

Home Equity Sharing Agreements in Washington State

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Home Equity Sharing Agreements in Washington State

Executive Summary

The 2024 Washington state's operating budget includes a proviso directing the Washington Department of Financial Institutions to commission a study of "nontraditional financial services such as home equity sharing agreements, and their effect on communities of color, seniors, and other vulnerable populations" (ESSB 5950, sec. 155, p.228). As a result of the budget proviso, the Washington Department of Financial Institutions commissioned the University of Washington Evans School of Public Policy and Governance to deliver an assessment of HESAs in Washington.

Home Equity Sharing Agreements (HESAs) are a relatively new home equity financial product which allows homeowners to access their home equity. HESAs provide homeowners with an upfront payment in exchange for some percentage of the future value or appreciation of their home. Although homeowners do not make periodic payments to HESA providers, at the end of the HESA term (10 or 30 years after origination), upon the occurrence of a "triggering event" (e.g., sale of the home, default on a senior lien, or death of the homeowner), or at a prior time of the homeowners' choice, the homeowner must settle the HESA contract by making a cash payment. This cash payment must typically be made in full, and it is calculated as (i) the upfront payment plus a contractually established percentage of the home's appreciation/depreciation, or (ii) a contractually established percentage of the home's final value at settlement. The settlement amount due to the HESA provider depends upon a combination of the rate of home price appreciation, the timing of settlement, and whether the HESA provider caps costs in their contract.

HESAs application and underwriting processes and terms are similar to those required by traditional mortgage products. Like other home equity financial products, HESA providers generally charge homeowners for origination fees (which range from 2.5% to 4.9% of the transaction amount) and other third-party costs (i.e., appraisal, escrow/settlement, inspection, and county recording costs). Like providers of alternative products, HESA providers secure their investment (upfront payment) through a Deed of Trust on the property, and limit homeowners' ability to refinance their existing mortgage or take out new loans. HESAs often contain occupancy requirements, maintenance requirements, insurance clauses, and may prohibit certain uses of the property.

Policymaking around HESAs is essential given that HESAs are a growing marketplace and projected to grow further over the next decade. Although the number of HESAs originated in the state of Washington is still low, it has been growing rapidly: the cumulative number of HESAs originated in the state grew steeply from less than 100 in 2017 to over 3,000 in 2024 – a nearly thirty-five-fold increase in total number of originations in seven years.

Yet, information on the prevalence, distribution and consequences of HESAs is still scarce. Traditional sources of secondary data generally used to study mortgage products do not collect information on HESAs and, although HESA providers have shared data with the research team, these

providers collect limited demographic information on consumers. Our analysis of public records, provider data, and interview data on HESAs in Washington suggests that:

- **HESAs are designed to offer a more flexible financial product available to a larger share of homeowners.** Traditional products for accessing home equity like Home Equity Loans, Home Equity Lines of Credits or Reverse Mortgages, may not be available to many property owners for various reasons, including but not limited to age, credit scores, or income-to-debt ratio.
- **Interviewed homeowners in Washington often experience financial difficulties before entering HESAs and want to use HESAs to pay off debt.** The most appealing features of HESAs were that they allowed access to large lump-sums and required no monthly payments.
- **There is a lack of regulatory clarity as applicable to HESAs, which may expose homeowners to risks and predatory practices - and many homeowners may not be aware of these additional risks.** The applicability of consumer lending laws to HESAs (such as the Truth in Lending Act, Real Estate Settlement Procedures Act, and WA Consumer Loan Act) depends on whether they are interpreted as mortgage loans under applicable federal and state laws. Several interviewed homeowners in Washington worried about having to sell their home to settle the HESA, and others were frustrated to discover that the Department of Financial Institutions could not offer them much support in potential disputes with providers.
- **Generally, greater home appreciation scenarios are associated with greater HESA settlement amounts. Thus, homeowners in Washington are particularly vulnerable to higher costs associated with HESAs.** The rate of home appreciation in the state of Washington is the highest in the country at 5.7% over the last 40 years.
- **The stability of housing markets deems depreciation scenarios unlikely. And even when homes' value remains stagnant or depreciates, contractual terms (i.e., multipliers, risk adjustments, restriction periods) provide protection for most HESA providers from even large reductions in home prices.** Of the nearly 650 HESAs settled in Washington, only about 3% resulted in the HESA provider not recouping the original investment amount and virtually all these terminations happened in the aftermath of the 2008 financial crisis.
- **HESA settlement payment based on a percentage of the home value/appreciation can be hard to predict. On average, HESAs settled in Washington have been more expensive than alternatives such as Home Equity Loans, HELOCs, or reverse mortgages.**

- As an example, for the typical Washington homeowner in a scenario of 5% annual home appreciation rate, our simulations find that: one year after borrowing \$100,000 based on a home worth \$650,000, the homeowner will need about \$120,000 to settle a HESA. If the homeowner settles the HESA five years after its origination, the settlement payment could be anywhere from \$217,500 to \$247,800 depending on the HESA provider involved in the transaction. Ten years after the HESA origination, homeowners could pay an amount as low as \$317,600 or as high as \$364,300 depending on the provider involved in the transaction.
- Returns on Investments (ROIs) are a good, standardized measure to compare the costs of HESAs to other home equity finances products. **Average ROIs for about 650 HESAs that have been settled in Washington range from 16.7% to 19.5%, depending on HESA provider.** Notably, equivalent annual return rates for other home equity finances products (i.e., Home Equity Loans, Reverse Mortgages, or HELOCs) for consumers with “very good” credit scores range between 7.5% to 12%; The rates for consumers with “fair” credit scores range from 11% to 16% (if available at all).
- **Yet, HESA providers argue and several of our interviewees concurred that homeowners may be willing to pay greater costs due to features of HESA,** such as (1) not having to make monthly payments and (2) not having additional debt reported to the credit bureau. These benefits of HESA to homeowners are hard to quantify and compare to other products - and are likely to vary across homeowners.
- **Settling HESAs early in the contract’s term generally means that homeowners pay smaller nominal settlements to HESA providers. Yet, due to multipliers and risk adjustments applied to HESAs, settlement amounts may grow faster in earlier contract years compared to later contract years.** Notably, many of the contracts settled in Washington to date have been settled relatively soon after their origination (26 months after origination, on average), which increases the costs of these settlements. In simulations, we show that the relative costs of HESAs decrease as time passes – thus, over time, if more HESAs are settled in later contract years, we would expect an overall lower average ROI. In fact, our simulations suggest that, under some circumstances, and particularly over longer periods of time, HESAs may yield more comparable annualized returns on investments as compared to interest rates on HELOCs, Home Equity Loans, and Reverse Mortgages.
- **Cost caps place limits on the maximum return a provider can earn on a HESA. They are essential to limit homeowners’ repayment amounts, particularly during short-term terminations or during periods of above-average home appreciation.** Since 2023, all large HESA providers have included cost caps in their contracts, which vary by HESA provider

in terms of how they are defined and calculated. Yet, about 20% of HESAs originated in Washington have no cost cap. In Washington, we identified HESAs settlements that yielded disproportionately high annualized ROIs (ranging from 25% to 200%), mostly from HESAs that were uncapped and settled in the aftermath of the Covid pandemic (between 2020 and 2022).

- **The terms offered of HESAs by the largest providers in Washington State can vary quite a bit.** Briefly, data from HESAs settled in Washington (N=650) suggest that providers working with homeowners with lower average credit scores may include terms that provide more robust protection against real losses. HESA providers working with homeowners with higher-than-average credit scores had terms that allowed for more frequent nominal and real losses, but also for disproportionately large investment increases.
- **Despite differences across providers regarding HESA contract terms, we did not find evidence that the average costs of settled HESAs varied based on homeowners' characteristics such as credit scores.** Moreso than credit scores, the outcomes of settled HESAs appear to be shaped by the timing of HESA settlement (e.g., settling in the aftermath of the 2008 recession or during the Covid pandemic), in conjunction with the specific terms of HESAs (such as the presence/absence of risk adjustments and cost caps) which varied by provider. Despite differences in terms across providers, however, within each provider, HESA terms are applied consistently across homeowners.
- **Although there was no difference in the average relative costs of HESAs across consumers with higher and lower credit scores, this does not mean that HESAs have the same impacts on the financial wellbeing of various communities.** Put simply, the same product can have different impacts across different communities depending on these communities' baseline wealth, resources, and ability to plan for or cope with settlement payments. Unfortunately, there does not exist data to answer questions about disparate or varied impacts on communities.
- **Interviewed WA homeowners' experiences with HESAs varied depending on their level of comfort with HESAs themselves as well as the level of financial hardship under which the agreements were signed.** These two factors combined with financial literacy, the existence of alternative home equity finance options, and access to supportive external resources (attorneys/lawyers, financial counselors, etc.) led to substantial divergence between customers who were satisfied with HESAs and homeowners left feeling negatively after exchanging a substantial portion of their main asset for an upfront cash payment. Homeowners' experiences contrasted significantly across two groups:
 - **Homeowners with positive experiences:** They were generally those who wanted upfront cash without monthly debt obligations, who had substantial equity, and who

were willing to share future home value gains - regardless of whether they qualified for other mortgage products. These homeowners typically drew on a variety of knowledge sources to make informed decisions around HESAs. They were more likely to have positive feelings towards HESA providers, to be satisfied with HESA's benefits, and to understand HESA's long-term repercussions.

- **Homeowners with negative experiences:** They were more likely to have had few other options to access the value stored in their homes through traditional mortgage products and little understanding of HESAs. They were more likely to have had negative experiences and feelings associated with HESA providers, to still perceive themselves as struggling after receiving the upfront payment, to not have a clear plan for how to pay back the upfront payment, and to be worried about the long-term implications of HESAs.

HESAs are regulated by statute in only three U.S. states: Connecticut, Illinois, and Maryland. In these states, (1) HESAs were specifically defined as a form of home mortgage loan, making them subject to laws covering the regulation and compliance of mortgage lenders, (2) HESA providers are required to disclose information about risks and financial implications with homeowners, and (3) a regulatory agency is clearly identified in the legislation as responsible for overseeing HESA products.

During Washington State's 2024 legislative session, both the House (HB 2081) and the Senate (SB 5968) proposed equivalent bills designed to facilitate the regulation of HESAs. Neither bill passed during the 2024 legislative session.

During the 2025 Regular Session, a new House Bill 1464 was introduced to establish a dedicated regulatory regime for HESAs. Industry representatives are supportive of this bill, as they have called for more consistency and regulatory certainty in the HESA market. Yet, the bill substantially differs from previously proposed bills in Washington and from bills passed in other states, particularly in that it does not define HESAs as loans – which has drawn criticism from consumer advocacy groups.

This report highlights the promises and pitfalls of HESAs: its ability to unlock and expand access to homeowner wealth to those who would otherwise be unable to do so, but also its inherent challenges - complexity of terms, higher average costs, and potential for homeowner harm if left unchecked.

Our findings suggest that although it is possible that some homeowners will be able to leverage HESAs to improve their financial circumstances, it is also possible that other homeowners will continue to struggle financially and find themselves unable to settle the contract before or at the end of its term. **At this point, lack of data on HESA homeowners' characteristics and outcomes mean that many pressing questions remain unanswered.** Thus, there is a need to establish an approach to gathering and monitoring HESA data for proper regulatory oversight.

Project Team

Mariana Amorim, Associate Professor, Department of Sociology, Washington State University

Mariana Amorim is an Associate Professor of Sociology at Washington State University. Dr. Amorim is a social demographer and sociologist who relies on qualitative and quantitative methods to study families, poverty and inequality, and social policies. Her research focuses on how public, private, and “shadow” safety nets shape the economic wellbeing of families in the U.S. Dr. Amorim has a M.P.P. for Oregon State University and a Ph.D. in Policy Analysis and Administration from Cornell University.

Benjamin Brunjes, Associate Professor, Evans School of Public Policy & Governance, University of Washington

Benjamin M. Brunjes is an Associate Professor at the Evans School of Public Policy and Governance at the University of Washington. He is a public management scholar whose research is focused on how to design and implement complex forms of modern governance, including contracts, grants, and collaborative networks. From 2021-2023, he served as a policy fellow at the U.S. Small Business Administration, advising on ways to make federal contracts more accessible to small firms. Dr. Brunjes holds a B.A. in American Politics from the University of Virginia, and an MPA and Ph.D. in Public Administration and Policy from the University of Georgia.

Gregg Colburn, Associate Professor, Runstad Department of Real Estate, University of Washington

As a faculty member in the University of Washington’s College of Built Environments, Gregg teaches and researches topics related to housing, housing policy, affordable housing, and homelessness. He is co-author of two books, *Homelessness is a Housing Problem: How Structural Factors Explain U.S. Patterns* (University of California Press) and *Affordable Housing in the United States* (Routledge). Gregg actively engages with community partners at the state and local level to support efforts to address the acute housing challenges in our state and region.

Crystal Hall, John and Marguerite Walker Corbally Endowed Associate Professor in Public Service, Evans School of Public Policy & Governance, University of Washington

Crystal Hall is the John and Marguerite Walker Corbally Professor in Public Service and Adjunct Associate Professor of Psychology at the University of Washington. Her research pursues the integration of psychology into the design and implementation of public policy. She has collaborated with government agencies at every level, including work with the U.S. White House Social and Behavioral Sciences Team. She

holds a PhD and MA in Psychology from Princeton University and a BS from Carnegie Mellon University in both Decision Science and Policy and Management.

Julia Karon, Doctoral Candidate, Evans School of Public Policy & Governance, University of Washington

Julia is a doctoral student at the Evans School focused on examining structural inequalities in access to employment and housing. She applies a variety of quantitative and qualitative methods to study the implementation of workforce and housing programs, access to childcare and other social services, and how job access varies across time and place. Prior to joining the Evans School, Julia worked as a research analyst where she conducted mixed methods research on higher education interventions designed to improve attainment and completion rates for historically underserved students.

Sharon Kioko, Associate Professor, Evans School of Public Policy & Governance, University of Washington

Sharon Kioko is an Associate Professor at the Evans School of Public Policy & Governance at the University of Washington. Her research focuses on the fiscal health of state and local governments, the use of financial information in the municipal securities market, and the impact of voter initiatives on the size and composition of their revenues, operating budgets, and long-term fiscal obligations. Dr. Kioko holds a B.A. in Economics from the University of Nairobi, a Master of Public Administration, and a Ph.D. in Public Affairs from Indiana University–Bloomington. She is also a Certified Treasury Professional (CTP) and a Certified Public Accountant (CPA, Kenya – inactive).

Kayla Lendy, Doctoral Student, Department of Sociology, Washington State University

Kayla is a graduate student at Washington State University. Kayla's research focuses on inequalities in public perceptions of environmental policies and relies on both quantitative and qualitative work.

Xinyue Wu, Doctoral Candidate, Department of Sociology, Washington State University

Xinyue Wu is a Ph.D. candidate in Sociology and M.S. student in Statistics at Washington State University. Her research explores the intersections of health, demography, and social inequality, with a focus on how structural and institutional contexts shape health outcomes across the life course. She employs advanced quantitative methods, including survival analysis, causal inference, and spatial analysis, in her work.

