

**Testimony of Andrew Pizor
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Supporting HB 5209

An Act Establishing Various Requirements Regarding Shared Appreciation Agreements

**before the
Connecticut General Assembly
Banking Committee**

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1. Introduction

My name is Andrew Pizor. I am a Greenwich resident and a Senior Attorney at the National Consumer Law Center, a nonprofit organization that works to advance economic justice by advocating for strong consumer protections for low-income and vulnerable households through litigation, policy, and education. Thank you for the opportunity to testify on HB 5209.

We *STRONGLY* support this bill.

Shared appreciation agreements strip homeowners of equity through large, unaffordable balloon payments. HB 5209 provides critical protections to prevent abuse and preserve homeownership.

Key Takeaways:

- HB 5209 protects homeowners from predatory shared appreciation agreements (SAAs), also known as home equity investment loans.
- SAAs offer cash upfront to “cash poor, equity rich” older homeowners and require a large balloon payment based on future home value, often forcing a sale and loss of the home.
- SAAs are predatory loans that target homeowners with low credit scores and steal tens or hundreds of thousands of dollars in equity, far more than they receive.
- SAAs are complex and deceptively marketed, particularly to older adults and lower-income homeowners.
- There is no lasting benefit for the homeowners targeted for these loans and no place for these loans in Connecticut without substantial safeguards in place.
- HB 5209 adds essential safeguards, including counseling, clear disclosures, and bans on abusive terms.

Shared appreciation agreements pose a significant risk to homeowners—especially seniors and lower-income homeowners. HB 5209 includes strong protections that will reduce this risk significantly. SAAs are becoming increasingly common nationwide, especially in hot housing markets, and they are available in Connecticut. Their marketing is deceptive and tempting for distressed borrowers. SAAs are very difficult for consumers to understand or compare with alternatives, and they have the potential to be extremely expensive.

Some of the most important provisions in HB 5209 are:

- Allowing a lender to close on an SAA only if the borrower has first received housing counseling, so the borrower truly understands what he or she is getting into;
- Requiring contracts to clearly state the maximum amount that the borrower may be required to pay;
- Capping the effective interest rate on SAAs; and
- Prohibiting unfair terms found in the worst SAA contracts, such as:
 - prepayment penalties,
 - clauses that prevent the borrower from renting out their home,
 - confidentiality clauses, that stop the borrower from talking about their contract in the event of a dispute, and
 - discounting the appraised value of the home (which boosts the lender's profit).

2. How a Shared Appreciation Agreement Works

SAAs were created by sophisticated Wall Street investors for the purpose of giving them low-risk access to homeowner equity. But the risk to the homeowner is unreasonably high.

SAAs offer homeowners money up front in return for a share of the home's future value. SAA borrowers are usually not required to make any payments to the company until the earlier of a maturity date specified in the contract or when they sell or try to refinance. Then they must make a balloon payment calculated as a percentage of the home's value. If they cannot pay, they face foreclosure. Most SAAs today are offered to existing homeowners looking to cash-out the equity in their homes. Normally, such homeowners would seek a traditional home equity loan or reverse mortgage. But SAAs are marketed to those who are house-rich but cash poor, with low credit scores, who may not qualify for an affordable traditional loan or may be enticed by the promise of no monthly loan payments, failing to fully understand that they will have to pay a huge lump sum at the end of the loan.

SAAs are confusing and complex. Most are crafted to look like option contracts where the company claims to buy an option to purchase a share of the consumer's house in the future. Companies point out that if they never exercise the option, the consumer will not owe anything on the contract. Based on this premise, the company claims it is not making a loan—just buying an option. But, in reality, the company almost always exercises the “option.”

When the company exercises the option, the homeowner must put the house up for sale (if the homeowner has not already done so) or buy the company's share back. By this time, the company's share will typically be worth far more than what the homeowner originally received for it—typically tens or hundreds of thousands of dollars more. This substantially reduces the homeowner's share of the equity in their own home.

Example:

- A house in West Hartford is worth **\$400,000**.
- The owner signs an SAA, receives **\$60,000** upfront, and promises to pay **25%** of the home's future value.
- Ten years later, the home is worth **\$700,000**. The SAA company exercises its option.
- The company's 25% share is now worth **\$175,000**. To keep the home, the homeowner must pay \$175,000.

- That's an **11.3% APR** (the interest rate on 15-year prime mortgages is currently under 6%).¹
- The only realistic way for the homeowner to pay that lump sum of money is to sell the house, then that amount is taken off the top from the sale proceeds.
- If HB 5209 passes, the payment to the SAA company will be capped at **\$132,000**, an **8.2% APR**.

Companies often advertise that the transaction is not a loan and that the homeowner will not owe anything if the home loses value. But companies use sophisticated models to predict home values and securitization to insulate themselves from bearing any risk. **In practice, these companies will almost always get repaid.**

For example, Unison, one of the first and largest SAA companies, has described itself as an “institutional investment management firm,”² with sophisticated “model, systems, and processes [it] build[s] to make investments,”³ including “a 10-year forecast on every house in America.”⁴ Unison uses a “very sophisticated data infrastructure and pricing structure” to “turn[] a house into a security” in order to “build[] nationwide portfolios for the benefit of the institutional investor.”⁵ In its marketing to investors, Unison leads investors to believe that its products have an unlimited upside and almost no downside, with “low volatility and high risk-adjusted net returns compared to other major asset classes,”⁶ including traditional home-secured loans.

