A New Era for Home Buying:
The Rise of Home Ownership Investments
Unison invented the home ownership investment category. In a home ownership investment, an investor provides financing in exchange for the opportunity to share in the gain or loss in the home’s value when the homeowner decides to sell – up to 30 years later. There are no interest charges or monthly payments on the financing provided. Unison made its first investment in 2007 and over the past decade has remained the leader and dominant player in the category, expanding nationwide by working with lenders, regulators, and institutional investors to integrate home ownership investing into the US housing finance system. What sets Unison's programs apart is partnership: we invest at the same appraised value as the homeowner, the term extends to 30 years, and we share the downside risk and upside potential with homeowners - in unison.

**Unison HomeBuyer** empowers buyers to purchase the home they want with less debt and less risk by doubling the amount of cash the buyer has available for a down payment. This larger down payment makes it easier to qualify for a loan, increases buying power, lowers the monthly payment, and/or allows a buyer to reserve cash.

**Unison HomeOwner** allows current homeowners to convert a portion of their home equity to cash today without the added debt or payments of a home equity loan or a home equity line of credit. Homeowners use the money to eliminate debt, remodel, invest for retirement, pay for a child’s education or as a cash cushion for financial stability.
Problem: The Next Generation of Home Buyers is Being Shut Out

Quickly, leaving this generation with only a limited ability to save money for a down payment on a home. In many places, young professionals are spending more than the recommended 30% of their monthly income on rent — without getting any of the benefits of owning a home. Yet, they don’t see home ownership as being feasible for them, because of their rent and debt payments and the difficulty of saving for a sufficient down payment.

“Low down payment” options are no panacea. These exotic “more debt” offerings like 3%-down mortgages, interest-only second loans and high loan-to-value loans with mortgage insurance do not change the equation for many Millennials who dream of owning their own home. These offerings typically make it harder to qualify, don’t result in lower monthly payments, and don’t mitigate risk to the consumer, leaving many borrowers out in the cold.

 Caught between low savings rates and rapid home price appreciation in many housing markets, today’s prospective home buyers are searching for a way to buy a home that does not require waiting 10+ years to save for a 20% down payment and comes with a mortgage payment they can actually afford.

“More debt” solutions don’t provide relief to most of these home buyers. That is why home ownership investments are the wave of the future.

Solution: Home Ownership Investments Are the Future

Homeowners have traditionally financed their homes solely with loans. But that is now changing due to the introduction of home ownership investments — a new way to finance a home. Whereas a loan is a debt investment that produces a return to the investor by charging the homeowner interest and collecting monthly payments, a home ownership investment is financing based on partnership and shared incentives between the homeowner and the investor. In a home ownership investment, an investor provides financing in exchange for the opportunity to share in the gain or loss in the home’s value when the homeowner decides to sell their home. There are no interest charges or monthly payments on the financing provided.

Unison introduced the home ownership investment category in 2007. Over the last decade, Unison has remained the leader and dominant player in the category and has expanded nationwide by working with lenders, regulators, and institutional investors to integrate home ownership investing into the US housing finance system.

A home ownership investment can double a buyer’s down payment cash, which can eliminate the need for costly mortgage insurance, significantly lower the monthly mortgage payment, increase purchasing power and enable the buyer to comfortably afford the home they really want. Millennials and first time buyers who are burdened with high rent and student debt now have a way to become homeowners, and have greater choice over important considerations like commute, school district and home features. For buyers who already have the required down payment in hand, a home ownership investment enables them to retain a significant portion of their cash.