Purpose and Scope of Report

Home Equity Sharing Agreements (HESAs) are a relatively new financial product that allows homeowners to access home equity. The state's operating budget includes a proviso directing the Washington Department of Financial Institutions (DFI) to commission a study of: "nontraditional financial services such as home equity sharing agreements, and their effect on communities of color, seniors, and other vulnerable populations" (ESSB 5950, sec. 155, p.228). As a result of the budget proviso, DFI commissioned the University of Washington Evans School of Public Policy and Governance to deliver an assessment of Home Equity Share Agreements (HESAs) and Earned Wage Access (EWAs)¹ in the state of Washington. This work is being conducted by the Evans Policy Innovation Collaborative (EPIC) and involves researchers from the University of Washington and Washington State University.

This report provides an assessment of the prevalence and impact of Home Equity Sharing Agreements (HESAs), also known as Home Equity Investments, Home Equity Contracts, Shared Equity Products, or Home Equity Agreements, in the State of Washington. In writing this report, researchers received feedback from the Department of Financial Institutions and from representatives from large HESA providers operating in Washington. The report is organized in the following sections:

- **PART I: Structures, Terms, and Costs of HESAs in Washington.**

Introduces home equity sharing agreements and provides some background on the growth of HESAs, and includes a discussion of HESAs definition, key elements, and terms that providers offer, as well as potential costs and risks of HESAs.

- **PART II: Characteristics and Experiences of WA Homeowners in HESAs**

Describes the lived experience of HESA users in the state of Washington: reasons why they entered HESAs, perceptions about the agreements and providers involved, as well as consequences of HESAs for their financial and emotional wellbeing. This section also describes variation in the experiences of homeowners in HESAs in Washington.

- **PART III: Regulatory Landscape**

Offers a summary of legislative history and regulatory landscape in Washington and in other U.S. states.

Notably, to date, there is limited data and nearly no publications on HESAs. Existing secondary data sources don't include HESA information, and while HESA providers have shared some data, it lacks detailed consumer demographics. This study used public records, provider data, and interviews with Washington homeowners to draw initial conclusions about HESAs. However, many important questions remain unanswered and require further research.

¹ An attached document includes the report on Earned Wage Access.

PART I: Definition, Structures, Terms and Costs of HESAs

Context and Definition of HESAs

Investing in a primary residence, which is both a place to live and a key financial asset expected to appreciate over time, can help build financial stability, both due to the relatively infrequent nature of primary residence sales and the stable growth in real property values across the nation over the past 60 years (Adkins, Cooper, and Konings, 2020). Real property assets account for a large proportion of household wealth in the U.S. In 2021, 62% of American households lived in homes they owned as their primary residence, and home equity (i.e., the difference between the value of the home and the debt on that home) accounted for approximately 45% of their total net worth (Pew Research Center, 2023).

As a result, much of the average household's net worth is illiquid, and cannot easily be accessed or converted to cash. In response, lenders have developed a range of specialized products that homeowners may use to access their illiquid wealth to cover other needs, such as home equity loans, home equity lines of credit, and reverse mortgages. Generally, these loan products are secured using the established equity in a real property asset. Additionally, pursuant to federal law, lenders must ensure the homeowner can repay the loan, which is typically based upon the homeowner's income and credit history. Like traditional home mortgages, these products are regulated across the nation to ensure the accountability of lenders and to promote transparency of contract terms and conditions for homeowners.

In recent years, a relatively new financial instrument, Home Equity Sharing Agreements (HESAs), has been increasingly used to help homeowners access home equity. **Briefly, HESAs are defined as financial products which provide homeowners with an upfront lump-sum payment in exchange for some percentage of the future value or appreciation of their home.** Generally, HESAs (i) are available to a greater share of homeowners than other home equity finance products; (ii) do not require homeowners to make monthly payments; and (iii) are not reported to credit bureaus. Although homeowners do not pay interest or make regular payments to HESA providers, they do give HESA providers the right to share in the future value or appreciation/ depreciation of their homes. At the end of the HESA term (10 or 30 years after origination), upon the occurrence of a "triggering event" (e.g., sale of the home, default on a senior lien, or death of the homeowner), or at a prior time of the homeowners' choice² (i.e., buyout), the homeowner must settle the HESA contract by making a balloon cash payment. This cash payment must typically³ be made in full, and it is calculated

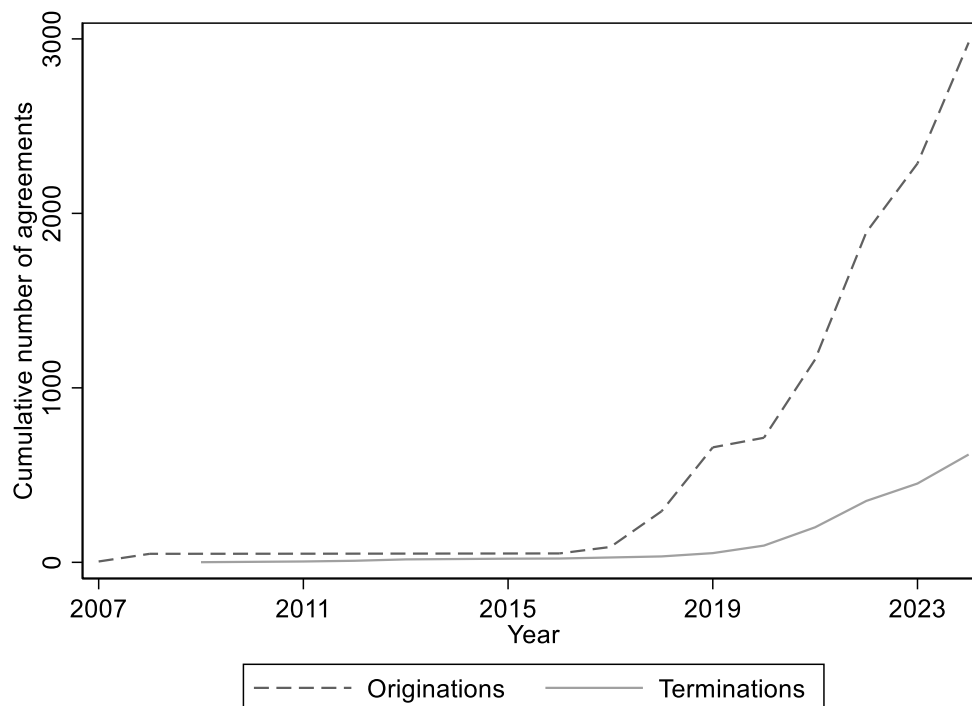
² Homeowners generally have the right to buyout of a HESA agreement at any time prior to the end of the agreement's term. Yet, some of the HESAs originated in Washington include "restriction periods" that disadvantage homeowners during early settlements. Today, only one large HESA provider implements "restriction periods."

³ One of the four largest providers participating in this study accepts "partial payments." These partial payments are still large and not intended to be used as periodic payments but instead as partial settlements. They result in the retirement of a portion of the original investment and a reduction of the HESA providers' sharing percentage. Partial payments may result closing costs, appraisal costs, and costs with home inspection, all of which would be responsibility of the homeowner.

as (i) the upfront payment plus a contractually established percentage of the home’s appreciation/depreciation, or (ii) a contractually established percentage of the home’s final value at settlement. Since 2023, all large HESA providers have included cost caps⁴ in their contracts, which are designed to limit homeowners’ settlement payment in scenarios where a contract is terminated in a short period of time or where there is significant home price appreciation. Cost caps vary by HESA provider in terms of how they are defined and calculated.

A 2025 report⁵ from the Consumer Financial Protection Bureau (CFPB) suggests that HESAs are a growing marketplace and projected to grow further over the next decade: “In the first 10 months of 2024, the four largest home equity contract providers securitized approximately \$1.1 billion backed by about 11,000 home equity contracts” (CFPB, 2025). Yet, there were more than 1.1 million HELOCs signed in 2024, indicating that HESAs are “still a niche product in comparison.” HESA firms hold that the industry could grow by more than 100 times over the next decade (Dohnert, 2024).

Figure 1. Cumulative Number of HESAs Originated and Terminated in Washington



Source: Transaction data shared by four largest HESA providers in Washington (2007-2024)

⁴ In a prior report about HESAs by the Department of Financial Institutions, costs caps are referred to as proceeds caps. Although the term “proceeds caps” has been used by some HESA industry members, it is not the term favored by the segment of the industry that consulted for this report. As a result, we use the term “costs caps” throughout the report.

⁵ Although the cited 2025 report is still available online, the CFPB has indicated in a lawsuit that they no longer take their original position in this report. Here, we still cite data on the growth of HESAs because that is not part of their contested position.

Although the number of HESAs originated in the state of Washington is still low, it has been growing rapidly since 2017, as shown on Figure 1. Figure 1 charts data provided by the 4 largest HESA providers currently operating in Washington State, which we estimate have originated over 90% of the HESAs in Washington to date. It suggests that the cumulative number of HESAs originated in Washington remained low from 2007, when the first agreement was signed, to 2017 (approximately 90). Yet, the cumulative number of HESAs originated in the state grew steeply between 2017 and 2024, reaching over 3,000 originations by the end of 2024. **This represents a nearly thirty-five-fold increase in the total number of originations in the state over 7 years.** HESA providers' data also suggests that the largest spikes in the number of new HESAs occurred in 2022 and 2024, when over 770 and 690 originations occurred, respectively.

Notably, the potential consequences of HESAs for Washington homeowners may become more salient as the number of terminated HESAs increases. Figure 1 shows that, to date, only one in five HESAs originated in Washington have been terminated (i.e., the homeowner settled the contract with the HESA provider). Data from HESA providers suggest that **about half of the terminated HESAs were terminated through the sale of the home.** The remainder of the settled HESAs were terminated due to other reasons, mostly buyouts. Only one contract was terminated through foreclosure in 2023⁶ and only about 5% of contracts were terminated through the start of a new HESA.

There is a lack of regulatory clarity as applicable to HESAs, which may expose homeowners to risks and predatory practices (Poverty Action Lab & Northwest Consumer Law Center, 2024). Although the CFPB noted in their 2025 report that they will “monitor and review the home equity contract market to ensure compliance with federal consumer financial laws,” since January 20, 2025, changes to CFPB’s role, resources, and leadership, as well as changes to CFPB’s own stance on the need to regulate HESAs as a loans under the new federal administration suggest that HESAs are unlikely to be directly regulated under national consumer protection and contract laws. Thus, states may need to play a greater role in enforcement and supervision of consumer protection. While the industry and regulators agree that regulation is necessary, there is disagreement as to how HESAs should be regulated.

HESA Structures and Terms

Structures of HESA products

HESA providers offer one of two different types of products, which vary in structure: Shared-Value contracts, and Shared-Appreciation contracts. In the state of Washington, two of the four largest HESA providers use a Shared-Value model and two use a Shared-Appreciation model. In Washington, about half of the HESA originations are under each HESA structure.

- i) **Shared-Value:** Under this model, the upfront payment amount (paid to the homeowner by the HESA provider) is expressed as a set percentage of the total value of the

⁶ According to HESA representatives, this foreclosure was not initiated by the HESA provider but by the first lien mortgagee, though the provider participated in this action to protect its subordinate lien.

homeowners' property. These models specify a **multiplier**, i.e. a multiple of that set percentage, to determine the settlement payment amount or the percentage of the property that the HESA provider is entitled to take ownership of after a set period.

- Example: if a home was appraised at \$500,000 at the time of origination and the homeowner received an upfront payment of \$50,000 (10% of home value) in a HESA with a multiplier of 2, this homeowner would need to pay the HESA provider 20% ($2 \times 10\%$) of the home's appraised value or the sale price, when settling the HESA. If at time of settlement the home was appraised at \$600,000, this homeowner's settlement obligation would be \$120,000 (20% of 600,000).

- ii) **Shared-Appreciation:** Under this model, the settlement amount is calculated as the upfront payment made to the homeowner by the HESA provider *plus* a percentage of the home's appreciation or depreciation— i.e., the difference between the home's value at the origination of the agreement and the home's value at the point of termination.

Shared-Appreciation models generally include a **risk adjustment** to the value of the property at time of origination. The risk adjustment sets the "starting point" for calculating appreciation at a value lower than the actual appraised value of the property. In other words, the settlement payment is determined based on the appreciation or depreciation from the starting point instead of the appraised value of the home.

Shared-Appreciation models also include a **multiplier**,⁷ i.e. a multiple that converts the upfront payment amount (paid to the homeowner by the HESA provider), expressed as a percentage of the total value of the property, to a percentage of the appreciation/depreciation that is used to calculate settlement payment.

- Example: if a home was appraised at \$500,000 at the time of origination and the homeowner received an upfront payment of \$50,000 (10% of home value) in a shared-appreciation contract that included a multiplier of 4 and a discount of 10%, when settling the HESA, this homeowner would need to pay the HESA provider the upfront payment (\$50,000) *plus* 40% ($4 \times 10\%$) of the home's appreciation (which is calculated from the starting point of \$450,000, using a 10% adjustment to the original appraised value). If at time of settlement the home was appraised at \$600,000, this homeowner's settlement obligation would be \$110,000 (\$50,000 + \$ 60,000⁸).

⁷ One shared appreciation provider participating in this study reported that they have a set multiplier to determine the share of the appreciation/depreciation used to calculate settlement payment Another Shared-Appreciation provider uses a proprietary formula to calculate this share.

⁸ The percentage of the home appreciation included in the settlement payment is calculated as 40% of \$600,000 – \$450,000.

Since 2023,⁹ the largest four HESA providers have adopted **cost caps** (also known as return caps or protection caps) in their contracts. These caps are designed to limit the amount a homeowner must pay the HESA provider, particularly when a contract is settled in a short period of time or when there is significant home price appreciation. **These caps are currently self-imposed**, which means that they are not standardized or set by state regulation; thus, they (1) vary by HESA provider in terms of how they are defined and calculated, and (2) HESA providers could operate in the state without implementing these caps.

HESA terms in Washington

Tables 1 and 2 below rely on data provided by the 4 largest HESA providers operating in the state, which we estimate have originated over 90% of the HESAs in Washington to date. Data shared by providers included information about HESA transactions conducted in Washington, but no information that could identify homeowners (such as name or address).

Table 1 shows the average terms of HESAs in Washington. The appraised home values of homes at origination for HESAs averaged \$646,425. Homeowners received an average upfront payment of \$99,035, which represents 15.58% of their home's value at origination. On average, Washington homeowners paid fees of \$2,759 (appraisal, title, settlement/escrow, and recording), representing about 2.7% of the upfront payment. The term length of HESAs in Washington is generally either 10 or 30 years.¹⁰ Shared Appreciation contracts use an average risk adjustment of 12% to home prices at appraisal, and claim, on average, 53% of the share of homes' future appreciation. Shared Value contracts use an average multiplier of 1.9 and claim, on average, 29.9% of homes' future value.

Table 1. Descriptive characteristics of HESAs originated in Washington

Originated HESA characteristics	Mean	SD	Min	Max
Home appraisal at origination (<i>nominal</i>)	646,425	407,454	111,000	>5,000,000
Upfront payment amount (<i>nominal</i>)	99,035	73,930	17,500	658,824
Upfront payment as % of Appraised Value	15.58	5.78	3	44
Origination fees (<i>nominal</i>)	2,759	2,769	0	24,500
Origination fees as % of upfront payment	2.73	1.59	0	4.90
Maximum Term (in years – either 10 or 30)	--	--	10	30
Features unique to Shared Appreciation				
Risk Adjustment (for Shared Appreciation)	0.120	0.099	0.0	0.290
Multiplier	3.51	0.56	1.71	5.00
HESA provider share of appreciation*	53.04	15.26	11.60	73.48
Features unique to Shared Value				
Multiplier	1.89	0.25	1.48	2.43

⁹ Three out of the four HESA providers always included proceed caps in their HESAs. Only one large provider in the state originated HESAs without proceed caps, and this provider started implementing caps after 2023.

