: monthly, lump sum, interest-only, a chosen repayment schedule, or full payment deferment to the end of the loan. • Borrowers focused on preserving more equity for heirs than with an HEI/HEA.	• Borrowers who cannot qualify for a HELOC or Reverse Second and have an urgent need for funds. • Borrowers who prioritize a faster closing process than the regulated options will allow.
Key considerations	• Generally stricter income and credit qualification. • Monthly payments are required. • Payments may rise significantly after the draw period.	• Regulated lending requirements may make closing slower than an HEI/HEA. • Funds are fully disbursed at closing; repaid principal cannot be redrawn.	• Providers may treat the agreement as a non-mortgage product and claim some lending rules do not apply. • Borrowers should review terms carefully; pending lawsuits may affect future consumer-protection requirements.

Repayment Requirements	• Most allow interest-only payments during the draw period. • After the draw period, principal and interest payments typically repay the loan by the end of the term.	• The balance may be repaid in full or in part at any time without penalty. • Repayment may be deferred until the borrower moves out or passes away.	• At the end of the term (*usually 10 years*), the borrower must repay the original balance plus the equity-share amount or face foreclosure. • Because the agreement can consume substantial home equity, refinancing may not be possible, potentially forcing a sale or foreclosure.

Lawsuit Examples
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. Eight 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 eight 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.
Because so many seniors are being adversely impacted by these arrangements **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 forcing them 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 let him know how this compares to his other options. I decided to do the review and comparison more generically so others could benefit from this information.

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 ob HEI/HEA arrangements (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)**
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 generally preserve significantly more equity than HEI or HEA arrangements.	A HELOC also lets you access current home equity. Any unpaid balance is typically repaid over the term of the loan, or from the proceeds if the home is sold before it is paid off.
There are no monthly payments — instead, the agreement is settled at the end of the HEA term, typically 10 years,	With the Reverse Second program the balance of the loan is also due upon the sale of the house. However, there is <u>no</u> ending term. If the borrower stays	Monthly payments are required on a HELOC, but this is generally significantly less than the cost of

unless you sell the home or otherwise pay back early.	in the home for another 50 years, the loan still won't get called until they pass away or sell the house.	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.	A Reverse Second has no fixed term, so there is no term-end repayment deadline looming.	HELOCs are generally structured so the balance is fully repaid by the end of the loan term.
Lower credit and income requirements	For many borrowers age 55+, this is less significant because the Reverse Second minimum credit score is only 640. If a borrower is below 640 we can often help them to improve their scores. (*Reverse First options are also available with no minimum credit score.*)	Most borrowers can meet typical HELOC credit requirements. If not, lenders may offer guidance on improving credit to the required threshold.
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.	Reverse Seconds also have no required monthly payment and generally have easier income and credit requirements than standard mortgages. Because they are regulated loans, borrowers must still show adequate income to meet obligations such as their first mortgage, property taxes, and homeowners' insurance.	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 may benefit borrowers with very low credit scores. The Reverse Second minimum is 640, which is intended to help ensure the borrower can meet existing obligations. (*Reverse First*	This is partly true for HELOCs. Lenders must evaluate whether borrowers can reasonably meet their credit obligations before

	options are also available with no minimum credit score.)	approving the loan to help ensure the consumers are protected.
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.	A Reverse Second can be paid down in part or in full at any time without any penalties. All repaid amounts stop accruing interest.	HELOCs also generally allow partial or full repayment without penalties. However, some may have small penalties if the line is closed in the first 3 to 5 years.
Cons of home equity agreements		
True cost is unknown until later	Reverse Second costs are disclosed upfront *before* the borrower commits to the loan, as required by federal lending regulations.	HELOC costs are also disclosed upfront under federal lending requirements.
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 different financing options and calculate the exact dollar amount in fees and interest that you'll pay over the entire course of the loan.	This is partly correct. A Reverse Second discloses its costs upfront, but the total lifetime interest cannot be known in advance because there is no fixed repayment date. Even so, its *maximum* cost can be contrasted with an HEI. In one $75,000 client comparison, the Reverse Second showed more than $240,000 in projected savings, even using the HEI provider's very conservative	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 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

