



# How Shared Equity Products Work, Who Is Using Them, and Regulatory Recommendations

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RESEARCH REPORT

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# Authors' Note

This report examines an emerging financial product using origination data provided to the Urban Institute by three companies offering shared equity products. The analysis focuses on product structure, usage, and borrower characteristics.

This analysis does not intend to address the legal status of these products or current regulatory interpretations or approaches.

This report is based on data from these providers and should not be interpreted as representative of the full market. The findings reflect this limited dataset. The data do not allow for analysis of long-term consumer outcomes, including potential harms associated with repayment at the end of the contract term.

Because these products are relatively new and the available data are not yet seasoned, the report does not assess long-term impacts. Potential consumer risks are discussed in referenced research, including work by the [Consumer Financial Protection Bureau](#) and the [University of Washington](#). (See endnote 2 and Amorim et al. [2025] in the reference list.)

As with all Urban Institute research, this study was [conducted independently](#). The findings should be interpreted within the scope of the analysis and are not intended to represent an endorsement of any specific regulatory approach.

# How Shared Equity Products Work, Who Is Using Them, and Regulatory Recommendations

Shared equity products (SEPs)—often referred to as home equity sharing agreements, home equity agreements, or home equity investments—have significantly increased in volume over the past several years. A homeowner using these products receives an up-front cash payment in exchange for giving an investor (or originator) a share in their property’s future value. The homeowner continues to live in their home and pays all expenses necessary to maintain the property. The investor receives a share of the property value when the home is sold. The homeowner can also settle the agreement without selling their home by repurchasing the investor’s share. The homeowner does not make interest payments or other interim payments to the investor.

This report examines the role SEPs play in the broader home equity extraction market, the characteristics of homeowners who use them, the mechanics that determine homeowner costs and investor returns, the industry structure, and the unique regulatory requirements for this product.

SEPs are relatively new. The three largest SEP providers (i.e., Point, Hometap, and Unlock) have formed a trade association, the Coalition for Home Equity Partnership (CHEP), and these founding members gave us data on the approximately 54,000 agreements they originated between 2015 and 2025.<sup>1</sup>

Using the unique dataset from the CHEP, we start by looking at the recent rapid increase in SEP use. We next document why homeowners use SEPs and how these products fit alongside mortgage loan-based equity extraction options, particularly for borrowers who face credit constraints or who wish to avoid additional monthly payments. We then examine the demographic, financial, and geographic characteristics of homeowners using SEPs and show that, in many respects, they closely resemble homeowners using traditional equity-extraction products.

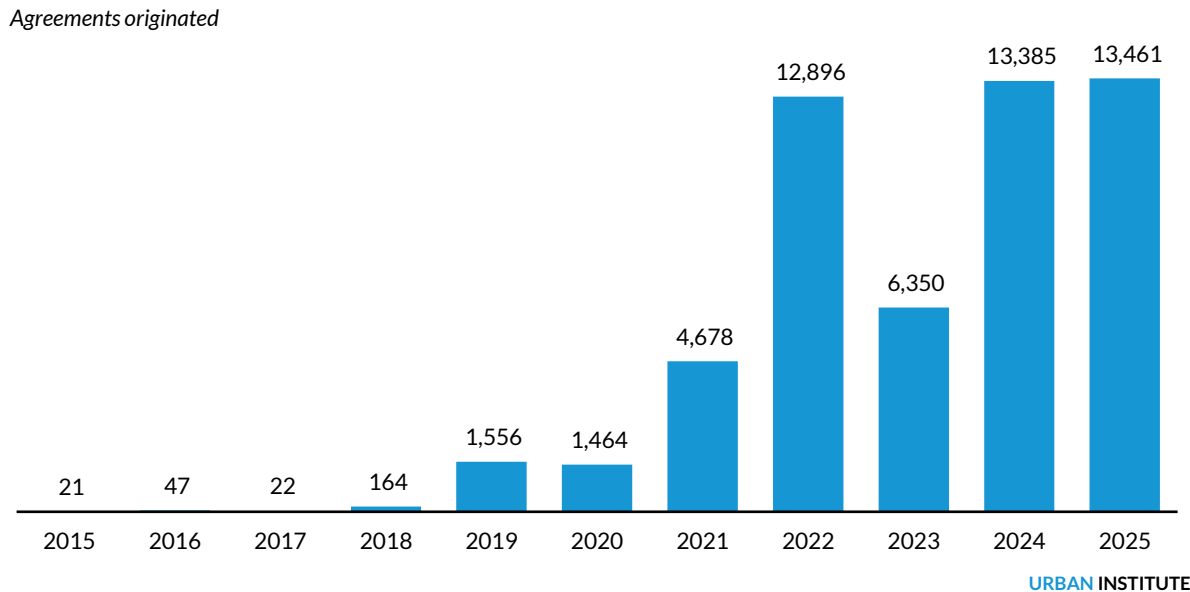
Next, we provide a detailed examination of SEP contract mechanics, illustrating how investor returns and homeowner costs depend jointly on holding period and home price changes. Understanding these mechanics is essential for evaluating consumer protections and for assessing why SEPs cannot be cleanly regulated under existing mortgage loan frameworks.

Finally, we discuss the evolving regulatory treatment of SEPs and the implications of regulatory uncertainty for capital markets. Because this new product type is not a traditional credit product and is instead a type of equity investment, the absence of a tailored regulatory framework creates uncertainty. A clearer, standardized regulatory framework designed to fit the unique structure of SEPs would improve consumer protections while lowering the cost of capital and, ultimately, the cost of these products to homeowners. We conclude by offering thoughts on the regulatory framework, including recommendations that should be taken now while the product is still in early stages of maturity.

## History of Shared Equity Products

Unison originated the first SEP in late 2006, but volume was relatively limited until recently, as it took time and operating capital for originators to build the infrastructure needed to source both homeowners and investors at scale. There are currently about a dozen firms providing SEPs; the largest are Point, Hometap, Unlock, Unison, and Splitero.

**FIGURE 1**  
**Origination Volume from the Three Largest SEP Originators**



**Sources:** Data shared from three SEP providers and Urban Institute calculations.

**Notes:** SEP = shared equity product. 2025 shows SEP volume only for the first half of the year.

Although SEP production is still relatively small, origination volume among the three largest SEP originators increased almost 900 percent from 2018 to 2020 from under 200 agreements to more than

1,400, then by almost 900 percent again to more than 12,000 agreements in 2022 (figure 1). Volume in 2023 declined about 50 percent versus 2022, reflecting significant turmoil in the capital markets attributable to high inflation and the Federal Reserve's subsequent rapid interest rate hikes. Volume recovered in 2024, and in the first half of 2025, volume was nearly equal to volume in all of 2024. The swift growth of these products and the unique role they can play in equity extraction for homeowners who cannot or do not want to use mortgage loan products highlights the need for standardized regulation of SEPs that fits SEPs' unique features.

There has been little research on SEPs. Washington state commissioned a study from the University of Washington to understand SEPs' effects on vulnerable populations (Amorim et al. 2025). The researchers found no evidence that SEP originators had targeted vulnerable populations or that SEPs adversely affected underserved communities. But they did find evidence within Washington state that homeowners who use SEPs would benefit from robust consumer protections through enhanced regulation. The three originators who gave us data have always used voluntary homeowner protection caps, but about 20 percent of the SEPs that were originated in Washington state did not include caps (these uncapped SEPs were all originated by another firm that has since implemented a protection cap). Amorim and coauthors also observed, via a limited number of interviews ( $n = 14$ ), that some homeowners felt trapped in their equity-sharing agreements and expressed concerns that they might be forced to sell their home at the end of the agreement to come up with the lump-sum payment and might not be able to buy another home with the remaining sale proceeds. In a spotlight issue on home equity contracts, the Consumer Financial Protection Bureau (CFPB) reported receiving consumer complaints about these products "including confusion about the financing terms, surprise at the size of the repayment amounts, disputes about appraisal values, difficulty with refinancing due to the existence of the home equity contract, and frustration that they felt their only option to get out of the contract was to sell their home."<sup>2</sup>

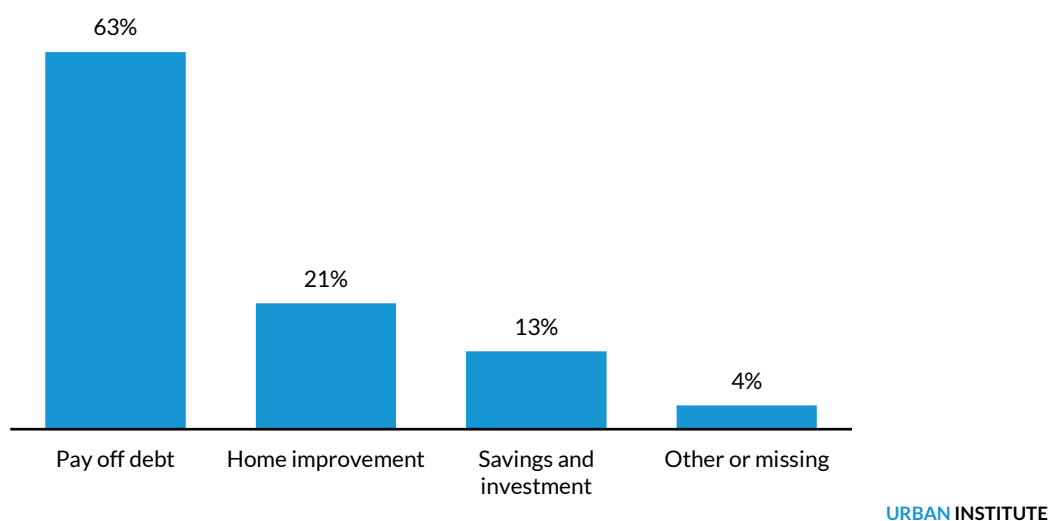
## The Rationale for Shared Equity Products

### Use of Shared Equity Products

The primary purpose of SEPs is to enable homeowners to access home equity they can use for paying down debt, for home improvements, or for other purposes. Sixty-three percent of homeowners who have used SEPs used the product to pay down debt, and the return to investors on SEPs (and thus the cost to the homeowner) is often significantly lower than the interest rate on credit card or personal loan

debt, so using SEPs can be a beneficial economic move for many homeowners (figure 2). Another 21 percent of homeowners who use SEPs use the cash to remodel or repair their property. We cannot compare these numbers with those for mortgage loan equity-extraction products (e.g., cash-out refinances, second mortgages, home equity improvement loans, and home improvement loans), as data on how homeowners use cash from these products are not available.

**FIGURE 2**  
**Use of Proceeds Among Homeowners Using SEPs**



**Sources:** Data shared from three SEP providers and Urban Institute calculations.

**Note:** SEP = shared equity product.

SEPs work well for many homeowners as an equity-extraction tool. Interestingly, out of the data we have (54,044 agreements), not a single agreement is for home purchase.<sup>3</sup> Although an SEP can be used for a home purchase in conjunction with a first mortgage loan, current SEP offerings do not fit the needs of most purchase borrowers, particularly first-time homebuyers. First, SEPs generally require the homeowner to have at least 10 percent of their own money tied up in the transaction. Most Federal Housing Administration, Veterans Administration, and government-sponsored enterprise programs allow for down payments significantly lower than 10 percent, and most first-time homebuyers take advantage of that feature. Second, down payment assistance in the form of an SEP is not generally available to homebuyers, as the funds from an SEP transaction are not currently eligible as an approved form of down payment for use with conventional or government loan programs. SEPs could be a good fit for homebuyers who want to make larger down payments on homes or to buy more expensive homes than what their incomes would otherwise allow. But these buyers will likely not be first-time homebuyers whose biggest challenge is generally coming up with a 10 percent down payment. Future

SEPs that could accommodate smaller down payment contributions could represent a viable case for SEPs among first-time homebuyers.

