Home Equity Contracts
Innovative equity financing solution for the $32 Trillion Dollar U.S. Residential Market

Home Equity Contracts are an emerging investment asset class, with attractive unlevered returns, capital gain tax treatment, built in downside protection, and broad geographic diversification throughout the top MSA's in the U.S. Residential Real Estate Market.

Kingsbridge Wealth Management, the leading investment manager in Home Equity Contracts, walks us through an overview of Home Equity Contracts and the investment opportunity.

U.S. homeowners are house rich and cash poor and for about 67% of American homeowners, home equity is the largest asset they own. The Home Equity Contract provides a new financing solution for homeowners to monetize their home equity wealth without the burdens of traditional debt financing. In the past, homeowners could only sell their entire home or borrow against the value of their home to get liquidity. Now, there is an innovative non-debt financing solution to unlock home equity wealth, the Home Equity Contract.

Executive Summary - Home Equity Contracts

- The Home Equity Contract allows homeowners to monetize home equity wealth by selling an equity participation in their home to an investor.
- The Home Equity Contract is generally structured as an option agreement. The homeowner receives the Home Equity Contract dollar amount while the investor gets a percentage of the current home value and a participation in any future change in the value of the home, for the term of the contract.
- Investors get downside protection and upside participation while investing in tangible real property.
  - The investor's initial purchase is at a discount to the appraised value of the property, giving the investor downside protection, and the investor also has an accelerated participation in any future change in the value of the home.
  - The Home Equity Contract includes a lien on the home in favor of the investor and the homeowner has an obligation to abide by the terms of the contract.
- **Home Equity Contracts are mutually beneficial to the homeowner and the investor.**

  - The homeowner receives immediate liquidity without incurring debt or selling their home, and if the home appreciates, the homeowner's remaining equity is worth more, and the investor's Home Equity Contract is worth more.
  - If the home loses value, the homeowner's remaining equity is worth less and the investor's Home Equity Contract is worth less if the loss exceeds the initial discount or risk adjustment.

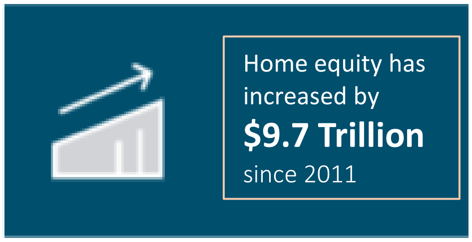
The Market Opportunity

For many U.S. homeowners, selling their home and moving, or adding additional debt, is not a desirable option for homeowners who are looking to monetize home equity wealth.

- **Home Equity Lines of Credit (HELOC) originations have declined.**

  HELOC originations approximated $200 Billion per quarter, pre-financial crisis, down to <$15 Billion per quarter in the 1st quarter of 2019, even though interest rates are near all-time lows.

- **Home equity wealth is increasing.**



- **There is very strong evidence that homeowners are not seeking to add debt to their homes and are actively seeking non-debt alternatives to monetize their home equity wealth.**

  Home Equity Contracts are a product created by venture capital backed financial technology companies to provide U.S. homeowners with a non-debt solution.

- **By using data analysis and software-driven origination platforms, Home Equity Contract Originators can identify the properties and homeowners that are attractive candidates for Home Equity Contracts.**

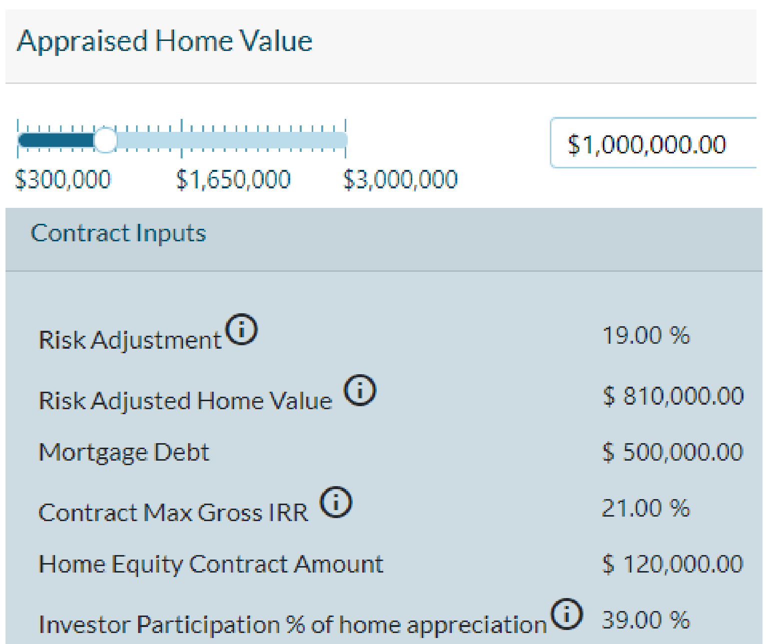
  Home Equity Contracts are currently available in 20 states and are expected to be available in 70% of the U.S. by the end of 2020. Origination volume is increasing as contract origination companies scale their platforms and attract investor capital to this new investment asset class.