¹⁰ Though the four largest HESA providers which provided data for this project use terms of either 10 or 30 years, at least one smaller provider shared with researchers that they are implementing varying terms that range between 10 and 30 years.

HESA provider share of future home value** 30.0 13.21 6.0 70.0

Notes: N= 3,000 transactions (approximately) provided by the 4 largest HESA providers in Washington. Two providers use the Shared Appreciation structure (N~1,500) and 2 providers use the Shared Value structure (N~1,500).

Average HESA terms, however, mask substantial variation across HESA products as shown in Table 2. Table 2 reports on key characteristics of HESAs originated in Washington by HESA provider. It highlights some key differences between providers, beyond the contract structure.

Table 2. Key characteristics of HESAs originated in Washington, by Provider

HESA Terms	Shared-Appreciation				Shared-Value			
	Provider #1		Provider #2		Provider #3		Provider #4	
	Mean	Range	Mean	Range	Mean	Range	Mean	Range
Risk adjustment	1%	0-10 ^a	20%	14-29	--	--	--	--
Multiplier	4.0	3-5	3.2	1.7-5	1.9	1.7-2	2.0	1.4-2.4
Share of appreciation	59%	19-74	49%	12-70	--	--	--	--
Share of home value	--	--	--	--	30%	7-50	30%	6-70
% with cost cap	5.5%	--	100%	--	100%	--	100%	--
Cost cap	20%	20-20	18%	15-21	20%	20-20	19.70%	15-22
Compounding of cap	Monthly, <i>limited</i> ^b		Monthly ^c		Annually		Annually	
Homeowners' credit scores	729	555-850	626	500-829	689	508-850	635	494-845
Term	30	--	30	--	10	--	10	--
Settled contracts								
% Settled contracts	25%	--	30%	--	14%	--	14%	--
Length of settled HESA (months)	50	7-173	21	2-76	13	2-41	13	2-42
Annualized ROI ¹¹	19.5	-100-205	18.7	-6-24.4	19.4	-12-29	16.7	-87-25
ROI distribution								
ROI <=0	14.5%		1%		1%		1%	
0 <ROI <=5	4.0%		1%		2%		1%	
5 <ROI <=10	8%		0%		1%		1%	
10 <ROI <=20	14%		65%		41%		63%	
20 <ROI <=25	11.5%		33%		52%		33%	
25 <ROI <=50	39.5%		0%		3%		0%	
ROI >50	8.0%		0%		0%		0%	

a. Provider 1 generally applies discounts of 0% to 5% to HESAs in Washington. A small number of HESAs used risk adjustments of 10% and were part of a program (discontinued) to increase access of HESA products to homeowners with lower credit scores.

¹¹ It should be noted that the range of "Annualized ROI" figures may exceed provider's stated "investment return cap" due to differences in calculation methods. Here, Annualized ROI includes Origination Fees and the gain on the investment that results from the settlement payment whereas industry providers do not include origination fees when applying their respective investment return caps.

b. Provider 1 uses a fixed percentage for the first year and then compounds return caps monthly in years 2 and 3. Caps are only applied during this early period (called “restriction period”) when the provider also does not share in decreases in property values. The effective *Annual* cost cap for this provider is actually about 22% since it compounds caps monthly.

c. Provider 2 compounds cost caps monthly, which suggests that their capped settlement payments could grow more quickly due to frequent compounding. Yet, this provider also has the lowest average cost cap (18%). In terms of an effective annual cost cap, the cap implemented by Provider 2 is not substantially different from the one implemented by other providers (approximately 19.6%).

There is great variation in HESA terms between HESA providers, even those with the same HESA contract structure.

- **A comparison between the two of the largest Shared-Appreciation providers in Washington suggests that their terms are very different (see Table 2).** Provider 1 has historically applied very low risk adjustments to determine the starting value of a property in a HESA contract. In fact, for many years Provider 1 made no adjustment to the appraised value of the properties in HESAs. Yet, this same provider did not implement cost caps to HESAs before 2023. Since 2023, Provider 1 has both increased the risk adjustment of properties (generally, to up to 5%) but also started implementing cost caps. Provider 2, on the other hand, has always both applied greater risk adjustments to home values (14% to 29%) and implemented investment return caps on all contracts originated in Washington.
- **A comparison between the two Shared-Value Providers suggests less drastic but still notable differences in their terms.** Although both Shared-Value providers implement a similar average multiplier (2.0) and claim a similar average share of the home’s final value at the end of the HESA term (30%), Provider 4 allows for a wider range of multipliers and shares of final home values than Provider 3. Provider 4 also implements a greater range of cost caps compared to Provider 3.

Because providers offer different terms with potential trade-offs that are hard to compare, identifying the relative costs of entering each type of contract, from an individual homeowners’ perspective, is cumbersome and depends largely on the rate of home appreciation and the timing of settlement, as we explain in more detail below. **Yet, this variation in contract terms has implications for settlement amounts, suggesting that some providers may offer contracts that are more expensive than other providers.**

Table 2 reports on the rates of annualized return on investment (ROIs) on the contracts that have already been settled by each provider (n=650). Annualized ROIs measure how much a provider earns on average each year, expressed as a percentage of their initial investment. **Our calculation of annualized ROIs standardizes returns over different time periods to a yearly rate, allowing for more easy comparison between investments that have different terms.** In many of the comparisons below, we refer to the annualized ROIs as a coarse effective interest rate to the consumer. Thus, if a HESA investor earns 18% annualized ROI, that 18% is considered coarsely, as the

cost of borrowing for the consumer each year. We use this number as a basis for a coarse comparison with the costs of mortgage loans, which are calculated as APRs.¹²

We find that, on average, providers' annualized ROIs range from 16.7% to 19.5%. Notably, many HESA providers have been in business for a relatively short period of time, thus most of the observed settlements occurred relatively soon after origination, being higher cost and often limited by return cap. Over time, as more settlements occur in later contract years, contracts may settle at returns below the cap, resulting in a wider range of outcomes and, potentially, an overall lower average ROI.

The distribution of ROIs (the percentage of settled HESAs that fall within ranges of ROIs) offers additional insight into the differences between HESA providers. **Whereas some providers (Providers 2, 3, and 4) have generally been well protected against nominal or real losses, another provider (Provider 1) has experienced both more frequent nominal and real losses, but also a higher share of disproportionately large investment increases.**

- Only about 1% of the contracts settled with each of Providers 2, 3, and 4 had negative annualized ROIs and only 1-2% had small, annualized ROIs (between 0% and 5%). In general, the annualized ROIs for these three providers ranged between 17% and 22%.
- Provider 1, on the other hand, had a much higher share of settlements resulting in negative annualized ROIs (nearly 15%). However, this same provider also had a significantly larger share of contracts with disproportionately high annualized ROIs: nearly 40% of its investments produced returns between 25% and 50%, and 8% delivered annualized ROIs above 50%
- **The differences between Provider 1 and the other providers are largely due to key contract terms shown in Table 2.** Specifically, Provider 1 has the lowest risk adjustment—making it more vulnerable to negative or low ROIs—and, in most Washington originations, did not impose cost caps, which allows for higher returns under certain circumstances (which we explain in more detail below).

Returns on Settled HESAs

The diversity of the HESA market regarding contract terms and costs may, in part, reflect HESA providers' diverse goals and clientele. Some providers (Providers 2, 3, and 4) work with a broader population of homeowners, including those with lower credit scores and who are likely to have fewer home financing alternatives. Another provider (Provider 1), who is an outlier¹³ in many respects, instead markets HESAs as an additional tool for homeowners who are likely to already qualify for existing mortgage products (i.e., those with prime credit scores). **In tandem, Table 2 shows that, on**

¹² Like APRs, our annualized ROIs are annualized making the comparison easier. Yet, different than APRs, our annualized ROIs do not account for fees to homeowners at origination.

¹³ This provider was also the only one to ever offer HESAs as down payment assistance, though this type of contract has been discontinued.

average, homeowners working with Provider 1 have higher credit scores than those working with Providers 2, 3, and 4.

A key concern regarding HESAs is that, in the absence of regulation, predatory terms could be offered to the most vulnerable homeowners entering HESAs. We used provider data to investigate whether homeowners' credit scores¹⁴ are associated with the terms in all originated HESAs (N=~3,000) and with the annualized ROIs of HESAs that have been settled (approximately 650).

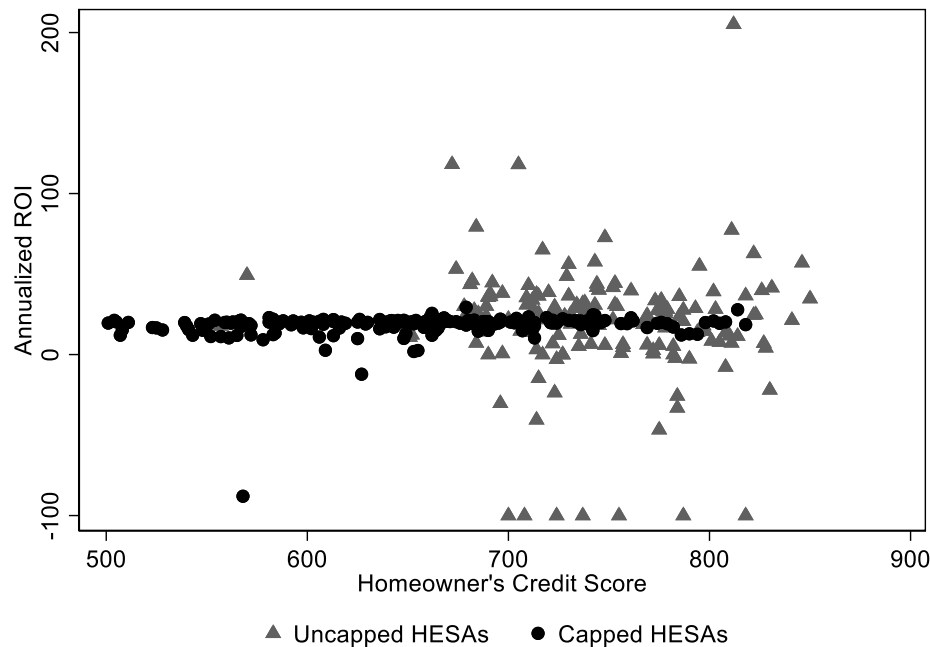
We did not find evidence that the key terms offered by a HESA provider (such as multipliers, upfront payment amounts, or risk adjustments) varied drastically based on homeowners' characteristics such as credit scores, age, or self-reported when applying to the same provider. In other words, each provider generally applied its somewhat standard HESA contract terms uniformly across homeowners with lower and higher credit scores.

However, we identified variation in HESA terms across homeowner's applying to the same provider based upon changes implemented by the provider to its terms over time. Over time, three out of the four HESA providers studied increased their risk adjustments or multipliers. For example, Provider 2 used adjustments of 14% to 20% in the early years, switching later to adjustments of 25% to 29%; Provider 3 used multipliers below 2 (1.7-1.8) in earlier years, switching to multipliers of 2 more recently. Provider representatives explain that these pricing increases were driven by shifts in market conditions.¹⁵ Not all changes that happened over time increased costs for consumers. For example, Provider 1 originally did not implement cost caps. By implementing caps after 2023, the settlement amount due to this provider in more recent contracts may decrease in some circumstances (as we explain in more detail below).

Figure 2. Scatterplot of annualized ROIs by Homeowners' Credit Scores at Origination

¹⁴ Some providers provided data based on FICO scores and others use Vantage. Accordingly, we will use the more generic term "credit scores" to refer to these scores.

¹⁵ HESA representatives argue that these pricing increases were ultimately caused by an increase in asset yields due to a series of interest rate hikes implemented by the Federal Reserve Bank in 2022-2024. Those representatives further claim that pricing decreases were implemented as the interest rate environment began to improve in 2024.

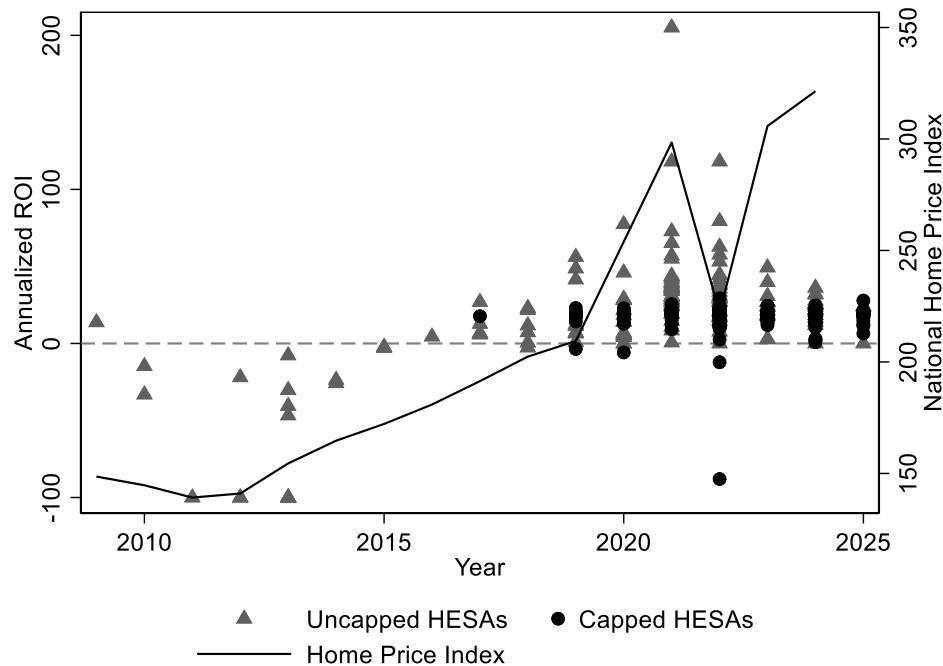


Source: Data provided by four largest HESA providers operating in Washington. Plot includes only contracts that have been settled. (N=650)

Comparison of HESA terms *across* HESA providers is made difficult by the different models of their HESA products. Because HESA providers tend to serve a different group of clients and offer different average terms, it would still be possible for homeowners with lower credit scores to face higher average costs for HESAs. **However, we did not find evidence that the average annualized ROI of contracts settled in Washington varied substantially by consumers' credit scores at origination, as shown in Figure 2.** Figure 2 shows the credit score of homeowners at HESA origination and the annualized ROIs for each settled contract in Washington until 2024 (approximately, 650). If homeowners with lower credit scores were paying higher relative settlement amounts, Figure 2 would show a downward trend; Instead, it shows a flat line, suggesting the annualized ROIs do not vary substantially by homeowners' credit scores.

Figure 2 also suggests more variation in the outcomes of homeowners with higher credit scores (720-759), partly because many worked with Provider 1 at the time this provider was not capping returns (the HESAs are shown as triangles in Figure 2). **Thus, data from settled HESAs suggest that providers offering their products to homeowners with lower credit scores may seek more robust protection against real losses via a shared-value model or greater risk adjustments whereas a provider working with homeowners that had a higher credit score exposed themselves to the potential of both greater potential losses and gains.**

Figure 3. Scatter plot of annualized ROI for HESAs originated in Washington against trends in Home Prince Index.



