

Home Equity Protection FAQ

A Guide for Homebuyers and Homeowners in Syracuse, NY

What is Home Equity Protection?

Many homeowners and homebuyers worry about the possibility that home prices could fall where they live, causing them to lose money on the resale of the home. Home Equity Protection (HEP) allows you to buy or stay in a home with the confidence that you will be protected if home prices decrease in the area where you live.

HEP provides financial protection to you in the event that home prices decline in your ZIP code between the time you purchase the protection and the time you sell your home, in exchange for a one-time fee. When you purchase Home Equity Protection, you tell the program how much your home is worth. (That becomes the Protected Value of your home, on which your protection is based). When you resell your home, HEP pays down your mortgage (or pays you directly) if home prices have dropped in your ZIP code.

For instance, if you buy Home Equity Protection for a \$60,000 home and prices in your ZIP code have dropped 20 percent by the time you resell it, HEP will pay 20 percent of \$60,000 – that's \$12,000 – no matter what price you sell your home for. You can actually sell your home at a profit AND still receive a HEP payment if prices have dropped in your ZIP code!

HEP is available to current owner-occupants of one and two-family homes and to new home buyers of one and two-family homes located in the City of Syracuse.

Where can I sign up for Home Equity Protection?

Home Equity Protection (HEP) is a new financial product offered by Equity Headquarters, Inc., a not-for-profit subsidiary of Home Headquarters, Inc., and sponsored by the Syracuse Neighborhood Initiative, which has provided a \$5 million federal grant. Freddie Mac, the Yale School of Management, the Neighborhood Reinvestment Corporation, and Potomac Ventures, Inc. have all provided their expertise and resources to develop this exciting new product.

What does it cost?

Home Equity Protection can protect you from decreases in home prices at a very affordable price. HEP is available for a **one-time fee of only 1.5 percent** of the Protected Value of your home. Moreover, financing is available from Home Headquarters for this fee if you so choose. For an average-priced (\$60,000) home in Syracuse, a 1.5 percent fee financed at six percent interest over 4 years would require only a \$21 monthly payment. Equity Headquarters is able to offer HEP at this low price because the program is not-for-profit and is backed by \$5 million in U.S. government funding from the Syracuse Neighborhood Initiative.

Home Headquarters can provide second mortgage financing for any HEP customer. It can make lower-cost loans if you meet income guidelines. Of course, you can also pay cash for the product. You can purchase HEP at any time, so long as the home is your primary residence.

Things you should know before deciding to purchase Home Equity Protection

How does Home Equity Protection measure home prices changes in my ZIP code and determine the amount of my HEP payment?

HEP measures how home prices are changing in your ZIP code through a Home Price Index. The index gives an accurate picture of what has happened to the value of an average home in a particular ZIP code. The index is maintained by the Mortgage Risk Assessment Corporation (MRAC), a research and consulting corporation which tracks home prices nationwide, including in Syracuse. The index measures home prices on a nominal basis – that is, no adjustment is made for inflation.

Your payment will be equal to the percent decrease in the index times the Protected Value of your home (the value of your home when you enroll in the program).

When is protection available to me?

You can get a HEP Payment when you sell your home, if the Home Price Index in your ZIP code has declined from the time you enrolled in the program. You must have owned your home for three years unless you can demonstrate a severe hardship such as job loss or illness that requires you to sell your home earlier. Protection is available for a 30-year term – at the end of 30 years, if you still live in your home, HEP makes a payment to you automatically if the Price Index is lower than it was when you enrolled.

What if I lose more money upon reselling the home than I get from the Home Equity Protection Payment? What if I make money upon reselling the home, but the index has gone down?

HEP provides a payment only if the Price Index at the time you sell your home has declined from when you enrolled in the program. The amount of the payment is always equal to the percent decline in the index times the Protected Value of your home, regardless of whether you made or lost money on the sale of your home and regardless of how much you made or lost.

It's important to remember that the index represents the average performance of home prices in your ZIP code. The program has been constructed this way deliberately, to encourage homeowners to maintain and improve their homes and to make sure that it does not reward homeowners who fail to maintain their homes. If you have maintained your home in excellent condition or have improved it, you could make money on the resale of your home and still get a HEP payment if the price index has gone down! At the same time, you could lose money on the resale of your

home and get no HEP payment or a HEP payment that is less than your losses. You can reduce the possibility of this happening by maintaining your home in good condition and by encouraging other people on your block to maintain their homes, too.