With a home ownership investment from Unison, buyers get the best of both worlds. They get to buy a home they like, and they can do so without a higher monthly payment and without tying up all their money in the home. Unison is the bridge to home ownership for millions of Americans. These new homeowners will start building equity with their monthly mortgage payments and putting down roots in their local communities.
The most important part of the home ownership investment model is that it naturally aligns the interests of the homeowner, the end investor, and Unison, the manager who facilitates the transaction. All parties win and lose together. For example, the investor and the manager have a natural incentive to help the homeowner make good decisions about the value of home improvements. They also have incentive to help the homeowner avoid foreclosure if they lose their job and can’t make their mortgage payments. The following program features are critical in promoting natural alignment in a home ownership investment:

• Unison’s home ownership investment is not a loan. It is a long-term investment in the property.
• There are no interest charges or monthly payments. Unison does not receive a payment until the homeowner decides to sell their home—up to 30 years in the future. A true partner understands that for many people home ownership will naturally be a long-term undertaking; a 30-year term allows the homeowner to raise a family and enjoy a lifetime in their home without worry over a pending financial obligation.
• Unison invests at today’s fair market value of the home (as opposed to a discounted value).
• The company’s return on investment comes from sharing symmetrically in both the upside and downside of the home’s change in value. Typically, Unison earns a profit if the home value rises and incurs a loss if the home value falls.
• Unison doesn’t share in all of the home equity, only the change in value.
• Unison does not become a co-owner in the home, just an investor.
• Unison provides full transparency of terms and a robust education process as the centerpiece of a highly automated, consumer-friendly origination process.
• The success of everyone (the homeowner, investor and manager) is directly tied to the performance of the investment.

“The language in all of our contracts and educational materials is straightforward. It can be straightforward because complete alignment of interest between the homeowner and the investor is fully baked into the deal. We establish a true long-term partnership with each client.”

Jim Riccitelli
Homeowners: Less Risk and More Affordable Payments

When someone buys a home using more than 80% debt, they are often putting their investment, their home and their family at greater risk because their monthly payments, including mortgage insurance and fees, will be significantly higher. By taking on these higher monthly payments, the homeowner may be taking on a much greater risk of losing the home through default.

In fact, studies show that the likelihood of a homeowner defaulting and losing their home increases dramatically when the amount borrowed exceeds 80% of the home’s value. A high balance loan typically forces the homeowner to pay mortgage insurance, which adds onto an already higher monthly payment. It can be a recipe for disaster.

With the introduction of home ownership investments, there is no longer a reason for a homeowner to put their family and the investment in their home at risk like this, especially given that the home is not only an investment but also provides the basic shelter that the homeowner counts on. Your home is the one asset you want to secure above all others – it should not be a place where you assume a high degree of risk.

There is also no reason for homeowners to take on higher monthly payments that stretch their finances and leave them with no buffer for life’s unexpected events. Instead, purchasers should consider using a home ownership investment which reduces the debt on their home to 80% or less and results in a more affordable monthly payment. That leaves them in control, with greater ability to weather the storm of an unexpected life event.

The benefits of a home ownership investment are clear. By borrowing less, reducing fees, eliminating mortgage insurance and enjoying a lower monthly payment, the homeowner can secure their home and their investment. They can also retain some of their cash to pay for other important needs and the inevitable rainy day.

“Encouraging Americans to add more debt is a reckless way to increase home ownership rates. Having a partner to invest with you reduces your leverage and hedges some downside risk.”

Thomas Sponholtz

Default rates increase with a higher LTV

Average annualized default rates of agency mortgages originated through the business cycle (2002-2009)

Data Sources: Fannie Mae, Freddie Mac
Ricardo S.
Southern California

Ricardo and his wife had saved up for a down payment and were able to afford the monthly payments, but they also wanted to maintain their financial flexibility so they could support their children's educational goals and be prepared for any emergencies that might come up.

"The main financial commitment that we prioritize as a family is education," Ricardo said. "During the high school years, we placed our children in private school, which requires a significant financial contribution from us. But continuing to fund the children's education and buying their dream home presented a challenge. Unison offered to partner with Ricardo's family on the down payment, allowing him to reserve cash and still get the lowest monthly payment because he would be putting down a full 20%. After poring over the details and talking it over, Ricardo and his wife decided that this was a great way for them to purchase their dream home. "The major problem that it solved is that it reduced the monthly payment that we would have for the purchase of this home, which in turn provided more financial flexibility for us to commit towards our children's education and other financial priorities that we have in our lives."