Source: Data provided by 4 largest HESA providers (N=650); Data from the S&P CoreLogic Case-Shiller U.S. National Home Price Index (FRED).

More than credit scores, homeowners' outcomes are shaped by the historic time in which they originate and settle their HESAs, as well as any specific terms included in these contracts, as shown in Figure 3.

Each circle or triangle in Figure 3 represents one of the (approximately) 650 HESAs settled in Washington between 2009 and 2024. The locations of these triangles and circles indicate both the year in which the contract was settled as well as the annualized ROI for that specific contract. Triangles indicate contracts that did not include cost caps at origination and circles indicate contracts that included cost caps at origination. Figure 3 also includes a line, which represents the S&S CoreLogic Case Shiller National Home Price Index for the US (from the Federal Reserve Bank of St. Louis), a widely used measure of residential real estate prices across the country. The line representing Home Price Index shows the dip in home prices after the 2008 recession and the surge in house prices in the aftermath of the Covid pandemic.

In agreement with Table 2, Figure 3 indicates that there was more variation in the ROIs of contracts that were uncapped (triangles). Figure 3 also shows that timing and terms of contracts matter. **As expected, we see that disproportionately high annualized ROIs (over 25%) are concentrated among HESAs that were uncapped and settled in the aftermath of the Covid pandemic (between 2020 and 2022).** This is shown by the triangles in the upper-righthand corner of the scatter plot.

Importantly, evolving terms of HESA products and the calculation of final payment being dependent upon the amount of appreciation or depreciation at settlement, conclusions drawn

regarding already terminated HESAs are not necessarily bound to be reproduced in the future.

Two reasons help to explain and are also supported by data in Figure 3.

- **First, it is important to note that some of the outcomes described in this section (such as the incidence of disproportionately high annualized ROIs) are linked to contract terms no longer being implemented by providers.** As noted above, HESA providers have changed their terms over time. Many of the terminations that occurred in Washington (under Provider 1) were uncapped (see triangles in Figure 2), leading to some disproportionately high ROIs, which would not be imposed to homeowners with HESAs originated after 2023. The extremely low or negative ROIs (also under Provider 1) are also less likely today since Provider 1 started implementing risk adjustments.¹⁶ Notably, these changes are self-imposed and not mandated by regulation – meaning that these providers or new HESA providers may decide to not abide by these terms.
- **Second, the structure of HESAs ensures that their costs are bound to the historic moment and housing market dynamics at which homeowners originate and settle contracts.** For example, disproportionately high annualized ROIs are portrayed in Figure 2 between the years of 2020-2022 suggesting that some homeowners who settled HESAs in the aftermath of a surge in house prices during the Covid pandemic (particularly those with uncapped HESAs) may have incurred significantly higher costs than other homeowners with similar contracts who settled in other time periods. Similarly, most negative annualized ROIs in Figure 2 are concentrated in the years after the 2008 recession; Thus, homeowners who settled then may have paid much lower settlement amounts than other homeowners in similar contracts who settled in different periods.

Importantly, although there was no difference in the average relative costs of HESAs across consumers with higher and lower credit scores, HESAs may still have differential effects on the financial wellbeing of different types of homeowners or communities. Put simply, the same HESA product can have different impacts across different communities depending on these communities' baseline wealth, resources, and ability to plan for or cope with settlement payments. **Unfortunately, we do not currently have access to data to empirically answer questions about disparate impacts on communities.**

¹⁶ Risks adjustments implemented by Provider 1 remain relatively low.

Understanding the Costs of HESAs

Mechanics of calculating the homeowners' settlement costs

Table 3 is a step-by-step hypothetical¹⁷ example that shows settlement payment calculations for both HESA models with and without cost caps, assuming a rate of home appreciation of 5%, over three different terms: 2-, 5-, and 10-years.

This example is based on a homeowner who received \$99,000 as an upfront payment based on a home appraised at \$650,000 at the time of HESA origination (row 1). The HESA upfront payment to this homeowner represented about 15% of the property's appraised value (row 5). In this example, we use a cost cap of 19.2% compounded annually.

Shared Value models in the state of Washington implemented multipliers which averaged about 2.0. Because the average upfront payment (99,000) represents about 15% of the average property's appraised value at origination. This means that, at settlement of the HESA, the homeowner would need to pay the HESA providers the equivalent of roughly 30% ($2.0 \times 15\%$) of the final appraised value of their home. Thus, going back to the example, a homeowner, whose house was appraised at \$650,000 at origination and appreciated at a rate of 5% annually, would need to repay either **\$214,990** ($0.3 \times \$716,630$), **\$248,880** ($0.3 \times \$829,600$), or **\$317,635** ($0.3 \times 1,058,780$) to the HESA provider if they settled in 2, 5, or 10 years, respectively, in the absence of caps. In Washington, both large shared-value providers implement caps, thus, these values would be: **\$140,670** and **\$238,240** in years 2 and 5, respectively, if we use the example of a cost cap of 19.2% compounded annually

Table 3. Hypothetical example of settlement calculation by HESA contract structure

Row	Average HESA terms ^a	Shared Value	Shared Appreciation
1	Appraised Home Value at origination	\$650,000	\$650,000
2	Risk Adjustment	--	12%
3	Risk-Adjusted Value of Home	--	\$572,000
4	HESA Upfront Payment ^b	\$99,000	\$99,000
5	Upfront Payment as % of Appraised Value	15%	15%
6	Multiplier	2.0	3.5
7	HESA Provider % of future home value	30%	--
8	HESA Provider % of future appreciation	--	54%
9	Maximum Term of Contract	10-30 years	10-30 years
10	Cost cap (compounded annually)	19.2%	19.2%
Settlement after 2 years			
11	Final Home Value	\$716,630	\$716,630

¹⁷ The goal of these hypothetical examples is to walk the reader on the steps to calculate settlement amounts. The numbers used this example are based on average terms (e.g., Risk adjustment and Multiplier) shown in Table 1. Yet, as already discussed, because of the variation in terms offered by each HESA originator, average terms should not be considered representative of the contracts originated in Washington or offered by any single HESA provider.

12	Appreciation of home ^c	--	\$144,630
13	Settlement Payment (without Cap) ^d	\$214,990	\$177,100
14	Settlement Payment (with Cap) ^e	\$140,670	\$140,670
15	Annualized Return on Investment (with Cap)	19.2%	19.2%
Settlement after 5 years			
16	Final Home Value	\$829,600	\$829,600
17	Appreciation of home ^c	--	\$257,600
18	Settlement Payment (without Cap) ^d	\$248,880	\$238,100
19	Settlement Payment (with Cap) ^e	\$238,240	\$238,100
20	Annualized Return on Investment (with Cap)	19.2%	19.2%
Settlement after 10 years			
21	Final Home Value	\$1,058,780	\$1,058,780
22	Appreciation of home ^c	--	\$486,780
23	Settlement Payment (without Cap) ^d	\$317,635	\$361,860
24	Settlement Payment (with Cap) ^e	\$317,635	\$361,860
25	Annualized Return on Investment (with Cap)	12.4%	13.8%

a. HESA terms are averages that may not have been used in any single contract in Washington.

b. Homeowners receive an upfront payment minus origination fees that generally range from 3% to 4%.

c. In Shared-Appreciation contracts, appreciation is calculated as final home value (rows 11, 16, 21) minus risk-adjusted value of the home at origination (row 3).

d. The Settlement payment without cost cap (rows 13, 18, 23) represents the amount expected of homeowners settling at the specified time. Settlement payment for Shared Value contract is calculated as 30% (row 7) of final home value (rows 11, 16, 21). Final settlement amount for Shared Appreciation contracts is calculated as 54% (row 8) of appreciation (rows 12, 17, 22) added to original upfront payment (row 4). This calculation does not account for potential cost caps.

e. Settlement payment is defined as the lowest of two values: (1) the settlement payment as calculated without cost cap (rows 13, 18, 23; see note d), or (2) the capped return (row 10).

Shared Appreciation models in Washington implemented an average risk adjustment of 12% to the original value of the home. In the case of a home appraised at \$650,000, its starting value at origination would be \$572,000. This lower starting value is the value used in the calculation of the settlement amount. In Shared Appreciation models, the HESA provider's share of home appreciation is, in this example, 54% ($3.55 \times 15\%$). Thus, 54% of the change in home value from the adjusted starting value of a home is contractually owed to the HESA provider, in addition to the initial upfront payment (see Table 1). Assuming an annual appreciation rate of 5%, after 5 years, a home initially appraised at \$650,000 would be worth about \$829,600. For the purposes of the HESA, the home would have appreciated not by \$179,600 ($\$829,600 - \$650,000$), but instead by \$257,600 ($\$829,600 - \$572,000$). Thus, five years after receiving \$99,000, this homeowner would need to pay the HESA provider about **\$238,100** to terminate the HESA contract, which includes the original upfront payment (\$99,000) plus 54% of the appreciation ($0.54 \times \$257,600 = \$139,100$). This value would remain unchanged if cost caps

were applied. Table 3 also notes the expected settlement amounts in these Shared-Appreciation contracts for years 2 and 10 with caps (**\$140,670, \$361,860**) and without caps (**\$177,100, \$361,860**).

Under both types of models, features such as risk adjustments and multipliers are designed to make it more likely for HESA providers to recoup their investment (the upfront payment). For this reason, the previous section (see Table 2, Figure 2 and Figure 3) shows that Provider 1, who implemented no or low risk adjustment, has historically been more exposed to real losses. In the next section of this report, we show that this is true in most cases even if the real value of a property does not change or, in some cases, decreases over time.

Under both types of models, the annualized return on investment for HESA providers is greater when contracts are settled earlier. Note that, in this example, in years 2 and 5, homeowners' payments are limited by the cost cap (19.2% in this example). As we will discuss in more detail in the next section, in the absence of these cost caps, homeowners could pay much higher costs. For example, if settling after 2 years without cost cap, the homeowner who received \$99,000 in this example would need to pay each type of HESA provider \$177,100 or \$214,990 (row 13) – which represents an exorbitant annualized rate of return of 33.7% or 47.4%, respectively.

Simulating Costs of HESAs when Homes Appreciate

To better understand the costs of HESAs, we ran simulations that show the expected settlement amounts for the “average homeowner” in Washington, defined as one whose house is valued at \$650,000 and who receives an upfront payment of \$100,000 (see Table 1) when houses appreciate at a rate of 5% annually. Because the terms of HESAs can vary meaningfully across providers, we run four separate simulations that use the specific average terms of each individual provider (see Table 2). All simulations include returns caps.¹⁸ These simulations were created in consultation with HESA providers.

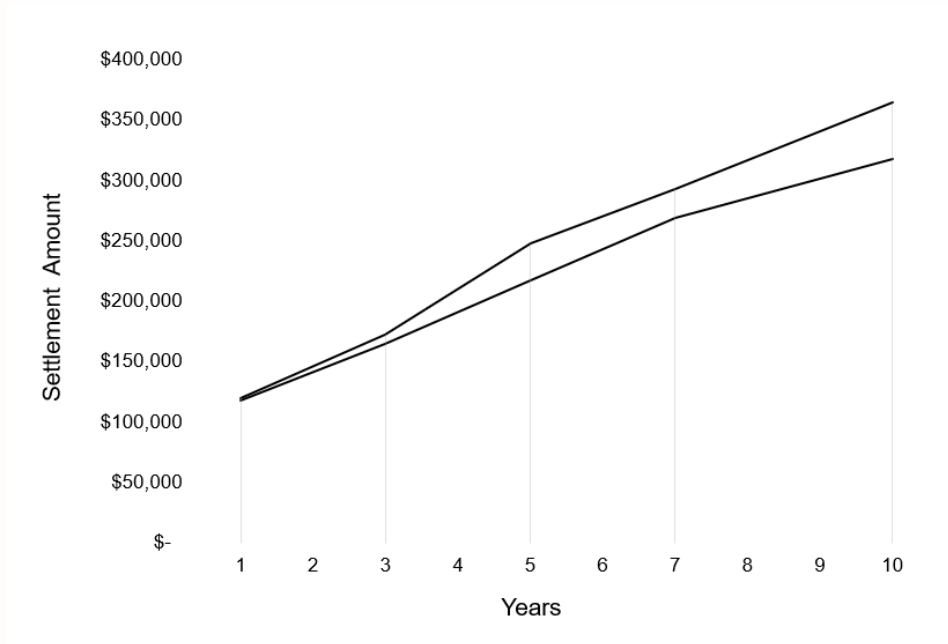
To portray the results from these simulations, we only show the highest and lowest expected settlement figure across all four simulations for each time period without identifying which provider or type of contract was used to find settlement amounts.

Figure 4 below shows that the “average homeowner” may experience meaningful variation in settlement amounts over time depending on the provider with whom they work. One year after obtaining \$100,000 based on a home worth \$650,000, this average homeowner will be expected to pay about \$120,000 to terminate a HESA contract, a value that remains virtually the same across providers. But as time goes on, variation in expected settlement amounts across providers increases. If the homeowner settles five years after contract origination, depending on the HESA provider involved in the transaction, they could settle anywhere from \$217,500 to \$247,800 – a range of about \$30,000. Ten years after the HESA origination, homeowners could settle for an amount as high as

¹⁸ Even though a relatively large share of HESAs originated in Washington (and most originated by one large HESA provider) do not include cost caps, we opted to include caps in these simulations because since 2023 all providers have included caps in their contracts. We believe that these simulations better portray what is being *currently* offered to Washington homeowners, even if it does not accurately portray the experiences of homeowners who entered HESAs before the implementation of caps were widespread.

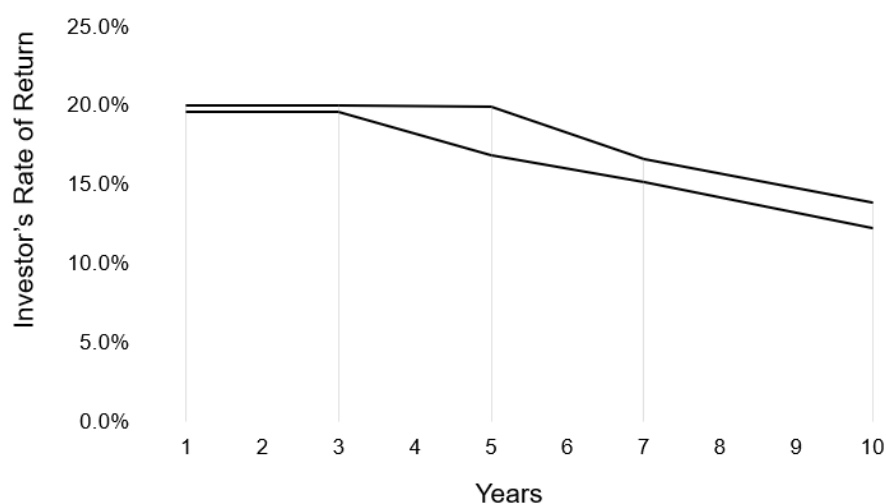
\$364,300 or as low as \$317,600 depending on the provider involved in the transaction – representing a range in settlement amounts of nearly \$47,000.

Figure 4. Variation in expected settlement amounts for the average homeowner under a 5% home appreciation scenario.



Notes: Data from simulations produced by researchers in collaboration with four largest HESA providers operating in Washington. Numbers underlying simulations are based on average terms of each provider's HESA.

Figure 5. Variation in expected HESA providers' rates of returns under a 5% home appreciation scenario.