How much Home Equity Protection should I purchase? Do I need to get an appraisal?

In most cases, it's a sensible strategy for homeowners to purchase HEP for a Protected Value that is roughly equal to the current market value of their home. While an appraisal is an accurate way to get an estimate of the current market value of your home, it's not required that you have an appraisal done. If you purchased your home recently, you could use the purchase price of your home to inform your decision about how much HEP to purchase. You can also use the Assessed Value that the City Assessor's office assigns your home as a guide.

In some cases, you may decide that you wish to purchase Home Equity Protection for a Protected Value that is greater or less than the market value of your home. For instance, if you are planning improvements to your home that will raise its value, you might consider purchasing HEP for a Protected Value that reflects the additional market value those improvements add to your home.

The decision on how much Home Equity Protection to purchase is yours to make. If you choose a higher Protected Value you will pay a higher fee to purchase HEP but will receive a higher payment from HEP if prices decline in your ZIP code. If you choose a lower Protected Value you will pay a lower fee to purchase HEP but receive a lower payment from HEP if prices decline in your ZIP code. There are some limits on your choice of a Protected Value, however. The minimum Protected Value for which you can purchase HEP is 50 percent of the current assessed value of your property or \$30,000, whichever is greater. The maximum Protected Value for which you can purchase HEP is 150 percent of the current assessed value of the property or \$200,000, whichever is less.

Are there different prices to sign up for HEP in different ZIP codes in Syracuse?

No. However, HEP is only available if your home is inside the City of Syracuse!

What happens if I refinance my mortgage?

You'll still be enrolled in the Home Equity Protection plan. Your mortgage and HEP are two separate things. If you refinance your mortgage, the HEP you purchased is still in effect – until such time as you sell your home.

Is there a cap or are there any exclusions on the amount of coverage to be provided?

There is no cap on the HEP payment that you may receive. However, there are exclusions that limit the payments HEP would make if a large-scale disaster (such as

a hurricane, an environmental disaster, or an act of war or terrorism) were to severely damage many properties in your ZIP code, causing the Home Price Index to decline. The HEP contract contains details on these exclusions. Unlike insurance policies, HEP fees would be returned to consumers if an excluded event occurs.

What's the procedure for obtaining a HEP payment?

The homeowner must provide a copy of the accepted purchase offer to start the claims processing process. Equity Headquarters will make the Home Equity Protection payment at the closing or within 20 days of receiving this document from you, whichever comes later. The payment is made as an escrow deposit with your attorney representing you in the sale of your home. If you have a mortgage on your home, HEP pays you by paying down your outstanding mortgage balance by the appropriate amount. If you owe less on your mortgage than the amount of your HEP payment, HEP pays off your mortgage completely and pays you the rest directly. If you don't have a mortgage, HEP pays you the entire amount of your HEP payment directly.

Is my HEP policy assignable to anyone else?

In certain cases such as death, separation and divorce, your HEP policy may be assigned to heirs, successors, beneficiaries, and others who would inherit and live in your home as described in the HEP contract.

How can I be sure that Equity Headquarters will be able to make HEP payments?

Equity Headquarters is backed by a \$5 million grant from the federal government and can use these funds – in addition to fees collected and investment income – to make payments if house prices decline. If necessary, Equity Headquarters will limit the number of customers enrolling in the program to ensure that there are adequate reserves on hand. Our research team, composed of leading economists from Yale University, New York University, and other institutions, has constructed capital reserve policies designed to keep Equity Headquarters solvent even through severe price declines (much worse than any that Syracuse has experienced). To provide participants with peace of mind Equity Headquarters will make available to the public routine information about its capital reserve levels and claims history.

Are there any circumstances under which it is not appropriate for me to purchase a HEP policy?

If you plan to live in your home for less than three years, it is not appropriate for you to purchase a HEP policy since you would not generally be eligible for a HEP payment when you move. If you are not concerned about your home's resale value, it may not be advisable for you to purchase Home Equity Protection (for instance, if you intend to live in your home or keep your house in your family forever). You may want to talk to a financial advisor to discuss whether HEP makes sense for you.

Be sure to obtain and carefully review the enrollment form and agreement before deciding to purchase Home Equity Protection. This Guide provides general and summary information about Home Equity Protection. The Home Equity Protection Plan Agreement shall govern the legal rights and duties of a Participant and Equity Headquarters, Inc. If there are any conflicts or inconsistencies between the information contained in this Guide and the provisions of the Agreement, the Agreement shall govern.