## Shared Equity Products' Place Among Home Equity Extraction Tools

The option to tap your home for its embedded equity is one of homeownership's primary benefits. Homeowners who are facing financial difficulties, want to invest in education, want to start a business, or otherwise need cash can take out some of the equity they have built up while paying down their mortgage as their home appreciates in value (table 1).

**TABLE 1**  
**Types of Equity Extraction Products**

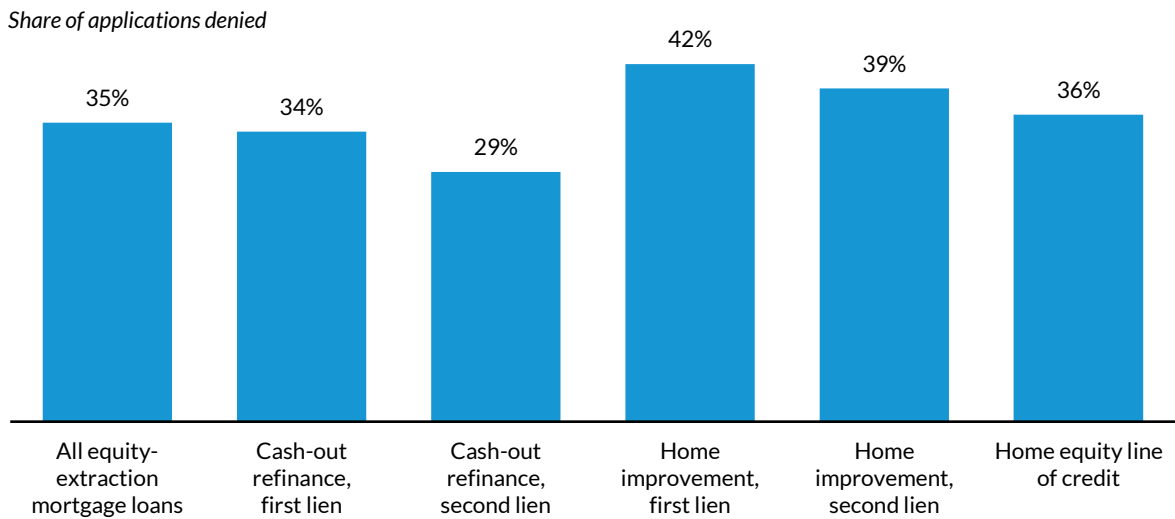
	Description	Payment to homeowner	Payments by homeowner
Cash-out mortgage loan refinance	Typically first lien. The homeowner gets a new mortgage loan to pay off the old one. The new mortgage loan has a higher balance, and the difference goes to the borrower as cash.	Lump sum	This is an amortizing loan with a steadily declining unpaid principal balance. Compared with the original mortgage, the homeowner will make higher monthly mortgage payments (principal plus interest) or will make the payments for an extended term to pay off the higher principal, or both.
Home improvement mortgage loan (or renovation loan)	Typically second lien, or first lien if there are no other liens on the property. The homeowner takes out a loan on their property to extract equity.	Lump sum	This is an amortizing loan with a steadily declining unpaid principal balance. The homeowner makes monthly mortgage payments (principal plus interest) to pay off the additional loan.
Home equity line of credit	Typically second lien, or first lien if there are no other liens on the property. A type of mortgage loan whereby the homeowner accesses a credit line backed by their home equity.	Amounts can be drawn as needed over the draw period, subject to the maximum size of the line of credit.	The homeowner can choose to pay interest only or principal plus interest during the draw period, like a credit card. After the draw period, the line of credit becomes an amortizing loan or requires a lump-sum payment.
Shared equity product	Typically second lien. The homeowner promises to share a portion of their home's future value or change in value in exchange for a portion of their home's current value now as cash.	Lump sum	No interest, principal, or amortization. The homeowner pays a lump sum at the end of the agreement term, when the home is sold, or when the homeowner decides to repurchase the investment.

But not all homeowners can access their housing wealth, either because they do not qualify for a mortgage loan product based on their credit score or because they cannot, or would prefer not to, make an additional monthly payment. In 2024, the most recent data available indicate that 35 percent of all equity-extraction mortgage loans were denied. About 30 percent of applications for cash-out refinances, 40 percent of applications for home improvement loans, and 36 percent of applications for home equity lines of credit (i.e., open-end lines of credit) were denied (figure 3). To put these numbers into perspective, in 2024, 9.8 percent of purchase mortgage loans were denied. The most common denial reason for equity-extraction mortgage loans was low credit scores and high debt-to-income ratios, followed by home values that are too low to provide sufficient collateral for the amount being extracted (figure 4).

Homeowners who do a cash-out refinance of the first lien on their home or who take out a closed-end second mortgage loan or a home equity line of credit are increasing the principal amount they owe on their home. This results in higher monthly mortgage payments, repayment over a longer term, or both. High interest rates exacerbate this mortgage payment increase. More than 80 percent of outstanding mortgage loans have interest rates below 6 percent, and many loans have rates under 3.5 percent thanks to a period of historically low interest rates during the COVID-19 pandemic (Goodman et al. 2025). These homeowners with low rates may be unwilling to give up their low rates to do a cash-out refinance.<sup>4</sup>

A home equity conversion mortgage (i.e., a reverse mortgage) is the only equity-extraction mortgage loan product where homeowners do not make a monthly payment, and it is designed for homeowners ages 62 and older. Higher monthly payments on mortgage loan products can be challenging for homeowners. Many of these homeowners are extracting equity to pay off expensive debt or to fund a home repair and already have constrained liquidity. This is demonstrated by the fact that debt-to-income ratio is the most common reason for denial on mortgage loan products.

**FIGURE 3**  
**Denial Rates for Equity-Extraction Mortgage Loans, 2024**

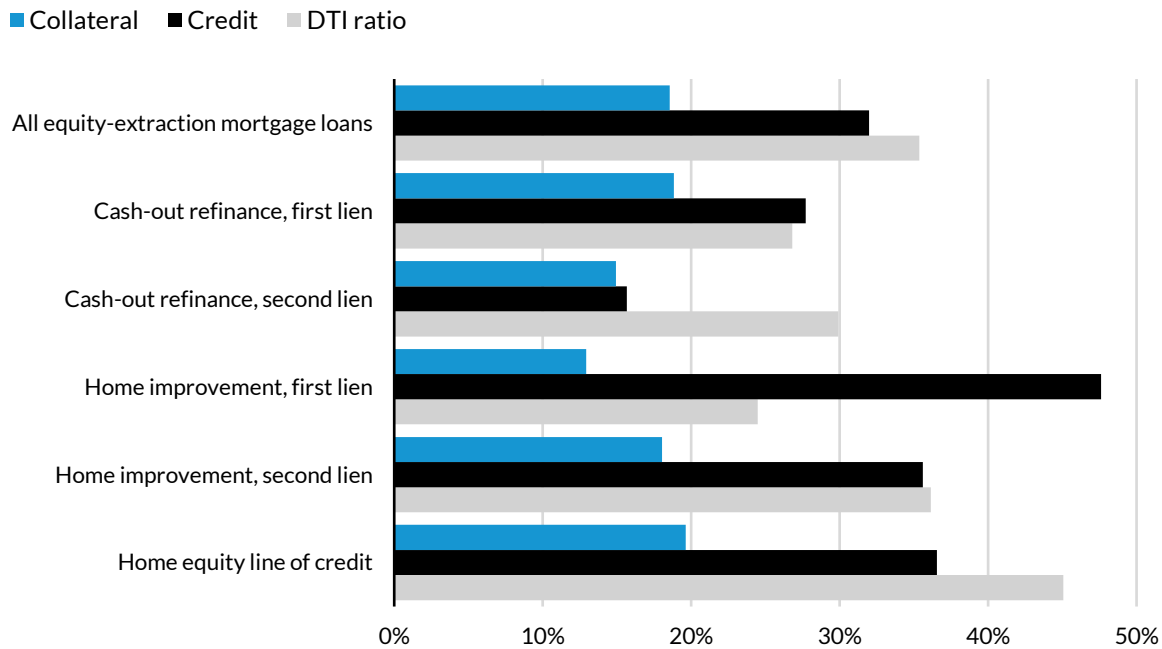


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Sources: 2024 Home Mortgage Disclosure Act data and Urban Institute calculations.

Note: A home equity line of credit is an open-end line of credit.

**FIGURE 4**  
**Most Common Denial Reasons for Equity-Extraction Mortgage Loans, 2024**



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Sources: 2024 Home Mortgage Disclosure Act data and Urban Institute calculations.

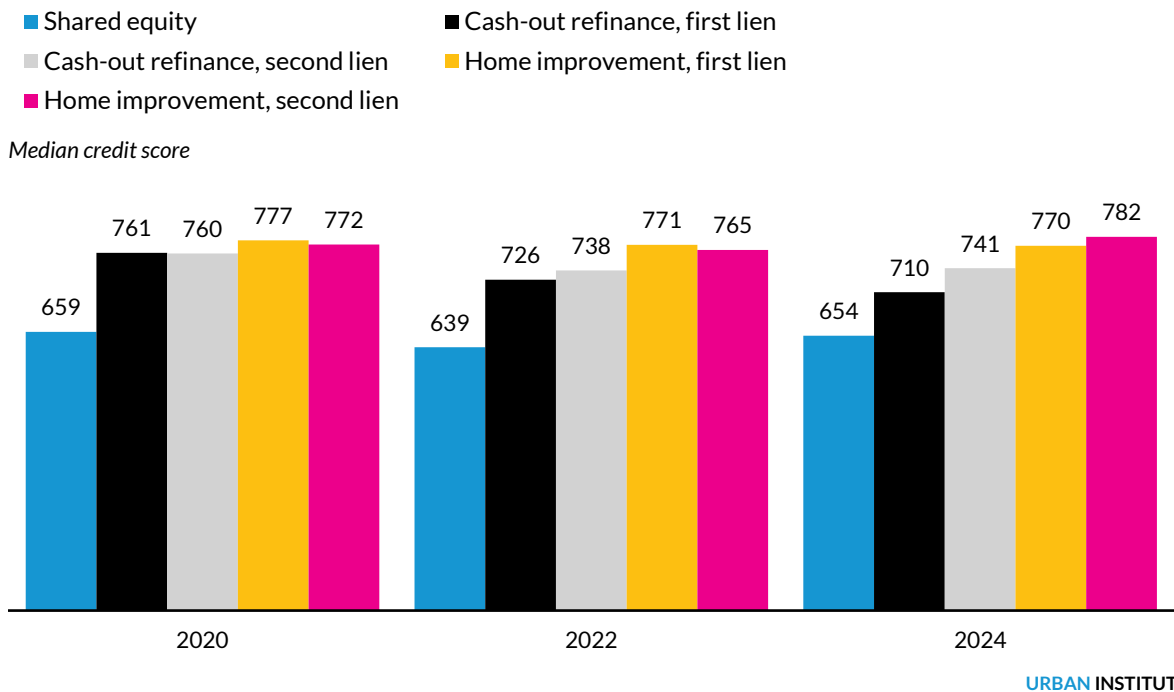
Notes: DTI = debt-to-income. A home equity line of credit is an open-end line of credit.