Notes: Data from simulations produced by researchers in collaboration with four largest HESA providers operating in Washington. Numbers underlying simulations are based on average terms of each provider's HESA.

Using these same simulations, we also investigated ranges in HESA providers' annualized rate of returns over time, which we portray in Figure 5 above. HESA providers' annualized rate of returns represents the percentage gain or loss on a HESA per year, and it is useful in comparing HESAs held for different lengths of time.

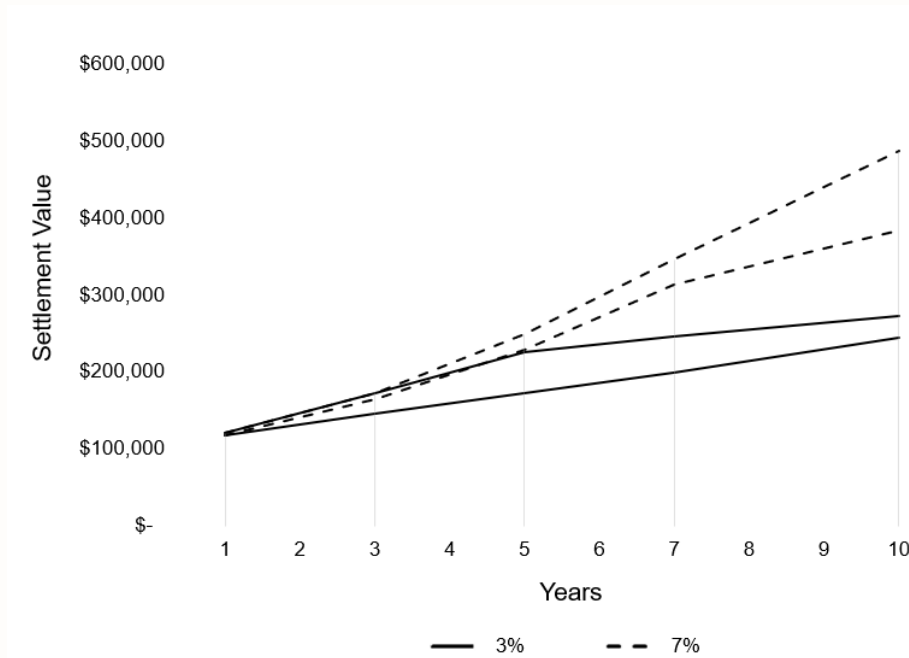
Figure 5 shows that HESA providers earn higher rates of returns if a homeowner settles the HESA contract soon after origination. For the "average homeowner" (in a contract where the upfront payment was \$100,000 based on a home valued at \$650,000), the HESA provider will earn annual rates of return on investments between 19.6% and 20% if the contract is terminated in the first three years. The annual rates of returns in early years in the simulations shown in Figure 5 are determined by each provider's cost caps and would be substantially higher in the absence of these caps.

As time goes on, annual rates of return decrease for HESA providers (even as nominal payments increase for homeowners). If this contract is settled ten years after its origination, HESA providers would earn annual rates of return on investments ranging from 12.3% to 13.8%. As a general rule, when home values rise, the sooner the HESA contract is settled, the lower the dollar amount of the settlement payment but the higher the annualized rate of return. And the later the HESA contract is settled, the higher the dollar amount of the settlement payment but the lower the annualized rate of return.

The rates of home appreciation vary widely across the country and even within the state of Washington. Nationally, the average rate of home appreciation has been 4.4% per annum since the inception of the Case-Shiller Home Price Index in 1987 (S&P Dow Jones Indices, n.d.-a). The rate of home appreciation in the state of Washington is the highest in the country at 5.7% over the last 40 years (Clarridge, 2024). Across Washington state, there is significant variation in home appreciation rates with home values in the Seattle metropolitan area growing at 6.6% over the last three decades (S&P Dow Jones Indices, n.d.-b).

To show how these different home appreciation scenarios can shape settlement amounts, Figure 6 uses the same simulations implemented for Figure 4 (showing the highest and lowest expected settlement payments for the average homeowner over time) but uses two different home appreciation scenarios: annual rates of 3%, which is below the national average, and 7%, which is closer to the Seattle home appreciation rate.

Figure 6. Variation in expected settlement amounts for the average homeowner under 3% and 7% home appreciation scenarios.



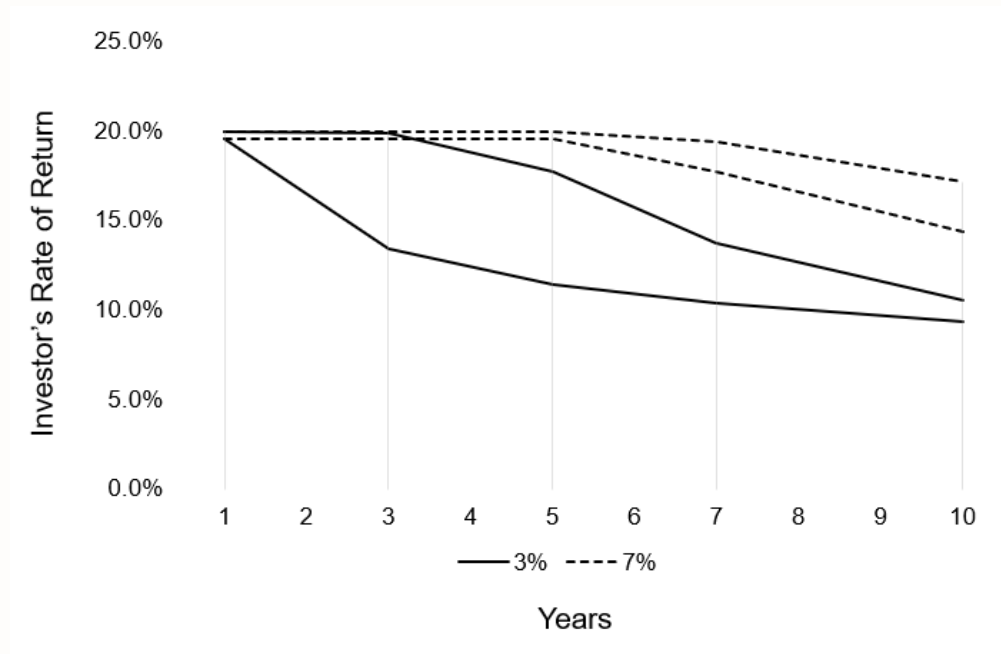
Notes: Data from simulations produced by researchers in collaboration with four largest providers operating in Washington. Numbers underlying simulations are based on average terms of each provider's HESA.

Figure 6 shows that greater appreciation scenarios are associated with greater settlement amounts. This is expected and reflects the nature of these products as equity investments, which should generate higher returns to the investor when home values rise more significantly, and lower returns to the investor when home values rise more modestly or fall. In the simulation portrayed above, ten years after their origination, the average homeowner who received an upfront payment of \$100,000, in an above-average appreciation scenario (7% annual appreciation rate, dotted line) may need to pay anywhere from \$383,600 to \$486,900 to terminate the HESA contract, depending on the HESA provider. In a below-average appreciation scenario (3% annual appreciation rate, solid line), the same homeowner would need to pay anywhere between \$243,900 and \$273,000 ten years after contract origination, depending on the HESA provider.

Yet, Figure 6 also shows that, during the first years after HESA origination, there is a substantial overlap in expected settlement payments under both below-average and above-average appreciation scenarios. For example, under a home-appreciation scenario of 7% (dotted line), our average homeowner (with a house appraised at \$650,000 at origination, and who receives an upfront payment of \$100,000) would have a home valued at \$796,300 after three years and would pay a settlement amount in the range of \$170,900 to \$172,800, a settlement payment which represents up to 22% of their final home value. Under a 3% home-appreciation scenario, this same average homeowner would have a home valued at \$710,300 after three years and would need to make a settlement payment in the range of \$145,900 to \$172,800, which represents up to 24% of their final home value. This happens because of cost caps, which limit HESA providers' returns in the early years. This example suggests that homeowners settling their contracts earlier will incur higher financing

costs (24%) when they experience below-average appreciation scenarios and incur lower financing costs (22%) when they experience above-average appreciation scenarios.¹⁹ This is corroborated by Figure 7 which shows the investors' rates of returns under the two scenarios portrayed in Figure 6.

Figure 7. Variation in expected HESA providers' rates of returns under a 3% and 7% home appreciation scenario.



Notes: Data from simulations produced by researchers in collaboration with four largest providers operating in Washington. Numbers underlying simulations are based on average terms of each provider's HESA.

Attention to costs in the short term is important because, despite the option of lengthy terms in HESAs, a substantial number of HESA customers have settled their agreements in the first few years. In Washington State, about 20% of all HESAs have been terminated to date. For the population that have already settled HESAs, the average term was 26 months, with nearly a third (32%) settled by the homeowner within 12 months of origination and another 30% settled by the homeowner within 12 to 24 months of origination.²⁰

The reason for a large share of HESAs to be settled so quickly is unclear from data provided by HESA providers. Interviews with HESA homeowners (see Part II) suggest that some homeowners may have decided ahead of time to settle their HESA as soon as possible. Testimonies during the legislative sessions also suggest that some homeowners use HESA products to buy a property with the intention of quickly selling it for a profit (i.e., flip houses).

¹⁹ This is not necessarily true for contracts with low risk adjustments and no cost caps.

²⁰ Once again, this average masks differences between providers. For example, Provider 1, which generally works with homeowners with higher credit scores, has longer average terms for settled contracts in Washington.

Due to multipliers and risk adjustments applied in most²¹ HESAs, settlement amounts may grow faster in earlier contract years compared to later contract years. Take the hypothetical example shown on Table 1 of the “average homeowner” whose house is appraised at \$650,000 at origination and who receives \$100,000 from a Shared-Value HESA provider using a multiplier of 2. Because the upfront payment represents 15% of this homeowner’s property value, he or she is contractually required to provide a settlement payment representing 30% of their home value at termination (2 x 15%). If this homeowner decides to terminate the HESA contract in the same year that it originated, without the cost cap, the homeowner would need to pay the HESA provider \$200,000 even if their home value did not change at all. This would represent an annualized return on investment for the HESA provider of at least 100% (more if the homeowner settled the HESA in less than 12 months²²). For this reason, when cost caps are applied, homeowner settlement amounts generally hit the cost cap during the early years, as shown in Figures 5 and 7 above.

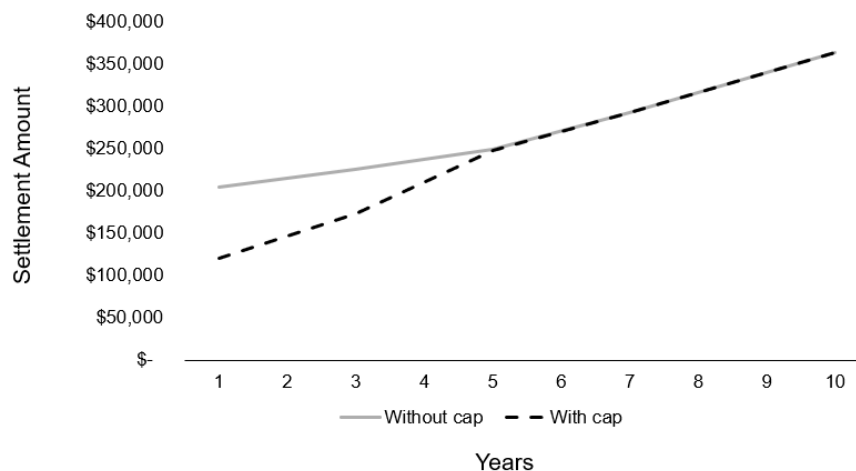
Cost caps are essential to limit settlement amounts, particularly in Shared-Value models or Shared-Appreciation models with large risk adjustments, and for short-term terminations or during periods of above-average home appreciation. Since 2023, the four large HESA providers that have provided information for this report have included cost caps in their contracts. These caps vary by HESA provider in terms of how they are defined and calculated. The average cost cap is 19.2% per year. Some are compounded monthly, and some annually.

Notably, about 20% of agreements originated in Washington do not include cost cap because they were originated by one provider that did not implement a cap until 2023. This means that settlement payment amounts for these homeowners may be exceedingly high.

Figure 8. Comparison of maximum expected settlement amounts for the average homeowner under 5% home appreciation scenarios, with and without cost caps.

²¹This does not apply to earlier contracts under HESA provider 1, which included no risk adjustments.

²² For example, it would represent an annualized ROI of 300% if the HESA was settled in 6 months and of 151% if the HESA was settled in 9 months.



Notes: Data from simulations produced by researchers in collaboration with four largest HESA providers operating in Washington. Numbers underlying simulations are based on average terms of each provider's HESA.

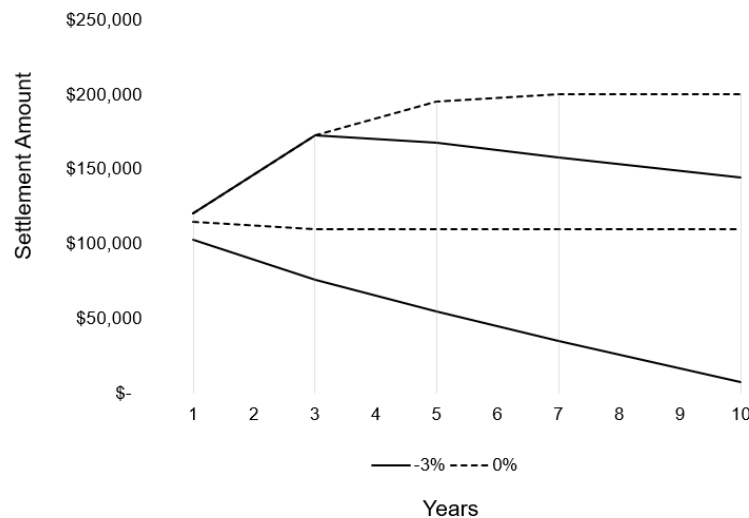
Figure 8 above shows the maximum expected settlement payment for all four HESA providers for the average homeowner who receives a \$100,000 upfront payment based on a home appraised at \$650,000 with and without cost caps. If this average homeowner settles a HESA contract without cost caps, they could pay as much as \$204,800 after 12 months – resulting in an annual return on investment of 104.8% for the HESA provider.

Simulating Costs of HESAs when Homes Depreciate

Generally, settlement amounts for Shared-Appreciation models are more exposed to home price depreciation than those on Shared-Value models. Because Shared-Value providers apply a multiplier to the whole value of the home and Shared-Appreciation providers apply a multiplier to the change in home value, providers relying on Shared-Value contracts are more protected against depreciation. As an example, if a homeowner entered a HESA with a Shared-Value model using a typical multiplier of 2x, the homeowner's property would have to decrease in value by 50% before the HESA provider would not recoup its full investment (the upfront payment made to the homeowner). On the other hand, in a Shared-Appreciation model with a risk adjustment to the appraised value of the home at origination of 20%, the home would need to depreciate by 20% in value before the HESA provider would not recoup its full investment (the upfront payment made to the homeowner). Notably, HESA models that provide less exposure to price depreciation also generally provide less exposure to price appreciation.

