



CHEP’s Shared Equity Product (SEP) Regulatory Policy Framework

The Coalition for Home Equity Partnership (CHEP) is a national non-profit association representing a collective of financial services companies that offer innovative, flexible ways to tap home equity, generally known as shared equity products (SEPs).

Also known as home equity investments, home equity agreements, shared appreciation agreements or home equity sharing agreements, SEPs represent an increasingly popular form of home equity financing. While SEPs are a form of residential home finance, the mechanics of a SEP are fully separate and distinct from the mechanics of a traditional mortgage loan. Mortgage loans, as a form of debt-based home finance, are based on the mechanics of debt: principal balances, interest rates, amortization, monthly payments and recourse; loans are underwritten based on credit and income. SEPs have no principal balances, interest rates, amortization, monthly payments or recourse. Instead, SEPs have starting and ending home values, investment amounts, multipliers, risk adjustments and protection caps. SEPs are underwritten primarily based on property characteristics and equity cushion.

Due to these structural differences, SEPs are fundamentally incompatible with many existing mortgage loan regulations, such as APR calculations, TRID disclosures, interest rate caps, and servicer loss mitigation obligations.

There is precedent for addressing mortgage finance product differences. Although HELOCs and reverse mortgages are subject to TILA, the regulations that apply to them are very different from those that apply to more typical amortizing mortgage loans like the 30-year fixed-rate purchase or refi loan. Years ago, regulators recognized the significant differences with these products and created separate rules for them. But that doesn’t mean HELOCs and reverse mortgages are unregulated; in fact, they are just as heavily regulated as any other mortgage loans.

SEPs should be treated the same way. They need bespoke legislation and regulation that is tailored to the products. This approach protects homeowners and provides industry participants with a clear pathway for compliance. That is exactly what CHEP has been asking for and why we created the CHEP Model Act, which is a purpose-built robust regulatory framework that is based on five pillars: (i) licensing, supervision, and reporting; (ii) disclosure; (iii) counseling; (iv) consumer protections; and (v) prohibited acts.


The Model Act — Five Pillars of Consumer Protection

#	Pillar	Description
I	Licensing, Supervision, & Reporting	NMLS-based. Background checks, fitness/bonding standards, annual reporting, examination. Anti-discrimination + UDAP review.
II	Disclosure	Modeled after TRID in terms of format and cadence, TALC-like scenario-based matrix disclosure across 5 HPA assumptions and settlement year range. 3 data points per cell (ending home value, settlement payment, annualized cost). Cap-binding cells shaded.
III	Counseling	Make counseling available to all homeowners.
IV	Consumer Rights	Cost Cap: 20% annualized; Minimum Equity: Starting equity meets a threshold after applying transaction amount to senior obligations; 3-day Rescission Period; Independent Appraisal; Foreclosure Protection.
V	Prohibited Acts	Charging a prepayment penalty; Prohibiting homeowners from rate/term refinancing of a primary residence mortgage; Prohibiting rentals; Charging a settlement amount exceeding the annualized cost cap; Requiring use of an affiliated appraiser.



Fundamental Differences between SEPs and Traditional Mortgage Loans

Regulatory Comparison

	Traditional Mortgage (30-Year Fixed)	HELOC	Reverse Mortgage	Shared Equity Products
Property Lien	Yes	Yes	Yes	Yes
Promissory Note and Promise To Repay a Sum Certain	Yes	Yes	Yes	No
Cost Driven By An Interest Rate	Yes	Yes	Yes	No
Recourse To Homeowner	Yes	Yes	No	No
Monthly P&I Payments	Yes	No	No	No
Amortizing Loan Balance	Yes	No	No	No
Total Payment Obligation Known At Origination	Yes	No	No	No
Regulatory Standards	Federal And State Standards Apply	<p>Because HELOCs are structurally very different from typical closed-end mortgage loans, they are exempt from:</p> <ul style="list-style-type: none"> • ATR requirements (Ability-To-Repay) • HPML restrictions (Higher Price Mortgage Loans) • TRID disclosure requirements 	<p>Because Reverse Mortgages are structurally very different from other mortgage loans, typical closed-end mortgage loans, they are also exempt from ATR, HPML and TRID</p> <p>They are also exempt from HOEPA</p>	 <p>Shared Equity Products are structurally even more different from mortgage loans. A tailored approach is required to properly regulate them</p>

Solving Homeowner Problems When Other Products Can't

Shared Equity Products are attractive alternatives to traditional consumer finance products.

	Shared Equity	Home Equity Loan or HELOC	Cash-Out Refi	Reverse Mortgage	Personal Loan
Minimum Credit Score	500	640	640	None	580
No Income Qualification	✓	X	X	✓	✓
No Monthly Payments	✓	X	X	✓	X
Keep Existing Mortgage	✓	✓	X	X	✓
No Age Restrictions	✓	✓	✓	X	✓
Significant Cash Available	✓	✓	✓	?	X
Cost Range (approximate)	Typically 7-20% (Annualized Cost)	7-15% (Interest Rate)	6-9% (Interest Rate)	7-10% (Interest Rate)	20-36% (Interest Rate)