Trevor O.
Southern California

For Trevor and his wife, being a part of their community is a big deal. Trevor is a pastor, and as you would expect, his church and the congregation are very important to him and his wife. The couple have been at the same church for many years, and have developed many long-lasting connections with people there. With their young children being involved in the church as well, the entire family has strong ties to their community.

While they have a great life, Trevor and his family had been living in a condo and were starting to feel ready to move up to a traditional home. They wanted a yard where their kids could play — something with more room than their condo. But they weren't sure about the financing.

Trevor and his wife talked with a loan officer who suggested that they look into Unison, which could provide a portion of the down payment through the Unison HomeBuyer program. They realized that Unison could help them purchase the home they wanted without taking a loan from family members for the down payment. And their monthly mortgage payments would still be affordable, because the money Unison contributes is not a loan.

Now they are very happy in their new home. "It's closer to my work. It's in a great community. It has a yard. This will be a great family home for us for the future," Trevor said. "I appreciate so much that Unison was so thorough with the way they educate customers so that they know exactly what they're getting into beforehand," he said. "I think it's very fair that Unison's not looking to take anything from me at the time of purchase. Instead, they've partnered with us to make an investment in our home, and then in the future they will share in either the increase or decrease in the home's price."
Investing in housing has historically been problematic, as the only way to access the asset class has been through the purchase and subsequent rental of homes. Purchasing homes as rental properties is difficult to scale, resulting in a big expense drag on returns. Mortgages are a fixed income investment that is collateralized by the underlying real estate, but they have no correlation to its price movement. While mortgages and rental properties at various times in the market cycle can be attractive total return investments, neither can deliver the investment attributes for hedging or outperforming long-dated inflation that investing in homes directly can achieve. Inflation hedging is one of the main investment objectives that a liability-focused institutional investor seeks to fulfill.

U.S. single-family housing constitutes $30T in total value, making it the largest asset class in the United States. With approximately $162T in total value globally, it is also the largest asset class in the world. For any large institutional investor, making investments in all investable asset classes is an important ingredient in consistently achieving strong returns while taking a prudent level of risk. These two motivations – inflation hedging and exposure to the largest asset class in the world – create single-family real estate very compelling to an institutional investor. Home ownership investments are a frugality way to invest and not have to worry about the maintenance of the property, tenants, or vacancies. Home ownership investments are also attractive to institutional investors who worry about inflation in the long-term but are rarely concerned about inflation in the short-term. Investments that will keep up with inflation over the long-term are scarce and in demand. For these reasons, institutional investors are supportive of establishing home ownership investment as a widely-accepted asset class.

Institutional investment strategy is influenced heavily by the interest rate environment. In a high rate environment, fewer risky investments are required because lower risk investments provide adequate returns. However, when interest rates are low, and especially when they remain low for very long periods of time, many institutions find themselves underfunded and needing to take on more risk or require additional funding in order to meet obligations. Based on the Willis Towers Watson Pension Index, the average US pension plan has only 73% of the assets needed to fund its respective liabilities. In an extreme case, the city of Detroit made US history as being the first major municipality to declare bankruptcy, an event largely driven by the degree to which its pension funds were underfunded (having fewer assets than needed to meet liabilities).

Inflation is another principal driver of institutional investor strategy. Inflation impacts the income needed for a retiree to maintain his/her standard of living or the funds required by an endowment/foundation to support its work. Over 40% of inflation is determined by the cost of housing; it is the largest component of inflation (as measured by the Consumer Price Index). Historically, the only way to hedge inflation was to purchase TIPS (treasury inflation-protected securities), which are scarce and oddly constructed, or to purchase some proxy for inflation, be it commodities, farmland, or infrastructure. Investments in these assets are predicated on their historical link with inflation, rather than them being an actual material component of CPI. The cost of housing, however, is the largest single direct component of inflation and is a much simpler, purer way for an investor to protect itself from exposure to inflation that is inherent in an institutional investors’ liabilities.