SEPs can be useful for homeowners who cannot get a mortgage loan, or who choose not to make a monthly payment, but want to take advantage of the wealth stored in their homes. Unlike a mortgage loan where the investor relies on consistent monthly payments from the borrower to make an investment return, an SEP produces an investor return that is entirely dependent on the home's future value, as there are no interim payments and the settlement payment is dependent on the ending home value. This means that the two most common denial reasons for equity-extraction mortgage loans—the homeowner's credit score and their income relative to total debt—are largely irrelevant for SEP originators.

Credit scores are typically lower on SEPs than on equity-extraction mortgage loans. Figure 5 shows the median credit scores for SEP homeowners compared with credit scores for homeowners who take out second mortgage loans or refinance their existing mortgage loans to extract home equity. We use 2020, 2022, and 2024 to compare characteristics on Home Mortgage Disclosure Act (HMDA) loans and SEPs because 2020 is when we start getting a substantial sample size of SEPs, 2024 is the latest year for which we have HMDA data, and 2022 is the midpoint. In 2024, the median credit score for homeowners refinancing their primary mortgage loan to extract equity was 710, and the median score for homeowners who took out a second lien for a home improvement loan was 782. In contrast, the median credit score for homeowners using SEPs in 2024 was 654. Further, 26.9 percent of homeowners that obtained an SEP in 2024 had credit scores below 600 and therefore would have likely been unable to qualify for a mortgage loan.

FIGURE 5

### Median Credit Scores, by Equity-Extraction Method and Origination Year



**Sources:** Intercontinental Exchange loan-level origination data, data shared from three SEP providers, and Urban Institute calculations.

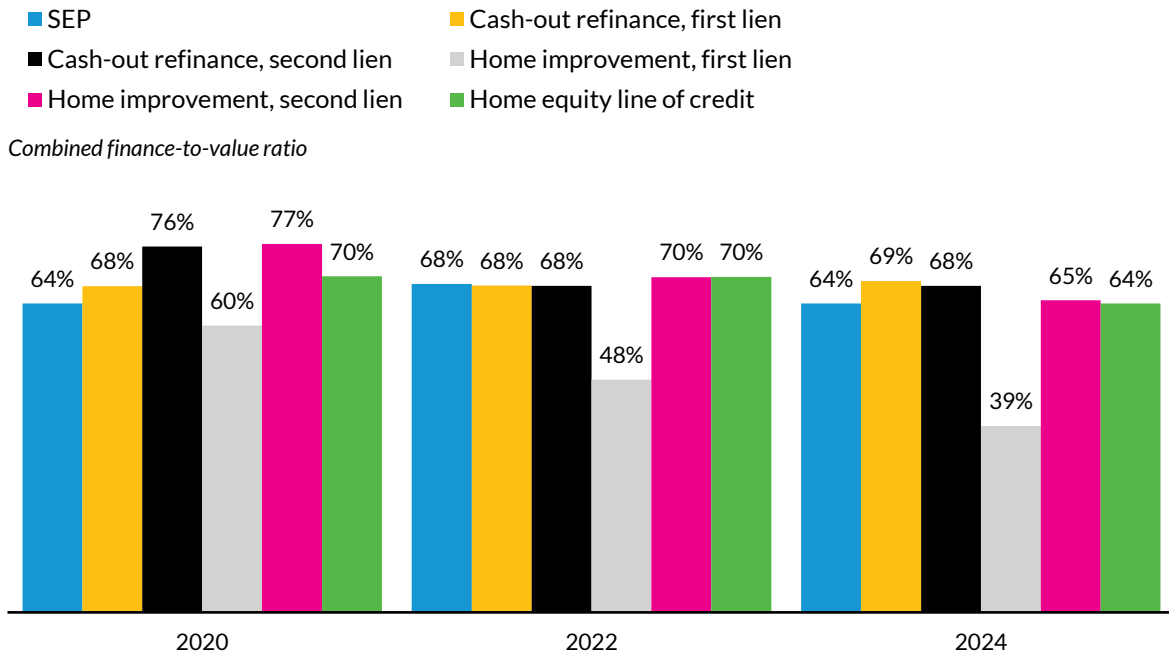
**Note:** SEP = shared equity product.

About 15.2 percent of homeowners using SEPs had credit scores between 650 and 680, and 33.8 percent had credit scores above 680. These homeowners likely would have been able to get a mortgage loan but seemingly preferred the SEP because there are no interim payments.

Total home financing<sup>5</sup> relative to home value is comparable between homeowners using SEPs and other homeowners who extracted cash using mortgage loan products. Figure 6 shows that except for 2020, when incentives to refinance were very high because of low interest rates, total home financing relative to home values was similar for homeowners using SEPs and homeowners using mortgage loan products to extract equity. SEP originators do not rely on a homeowner’s ability to pay their mortgage loan each month, but it is in the investor’s best interest for the homeowner to do so. SEPs are typically in the second-lien position, and the SEP is a nonrecourse instrument, so in the event of a foreclosure, the SEP investor would not get their full return unless (1) all transaction expenses were paid in full, (2) all existing senior mortgage loan debt was paid in full, and (3) after satisfying those payment requirements, there were sufficient proceeds available to satisfy the SEP obligation.

FIGURE 6

### Median Combined Home Financing to Home Value, by Equity-Extraction Method and Origination Year



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Sources: 2024 Home Mortgage Disclosure Act data, data shared from three SEP providers, and Urban Institute calculations.

Notes: SEP = shared equity product. Home financing is the sum of all outstanding mortgage loan balances plus, for SEP homeowners, the amount the SEP originator invests in the home. A home equity line of credit is an open-end line of credit.

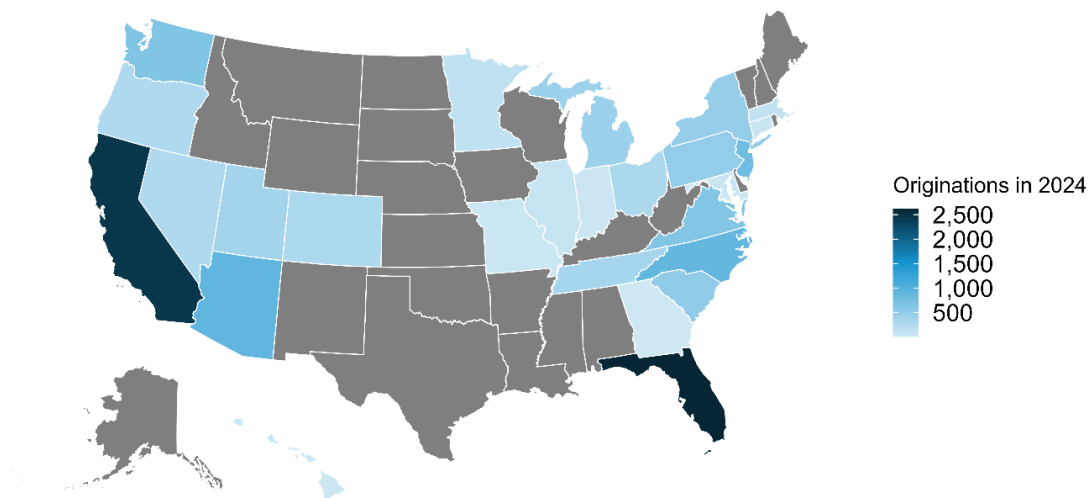
## Users of Shared Equity Products

In this section, we delve more deeply into the characteristics of homeowners who use SEPs. In general, we find that the characteristics of these homeowners are very similar to those of homeowners who use mortgage loans for home equity extraction. Homeowner age and income are very similar. The home values are higher for those using SEPs, but this reflects the geographic footprint of where SEPs are offered. Once we account for that, there is no significant difference. And there is no significant difference in the use of SEPs based on recent home price appreciation in the area where the homes are located.

## The Geographic Distribution of Shared Equity Products

SEP origination is not yet evenly distributed across the country, but distribution is steadily expanding (figure 7). To date, SEPs have been heavily concentrated in California, Florida, and a few other states. In 2015 and 2016, the earliest years we have data for, 100 percent of SEP originations were in California. By 2019, the California share had decreased to 45.6 percent. As the three SEP originators we have data for continued to expand into other markets, the California share of originations continued to decline to 19.3 percent by 2024. This is still higher than the 7.3 percent of equity-extraction mortgage loans nationwide that originated in California in 2024, according to HMDA data. California home values are higher than those in the rest of the country, and these differences in geographic composition contribute to the differences in median starting home values in figure 8. After controlling for geography, differences in median starting home value disappear.<sup>6</sup>

FIGURE 7  
SEP Originations, by State, in 2024

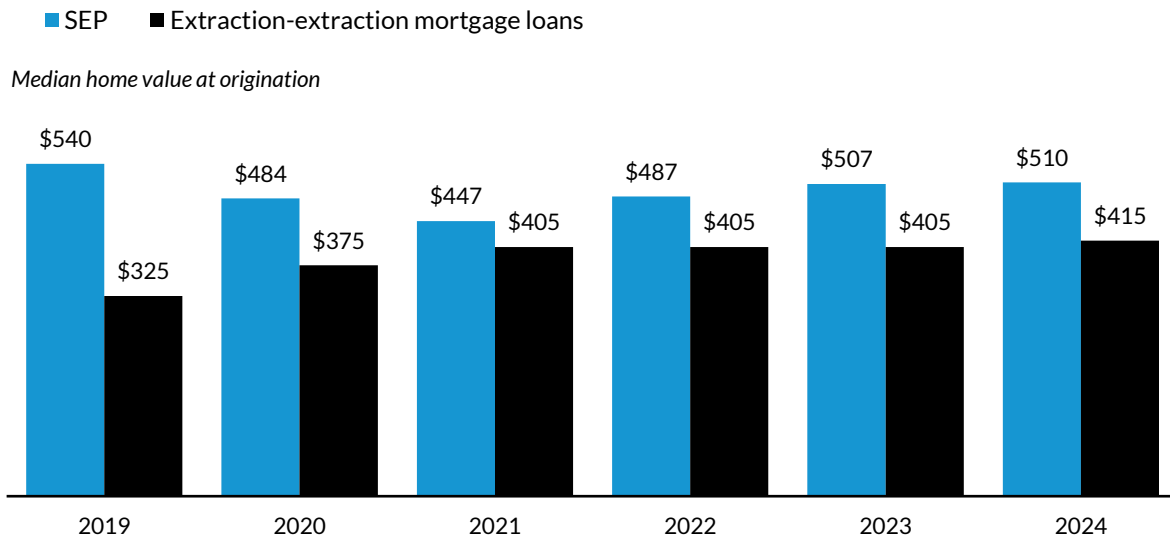


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**Sources:** Data shared from the three largest SEP providers and Urban Institute calculations.

