Meeting with Home Equity Securities LLC

On May 6, 2011, Federal Housing Finance Agency staff met with representatives of Home Equity Securities LLC (HES) to discuss their Home Equity Fractional Interest (HEFI) shared-equity product concept. The meeting also touched on the proposed rule on credit risk retention. Under the shared equity concept, an investor could contribute toward the purchase of a property in return for a share of the home-owner's future property value appreciation. HES indicated that the proposed definition of "qualified residential mortgage" in the credit risk retention rule should be modified so that such equity investors could be allowable sources for part of the required down payment on a property. HES indicated that they would be submitting a written comment on the rule. HES also provided the attached hand-out describing the HEFI.

Illustrating Shared-Equity in a Down Payment Scenario

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There are variations on the below theme, but one basic way to look at shared-equity in a down payment scenario is described below.

Home Purchase price –	200K
1rst Mortgage –	160K
Homeowner down –	20K
Shared-equity investor –	20K

The shared-equity investor (50/50, for example) is on an equal risk-tier with the homeowner; both are a tier below the mortgage investor. If the house later is sold for 160K, the lender gets it all. If it sells for 240K, the lender gets 160K; the homeowner and shared-equity investor each get 40K; etc.

The shared-equity investor is similar to a family gift provider; only, if the home later sells above the initial mortgage amount, the shared-equity investor shares the gain – that's the motivation to attract private equity investment into the residential equity market. We envision that the ultimate shared-equity investor is an institutional pension, endowment, foundation or sovereign fund. Initially, there would various intermediaries.

We call the shared-equity instrument a Home Equity Fractional Interest (HEFI) instrument (patent filed in 2003; issued in April, 2009). The HEFI is a standardized contract, filed with the county as a lien. HEFIs can be transferred (sold) to subsequent investors; it is the basis for an equity capital market in residential real estate. A market that is nearly as big as the US stock market. This would be a big boost for residential home finance, without increasing mortgage risk.