How Do Home Equity Contracts Work?

The Components of a Home Equity Contract

- The **Appraised Value** of the home.
- An understanding of any **Debt** outstanding on the home and the **Home Equity** available
- The **Home Equity Contract Amount** (e.g. 12% of the appraised value in this example).
- **Risk Adjustment** (% of appraised value and potential component of investor return)
- **Expected Home Price Appreciation** (potential component of investor return)
- **Homeowners Financial Condition**
- **Investor Participation** in any change in the price of the home during the contract term
- **Contract Term** (commonly 10 years)

Sample Home Equity Contract & Investor Return Scenario



The Homeowner controls the duration of the contract and can buy out the contract by refinancing the home, selling the property, or using other funds to settle the contract.

Home Equity Contracts are being used by homeowners to access cash in order to address personal financial challenges and opportunities. The contract duration is unique to each homeowner's timeframe and homeowners with substantial equity generally have multiple ways to fund the buyout of the contract.

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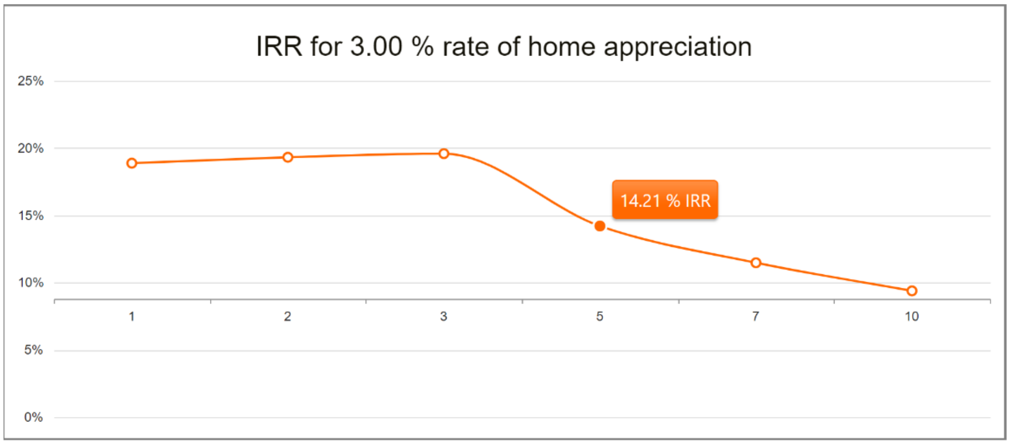
Depending on the length of time the contract is outstanding, investor returns will be driven by a combination of the Risk Adjustment and any change in the value of the home.



The IRR chart shows the duration of the contract on the X axis, from 1 to 10 years, and the IRR to investor on the Y-axis. The rate of Home Price Appreciation (or Depreciation) is shown as an annualized rate over the term of the contract.

Although it is common for Home Equity Contracts to have a 10-year term, the average duration of a portfolio of contracts is expected to be 5 years.