**Notes:** SEP = shared equity product. Gray indicates states where the three largest SEP providers did not originate any SEP agreements.

**FIGURE 8**  
**Median Starting Home Value, by Equity-Extraction Method and Origination Year**



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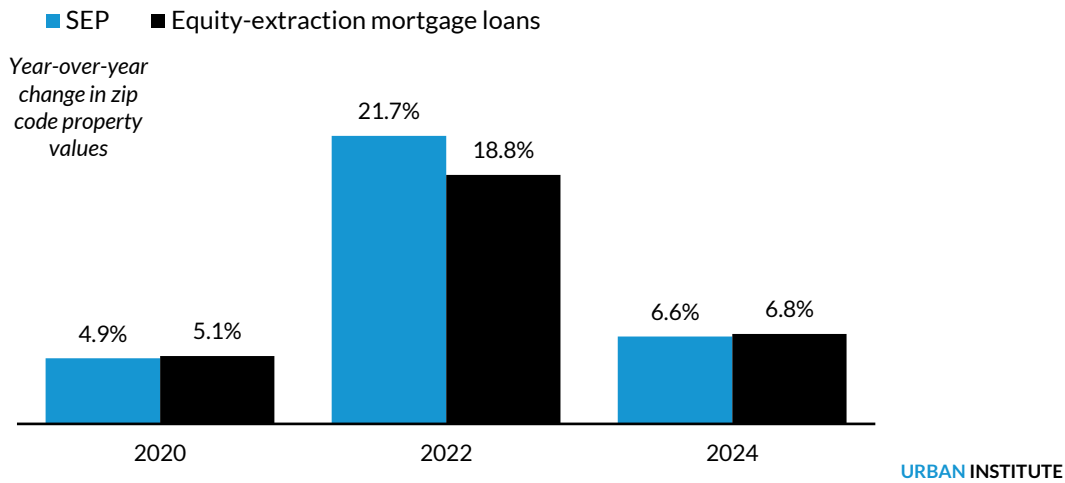
**Sources:** 2024 Home Mortgage Disclosure Act data, data shared from three SEP providers, and Urban Institute calculations.

**Note:** SEP = shared equity product.

Despite state selection creating differences in overall property values between SEPs and equity-extraction mortgage loans, properties leveraged for SEPs are similar to properties leveraged for equity-extraction mortgage loans. SEPs do not seem more likely to be used in markets with high home price appreciation. Figure 9 shows the weighted zip code-level home price appreciation for the year preceding origination for equity-extraction mortgage loans and for SEPs. The annual appreciation is similar for the zip codes where both types of products were originated. Although investor return on SEPs is dependent in part on future home price appreciation, recent appreciation does not seem to be a more significant predictor of SEP origination than equity-extraction mortgage loan origination.

FIGURE 9

### Median Zip Code–Level Annual Home Price Appreciation in the Previous Year, by Origination Year and Equity-Extraction Method



**Sources:** 2024 Home Mortgage Disclosure Act data, data shared from three SEP providers, and Urban Institute calculations.

**Notes:** SEP = shared equity product. Year-over-year home price appreciation here is defined as change in median seasonally adjusted home price between January in the year before origination to January in the year of origination. Data are weighted by the number of loans or SEPs originated in each zip code.

Properties with an SEP have a similar distribution across price tiers within a zip code as compared with equity-extraction mortgage loans. Figure 10 shows the share of properties with SEPs and equity-extraction mortgage loans in the highest and lowest price quintiles of their zip code by origination year. Except for 2020, when properties using SEPs were more likely to be among the 20 percent of homes with the lowest values and less likely to be among the 20 percent with the highest values, the shares of relatively low- and high-price homes were similar between SEPs and mortgage loans.

FIGURE 10A

### Share of Properties in Their Zip Code's Highest-Price Quintile, by Origination Year and Equity-Extraction Method

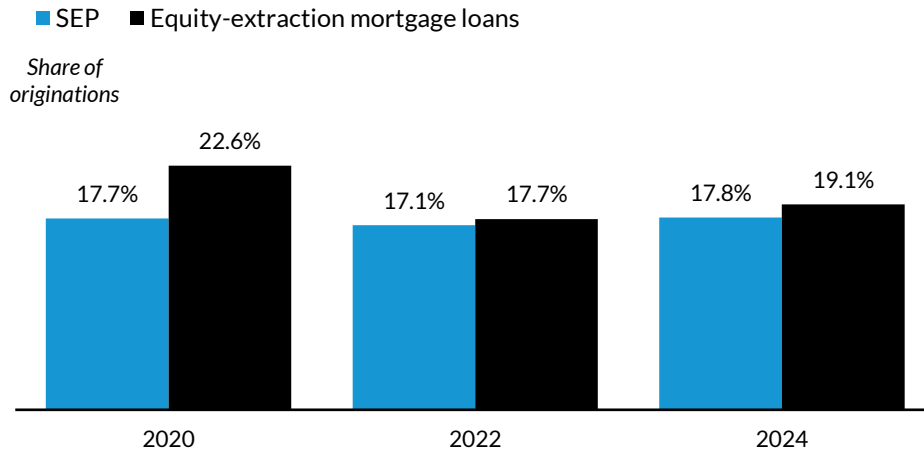
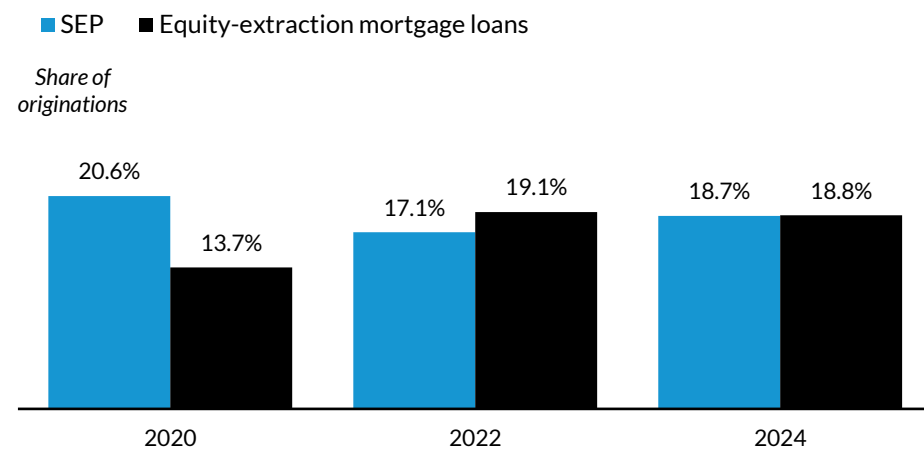


FIGURE 10B

### Share of Properties in Their Zip Code's Lowest-Price Quintile, by Origination Year and Equity-Extraction Method



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Sources: 2024 Home Mortgage Disclosure Act data, data shared from three SEP providers, and Urban Institute calculations.

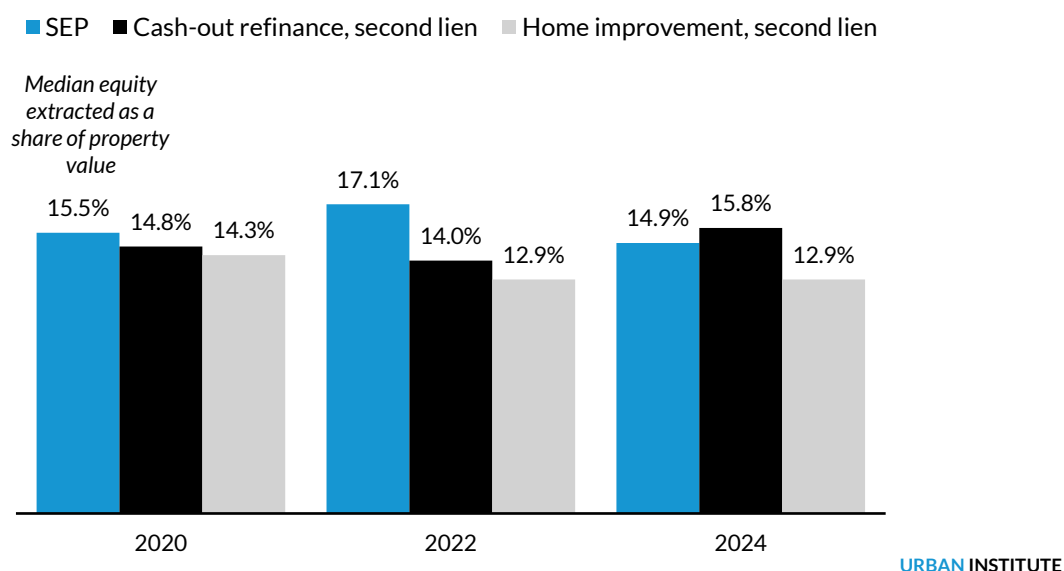
Note: SEP = shared equity product.

## Equity Extracted

Homeowners using SEPs also take out an amount of equity relative to their property value similar to traditional methods of home equity extraction. Because we cannot observe how much equity homeowners using first-lien cash-out refinances or open-end lines of credit are taking out at origination,

we compared SEPs with second-lien home improvement loans and cash-out refinances.<sup>7</sup> Figure 11 shows that homeowners using SEPs generally take out around 15 percent of their home value, which is similar to the median loan amounts on second-lien cash-out refinances and somewhat higher than second-lien home improvement loans. The exception to this was in 2021 and 2022, when the median homeowner using an SEP took out about 17 percent of their property value.

**FIGURE 11**  
**Equity Extracted as a Share of Property Value for Homeowners Using SEPs and Closed-End Second-Lien Loans**



**Sources:** 2024 HMDA data, data shared from three SEP providers, and Urban Institute calculations.

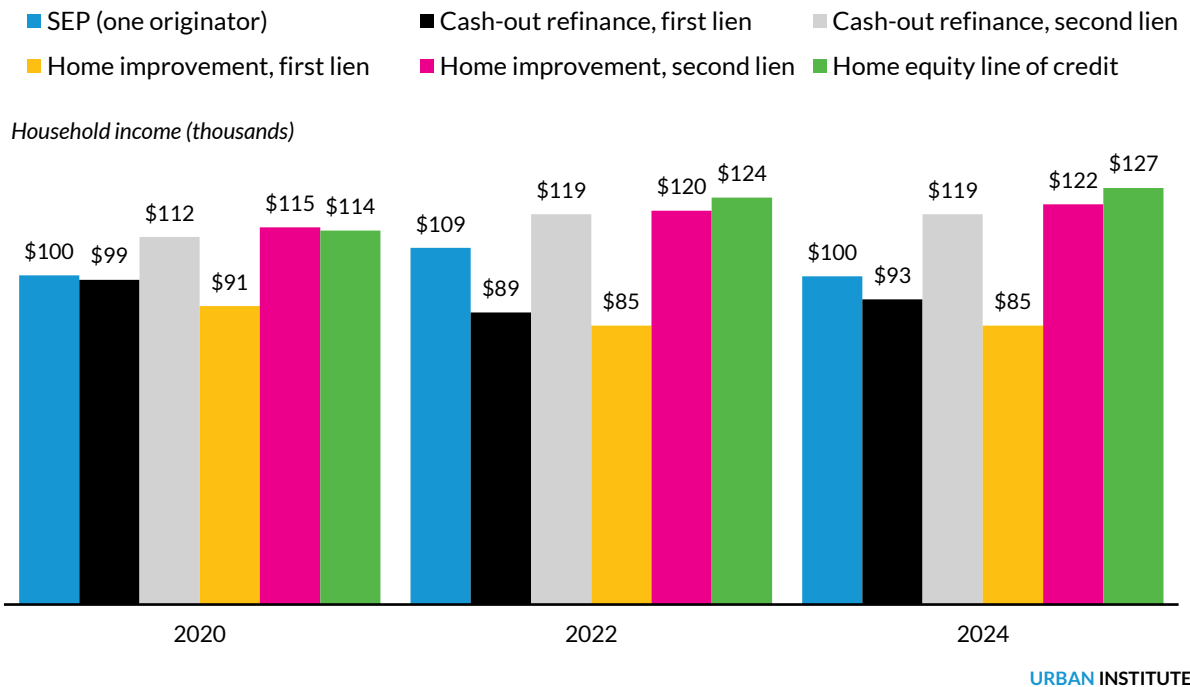
**Notes:** HMDA = Home Mortgage Disclosure Act; SEP = shared equity product. Notably, SEP providers are not subject to HMDA and do not submit HMDA data to the Consumer Financial Protection Bureau.