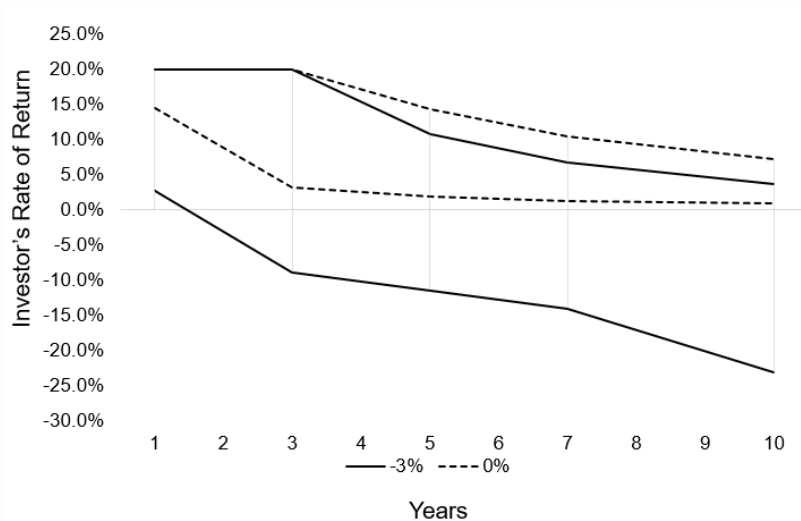
Figure 9 uses similar simulations to the ones done for Figure 6 but assumes a flat (0% annually) to negative (-3% annually) growth in home values. Figure 10 uses the same simulations to show annualized returns on investments under scenarios of home price stagnation or depreciation.

Figure 9. Variation in expected HESA provider's annualized rates of return under 0% and -3% home appreciation scenarios.



Notes: Data from simulations produced by researchers in collaboration with the four largest HESA providers operating in WA. Numbers underlying simulations are based on average terms of each provider's HESA.

Figure 10. Variation in expected HESA providers' rates of returns under a 0% and -3% home appreciation scenario.



Notes: Data from simulations produced by researchers in collaboration with the four largest HESA providers operating in WA. Numbers underlying simulations are based on average terms of each provider's HESA.

In a scenario of no appreciation (0% annual appreciation rate, dotted line in both Figures 9 and 10), using the average terms of each HESA provider, homeowners who received \$100,000 based on a house valued at \$650,000 should expect to at least pay the original upfront payment back to the provider if they settled the HESA within ten years of origination (see Figure 9). For all providers except Provider 1 (who uses low risk adjustments), Figure 9 shows this average homeowner with a stagnant home would still need to pay large amounts to settle the HESA contract – of up to \$120,000 in year 1, \$195,000 in year 5, and \$200,000 in year 10. Under this scenario of no appreciation, the annualized

ROIs range between 15% and 20% if the HESA is settled one year after origination (generally hitting the cost cap for all providers except Provider 1), to 1% to 7% if HESAs are settled 10 years after origination. Notably, from the HESA provider's perspective, an annualized ROI of 1% after 10 years would represent a real loss even if not a nominal one given inflation and the time value of money.²³

In a scenario of depreciation (-3% annual depreciation rate, solid line in both Figures 9 and 10), if homeowner is working with Provider 1 (who uses low risk adjustments), they may expect a settlement payment that is either *lower* than the original upfront payment received of as little as \$75,600 in year 3, \$54,600 in year 5, and \$7,345 in year 10. Alternatively, if working with any other provider, this average homeowner may have to pay larger settlement sums in order to terminate the HESA of up to \$172,000 in year 3, \$167,500 in year 5, and \$143,000 in year 10. In fact, even when homes depreciate, the average homeowners' settlement payments to all HESA providers (except Provider 1) are limited by cost caps in the first year, having annualized ROIs of about 20% in year 1 (as shown in Figure 10).

Notably, in both scenarios of stagnation or depreciation of home values, the only HESA provider that would either only barely recover (bottom dotted black line) or not recover (bottom solid black line) the upfront payment at any point in the term of the HESA, would be Provider 1 (see Table 2). That's because Provider 1 is a Shared-Appreciation provider that applies no or very limited risk adjustments to the values of properties at the time of origination. Figure 10 shows that this provider could have an annualized ROI of -23% by the tenth year after origination. **Yet, Figure 10 is overestimating this Provider's (#1) participation in potential losses.**

- Specifically, the projection of losses shown through the bottom solid line in Figure 10 assumes that the provider always shares in the depreciation of the home, regardless of the timing and reason for terminating the contract. Yet, Provider 1, **the only provider projected to have negative annualized ROIs in our simulation, (1) does not share losses when the homeowner requests a buyout (rather than settles due to home sale or term termination) and (2) does not share losses during the first five years after HESA origination.** This provider is the only to implement a "restriction period" where some homeowner benefits do not apply.

The stability of housing markets deems depreciation scenarios unlikely over long periods. And even when homes depreciate, contractual terms (such as multipliers, risk adjustments, and restriction periods) provide protection for most HESA providers from even large reductions in home prices. Of the nearly 650 HESAs settled in Washington, only about 20 (or about 3%) resulted in the HESA provider not recouping the original investment amount and virtually all these terminations happened in the aftermath of the 2008 financial crisis (see Figure 3).

²³ The time value of money refers to the notion that a dollar today is worth more than a dollar in the future—because money today can be invested to earn interest or returns over time.

HESA Terms and Costs in Comparison to Other Home Finance Products

Home Equity Loans (close-end second lien loans), Home Equity Lines of Credit (HELOCs), and Reverse Mortgages are three of the most common methods that homeowners use to tap home equity. Home Equity Loans allow homeowners to receive a set amount over a fixed term, while HELOCs are a line of credit from a lender, secured by real property. Once granted, home equity loans function much like traditional mortgage loans, while HELOCs are more like credit cards, in that there is a draw period during which time the homeowner can draw and repay subject to a maximum loan amount. Reverse mortgages are generally designed for homeowners aged 62 or older, allowing them to convert part of their home equity into a negotiated lump-sum, income stream, or line of credit. In reverse mortgages, homeowners repay the loan when they move out, sell the home, or pass away. Typically, the home is sold to repay the reverse mortgage loan, and any remaining equity goes to the homeowner or their heirs.

Table 4 compares these three types of home equity loans to HESAs, describing the interest rates for the loan products versus the investment returns for HESA products, variation in the types of payments received by the homeowner, the structure of repayment or settlement, the role of credit checks in the application process, and some expected costs and requirements.

Table 4 shows that traditional approaches used to access home equity are not available to some property owners. For example, those with little equity in their homes or below the age of 60²⁴ may not have access to reverse mortgages, and homeowners with lower credit scores or income may not have access to Home Equity Loans or HELOCs. HESAs, by comparison, are designed to be available to a larger share of homeowners.

HESAs application and underwriting processes and terms are similar to those required by mortgage products. In many cases HESA provisions are very similar to provisions contained in mortgage loans. Like other financial products, HESA providers generally charge homeowners for origination fees (which range from 2.5% to 4.9% of the transaction amount) and other third-party costs (i.e., appraisal, escrow/settlement, inspection, and county recording costs). Similarly to providers of other home equity finance products, HESA providers secure their investment (upfront payment to homeowner) through a Deed of Trust on the property, and impose certain limitations on the homeowners' ability to refinance their existing mortgage or take out new loans. HESA providers have occupancy requirements, maintenance requirements, insurance clauses, and may prohibit certain uses of the property.

²⁴ Although homeowners need to be 62 or older to be eligible for HECM, in Washington, they can be eligible for WA state proprietary reverse mortgages at the age of 60.

Table 4. Comparison of Home Equity Finance Products

	Home Equity Loan	HELOC	Reverse Mortgage (HECM) ¹	HESA
Structure				
Interest rate	Fixed	Adjustable	Fixed or Adjustable	N/A
APR range for homeowners with "Fair" credit score²	11.5-13.5%, potentially unavailable	11-14.5%, potentially unavailable	9-10%	N/A
APR range for homeowners with "Very good" credit scores ³	7.5-11%	8-12%		N/A
Payment to homeowner at origination	Lump Sum	Draw at homeowners' discretion	Lump, Draw, Monthly, or Combo	Lump Sum
Repayment or settlement structure	Monthly principal and interest payments, fully amortizing	Monthly (I/O option during draw period, fully amortizing principal and interest payments post draw period)	Future Lump Sum (Negative amortization)	Future Lump Sum (Varied equity sharing mechanics)
Total Repayment or Settlement payment	Principal + interest with recourse	Interest (Draw period); Principal + interest (Post draw period) with recourse	Generally, principal + Interest. ⁴ Non-recourse	Investment +/- HESA % of appreciation; or HESA % of future home value, typically with cap. Non-recourse.
Term	5-30 years	5-10 years (Draw period); 10-20 years (Post draw period)	Until death, sale, payoff, or if leaving property for 12 months (indefinite)	10 or 30 years, or when a "triggering event" happens (e.g. sale of the home, default on senior mortgage, death) or when homeowner decides to buy out.
Origination fees ⁵	2-5% of loan amount	1-3% of credit line amount	2-6% of home appraised value	2-5% of investment amount
Secured by deed of trust	Generally 2 nd lien	Generally 2 nd lien	1 st first lien position	Generally, 2 nd – 3 rd lien
Eligibility & Application requirements				
Credit	Fair to Excellent	Fair to Excellent	None	Poor to Excellent for most originators
Age	None	None	Yes (>62 HECM) Yes (>60 WA proprietary)	None
Income	Yes	Yes	Generally none	Generally none

Equity	>10% (lower credit scores typically require more equity)	>10% (lower credit scores typically require more equity)	>50% (Industry Norm, but may vary; Lower age may increase equity requirement)	>20-30%
Counseling	No	No	Yes	None required
Homeowners'/Borrowers' Compliance Requirements				
Occupancy	Declared, may impact pricing	Declared, may impact pricing	Must be primary residence	May require residence to be primary
Maintenance	Must maintain property in good condition	Must maintain property in good condition	FHA standards if federally funded	Must maintain property in good condition
Insurance	Yes	Yes	Yes	Yes
Restrictions on renting of property	None	None	Prohibits renting	May prohibit renting
Restrictions on future secured loans	May not subordinate to new debt	May not subordinate to new debt	Does not subordinate to any debt	May not subordinate to new debt

1. WA State Proprietary Reverse Mortgages function similarly to Home Equity Conversion Mortgages, with the exception that Washington state residents are eligible for a loan at age 60 and these loans may have higher interest rates due to the lack of public backing.
2. For Home Equity Loans and HELOCs, the range includes estimates collected online (Sources: QuickenCompare; Bankrate) on what is offered for a loan of \$100,000 in a home valued at \$650,000 for homeowners with credit scores in the range of 620-659 ("Fair") in WA, including periods of 10 to 30 years and various CLTVs. For HECM, we use national fixed interest rates (<https://reverse.mortgage/rates>).
3. For Home Equity Loans and HELOCs, the range includes estimates collected online (Sources: QuickenCompare; Bankrate) on what is offered for a loan of \$100,000 in a home valued at \$650,000 for homeowners with credit scores in the range of 720-759 ("Very Good") in WA, including periods of 10 to 30 years various CLTVs. For HECM, we use national fixed interest rates (<https://reverse.mortgage/rates>).
4. Reverse mortgages are typically paid back when the homeowner dies or no longer lives in the home, at which point the base and interest must be paid back plus additional fees as applicable. If the home is sold to pay back the loan, the loan amount is also considered satisfied if the home is sold for 95% of its appraised value.
5. These are the approximations of national rates for common home equity loan, HELOC, and reverse mortgage products.

HESAs may include more risks for homeowners. HESAs may pose greater risks to homeownership compared to some of the other home equity finance products because HESA providers do not underwrite for the ability to pay the settlement amount. Instead, they use an asset-based underwriting approach (i.e., they count solely on the value of the property as the source of repayment) which may increase the risk for homeowners to lose their home (Pizor, 2025). ²⁵ **In addition, the applicability of consumer lending laws to HESAs (such as the Truth in Lending Act, Real Estate Settlement Procedures Act, and WA Consumer Loan Act) depends on whether they are interpreted as mortgage loans under applicable federal and state laws.** Several

²⁵ HESA providers state that while they do not underwrite based on the "ability-to-repay" standards used by closed-end mortgage lenders, they do take the homeowner's ability to settle the HESA into consideration in their underwriting, by focusing on sufficient owner equity to enable the homeowner to settle the HESA in the future

interviewed homeowners in Washington worried about having to sell their home to settle the HESA, and others were frustrated to discover that the Department of Financial Institutions could not offer them much support in potential disagreements with providers.

Additionally, HESA settlement payments based on a percentage of the home value or appreciation cannot be predicted in advance and, under certain circumstances, can be substantially more expensive than mortgage products which have set interest rates – particularly for: homeowners with prime credit scores, homeowners that settled HESAs in the early years, and/or in situations of above average home price appreciation. To compare the costs of HESA products to home equity loans and HELOCs, we rely on annualized ROIs for HESAs settled in Washington (shown in Table 2 and Figures 2 and 3) and on the simulation approach (shown in Figures 5, 7, and 10). We find that:

- **Our simulations, which rely on terms currently used by HESA providers operating in Washington, suggest that when the “average homeowner” has a high credit score (720-759) and settles the contract (i) early (within 3 years) under any appreciation scenario or (ii) up to 10 years after origination in scenarios of average (5% per annum) or above-average appreciation (7% per annum), HESA providers will earn higher annual rates of return compared to alternative financial products.** First, our simulations find that homeowners who settle HESAs soon after origination will likely incur higher costs that are limited by cost caps, with annualized ROIs that range from 15% to 20% up to three years after origination under any appreciation scenario (see discussion of Figures 5, 7, and 10 for details). We also estimate that annualized ROIs for HESA providers would range from 12% to 14%, assuming 5% annual home price appreciation (see Figure 5). If the homeowner involved in these transactions had a high credit score (720-759), HESAs would be more expensive than other financial products. Specifically, Table 4 shows that the equivalent annual return rates on Home Equity Loans and Home Equity Lines of Credit would be, on average, 7.5-11%, and for home equity conversion mortgages (HECM), they would range from 9-10%. In cases of below-average home value appreciation (3% annually), HESA rates of return for providers range from 9.3% to 10.6% after ten years, being comparable to alternative financial products even for homeowners with higher credit scores (720-759).
- **Simulations also suggest that when the “average homeowner” has a Fair credit score (620-659) the costs of HESAs may be more comparable to the costs of mortgage products such as HELOCs and Home Equity Loans.** If homeowners with Fair credit scores qualify for Home Equity Loans or HELOCs (which is more likely to be true for those with credit scores above 640), they may qualify for APRs of 11% to 14.5% which are not substantially different than the annualized ROIs calculated for HESAs even under scenarios of above-average appreciation if the homeowner settles after 10 years; In fact, the annualized ROIs for HESAs range from 12% to 14% for the “average homeowner” in a scenario of annual price appreciation of 7%, 10 years after origination. This is only true if the homeowner does not settle the contract early (in the first three years). In scenarios of below-average appreciation

(3% annually), the annualized ROIs of HESAs may be lower than equivalent annual return rates on HELOCs and Home Equity Loans that would be available to homeowners with Fair credit scores (620-649). Notably, it is also possible that homeowners with Fair credit scores (620-649) do not qualify for HELOCs or Home Equity Loans with some providers. Homeowners with credit scores below 620 most likely do not qualify for HELOCs or Home Equity Loans at all, but may still qualify for HESAs.