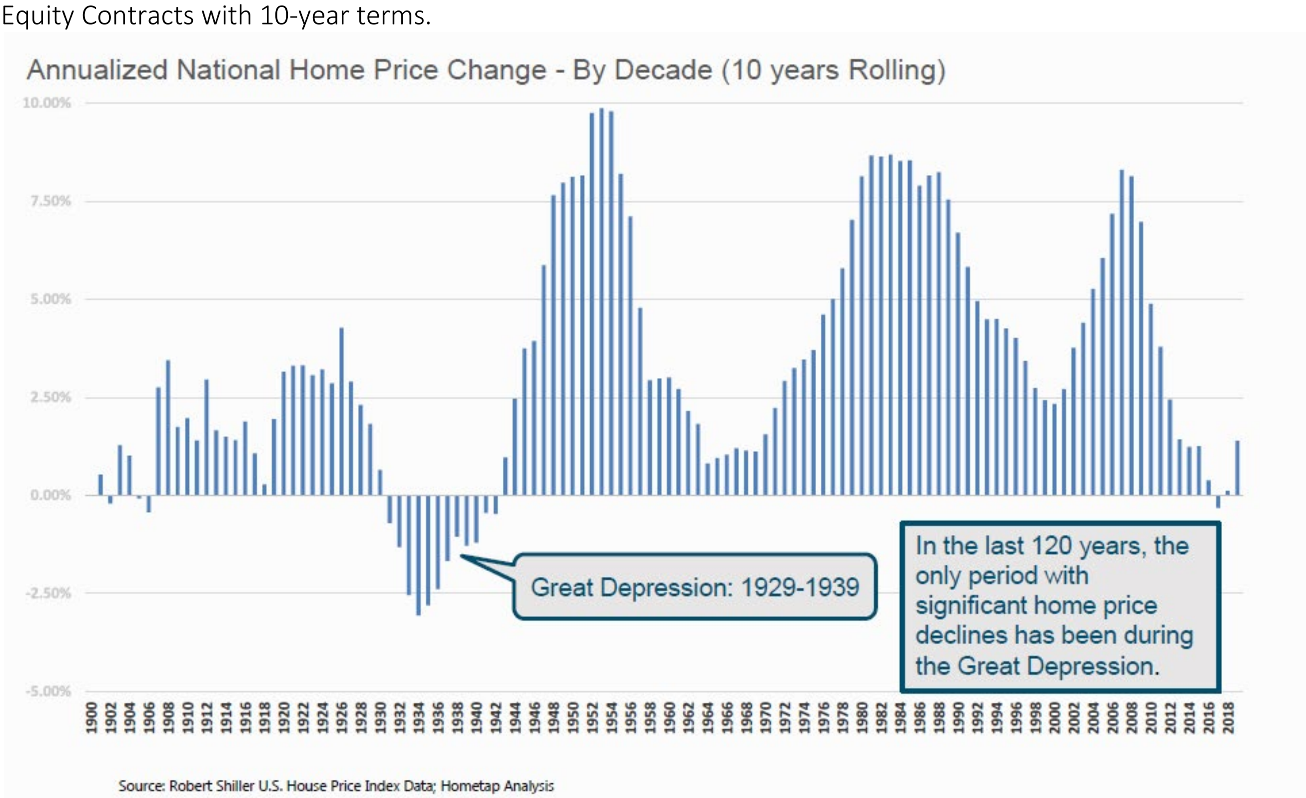
U.S. Residential Real Estate – Historical Home Price Data

According to the S&P CoreLogic Case-Shiller National Home Price NSA Index, covering all nine U.S. Census divisions, the average home price appreciation for U.S. homes over the last 50 years has been approximately 5% per year.

The chart demonstrates that the financial crisis has reduced the return for the 10-year period and that the 3-year and 5-year averages are in line with the long-term average.

	EffectiveDate	Annualized Returns		
		3 Year	5 Year	10 Year
Index Levels				
S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index	**Mar-2019**	**5.29 %**	**5.05 %**	**3.48 %**

The chart below shows National Home Price Changes over rolling 10-year periods, which could be useful when looking at Home Equity Contracts with 10-year terms.



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Home Equity Contracts – A New Asset Class

There are multiple originators of Home Equity Contracts, at least six, as of our last count. Each originator is partnered with capital providers that buy the contracts.

Kingsbridge estimates there has been less than $1 billion of capital invested in Home Equity Contracts as of May 2019. Based on Kingsbridge's interaction with multiple contract originators, it appears 2019 will see a 500% increase in contract originations and investments.

As the number of Home Equity Contracts originated continues to grow, and the attributes of the investment opportunity become widely disseminated, we believe there will be many investors attracted to the asset class.

Kingsbridge Sees Many Attractive Investment Attributes In Home Equity Contracts:

- Mutually beneficial contract structure between the homeowner and investor
- Provides homeowners with expanded access to capital
- Contractual downside protection for investors
- Attractive returns for investors
- Perceived inflation protection component:
  - According to the S&P CoreLogic Case-Shiller Indices May 2019 monthly report, "real" home prices are rising at a 1.8% annual rate greater than inflation and have an average "real" annual price increase of 1.2% above inflation since 1975.

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KINGSBRIDGE WEALTH MANAGEMENT

Kingsbridge Wealth Management is a registered investment adviser founded in 2008 that manages the Kingsbridge Alternative Strategies Fund, LP. The Kingsbridge Alternative Strategies Fund, LP, invests in Home Equity Contracts in the U.S. residential real estate market.

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