## Income

Only one of the SEP originators provided us homeowner income data. We find median incomes are similar for homeowners using SEPs and those among mortgage loans. Figure 12 shows that of the homeowners using SEPs we observed, incomes were generally higher than for borrowers of first-lien cash-out refinances and first-lien home improvement loans and lower than for borrowers who took out second-lien cash-out refinances, second-lien home improvement loans, and open-end lines of credit in the same year. Differences in income may be related to geography, such as the differences we see in home prices from SEP concentration in California.

FIGURE 12

### Median Household Income, by Origination Year and Equity Extraction Method



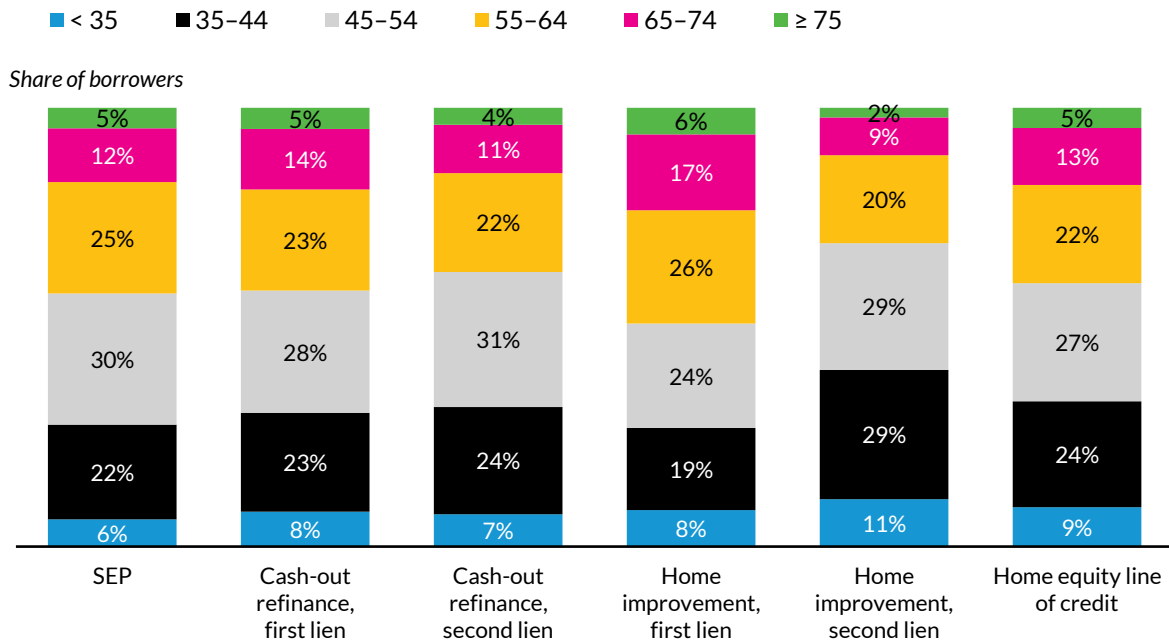
**Sources:** 2024 Home Mortgage Disclosure Act data, data shared from one SEP provider, and Urban Institute calculations.  
**Notes:** SEP = shared equity product. A home equity line of credit is an open-end line of credit.

### Age

The age distribution of homeowners using SEPs is similar to the distribution for most equity-extraction mortgage loan products. To the extent there is a divergence, the share of younger borrowers (i.e., borrowers younger than 35 and those ages 35 to 44) is lower.

FIGURE 13

### Age Distribution of Homeowners Extracting Equity with SEPs and with Mortgage Loans, 2019–24



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Sources: 2024 Home Mortgage Disclosure Act data, data shared from three SEP providers, and Urban Institute calculations.

Notes: SEP = shared equity product. A home equity line of credit is an open-end line of credit.

## Mechanics of Shared Equity Products

In an SEP, a homeowner receives an up-front cash payment in exchange for giving an investor or originator a future share in their property. The homeowner continues to live in the home and pays all expenses necessary to maintain the property. Depending on the type of SEP, the investor, at settlement, receives either (1) a share of the property’s value or (2) the original investment amount plus a share of the property’s change in value (based on a discounted starting home value). Settlement occurs when the home is sold, when the homeowner elects to repurchase the investment, or at contract termination. The amount the investor receives (and thus the cost to the homeowner) is also subject to a cap. The contract terms range from 10 to 30 years. The homeowner does not make interest payments or other interim payments to the investor.

The contracts terminate and the homeowner owes the settlement payment at the end of the contract or owes the payment earlier because of a contractually defined “settlement event.” Such

events include property sale, repurchase of the SEP by the homeowner (enabling the homeowner to end the contract without selling their home), or the death of the last remaining signatory.<sup>8</sup> Contracts may also require settlement because of certain default events, which can vary depending on the originator but generally include failure to pay any senior mortgage loans, property taxes, or homeowner's insurance premiums; condemnation; failure to maintain the home; or bankruptcy declaration.<sup>9</sup> If the homeowner terminates the SEP by selling their property, they pay their SEP settlement payment with a portion of the sale proceeds. If the homeowner terminates the SEP without selling their property, the settlement payment amount will be based on an appraised value, and the homeowner will (1) settle using cash on hand, (2) settle using the proceeds from a cash-out refinance of their mortgage loan or an additional mortgage loan on the property, or (3) settle using the proceeds from a new SEP. Upon reaching maturity, homeowners will need to settle their SEP via one of these three methods or by selling their home.<sup>10</sup>

SEP contracts are usually structured as nonrecourse real estate option contracts or nonrecourse forward sale contracts, which give the originator the right to purchase a preset percentage interest in the future value or future change in the property value at the up-front price.

In addition to the obligation to make the settlement payment in the future, the homeowner pays typical real estate closing costs and origination fees, which typically range from 3.9 to 4.9 percent of the investment amount at closing.<sup>11</sup>

Each SEP provider structures its agreements a bit differently. In some cases, at settlement, investors receive a share of the home's value (i.e., the "total home value" model). In other cases, investors receive a share of the home's change in value (based on a discounted starting home value) plus the original investment amount (i.e., the "change in home value" model). All SEP originators have homeowner protection caps on the maximum annual return an investor can earn, often 18 to 20 percent. These caps provide an important consumer protection, especially for short holding periods or periods of exceptionally high home price appreciation.

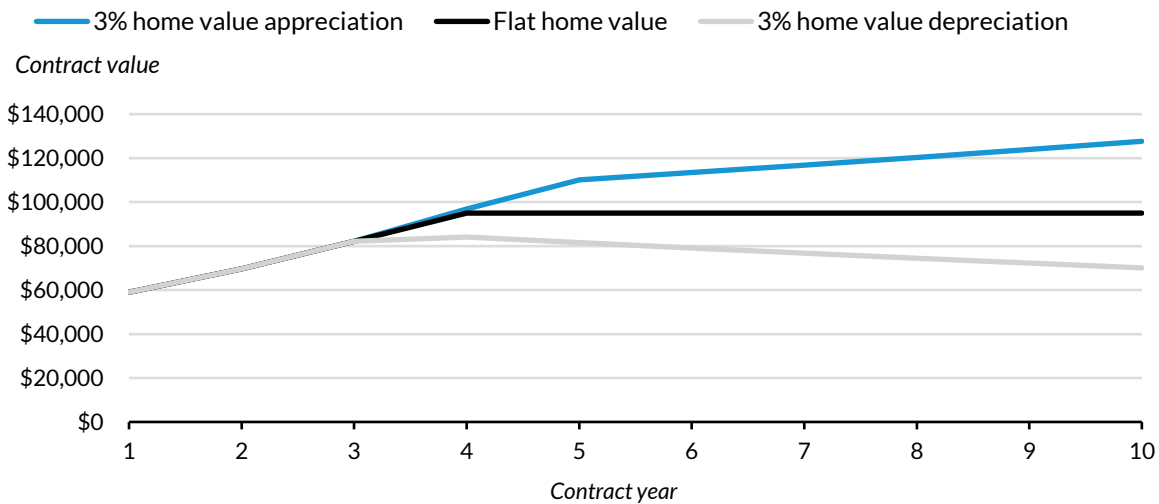
We will now look at how Unlock, Point, and Hometap structure their products. We use these three entities as examples. All three issued securitizations in 2025, in which the mechanics are disclosed in presale reports.

## Unlock

In the case of Unlock, the investor receives a share of the home value at settlement that is typically 1.7 to 2.0 times their initial investment. If we assume 1.9 times the initial investment and an investor

contributes 10 percent of the home value up front, Unlock will be entitled to a payment equal to 19 percent of the home’s value, which can be realized only at contract termination. But the maximum annualized return to the investor (i.e., the homeowner protection cap) is typically 18.0 to 19.9 percent per year. This protects the homeowner if home price appreciation is extraordinarily high or if they enter into a contract and then decide to sell the home soon after.

**FIGURE 14**  
**Unlock Contract Value Scenarios**



URBAN INSTITUTE

Source: Urban Institute calculations from DBRS reports.

For example, assume a home valued at \$500,000, with an investor providing \$50,000 (10 percent of the home’s starting value), Unlock’s share established at 19 percent (10 percent multiplied by 1.9), a protection cap of 18 percent, and no home price appreciation during the first year. Without the homeowner protection cap, if the contract settled after one year, the investor would be entitled to \$95,000 (19 percent of \$500,000), representing a \$45,000 investment gain, a return that most would consider unfairly high. The homeowner protection cap limits the gain to 18 percent per year (i.e., \$9,000 in the first year), so instead of a settlement payment obligation of \$95,000, the homeowner would pay \$59,000 (figure 14).