- **When home values remain stagnant or depreciate, some HESA providers may still earn rates of returns that are higher than the returns of other home equity products such as Home Equity Loans, HELOCs, and HECMs** (see discussion of Figures 9 and 10 for details). For example, under a scenario of no annual appreciation in home prices (0% per annum), the average contracts used by some of the HESA providers could yield annual return rates ranging from 14% to 10% (see Figure 10) until the 8th year of the HESA term (assuming cost caps are implemented). Figure 10 also shows that, under a scenario of depreciation, the average contracts used by some of the providers could yield annual return rates ranging from 10% to 20% until the 5th year of the HESA term (assuming cost caps are implemented).
- **Although, in scenarios of no appreciation or depreciation, high annualized ROIs for HESA providers are still possible under terms used by some providers, for most²⁶ providers, annualized ROIs would become at least comparable if not lower than alternative products within a few years after origination.** In a scenario of no appreciation, annualized ROIs for most providers would become comparable to equivalent annual return rates for HELOCs, Home Equity Loans, and Reverse Mortgages in the 5th year after origination, and would be lower than HELOCs, Home Equity Loans, and Reverse Mortgages by the 10th year.

We compare the returns on investments of HESAs vis-a-vis other financial products to showcase the relative costs of HESAs. **Yet, it is important to note that, from a homeowners' perspective, comparing the costs of HESA products to other Home Finances products can be inherently difficult.**

- **First, HESAs are available for a greater share of homeowners than many alternative products, and some homeowners may *only* qualify for HESAs.** The counterfactual scenario these homeowners would encounter in the absence of HESA products would not be one with cheaper products, but instead one in which they have no venue for tapping into their home equity. We lack data to know whether HESA products represent an improvement for homeowners' economic wellbeing over having no products – and this constitutes an important venue for future research.

²⁶ “Most” refers to 2 out of 3 providers among Providers 2, 3, and 4 shown in Table 1. Provider 1 would have a very low or negative annualized ROI at almost any term under scenarios of no appreciation or depreciation (as shown in Figure 10).

- **Second, the economic value of not having to make monthly payments is hard to gauge from the homeowners' perspective.** One of the most appealing features of HESAs for homeowners, according to our interviews with WA homeowners and HESA representatives, is that it does not require monthly payments. If the HESA upfront payment is used to pay down debt, which is also common according to providers and interviewees (see Part II of this report), then HESAs may actually increase a homeowner's cash flow in the short term. Some interviewed homeowners stated that this increase in cash flow in the short term may be worth the potentially higher risks and costs of HESAs. The value of this HESA feature is likely to be idiosyncratic and to vary from homeowner to homeowner.
- **Third, because HESAs are not reported to credit bureaus, they may reduce homeowners' reported debt and increase their credit scores.** Homeowners interviewed for this study reported using HESAs to pay off debt ranging from credit card debts to medical debts (See Part II of this report). The four largest HESA providers in Washington who also contributed to this study corroborated that their consumers often use HESAs to pay off debt. Although interviewed homeowners did not talk about choosing HESAs based on potential benefits for their credit scores, HESA representatives argue that the potential benefits of improved credit scores and lower levels of debt can be leveraged to improve one's financial situation in the long term. Once again, this is a question that remains to be answered with empirical data.

PART II: Characteristics and Experiences of WA Homeowners in HESAs

Characteristics of WA Homeowners using HESA products

We have limited information on HESA homeowners' demographic characteristics (such as race, marital status, or educational attainment), partly because providers are not required²⁷ to collect this information. In the absence of individual-level information on HESA users in Washington, we used publicly available information on deeds of trusts that (i) name any known HESA provider operating in Washington and (ii) are in one of the six counties with most HESAs in Washington (King, Pierce, Snohomish, Clark, Spokane, and Kitsap). We linked this information to publicly available data from the Census Bureau (American Community Survey) to investigate the differences between tracts with higher and lower density of HESAs. Density of HESAs represents the number of agreements per 1,000 homeowner-occupied units in a tract. This analysis provides a few additional (albeit limited²⁸) insights into whether HESA originations are concentrated among specific geographic areas or socioeconomic groups. Overall, we find that:

HESAs are still uncommon within each census tract. There are only 2.2 HESAs per 1,000 homeowner-occupied units in 2024, on average.

There is no evidence that HESA originations are densely concentrated in specific geographic regions. On the contrary, HESAs are geographically widespread. Slightly over three-quarters of tracts (788 out of 970 tracts) have had at least one homeowner entering a HESAs.

Socioeconomic and demographic characteristics of tracts' resident population have limited or no association with the density of HESAs in each tract.

- Tracts with greater unconditional denial rates for traditional mortgage loans have slightly greater density of HESAs than tracts with lower unconditional denial rates. In addition, increases in median home value, the share of the population with a college degree, and the share of population older than 60 are associated with very small decreases in the density of HESAs.
- Yet, the tracts' shares of the population that identifies as Black or Hispanic, is unemployed, share of households in poverty, as well as the tracts' median household income do not predict the density of HESAs in a tract.

²⁷ HESA providers stated that they do not have permissible purpose to collect such information under federal law.

²⁸ Readers should avoid using tract-level information to try to understand the characteristics of potential individual HESA homeowners.

WA Homeowners' Experiences with HESA products (N=14)

We interviewed 14 HESA homeowners between October of 2024 and March of 2025. Information on homeowners' demographic and socioeconomic characteristics is included in Appendix A1. Notably, all homeowners in our sample identified as White/Caucasian, which prevents us from describing the specific experiences of Black, Indigenous, and People of Color (BIPOC) individuals in HESAs.

HESA homeowners were recruited for this study through mailers, and with support from the Washington State Department of Financial Institutions and from several HESA providers. Homeowners in this HESA sample were not randomly selected, and the sample is not meant to be representative. Instead, it is meant to capture a diversity of experiences with HESA products.

Below, we summarize key takeaways from our interviews in terms of homeowners' experiences with HESA products from first hearing about HESAs to perceived economic and non-economic consequences of HESAs in their lives. We note that, as with all qualitative data, results are based on respondents' experiences, perceptions, and interpretation. None of the reported homeowner experiences were corroborated for purposes of this study.

Yet, homeowners experiences still offer invaluable insights into how HESAs are experienced "on the ground" and understanding these lived experiences is essential for informing policy development.

- **Most homeowners experienced financial difficulties before entering HESAs.** In fact, about three-quarters of our homeowners reported some kind of continual difficulty in making ends meet or experiences of economic shocks (such as unanticipated health expenses) before entering HESAs. Ten homeowners had taken anywhere between \$8,000-180,000 in additional credit card or medical debt, or additional home equity loans before entering HESAs. Half of our homeowners reported that access to money felt urgent at the time they entered HESAs.
- **Homeowners first heard about HESAs through mailers or online searches.** Six of our homeowners reported receiving a mailer from a HESA provider advertising its product. The remainder (n=8) were searching for ways to tap into home equity online when they came across HESA products. Given how uncommon HESAs still are, it is unsurprising that none of the homeowners knew another person who had ever entered a HESA.
- **Homeowners were split in terms of whether they compared the costs and benefits of HESAs to other products or not.** When deciding whether to enter a HESA, nearly half of homeowners interviewed for this study (n=6) compared HESA products to other home equity finance products (such as HELOCs or reverse mortgages). The other half of homeowners (n=8) never compared HESA products to other products. Of these, most believed that they did not qualify for other alternatives to tap into home equity either because of their credit scores, debt to income ratio, home value or percent of equity, or because they had maxed out a HELOC. Some did not search for information on other home equity finance products because they believed HESAs were well suited to their needs or because they were not aware that other products were available.

- **Most HESA homeowners wanted to pay off debt.** About three-quarters of our homeowners wanted upfront payments to pay down debt (n=9). This is unsurprising given that most homeowners had experienced some type of financial hardship before entering a HESA. Yet, one quarter (n=4) used the money for home renovations, and two homeowners reported using at least part of the HESA money for downpayment on a primary or secondary home. Though often unplanned, homeowners sometimes used a small portion of the upfront payment received for other purposes such as routine expenses or leisure.
 - o Notably, this category also includes homeowners who expressed interest in "consolidating" debt. However, since HESA products are not currently classified as debt, the use of that term is technically incorrect. This highlights a broader issue: many consumers do not fully understand how HESAs work.
- **Most homeowners chose HESAs because it gave them access to large lump-sums and required no monthly payments.** Several homeowners liked that they would not have monthly payments (n=6) and would not have to make a balloon payment until they sold their home or the end or termination of their contract (n=5). Four homeowners liked that the HESA provider would participate in potential losses accrued over the term of the contract. Finally, three homeowners liked that HESAs did not factor into their credit scores – that it did not count as “debt owed.”
- **Homeowners had varying levels of control over the use of their HESA upfront payment.** About one-third of homeowners (n=5) reported not having full control over the use of the HESA upfront payment.²⁹ Of these, two homeowners reported that a share of their initial HESA upfront payment went towards paying off a portion of their mortgage. One homeowner reported that they did not understand why this monetary allocation happened, while another homeowner noted that this mortgage payment occurred without their knowledge or consent. One homeowner also shared that their HESA provider used the payment to pay off their credit card debts when they would have preferred to use the payments to address more immediate financial concerns. Another two homeowners also indicated that their HESA provider directly paid down their debts, but they did not have significant objections to this process as they had accumulated large amounts of debt before entering the HESA.
- **Homeowners were split in whether they considered HESA providers helpful, friendly and transparent, or predatory and deceptive.** About half of homeowners (n=8) noted that the application process for HESAs was relatively easy and straightforward. They considered

²⁹As noted earlier, none of these reports were corroborated for the purposes of this study. The practice to which homeowners refer may be akin to what is done by mortgage lenders that require borrowers at closing to use loan costs to pay-down certain debts to meet applicable debt-to-income ratios for eligibility purposes – although it is unclear.

providers helpful and friendly, and they were satisfied with the appraisal process undertaken to begin their agreements. Yet, about half of the homeowners we interviewed (n=6) considered HESAs predatory or deceptive in hindsight. For example, four homeowners noted that their communication with provider representatives seemed positive at the time of application, but they do not think they received accurate explanations about HESAs. One homeowner recalled a representative referring to HESAs during a call as a “home improvement loan.” Another homeowner recalls a HESA representative encouraging them to list their home with a lower-than-market appraisal value, claiming that this would work in the homeowner’s favor (when, in fact, later, the homeowner realized it did not).

- **Despite varied levels of satisfaction, most homeowners agreed that the HESA providers did not provide enough information or resources during the application process.** In terms of resources that homeowners felt were missing, homeowners mentioned: financial counseling (n=3), projections of potential payouts (n=2), transparency around how HESA benefits differ based on time horizon (n=3), and clarity on how homeowners may be limited in what they can do with their property (n=3). Notably, the perceived lack of resources was not a problem for all interviewed homeowners – in fact, some of the interviewees (e.g., those with a background in banking, accounting, or finances) understood HESA terms with minimal help.
- **Homeowners generally had difficulties calculating or estimating settlement amounts.** Several homeowners were not aware of how they should calculate the settlement payment amount. Some homeowners reported receiving regular statements from the HESA provider that could help them plan towards settlement payment. However, some homeowners received no communication from HESA providers and others were unable to interpret the communication received (e.g., tables and figures).
- **The perceived economic consequences of HESAs are varied and hard to gauge in the long term.** After entering the HESAs, almost half of our homeowners felt either financially comfortable (n=5) or better off (n=1). Yet, the remainder of our sample felt that they were still struggling financially (n=7) or worse off (n=1). Importantly, homeowners’ self-assessments of their financial well-being are subjective. In fact, it is possible that some homeowners may only understand the consequences of HESAs in the long term - *after* being confronted with the need to settle HESAs. Although only five homeowners reported worrying about the balloon payment at the end of the HESA term, most homeowners did not have a specific plan for paying it. Some homeowners report having to revisit their retirement and inheritance plans to plan for settling HESAs. In our sample, two homeowners asserted that they had to sell their homes to settle HESAs because they were struggling to pay down debt and could no longer tap into their home equity unless they settled with the HESA provider.
- **The emotional wellbeing of homeowners after entering HESAs also varied.** After entering HESAs, half of the homeowners reported feeling peace of mind, mostly because they either

cleared their debt and/or had no monthly payments. One homeowner who lacked other options to access home equity described HESAs as a “miracle.” Yet, 11 homeowners also reported feeling fear, regret, or stress associated with the agreement, as well as shame, helplessness, or grief. Much of the negative emotions associated with HESAs were related to homeowners’ lack of understanding of key terms of the agreement. For example, six homeowners reported experiencing financial hardships due to their inability to obtain a HELOC after entering a HESA, which they assert they did not understand at the time of origination.

- HESA providers participating in this study shared disclosures and educational materials that are available to homeowners.³⁰ Yet, **many interviewed homeowners still asserted that they did not understand at least some of the terms in their HESAs at the time of origination.**
 - o Some homeowners did not understand HESAs would result in a Deed of Trust being placed on their property (n=4). Some also did not understand that the HESA would hinder, limit, or fully prevent their ability to do a “cash-out” refinance on their home or access future home equity loans (n=5).
 - o Several homeowners did not understand that HESAs include a range of covenants, including requiring the owner to maintain the property as a primary residence and pay for insurance. Two homeowners found that the provider would not allow them to rent their homes, and one firmly believed that they could not even have family members living in their home for more than two weeks of the year.
 - o A couple of homeowners also did not understand that HESA providers specify terms for the selling of properties, to ensure it happens through an arms-length process. One homeowner who went through the process of selling their home had to get three different market analyses of the home and the HESA provider had to be engaged at every step of the sale, which added significant stress to the process.
 - o Some homeowners believed that HESA providers would benefit from the foreclosure of their homes. These homeowners feared that providers would keep close track of their insurance payments and property upkeep and would foreclose on their home if they failed to comply with HESA terms. These homeowners often did not know that HESAs are non-recourse contracts - meaning that if the home is foreclosed and the sale costs are not enough to cover the total settlement amount, the homeowner is not personally responsible for paying the remaining deficiency to a HESA provider. As

³⁰ Disclosures provided by HESA originators generally contain statements about liens, property use, sale process and foreclosure process. Notably, contracts and disclosures can sometimes be long and difficult to interpret – which may contribute to homeowners’ confusion.

previously mentioned, based on the HESA providers' data, only one HESA contract in Washington was terminated through foreclosure, and that foreclosure was initiated by the senior mortgage lender, not the HESA provider.

- **Although HESAs are not currently regulated as loans, homeowners may think about them as loans and expect state protection.** References to HESAs as a “loan” or a “reverse mortgage” or a way to “consolidate debt” were regularly used among those in the sample – suggesting that homeowners assumed regulation. In fact, a few homeowners in our sample discovered long after entering a HESA that these contracts are not covered under existing state regulations such as the Consumer Loan Act. For example: one homeowner was surprised that their HESA provider was not required to record phone calls; another did not understand how their contract could be legally enforceable given that the HESA provider they worked with was not licensed in the state of Washington at the time of origination; one homeowner was distressed by the state agencies' inability to intercede in their favor in disputes with an HESA provider; another worried that they may not be covered by existing foreclosure protections³¹ due to their involvement with an HESA provider.

Variation in the Experiences of WA Homeowners: Those Who Felt Better and Worse

Homeowners' experiences with HESAs varied depending on their level of comfort with HESAs themselves as well as the level of financial pressure that a homeowner was under at the time the agreement was signed. These two factors combined with financial literacy, the existence of alternative financing options, and access to supportive external resources (attorneys/lawyers, financial counselors, etc.) led to the greatest divergence between homeowners who were satisfied with HESAs and homeowners left feeling negatively after sharing a substantial portion of their home's value in exchange for the HESA upfront payment. Notably, these differences did not always map neatly onto financial well-being; homeowners with less income or assets could still have better experiences with their HESAs with the necessary social capital or structural access to additional financing options. Below we exemplify this divergence.