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.	appreciation assumptions and assuming no principal paydown on the Reverse Second.	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. *In some of the recent lawsuits that have been filed against HEI providers, the equivalent interest rates were 24% to 34% annually.*	HELOC rates are generally much lower than the minimum equivalent cost of an HEI arrangement.
Short repayment term	A Reverse Second has <u>no</u> fixed repayment term. It generally becomes due only when the borrower sells the home, moves out, or passes away.	HELOC repayment terms vary by lender and program, but they are typically structured over a longer period with scheduled payments.
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.	Because there is <u>no</u> fixed repayment date, a Reverse Second does not require the borrower to prepare for a large term-end payment.	HELOC repayment terms vary by lender and program, but they are typically structured over a longer period with scheduled payments. This is generally not a concern 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. 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.*"	HEI/HEA arrangements require full repayment at the end of their term. HELOCs are generally structured to be fully repaid by the end of theirs.
Single payment	A Reverse Second is payment-flexible. The borrower may make partial payments at any time. They can also make one payment when they move out, sell the house, or pass away.	HELOCs require monthly payments based on the outstanding balance. However, those payments will generally result in a significantly lower overall cost than an HEI/HEA arrangement.
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.	Borrowers age 55+ may also consider a Reverse First Mortgage, which can eliminate the existing monthly mortgage payment. Reverse Mortgage options do not have the same fixed-term balloon feature as HEI/HEA products and may be paid off or refinanced at any time. 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 typically moves from a draw period to a repayment period, which can increase the required monthly payment. However, it is generally structured to have no remaining balance at the end of the term.

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.	An HEI/HEA payoff can become very large. If the borrower cannot qualify for a new loan or Reverse Mortgage at that time, selling the home may be the only way to satisfy the agreement and avoid foreclosure.	If the borrower sells the home, the outstanding HELOC balance is typically paid from the sale proceeds.
Foreclosure possibility	A Reverse Second has no term-end balloon payment. As long as the borrower meets the loan requirements, there is no foreclosure risk created by a fixed term-end payoff.	A HELOC generally has no large balloon payment due at the end of its term, reducing the risk of foreclosure from a term-end lump-sum 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.	Borrowers also retain full ownership of the home with a Reverse Mortgage. Because repayment generally becomes due upon sale, move-out, or death rather than at a fixed term date, there is no term-end balloon-payment risk of foreclosure.	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 useful when other options are unavailable. For borrowers age 55+, however, a Reverse Second is often a more favorable alternative.	HELOC lenders evaluate a borrower's ability to make the required payments as part of their consumer-protection and underwriting process.

However, it’s essential to consider the long-term implications. Understanding HEA loan pros and cons can help determine if a home equity agreement aligns with your financial goals and timeline.	Agreed. Long-term costs and obligations should be compared carefully, including alternatives such as a Reverse Second.	If a borrower needs funds but cannot qualify for a HELOC or Reverse Second, an HEI/HEA may be one of the remaining options.
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.	For borrowers age 55+, a Reverse Second generally offers a longer and more flexible repayment structure than an HEI.	Consumers should compare these products carefully. HEI providers often characterize their agreements as investments rather than home loans, so the regulatory framework may differ from traditional lending products.
What happens at the end of the term if I can’t repay or refinance?	This question does not apply in the same way to a Reverse Second because there is no fixed end date. A forced sale is not triggered by reaching a term deadline, provided the loan requirements are met.	This is generally not relevant for a HELOC because the loan is structured to be paid down over its 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 is a major Reverse Second advantage for borrowers age 55+: there is no fixed term-end deadline that, by itself, can force repayment or a home sale.	Generally not an issue with a HELOC because repayment is scheduled over the loan term.
This is why a longer term — like 30 years with some HEIs — can be so valuable	Even over a 30-year period, a Reverse Second can preserve significantly	Generally not an issue with a HELOC because it is structured to

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.	more home equity than an HEI under the comparison described above.	be fully repaid by 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.	Based on the comparisons above, HEI/HEA arrangements may be most relevant for borrowers who need funds and cannot qualify for better alternatives. For homeowners age 55+, a Reverse Second is often a more favorable option.	For borrowers under age 55 who have a favorable first-mortgage rate, a HELOC will often be a better fit than an HEI arrangement. A HELOC can also be a good option for borrowers over 55 who do not have sufficient equity for a Reverse Second.
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.