Notably, a protection cap of 18 percent is less than the interest rate on most credit cards (and typically much less when the homeowner has a low credit score). If the contract was terminated after 10 years, with no home price appreciation, the \$95,000 payment to the investor produces a return of 6.6 percent per year. If home prices went up 3 percent per year for 10 years, the home’s value would be

\$671,958, and the value of the 19 percent share would be \$127,672, yielding a return to the investor of 9.8 percent per year. Greater home price appreciation would yield higher investment returns, subject to the protection cap (and would yield a better outcome for the homeowner).

The investor could lose money if their 19 percent share was worth less than \$50,000, which would happen if the home's value falls below \$263,158. Losses could also happen in circumstances where the home value declines significantly and there is a significant remaining balance on senior-lien mortgage loan debt.

Thus, the return to the investor depends on both the holding period and the change in home value. Table 2 shows the ending home value, the payout to the investor, the investor's share of the ending home value, and the annualized return to the investor. The shaded areas indicate when the homeowner protection cap is binding.

TABLE 2

**Contract Mechanics for Unlock**

Year	Home value	Contract value	Share of home value	Annualized ROI
<b>3% home value appreciation</b>				
1	\$515,000	\$59,000	11.5%	18.0%
2	\$530,450	\$69,620	13.1%	18.0%
3	\$546,364	\$82,152	15.0%	18.0%
4	\$562,754	\$96,939	17.2%	18.0%
5	\$579,637	\$110,131	19.0%	17.1%
6	\$597,026	\$113,435	19.0%	14.6%
7	\$614,937	\$116,838	19.0%	12.9%
8	\$633,385	\$120,343	19.0%	11.6%
9	\$652,387	\$123,953	19.0%	10.6%
10	\$671,958	\$127,672	19.0%	9.8%
<b>Flat home value</b>				
1	\$500,000	\$59,000	11.8%	18.0%
2	\$500,000	\$69,620	13.9%	18.0%
3	\$500,000	\$82,152	16.4%	18.0%
4	\$500,000	\$95,000	19.0%	17.4%
5	\$500,000	\$95,000	19.0%	13.7%
6	\$500,000	\$95,000	19.0%	11.3%
7	\$500,000	\$95,000	19.0%	9.6%
8	\$500,000	\$95,000	19.0%	8.4%
9	\$500,000	\$95,000	19.0%	7.4%
10	\$500,000	\$95,000	19.0%	6.6%
<b>3% home value depreciation</b>				
1	\$485,000	\$59,000	12.2%	18.0%
2	\$470,450	\$69,620	14.8%	18.0%
3	\$456,337	\$82,152	18.0%	18.0%
4	\$442,646	\$84,103	19.0%	13.9%
5	\$429,367	\$81,580	19.0%	10.3%
6	\$416,486	\$79,132	19.0%	8.0%
7	\$403,991	\$76,758	19.0%	6.3%
8	\$391,872	\$74,456	19.0%	5.1%
9	\$380,116	\$72,222	19.0%	4.2%
10	\$368,712	\$70,055	19.0%	3.4%

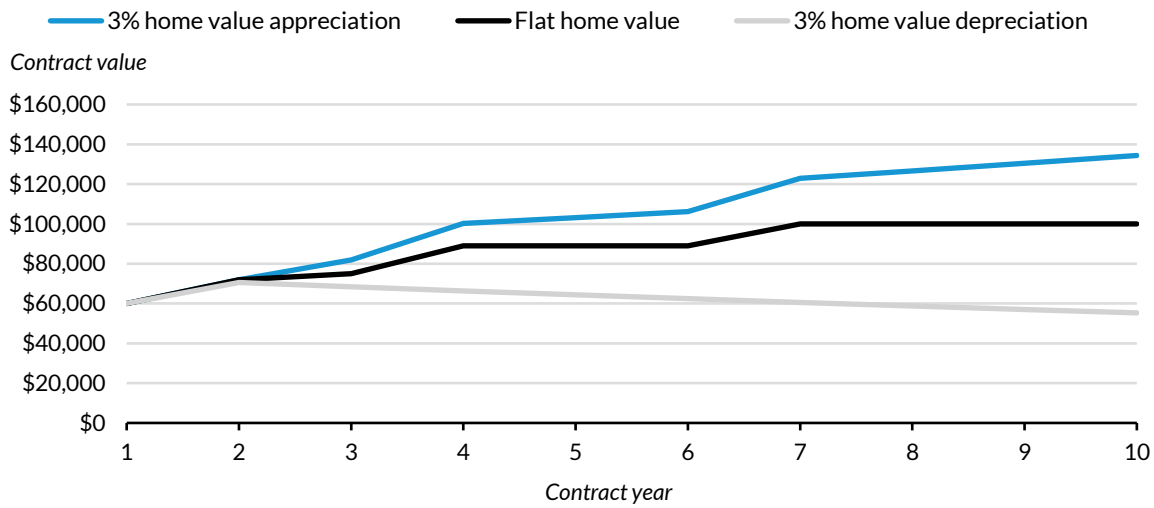
Source: Urban Institute calculations from DBRS reports.

Notes: ROI = return on investment. Shaded cells show years where the homeowner protection cap is limiting the investor's return.

**Hometap**

Hometap has a similar structure, with a step-function pricing mechanism. For a 10 percent initial investment, the investor is entitled to 15.0 percent of the home's value in years 1 through 3, 17.8 percent in years 4 through 6, and 20.0 percent in years 7 through 10. The maximum return to the investor is capped at 20 percent. If home prices are down, the multiple on the investor's share is capped at 1.5, suggesting a 10 percent investment would never be entitled to more than 15 percent of the total home value in a down environment.

**FIGURE 15**  
**Hometap Contract Value Scenarios**



URBAN INSTITUTE

Source: Urban Institute calculations from DBRS reports.

Table 3 shows the returns on a Hometap SEP. If home prices are flat and the contract is terminated after a year, the homeowner protection cap applies, and the investor receives the capped return of 20 percent. If home prices are flat for 10 years, the investor receives a payment of \$100,000, representing an investment gain of \$50,000, corresponding to a return of 7.2 percent per year (figure 15). If home prices appreciate at 3 percent for 10 years, the home’s value would be \$671,858, corresponding to an investor payment of \$134,392, yielding a return to the investor of 10.4 percent per year. Greater home price appreciation would yield higher investment returns, subject to the protection cap (and would yield a better outcome for the homeowner). Investor returns would turn negative if the home’s value, initially \$500,000, was less than \$333,333 at contract termination. Investor returns would also turn negative if the home value declines significantly and there is a significant remaining balance on senior-lien mortgage debt. Table 3 shows the ending home value, the payout to the investor, the investor’s share of the ending home value, and the annualized return to the investors. The shaded areas indicate that the homeowner protection cap is binding.

TABLE 3

**Contract Mechanics for Hometap**

Year	Home value	Contract value	Share of home value	Annualized ROI
<b>3% home value appreciation</b>				
1	\$515,000	\$60,000	11.7%	20.0%
2	\$530,450	\$72,000	13.6%	20.0%
3	\$546,364	\$81,955	15.0%	17.9%
4	\$562,754	\$100,170	17.8%	19.0%
5	\$579,637	\$103,175	17.8%	15.6%
6	\$597,026	\$106,271	17.8%	13.4%
7	\$614,937	\$122,987	20.0%	13.7%
8	\$633,385	\$126,677	20.0%	12.3%
9	\$652,387	\$130,477	20.0%	11.2%
10	\$671,958	\$134,392	20.0%	10.4%
<b>Flat home value</b>				
1	\$500,000	\$60,000	12.0%	20.0%
2	\$500,000	\$72,000	14.4%	20.0%
3	\$500,000	\$75,000	15.0%	14.5%
4	\$500,000	\$89,000	17.8%	15.5%
5	\$500,000	\$89,000	17.8%	12.2%
6	\$500,000	\$89,000	17.8%	10.1%
7	\$500,000	\$100,000	20.0%	10.4%
8	\$500,000	\$100,000	20.0%	9.1%
9	\$500,000	\$100,000	20.0%	8.0%
10	\$500,000	\$100,000	20.0%	7.2%
<b>3% home value depreciation</b>				
1	\$485,000	\$60,000	12.4%	20.0%
2	\$470,450	\$70,568	15.0%	18.8%
3	\$456,337	\$68,450	15.0%	11.0%
4	\$442,646	\$66,397	15.0%	7.3%
5	\$429,367	\$64,405	15.0%	5.2%
6	\$416,486	\$62,473	15.0%	3.8%
7	\$403,991	\$60,599	15.0%	2.8%
8	\$391,872	\$58,781	15.0%	2.0%
9	\$380,116	\$57,017	15.0%	1.5%
10	\$368,712	\$55,307	15.0%	1.0%

Source: Urban Institute calculations from DBRS reports.

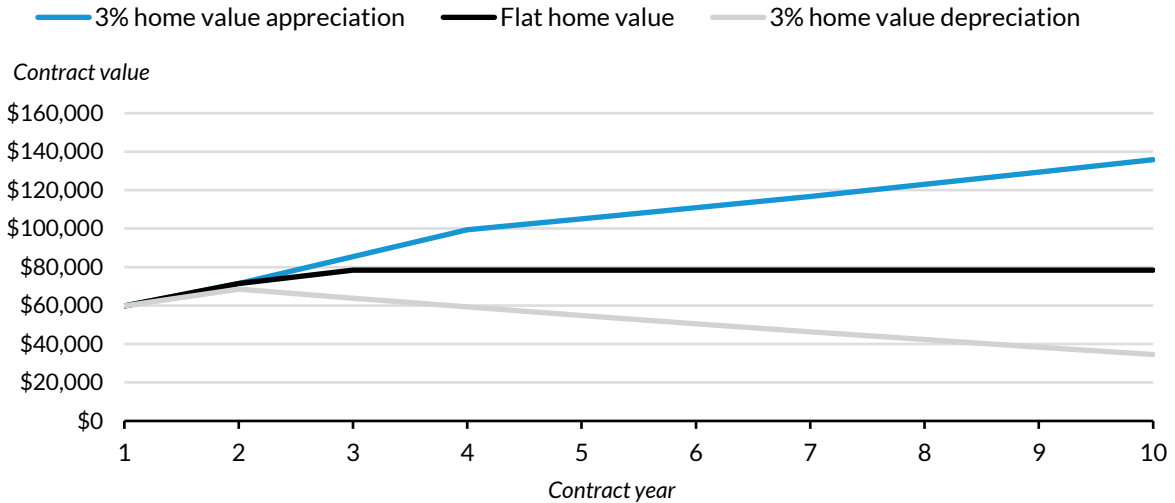
Notes: ROI = return on investment. Shaded cells show years where the homeowner protection cap is limiting the investor's return.

**Point**

The Point contract is structured differently. At settlement, the investor receives the original investment amount plus a share of the home's change in value. But the initial home value used to calculate the change in value is at a discount to the actual appraised property value. If we assume a 17 percent discount for a \$500,000 property, the initial value would be set at \$415,000. For a 10 percent investment, the investor receives the return of their initial investment amount plus 33.4 percent of the home price change (plus or minus) starting from \$415,000. Like Unlock and Hometap, Point has a

maximum payment homeowner protection cap, generally around 1.50 percent per month (or 19.56 percent per year).

**FIGURE 16**  
**Point Contract Value Scenarios**



URBAN INSTITUTE

Source: Urban Institute calculations from DBRS reports.

