Statewide POVERTY ACTION NETWORK

We deserve to have control over our futures, without falling victim to predatory lending practices.

NWCLC Northwest Consumer Law Center

Pass HB 2081/SB 5968 to Regulate Home Equity ~~Sharing~~ Agreements (HESA) Stealing

Home Equity "Sharing" Agreements go by many names, like "shared appreciation agreements" or "home equity investment options." Unlike a home equity loan, **HESAs are unregulated, deceptive, and predatory contracts between a homeowner and an investor** in which the homeowner receives a sum of money upfront in exchange for a share of their home equity.

The homeowner is not required to make any payments until a set deadline, but then must pay the HESA company a high percentage of the equity that accumulated during the term of the contract, sometimes as high as 100%. **There is currently no cap on the dollar amount or equity percentage an investor can receive from a HESA.**

The Problem:

HESAs are complex, predatory contracts that evade regulation. There are currently no foreclosure protections and these contracts are not subject to mortgage contract laws. Furthermore**, they prevent homeowners from refinancing** and making home improvements while balloon payments leave homeowners owing far more than they originally received.

These agreements **mislead consumers** into thinking they are taking out a loan, rather than selling their home equity. Homeowners count on using their home equity to buy a new house, pay for end-of-life care, or fund retirement, but find themselves trapped in a downward spiral that often results in bankruptcy, foreclosure and eviction.

Dorothy's Story

Dorothy, a South King County elderly, disabled woman, fell victim to a HESA contract in order to pay off $30,000 in credit card debt. At the time she took out the $100,000 HESA contract, her home was worth $200,000. By the end of the HESA contract, her home was worth $450,000 and the HESA company took an exorbitant 70% of her home equity.

Although Dorothy can no longer physically climb the stairs in her home, her HESA contract prohibits her from making improvements to the home to accommodate her disability. Additionally, she is prohibited from renting or refinancing under the HESA contract. Dorothy needs to go into assisted living but does not have the means to do so due to this predatory, unregulated contract.

Seniors and people with disabilities like Dorothy are particularly vulnerable to deceptive HESA contracts, desperate to avoid foreclosure and pay for care.

The Solution:

SB 5968 / HB 2081 is common sense legislation that will protect Washington homeowners. The bill will restrict abusive contract terms and lending practices by:

- Bringing HESA contracts under the definition of a mortgage loan to ensure the same protections as traditional mortgages and thus, regulation by the Department of Financial Institutions.
- Caps the amount of equity an investor can take. Doing so will make the cost to the consumer clearer and will facilitate accurate disclosures.
- Prohibits the investor from putting a lien on the property or otherwise inhibiting renting, refinancing, etc.

Other states including Connecticut and Maryland have passed legislation to treat HESAs as residential mortgage loans.

Please support SB 5968 / HB 2081 to protect homeowners.

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