A Stronger Housing Market: Home Ownership Investments Reduce Systemic Risk

Real Estate indexes obscure the volatility of a single real estate property
Data Sources: BNY Mellon Long-Term Capital Market Report 2016, First American Property and Transaction Level Data

One of the key aspects of the home ownership investment model is that it strengthens the entire housing sector by more efficiently distributing risk. Millions of individual homeowners are over-leveraged in their particular homes. Home ownership investments allow these homeowners to reduce risk by transferring some of it to institutional investors who can hold a diversified portfolio managed by a company like Unison.

Having too much of your net worth tied up in one property is a very risky investment strategy. Often, young homeowners will own a home worth many times their savings. The ability to diversify one’s assets away from a single, large investment, while still retaining one’s home reduces risk for individual homeowners and collectively for the entire housing sector.

Real estate is considered a low risk investment vehicle. However, this is only strictly true given: (A) a diversified portfolio of real estate and (B) a long holding period. A homeowner lives in a single house and may not remain in that house for a lengthy period of time. He/she is invested in a geographically-specific, heterogeneous asset. While a diversified index of homes (e.g. Case Shiller) is expected to experience around 3-4% annualized volatility, the expected volatility of an individual home is much greater. Furthermore, due to closing costs and other market frictions this individual home risk is amplified in the short run. Bringing it all together, a diversified real estate index can understate the risk of a single home by up to five times.

Thomas Sponholtz Bio

Prior to founding Unison, Thomas spent many years in the investment management industry where he built and introduced several large scale, ground-breaking products. He was the co-head of active fixed income in Barclays Global Investors’ $130B Fixed Income Group and instrumental in launching the first Fixed Income iShares (ETF) at Barclay’s Global Investors. Previously at Alex Brown, Sponholtz spearheaded the first-ever issuance of Collateralized Mortgage Obligation (CMO) capability in Europe in partnership with European banks.

“More than a decade ago I could see that there were people all over this country who couldn’t buy a home even though they had good credit and a reliable income, simply because they couldn’t save up enough for a down payment. First time home buyers were frozen out of the market and forced to rent for longer periods of time.

At that point it became clear to me that the world needed a large-scale platform that could efficiently connect institutional investors who want and need exposure to U.S. residential real estate with home buyers who need capital to purchase a home, or homeowners seeking flexibility to pull cash out of their home without taking on additional debt. With this massive idea in mind, I gathered a team to build the initial consumer and investment product. When it became time to scale the business, Jim Riccitelli joined to help build the first large-scale operational capability for home ownership investments. We spent the late 2000s building the necessary investment structure, formalizing relationships with investors and lenders, hiring a world class team, and working with regulators and others on this revolutionary concept.

Since we were the first company to bring the home ownership investment model to consumers, it was up to us to carve the path within the current residential real estate, regulatory, and financial ecosystems. There were too many challenges to talk about here. What’s important is that we succeeded. Today, a home ownership investment provides cash financing to homeowners on behalf of investors seeking long-term price exposure to residential real estate. This combination naturally aligns the interests of the homeowner and the investor, as partners.

All our programs are consumer-centric – our operating policies, procedures and education align with our customers’ interests. The core concept of the enterprise is partnership. A cornerstone of partnership is symmetry in information so consumer education is one of our cherished values at Unison. Co-CEO Jim Riccitelli spearheaded the building of our education program from the ground up. Today, our policy is to transact only with customers that can demonstrate an appropriate understanding of the Unison programs.

The most important part of the home ownership investment model is that it naturally aligns the interests of the homeowner, the end investor, and Unison, the manager who facilitates the transaction. All parties win and lose together.”

In His Words: Thomas Sponholtz
Founder, Chairman and Co-CEO of Unison
Home ownership investments are the future of home buying. This new financing model is based on partnership. As the leader and dominant player in the category, Unison is poised to expand home ownership in the U.S. Unison’s programs make it possible for people to buy a home they like, without a higher monthly payment and without tying up all their money in the home, or to convert home equity to cash without debt.

Learn more about Unison:

www.unison.com

contact:

ps@unison.com or call 1-800-330-9400