If home prices are flat, the investor’s gain comes from the monetization of the initial discount. Thus, if the product did not contain a cap and the homeowner settled after one year, the home would be valued at \$500,000, showing a gain from the discounted value of \$85,000, giving the investor their initial \$50,000 investment plus 33.4 percent of \$85,000 (or \$28,390), for a total settlement payment of \$78,390 (figure 16). But this would be a higher return than what the homeowner protection cap permits. The investor would actually receive their capped 19.56 percent yearly return, or \$59,780. After 10 years, if home prices remained flat, the homeowner would receive their initial investment plus a \$28,390 gain, for a total settlement payment of \$78,390 and an annualized return of 4.6 percent.

If home prices go up 3 percent per year, the home value would be \$671,958. The investor would receive their initial \$50,000 investment plus \$85,824 [33.4 percent \* (\$671,958 - \$415,000)] for a total settlement payment of \$135,824. This corresponds to a return of 10.5 percent per year. Greater home price appreciation would yield higher investment returns, subject to the protection cap (and would yield a better outcome for the homeowner).

The investor would lose money if prices depreciated below the \$415,000 initial discounted value, as the investor shares 33.4 percent of the downside below that value. The investor could also lose money

in circumstances where the home value declines significantly and there is a significant remaining balance on senior-lien mortgage loan debt. The results for Point are in table 4.

**TABLE 4**  
**Contract Mechanics for Point**

Year	Home value	Contract value	Share of home value	Annualized ROI
<b>3% home value appreciation</b>				
1	\$515,000	\$59,780	11.6%	19.6%
2	\$530,450	\$71,473	13.5%	19.6%
3	\$546,364	\$85,453	15.6%	19.6%
4	\$562,754	\$99,350	17.7%	18.7%
5	\$579,637	\$104,989	18.1%	16.0%
6	\$597,026	\$110,797	18.6%	14.2%
7	\$614,937	\$116,779	19.0%	12.9%
8	\$633,385	\$122,941	19.4%	11.9%
9	\$652,387	\$129,287	19.8%	11.1%
10	\$671,958	\$135,824	20.2%	10.5%
<b>Flat home value</b>				
1	\$500,000	\$59,780	12.0%	19.6%
2	\$500,000	\$71,473	14.3%	19.6%
3	\$500,000	\$78,390	15.7%	16.2%
4	\$500,000	\$78,390	15.7%	11.9%
5	\$500,000	\$78,390	15.7%	9.4%
6	\$500,000	\$78,390	15.7%	7.8%
7	\$500,000	\$78,390	15.7%	6.6%
8	\$500,000	\$78,390	15.7%	5.8%
9	\$500,000	\$78,390	15.7%	5.1%
10	\$500,000	\$78,390	15.7%	4.6%
<b>3% home value depreciation</b>				
1	\$485,000	\$59,780	12.3%	19.6%
2	\$470,450	\$68,520	14.6%	17.1%
3	\$456,337	\$63,806	14.0%	8.5%
4	\$442,646	\$59,234	13.4%	4.3%
5	\$429,367	\$54,799	12.8%	1.8%
6	\$416,486	\$50,496	12.1%	0.2%
7	\$403,991	\$46,323	11.5%	-1.1%
8	\$391,872	\$42,275	10.8%	-2.1%
9	\$380,116	\$38,349	10.1%	-2.9%
10	\$368,712	\$34,540	9.4%	-3.6%

Source: Urban Institute calculations from DBRS reports.

Notes: ROI = return on investment. Shaded cells show years where the homeowner protection cap is limiting the investor's return.

## General Comments

The other established SEP firms (i.e., Unison and Splitero) use variants of either sharing a percentage of the home's value or sharing in the change in value. Every established provider has a homeowner protection cap. Thus, in every case, the return to the investor (and hence the cost to the homeowner) is a function of both when the contract terminates and the home value at settlement. Tables 2 through 4

show that the returns can vary significantly. If home prices appreciate over the life of the SEP, the homeowner and investor both do well. If home prices depreciate, the returns to the investors will be low or even negative.

SEPs are relatively risky investments when compared with mortgage loans.<sup>12</sup> Investors require a built-in return to provide some measure of protection. This is accomplished with a multiplier or discount to the starting home value, and the homeowner protection caps limit the impact of the built-in return. The caps generally apply in contracts' early years. The caps will typically apply for a longer time when home values increase significantly and for a shorter time when home values rise modestly, stay flat, or decrease. Thus, in the first few years of an SEP, the investment return, and therefore the cost to the homeowner, will typically equal the homeowner protection cap. In the middle years, the cap is much less likely to apply, and in later years, the cap is highly unlikely to apply.

Intuitively, the built-in return gets "stretched out" when the contract remains outstanding for a longer term versus a shorter term. Thus, in general, the longer the SEP contract remains outstanding, the higher the dollar amount of the settlement payment but the lower the cost expressed as a percentage of investment return.<sup>13</sup> Tables 2 through 4 show this. The dollar amounts in the contract value columns increase when going from years 1 through 10, while the percentages in the annualized ROI columns decrease.

Based on this, one might conclude that SEP investors all desire fast prepayment speeds in the hope of capturing higher annualized investment returns. But it is useful to look at the impact of prepayments from the investors' point of view. There is no one-size-fits-all view on prepayment speeds. Investor preferences vary depending on their return objectives, portfolio strategy, and liability profile. Although most SEP investors value consistency in prepayments, some prefer faster prepayments, while others prefer slower prepayments. Because annualized returns to investors are highest earlier in the contract and decrease as the contract matures, some SEP investors (e.g., fund managers seeking to maximize annualized returns on investment) will benefit when prepayment speeds are higher versus lower. But because SEP assets are generally sold to investors at a premium, very fast prepayment speeds can result in a return that fails to fully recover the premium. Also, increases in prepayment speeds are often driven by falling interest rates, resulting in less attractive reinvestment opportunities. On the other end of the spectrum, certain investors naturally favor slower, stable prepayment speeds. Private equity and private credit investors, for example, often seek to optimize for the multiple on invested capital, which increases as the SEP asset remains outstanding longer. Separately, many insurance companies with long-dated liabilities favor slower, stable prepayment speeds because longer-duration SEP assets serve as a valuable tool for asset-liability matching, providing stable, predictable cash flows that align with

their long-term policyholder obligations. In addition, certain banks and asset managers operate under longer-duration investment mandates and similarly prefer the extended exposure that slower, stable prepayment speeds provide, as it reduces the need to frequently redeploy capital and minimizes reinvestment risk within their portfolios. In short, prepayment preferences are driven by each investor's unique return framework and portfolio objectives.<sup>14</sup>

## Regulation of Shared Equity Products and Capital Markets Implications

The firms that originate these contracts usually sell the contracts directly to investors at origination through flow arrangements. The investors tie up quite a bit of cash in financing these SEP investments and realize their return only when the contracts terminate. As a result, investors often securitize these contracts, giving them some cash offset up front and offering other investors exposure to these investments. Morningstar DBRS, a nationally recognized statistical ratings organization, rates these securitizations.<sup>15</sup> To size the various tranches, DBRS subjects the cash flows to multiple stresses. It factors in regulatory uncertainty, as the regulatory structure is still evolving. It also factors in the strength of the asset servicer and, as required, the backup servicer.

SEP assets were securitized for the first time by Unlock in 2021. This securitization included other assets as well. Point did the first all-SEP securitization in 2021, and Unlock did the first rated SEP securitization in 2023. Currently, Unlock, Hometap, Point, Splitero, and Unison have outstanding securitizations, and all but Unison have contributed assets for securitizations that were issued in 2025.

Currently, shared equity products are subject to regulation at both the federal and state levels. At the federal level, SEPs are subject to the Fair Credit Reporting Act, the Federal Trade Commission Act, the Fair Housing Act, and certain provisions of the Gramm–Leach–Bliley Act. In addition, SEPs must comply with requirements related to unfair, deceptive, and abusive acts and practices. Notably, SEPs are not subject to the Truth in Lending Act or the Real Estate Settlement Procedures Act, as SEPs are not considered “credit” under the Truth in Lending Act. At the state level, state financial regulators diverge in their approaches to this product.

Existing mortgage loan regulations and SEP mechanics are incompatible. Consumer protections are necessary for these products but will work best for consumers, lenders, and investors when created with the unique characteristics of SEPs in mind, rather than simply applying the rules for mortgage loans. Nine states (i.e., Colorado, Connecticut, Georgia, Illinois, Maryland, North Carolina, Oregon,

Washington, and Wisconsin) have decided to apply mortgage loan rules to SEPs, to a greater or lesser extent depending on the state. Although this is better than nothing for consumers, applying mortgage loan rules should be a temporary fix while SEP regulations are written and enacted. In those nine states, many SEP firms are licensed as mortgage lenders, thereby subjecting their products to applicable rules, to the extent practical, even if not directly relevant.

Key areas of incompatibility include the following:

- **No outstanding loan balance or amortization.** Unlike mortgage loan products, SEPs have no underlying unpaid principal balance subject to periodic interest payments that amortize in accordance with a predetermined payment schedule.
- **No stated interest rate or periodic payment.** There is neither a stated interest rate nor any interest payments, and eventual investment returns are based primarily on future home value. As a result, it is hard to comply with a requirement to disclose a single summary annual percentage rate of interest on an SEP, as any annual percentage rate calculation using the existing actuarial methodology would be an estimate based on the value of the home at a future date (which is unknown up front).
- **Underwriting is based on home equity, not credit and income.** Some states (as well as the federal government) require mortgage loan qualification to be based on credit and income. The ability-to-repay (ATR) standard for underwriting that applies to most first-lien mortgage loans is designed to demonstrate the likelihood that a consistent level of income will be available, enabling homeowners to make monthly mortgage loan payments. In contrast, the payment obligation with an SEP consists of a single payment that occurs at settlement, which will be years into the future for many SEP users. It is difficult to determine a homeowner's ability to make such a payment in the future. Without a viable method for making such a determination, the ability of SEP originators to comply with ATR requirements is questionable, and trying to use an ATR calculation with an SEP to determine a homeowner's ability to meet periodic payment obligations is inconsistent with the product's nature. Notably, under federal law, products with balloon payments that are five or more years into the future are exempt from the ATR requirement, as are home equity lines of credit and reverse mortgage loans because of their unique characteristics.
- **No credit reporting.** As there are no periodic payments and the product is not a form of "credit," SEP providers and servicers do not report originations or settlements to the credit bureaus in accordance with the Fair Credit Reporting Act.

- **Distinct servicing model.** Servicing SEPs differs significantly from servicing mortgage loans in that the servicer never holds homeowner monies (whether from periodic payments or through the escrow of monies for tax and insurance payments) and is never under an obligation to advance principal and interest payments to an investor.
- **Limited applicability of existing reporting regimes.** SEP originators do not capture many of the data elements found in existing reporting requirements (whether under HMDA or state mortgage call reports).

Many other states have thus far been silent on the treatment of SEPs.

There is an important role for the American Association of Residential Mortgage Regulators or possibly the Conference of State Bank Supervisors to play in standardizing the treatment of this product across states. They could provide guidance to state mortgage regulators on how this product should be treated from a regulatory perspective.

