COALITION FOR
HOME EQUITY
PARTNERSHIP

UNDERSTANDING SHARED EQUITY PRODUCTS (SEPs)

A Flexible Way to Access Your Home's Value

Get answers to frequently asked questions about SEPs, and get empowered to unlock the wealth in your home in ways that align with your unique goals.

What are shared equity products (SEPs)?

Shared equity products — commonly referred to as home equity investments, home equity agreements, shared appreciation agreements or home equity sharing agreements — provide homeowners with a flexible way to access cash without taking on additional debt or monthly payments. Investors provide a lump sum today in exchange for a share of the home's future value, which may be a valuable alternative for those who don't qualify for traditional financing or those that appreciate the ability to obtain financing without monthly debt service.

How do SEPs work?

SEPs are contracts in which homeowners sell a percentage of their home's future value in exchange for an upfront lump sum payment. SEP terms are typically 10 or 30 years, depending on the investor, and no monthly payments are required during the term. Homeowners can choose to settle at the end of the term or repurchase the investor's share at any time before contract expiration without pre-payment penalties. The SEP investor will have a lien on the property to protect its investment, typically in a second lien position behind an existing mortgage loan. The lien is released upon settlement.

Who can qualify for SEPs?

SEPs are available to a wide range of homeowners, including small business owners, self-employed individuals, and those without steady income, such as seasonal workers. SEPs are particularly useful in situations where a homeowner cannot qualify for a home loan or prefers to obtain financing without monthly payments.

How do homeowners typically use the money?

Homeowners can use SEP proceeds for any financing need. Typically they are used to eliminate debt, pay for home renovations, finance children's education, cover medical expenses or supplement retirement income.

How do SEPs differ from traditional forms of home finance?

Traditional home finance products, such as mortgage loans and HELOCs, are debt products based on the mechanics of debt: principal balances, interest rates, amortization, monthly payments, recourse and underwriting based on credit and income. SEPs have no principal balances, interest rates, amortization, monthly payments or recourse. Underwriting is primarily asset-based. As equity products, SEPs have a different set of mechanics, such as investment amounts, home value discounts, multipliers, sharing percentages and annualized cost caps. The cost of a mortgage loan is driven by its interest rate and monthly payment, and is generally known up front, while the cost of a SEP is driven by future home value and the time to settlement, and is unknown up front. SEPs are also much more widely available than traditional forms of home finance.

Is the use of a multiple or discounting unfair?

Provided that the terms of the SEP are clearly disclosed to the consumer, there is nothing inherently unfair about the use of a multiple or discounting the starting value of a property. These practices are the SEP equivalent to how interest rates, discount points, and interest rate buydowns are used to price debt-based mortgage loans. Discounting and multiples help compensate originators for the consumers' ability to use SEP funds for up to 30 years without any monthly payments.

Do SEPs have a cost cap?

All SEPs offered by CHEP members include a cost cap that is typically 18 to 20 percent and is based on annualized cost. Annualized cost is not the same as an interest rate. An interest rate is typically applied to the principal balance of a loan on a monthly basis to determine a monthly loan payment. Annualized cost is a way of expressing the cost of the upfront payment to the homeowner over the term of the SEP. For example, if someone receives gross proceeds of $50,000 and two years later makes a settlement payment of $60,000, the annualized cost would be 9.54% per year.

If the calculated annualized cost exceeds the cost cap when a homeowner decides to settle their SEP, the homeowner will owe the lower of the two amounts. Due to the structure of most SEPs, settlements in the early years of a SEP will likely result in the cost being capped. After several years, the cost cap will likely only apply in cases of very high home price appreciation.

What happens if the homeowner is unable to settle at the end of the term?

Upon the expiration of a SEP, homeowners who do not wish to sell their properties and do not have sufficient cash on hand to settle the SEP may be able to qualify for a mortgage loan, allowing them to use the proceeds to settle the SEP. Others may choose to refinance into another SEP. Homeowners experiencing a temporary hardship may also be able to reach an agreement with the investor to extend the term of the SEP.

If none of the aforementioned options is available, the investor may exercise its contractual rights to acquire its percentage of interest in the property and then work with the homeowner to sell the property.

Visit our website to learn more about SEPs and determine whether they might be a fit for your financial goals.

homeequitypartnership.org

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