Homeowners with positive experiences.

Mark³² and Sarah are a married couple in their late 70s and primarily rely on pension and Social Security income which provides a fixed amount (between \$80,000-90,000) each year. They have been living in their home for over 40 years and raised their four children there. Several years prior to entering their HESA, they decided to take out a second mortgage on their property to build an addition onto the house, and this meant that their mortgage was still a significant financial outflow even in

³¹ Disclosures and contracts from HESA providers generally state that any possible foreclosure by the HESA originator would be subject to applicable laws.

³² All names used are pseudonyms.

retirement. The couple decided to tap into their home equity to supplement their fixed income and remove the financial burden of paying down their mortgage.

Mark and Sarah had time to decide how to do this and investigated several alternative financing options. After consulting with a HESA provider for a few months, they decided that the HESA would best allow them to trade future equity for extra cash flow in the present. When entering into the agreement, the couple understood the various limitations placed by the HESA provider on how they could use their property but were not concerned about any of them. They did not plan on taking out additional loans against the house and did not anticipate using the home as a rental or selling the home before the completion of their HESA.

Mark and Sarah were able to use regular statements³³ sent by their HESA provider to track their projected settlement payment and planned on using the eventual sale of the home to pay off the agreement. Although they understood that the settlement payment may ultimately be large, the couple was not planning to use the home as an asset for their children and did not anticipate needing a large sum from the home's future sale. All four of their children are well into their lives and established in their own homes with their own assets; this made the couple comfortable sacrificing a portion of the family's inheritance for increased cash flow in the present. The couple also have additional sources of savings to draw on should any financial complications arise later in life. Mark reported feeling great about their decision to sign the HESA and had only positive things to say about their interactions with their HESA provider.

Mark and Sarah represent one of the many types of homeowners that HESA firms generally agree may benefit from HESAs: **those who want upfront cash without monthly debt obligations, who have substantial equity, and are willing to share future home value gains - regardless of whether they qualify for other mortgage products.**

Overall, interviews with satisfied homeowners like Mark and Sarah suggest that:

- **They typically draw on a variety of knowledge sources to make informed decisions around HESAs.** They were more likely to have had alternative options to tap into home equity, compared HESA providers to each other and HESAs to other products, and were more likely to have entered HESAs for non-urgent reasons such as home renovations.
- **They were more likely to have positive feelings towards HESA providers.** They were satisfied with the regularity and amount of information received by the HESA provider. Even when they believed the providers had not offered enough information, they felt self-efficacious in pursuing information for themselves. These individuals were more likely to have a very advanced understanding of the product and to consider the product innovative and useful within specific contexts.

³³ Not all providers may send regular statements, and format of statements (among those who send it) can vary.

- **They were more likely to be satisfied with the HESA's benefits while understanding the HESA's long-term repercussions.** Many were willing to share large portions of their future home value gains to not have present debt obligations. In many instances, their home was not their only large asset, and their future economic wellbeing was not seen as tied to that particular property.

Homeowners with negative experiences.

The second group of interviewees was composed of homeowners who had negative experiences, and who generally also had less resources in terms of time and money. Take the example of Joanne, a single woman in her 50s who lives by herself in the home she bought about ten years before the interview.

By 2019, Joanne had been accumulating debt, which was causing her tremendous stress. That same year, she received a flyer in the mail from a HESA provider and thought that HESAs were a *loan* that could help her consolidate debts, reduce monthly payments, and alleviate stress. After reaching out to a HESA representative, she felt that she did not understand the product and declined to move forward. However, the representative called her back and, according to Joanne, convinced her through allegedly deceptive information that the product could work for her. After signing the agreement, Joanne immediately regretted the decision and called the provider back to ask if she could return the money but, according to Joanne, was advised to hire legal counsel. Joanne has struggled to find legal counsel on HESAs and was frustrated by the state's lack of intervention and support systems.

Joanne understood that the HESA provider gave her money in exchange for equity in her home, but she still felt like she did not wholly understand the agreement and was frustrated and confused by complicated wording in her contract. She also never touched the money from the upfront payment. According to Joanne, the HESA provider used most of the upfront payment towards paying down her accrued debts, but also a smaller portion to pay down her mortgage loan – which was not Joanne's original plan, and she did not fully understand why that happened.

Joanne says she also did not realize how constricting the contract would be for her rights as a homeowner. She feels that she has lost agency over her home due to the many restrictions in the contract on what she can do with her home (she believes, for example, that she is not allowed to have family living with her for over two weeks of the year)³⁴ and even describes herself as a “prisoner” of the HESA provider.

Although the HESA had allowed Joanne to pay off her debts, she is more concerned about her financial future. Joanne says she did not fully understand how much equity she would be giving up for the upfront payment she received, and she worried that she would need to sell her home at the end of the contract term to pay the HESA provider. Furthermore, she expected that she would not have

³⁴ Three HESA providers assert that no such restriction about family members living in the home exists; One HESA provider was not asked about this

enough money left to afford a downpayment on another home, much less a spot in a nursing home if she needed one. At the time of the interview, Joanne was 5 years into her HESA contract, and she continued to grapple with her decision to enter a HESA, feeling confused, embarrassed, and regretful.

Homeowners who may have few other options to access the value stored in their homes through traditional mortgage products and little understanding of HESAs may also represent a large yet more vulnerable segment of HESA homeowners (Poverty Action & NWCLC, [2024](#)). Joanne had fewer alternatives and information at the time she entered her HESA. Interviews with homeowners that had more negative experiences with HESAs reveal that:

- **They were more likely to have had no other alternative options to tap into their home equity, generally because of higher debt-to-income ratios or lower credit scores.** As a result, they were also more likely to have entered HESAs without comparing HESAs to other products and without a clear understanding of its terms. These homeowners were also less likely to indicate that their HESA providers provided resources that helped them understand the terms of their agreements.
- **They were more likely to have negative experiences and feelings associated with HESA providers.** They reported feeling confused, powerless, pressured, deceived at the time of origination. They also reported feeling unsupported, fearful, ashamed, and stressed out after entering the agreement. These homeowners were also more likely to experience negative consequences related to their status in their home, including a loss of agency as a homeowner and having to contemplate breaking ties with their home altogether.
- **They were more likely to still perceive themselves as struggling after receiving the upfront payment.** Individuals who were struggling financially before signing a HESA often also struggled after the agreements were signed. The HESAs were not enough to resolve their financial difficulties and in some cases left them feeling just as bad if not worse off.
- **They were more likely to not have a clear plan for how to pay back the upfront payment and to not understand or be worried about the long-term implications of HESAs.** Homeowners who indicated that they were not confident in the management of their own finances often struggled to understand how they would eventually pay off their HESAs. These homeowners felt they might someday be forced to sell their home or were concerned about their ability to use their home to support themselves in the future.

PART III: Regulatory Landscape

Currently, only three states have specifically adopted HESA regulations: Connecticut (SB 848, took effect in 2021), Maryland (HB 1150, took effect in 2023), and Illinois (Public Act 103-1015, will take effect in 2025). Although no regulation or statute has been adopted to govern HESAs in Massachusetts, the Attorney General has brought an action against one HESA provider.³⁵ Overall, existing laws have a few commonalities, which we list below:

- **HESAs are defined as a form of home mortgage loan, making them subject to other state laws and regulations governing mortgage lending.** Some organizations such as the National Consumer Law Center (NCLC), have urged federal regulators to offer clear guidance that HESAs are subject to federal laws governing traditional home mortgages.
- **Firms that offer HESAs must disclose information about risks and financial implications with homeowners.** Generally, regulations require HESA providers to disclose the financial elements, the potential implications for the homeowner, and the risks associated with signing a HESA contract. For example, Illinois requires potential homeowners to receive counseling prior to entering a HESA (akin to reverse mortgage requirements).
- **A regulatory agency is clearly identified in the legislation as responsible for overseeing HESA products.** The agency responsible is identified either by virtue of being responsible for mortgage loans in the state or is granted specific authority in the legislation.

During Washington State's 2024 legislative session, both the House (HB 2081) and the Senate (SB 5968) proposed equivalent bills designed to facilitate the regulation of HESAs. Neither bill passed during the 2024 legislative session.

During the 2025 Regular Session, a new House Bill 1464 was introduced to establish a dedicated regulatory regime for HESAs. Some industry representatives are supportive of this bill, as they have called for more consistency and regulatory certainty in the HESA market. Yet, the bill substantially differs from previously proposed bills in WA and from bills passed in other states, particularly in that it does not define HESAs as loans – which has drawn criticism from consumer advocacy groups.

Notably, **lack of data on HESA homeowners' characteristics and outcomes mean that many pressing questions about HESAs remain unanswered.** Thus, there is a need to establish an approach to gathering and monitoring HESA data for proper regulatory oversight.

³⁵ Bills that would establish a regulatory framework for HESAs were introduced in Massachusetts prior to the Attorney General's lawsuit being initiated and are still pending in the Legislature.

Conclusions

This report provides an assessment and analysis of the prevalence and impact of HESAs nationally and in the State of Washington. It examines specific terms and contract structures, and costs associated with HESAs. Further, the report relied on limited data to produce a portrayal of the prevalence and distribution of these agreements in Washington. Using qualitative data from interviews with HESA homeowners in Washington, it also provides a nuanced (albeit non-representative) perspective on homeowners' subjective experiences.

Overall, we believe our report highlights the promises and perils of HESAs: its ability to unlock and expand access to homeowner wealth to those who would otherwise be unable to do so, or to those who prefer to obtain home financing without the requirement to make monthly payments, but also its inherent challenges - complexity of terms, potential cost issues, and, like many other financial products, potential for homeowner harm if left unchecked. In regulating HESAs, Washington State is faced with the need to balance its industry innovation with appropriate consumer protection.

Findings suggest that HESAs may be riskier and costlier for some homeowners than home mortgage loans – and that some homeowners may not be fully aware of additional costs and risks associated with HESAs. Analyses also shed light on the difficulties in comparing HESAs to other home equity finance products, since some of the potential economic benefits of HESAs (such as not requiring monthly payments) are hard to quantify. HESA's complex features and distinct differences from traditional products, highlight the importance of robust homeowner education and clear disclosures, especially because most homeowners will not have any previous knowledge of HESAs.

The lack of clarity regarding the applicability of existing Washington regulations to HESAs and the existing variation in practices and features offered by individual HESA providers suggest that homeowners' experiences and outcomes may vary substantially. Our qualitative interviews indeed portray variation in homeowners' perceptions and experiences with HESA products. However, due to lack of data, we cannot draw conclusions about variation in homeowners' concrete financial outcomes, particularly in the long term. For example, although our qualitative findings suggest that homeowners with less home financing options were also more likely to experience stress while navigating HESAs, it is not possible to know whether they would have fared better or worse in the absence of HESAs.

Overall, the structure of HESAs allows them to be marketed to a large share of homeowners. Based on existing data, we cannot yet identify which groups of homeowners are more likely to experience different positive or negative economic outcomes from using these products. To date, researchers and regulators lack clear metrics of HESA homeowners' characteristics and outcomes – which means that HESA impacts are bound to go unseen. Whichever regulatory pathway is chosen in Washington, there is a need to establish an approach to gathering and monitoring HESA data for proper regulatory oversight.

Glossary

1. Annualized Returns on Investments (ROIs)

The yearly return on an investment expressed as a percentage, allowing comparisons between investments of different durations. In HESA, it's used to assess performance over the life of the agreement.

2. Average Homeowner

A representative homeowner in HESA contracts used for modeling or estimating purposes, based on average home value at origination (\$650,000) and average upfront payment (\$100,000).

3. Equity

The portion of a property's value that the homeowner actually owns, calculated as the market value of the property minus any outstanding mortgage or liens.

4. HESA Buyout

A contractual option for a homeowner to settle the HESA contract by paying the investor's contractually established share HESA.

5. HESA Multiplier

A factor applied to calculate the HESA providers' share of the home's value or appreciation upon termination of the agreement or at the time of settlement.

6. HESA Providers

Providers that offer Home Equity Sharing Agreements to homeowners.

7. HESA Providers Costs Cap

A limit placed on the maximum return a HESA provider can earn on a HESA investment.

8. Loans

A sum of money borrowed from a lender that is expected to be paid back with interest over a set period.

9. Primary Lien and Subordinate Lien

- **Primary Lien:** The first claim on a property in the event of foreclosure, typically the mortgage lender.
- **Subordinate Lien:** A claim that ranks below the primary lien, such as a HESA provider's claim, meaning it is paid only after the primary lien is satisfied.

10. Real Property

Physical property such as land and any structures attached to it (e.g., homes, buildings).

11. Risk Adjustment

A percentage used to reduce the appraised value of a property in order to identify the "starting

value” of a property in a HESA contract. This “starting value” is what Shared-Appreciation providers use to calculate settlement payments.

12. Settlement Payment

The amount paid to the HESA provider upon termination of the agreement, which typically includes the agreed-upon share of the home's appreciation and any additional fees.

13. Termination

The end of a HESA, which can occur due to a buyout, sale of the property, other triggering event (as defined below).

14. Triggering Events

Specific occurrences that activate certain provisions in the HESA, such as sale of the home, death of the homeowner, foreclosure.

15. Upfront Payment

The initial amount of money given to the homeowner by the HESA provider in exchange for a share in the property's future value or appreciation/depreciation.

Appendix

Appendix A1. Description of qualitative sample.

The HESA homeowners in our non-representative sample.

We interviewed 14 HESA homeowners between October of 2024 and March of 2025. HESA homeowners were recruited for this study through mailers, and with support from the WA Department of Financial Institutions and from several HESA providers. About half of our sample identified as female, and most were married. Almost all homeowners in our sample had children, most of whom had adult, non-resident children. About half of the homeowners were either retired or semi-retired with the other half indicating that they were currently working, mostly full time. About half of our homeowners made more than the state median household income (\$94,000). Retired homeowners were more likely to indicate that they were living on a fixed income, although some reported income higher than other homeowners that were working. Our sample is slightly skewed towards more educated individuals with at least half the sample holding a college degree. All homeowners in our sample identified as White/Caucasian, which hinders our ability to describe how HESAs impact households of color.

Our sample was evenly distributed in terms of home value at appraisal, with half of the sample indicating that their home appraised for more than the median state value (685K). Upfront payment amounts were also evenly distributed. Our sample entered agreements with three HESA providers. Term length tended to vary by provider, with 10 homeowners reporting a 30-year term and 4 reporting a 10-year term. Two homeowners had terminated their HESAs with the remaining homeowners indicating that they were anywhere from 1 year to 7 years into their contracts. Eight homeowners had been in their contracts for 3 years or less, with another four indicating that they were 6-7 years into their contracts.

Table A1. Sample Characteristics

Characteristic	Count
Females	
Married	
Age	
Less than 50	3
50-69	6
Older than 70	4
Unassigned	1
Education	
High school or less	1
Some college or Associates	3
Bachelor's or more	7
Unassigned	3
Household income	
<\$50,000	1
\$50 - \$79,999	4
\$80,000-\$119,999	3
>\$120,000	4
Unassigned	2
Work status	
Retired	4
Self-employed	3
Working Full time	5
Working Part-time	1

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