## Regulatory Uncertainty Directly Affects SEP Pricing

The absence of a regulatory scheme that fits the product opens the industry to the risk of a patchwork of regulatory action by state or federal authorities. In a recent presale report, DBRS, the rating agency that rates most SEP securities, outlines the risk of an adverse regulatory outcome.

“The perceived regulatory exposures include, inter alia, lawsuits and arbitration actions; Consumer Financial Protection Bureau or Federal Trade Commission sanction (or sanction by myriad state regulatory agencies); and the risk that the contracts may be reclassified as residential mortgages, which action may trigger potential allegations of violation of applicable state usury clauses. [...] In reaction to these concerns, Morningstar DBRS has acquired substantial legal memoranda, including memoranda from each Originator’s counsel that has been reviewed for scope and content by Morningstar DBRS-retained counsel, that collectively address these concerns. In addition, Morningstar DBRS has applied an analytical adjustment to quantify and account for the regulatory risk” (Moran et al. 2024, 13).

In short, DBRS has asked SEP originators for information on how they would mitigate these risks and has justifiably priced this uncertainty into its ratings, which determine the size of each tranche within a securitization. For example, in a recent Unlock deal, HEA 2025-2, the single A (low-risk, low-return) tranche was 52.5 percent of the deal’s value. If regulatory uncertainty had been eliminated, the tranche might have been larger, allowing for lower funding costs on more of the securitization. Notably, whenever any new consumer financial product and corresponding institutional investment financial asset class emerges, investors in the capital markets apply a significant risk premium related to regulatory uncertainty, which drives up the cost of capital. When regulatory uncertainty is resolved

through comprehensive regulations for that asset class, the cost of capital comes down significantly. Competitive pressures would ultimately bring costs down for homeowners.

## Toward a Tailored Regulatory Framework

It is important for both consumers and SEP industry market participants to have regulations that both protect consumers and provide the industry a framework that reduces the uncertainty of offering this product. The regulatory framework should include the following elements:

- The CFPB should monitor this product and include an option for SEPs in their consumer complaint database portal.
- There should be state licensing for those offering SEPs. Once a licensing application is complete, the commissioner should approve or deny the application in a timely manner. This license should be renewed annually.
- There should be caps on costs and fees, similar to the industry's voluntary homeowner protection cap.
- Prohibited practices should include the following:
  - » no false advertising
  - » no undisclosed fees
  - » no unreasonable limitations on the homeowner's ability to do a rate-term refinance of their senior mortgage loan
  - » no restrictions on the homeowner's legal use of the property as they see fit (e.g., the SEP originator should not restrict the homeowner's ability to rent out the property, subject to compliance with applicable laws and reasonable investor protections)
- Standards on appraisals are important for this product, as they determine the starting home value and often the ending home value, both of which factor directly into the settlement payment calculations. Appraisals should be done by an independent third party and in an independent manner consistent with existing regulations for mortgage loans.
- Disclosure and transparency on the homeowner's future payment obligation and how the calculations are done should be provided before entering into an SEP.
  - » A standard disclosure form should be agreed upon by various regulators and the SEP industry. It should include the starting home value, the transaction amount, the maximum

term, how contract settlement occurs, risks to the homeowner at settlement (e.g., being forced to take on additional debt, enter into another SEP, or sell the home if they do not have enough cash on hand to cover the settlement payment), how the settlement payment will be calculated (including the method for determining the ending home value), the homeowner protection cap, and a summary of fees that may be charged in connection with entering or exiting the contract.

- » It should also include calculations for different settlement periods (we suggest 1 year, 3 years, 5 years, 10 years, and the maximum term), as well as scenarios for changes in home value (e.g., depreciation of 2 percent, flat, or appreciation of 2, 4, or 6 percent). For each combination of settlement time period and change in home value, the disclosures should include the projected ending home value, the estimated settlement payment, the estimated annualized cost, and an indication as to whether the settlement payment was subject to a cap.
  - Our examples in tables 2 through 4 could serve as a prototype. Standardization of these tables across providers would be helpful to consumers and would allow comparisons across originators. These disclosures should also be in the closing documentation.
  - There should be a rescission period of three business days, during which the homeowner can rescind their acceptance of the shared equity agreement.
  - There should be closing statements tailored to this product.

CHEP members and perhaps others are already using disclosure forms that largely meet the disclosure and transparency requirements described above, but each provider has its own version. CHP members have proposed a standardized SEP industry disclosure form that meets the requirements described above and would make it easier for homeowners to compare offerings between originators.

State regulators may also want to consider requiring either an online course to make sure the homeowner understands the product or, alternatively, SEP counseling if the homeowner is 62 or older, has a low credit score, or both. This would be consistent with the requirements for home equity conversion reverse mortgages. Notably, many SEP originators already offer a mandatory consumer education process, and the industry, working with a US Department of Housing and Urban Development–approved national housing counseling provider, has brought to market an SEP counseling solution.

Shared equity products require a regulatory structure that is tailored to fit the product's unique characteristics, addresses SEPs' inherent incompatibilities with existing mortgage loan regulations, and gives consumers transparency on the costs of accepting the investment in their home. Because we are early in the product's maturity, now is the time to create this structure. Regulatory uncertainty increases the cost of the product to the consumer. Investors are currently pricing significant regulatory risk into their required return, and investors ultimately set this product's price. When regulatory uncertainty is reduced, the cost of the products can be reduced, and this is the stated goal of CHEP member companies. We hope to see this uncertainty reduced and homeowners better protected in the years ahead.

## Conclusion

Shared equity products are a unique tool. Data show that homeowners' stated uses of SEP proceeds are to tap into their home equity primarily for paying down debt and secondarily for home improvement or savings. SEPs are rarely used as a home purchase tool. Homeowners using SEPs include those who are excluded from traditional equity extraction via mortgage loan products (e.g., homeowners with low credit scores or income challenges) and homeowners who wish to minimize monthly payments while still tapping into their home equity. The homeowner profile in terms of age, income, and amount of equity extracted is similar to other equity-extraction products. Home values underlying SEPs are higher, but this reflects the fact that thus far, a disproportionate number of SEPs are on California-based properties. All SEPs, by definition, give homeowners an up-front payment in exchange for a stake in their home value, but the product terms and structure differ across originators.

Because SEPs are relatively new and distinct from mortgage loans, they are not well understood and are not sufficiently regulated in all states. SEPs are fundamentally incompatible with many mortgage loan regulations. State regulators need to address this issue to protect consumers and investors. That is, homeowners need to understand the agreement they are entering into and all the costs. Investors need the certainty of a regulatory environment that fits this product. A proper regulatory framework is needed, including a standard disclosure form, along the lines of what we have proposed above. We suggest that the American Association of Residential Mortgage Regulators could play a key role here. These rules would standardize practices, allow for comparisons across originators, and require all to conform to a minimum standard. Many SEP originators already include many of the homeowner protections we are suggesting be codified, including cost caps, robust disclosures, and rescission periods.

SEPs, like all financial products, are priced based on the current cost of capital. Today, the cost of capital reflects a significant risk premium because of regulatory uncertainty. Greater certainty about the regulatory environment will give investors greater confidence in the product, lowering costs for homeowners.

# Notes

- <sup>1</sup> Point data started in 2015, Hometap data started in 2018, and Unlock data started in 2020. More than 52,000 agreements were originated from 2020 to 2025.
- <sup>2</sup> Complaints lodged with the CFPB against SEP originators have been limited. The three SEP originators that provided data have been, in the aggregate, the subject of 73 complaints made to the CFPB since commencing operations. As of June 2025, these three providers had originated more than 54,000 SEP contracts since commencing operations. This represents a rate of one complaint for every 740 contracts on a lifetime basis. For comparison, in 2024, the CFPB received 26,100 complaints against mortgage loan originators while 6.09 million mortgage loans were originated. Annually, this represents a rate of one complaint for every 233 loans. See “Issue Spotlight: Home Equity Contracts: Market Overview,” Consumer Financial Protection Bureau, last updated January 27, 2025, <https://www.consumerfinance.gov/data-research/research-reports/issue-spotlight-home-equity-contracts-market-overview/>.
- <sup>3</sup> Although we have complete data for three originators, we do not have data for all originators. Other originators may do a small share of purchase origination, but anecdotally, the share is very small.
- <sup>4</sup> Laurie Goodman, Karan Kaul, and Ted Tozer, “Second-Lien Securitization Could Be Key to Accessing Home Equity in a High-Rate Environment,” *Urban Wire*, Urban Institute, January 25, 2023, <https://www.urban.org/urban-wire/second-lien-securitization-could-be-key-accessing-home-equity-high-rate-environment>.
- <sup>5</sup> Home financing in this context means the sum of all outstanding mortgage loan balances plus, for homeowners using SEPs, the amount the SEP originator invests in the home.
- <sup>6</sup> We use an ordinary least squares regression to find the correlation between property values and found that after controlling for year and zip code, there is no statistically significant difference between property values of homeowners who used an SEP or homeowners who used a mortgage loan to extract equity.
- <sup>7</sup> For cash-out refinances and first-lien open-end lines of credit, we do not know the amount of the underlying mortgage being replaced.
- <sup>8</sup> SEP originators have provisions (which vary by originator) under which a spouse or heirs of a homeowner can assume the remaining term of the SEP upon the death of the final original signatory.
- <sup>9</sup> Before a settlement would be required under any such default events, homeowners would be provided customary cure periods and certain other protections under applicable laws. Our conversations indicate that none of the three SEP originators that provided data to us has ever initiated a foreclosure.
- <sup>10</sup> Some SEP providers have policies under which they may offer term extensions under certain circumstances at contract maturity.
- <sup>11</sup> According to their websites, at the time of writing, Point’s origination fee is 3.9 percent of the investment amount, Hometap’s origination fee is 4.5 percent, and Unlock’s is 4.9 percent. See “Frequently Asked Questions,” Hometap, accessed February 16, 2026, [https://www.hometap.com/faqs#settling\\_the\\_investment](https://www.hometap.com/faqs#settling_the_investment); and “Questions? We Have Answers,” Unlock, accessed February 16, 2026, <https://www.unlock.com/resources/faqs/>.
- <sup>12</sup> SEPs are long-term real estate equity investments where the entire investment return is deferred to the time of settlement instead of being paid along the way, as with a mortgage loan. Most SEPs are in the second-lien position, which creates risk that the homeowner will default on the senior-lien mortgage loan. There is also considerable risk of home price depreciation, homeowner failure to maintain the property, and regulatory uncertainty.

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- <sup>13</sup> In addition to the homeowner protection caps that limit the *cost* of an SEP, the three largest SEP providers also cap the *size* of their investments to increase the likelihood that there will be significant homeowner equity at the time of settlement. Unlock and Hometap, which use the “total home value” model, cap investment size such that their share of equity in the home as established at origination cannot exceed 50 percent. Point, which uses the “change in home value” model, caps investment size such that its share of the future change in home value as established at origination cannot exceed 70 percent.
- <sup>14</sup> SEP originators say the average expected term of an SEP is 5 to 10 years.
- <sup>15</sup> Kroll Bond Rating Agency has published a rating methodology for SEPs but has not yet rated a transaction.

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