Foreclosures on SAAs are rare,⁷ and no more common than for traditional mortgage loans, so their high APRs are not justified. Regardless, investors will be well protected while homeowners lose out. According to a report commissioned by the Washington State legislature, Washington’s Department of Financial Institutions found “that the average loss rate for SAA providers is no greater than the loss rate for traditional mortgage lenders.”⁸

One of the reasons SAAs pose a risk to homeownership is that SAA lenders do not underwrite for ability to repay. Instead of ensuring that the borrower has enough income to repay the debt, they count on the value of the property as the source of repayment.⁹ So, if the borrower ultimately cannot repay from their savings or by refinancing with a traditional mortgage, they will

¹ Freddie Mac, <https://www.freddiemac.com/pmms> (as of Feb. 23, 2026).

² Podcast Transcription Session No. 103 – Thomas Sponholtz & Jim Riccitelli, <https://www.fintechxexus.com/wp-content/uploads/2022/09/Podcast-103-Unison-Founders.pdf> (last visited June 13, 2024).

³ Unison IM, <https://www.unisonim.com/> (last visited June 7, 2024).

⁴ Podcast Transcription Session No. 103 – Thomas Sponholtz & Jim Riccitelli, <https://www.fintechxexus.com/wp-content/uploads/2022/09/Podcast-103-Unison-Founders.pdf> (last visited June 13, 2024).

⁵ *Id.*

⁶ Unison IM, <https://www.unisonim.com/about-us> (last visited June 7, 2024).

⁷ According to the Wash. State Dep’t of Fin. Institutions, only one of the companies contacted reported ever foreclosing on a property. Wash. State Dep’t of Fin. Institutions, Home Equity Sharing Agreement Inquiry Report at 20 (Sept. 12, 2024).

⁸ Wash. State Dep’t of Fin. Institutions, Home Equity Sharing Agreement Inquiry Report at 20 (Sept. 12, 2024).

⁹ See Morningstar DBRS, Rating and Monitoring U.S. Reverse Mortgage Securitizations at 24 (July 2023) (“Like reverse mortgage loans, the HEI underwriting approach is asset-based, meaning there is greater emphasis placed on the value of the underlying property than on the credit quality of the homeowner. The property value is the main focus for predicting repayment because it is the primary source of funds to satisfy the obligation.”)

lose their home. SAAs are an example of asset-based lending—a high risk form of lending that is disfavored in the residential context and that has contributed to multiple foreclosure crises.¹⁰

In practice, SAAs function very much like subprime mortgages with tremendous balloon payments. The consequences for consumers are the same too. If they are able to pay, they will lose a massive amount of equity. And if they cannot pay, they will lose their home to foreclosure. In fact, the payment structure for the typical SAA makes it highly likely that most borrowers will be forced to sell their home to make the payment due.

3. Shared appreciation agreements don't build wealth—they take it.

Homeownership in America is one of the best ways to build family wealth—to save for retirement, or to pass wealth along to the next generation. But an SAA will take away a big chunk of that savings. We have heard from elderly homeowners who cannot afford to move because the payment on their SAA would leave them too little to pay for assisted living; and others who were unable to refinance to a lower-rate traditional loan because their home had appreciated so much that the SAA payment was unaffordable.

The SAA industry claims their product is not a loan, or not debt, but the truth is that they are selling high-cost, subprime loans. In a traditional “forward” mortgage loan, a lender provides the homeowner cash up front, and the homeowner agrees to repay it in predictable installments, no matter what happens to the value of the home. Even with adjustable-rate mortgages, the payments are relatively predictable. If the homeowner defaults, the lender can foreclose. Reverse mortgages also provide the homeowner with money upfront, but no payment is due on the loan until the homeowner ceases to live in the house. Forward and reverse mortgages are subject to extensive state and federal regulation to protect consumers.

High-cost forward mortgage and FHA reverse mortgage borrowers must undergo HUD-approved counseling before closing.¹¹ Most importantly, reverse mortgage borrowers have the right to stay in their homes until they die or move permanently to a healthcare facility, as long as they remain current on their property insurance and taxes. SAAs offer much less security, as a repayment obligation may be triggered by a number of possible events.

4. Vote “Yes” on HB 5209 to protect Connecticut homeowners.

Connecticut has already taken an important first step by clarifying that SAAs are residential mortgage loans.¹² But current law still allows common, abusive practices. HB 5209 fills those gaps.

Homeownership is important because it gives families a chance to build wealth. But it is more important that because it provides a home. SAAs, in the absence of the common-sense requirements in this bill, put all of that at risk.

¹⁰ See generally, OCC, Comptroller's Handbook, Asset-Based Lending (Jan. 27, 2017), available at <https://www.occ.treas.gov/publications-and-resources/publications/comptrollers-handbook/files/asset-based-lending/pub-ch-asset-based-lending.pdf>.

¹¹ 15 U.S.C. § 1639(u); 12 U.S.C. § 1715z-20(d)(2)(B).

¹² C.G.S. § 36a-485(27) (“Residential mortgage loan’ means any loan, including a shared appreciation agreement, primarily for personal, family or household use that is secured by a mortgage, deed of trust or other equivalent consensual security interest on a dwelling or residential real estate upon which is constructed or intended to be constructed a dwelling.”).

We urge you to support HB 5209. More information about SAAs is available on our [website](#).¹³

Thank you for your time.

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¹³ <https://www.nclc.org/topic/home-equity-investment-loans/>.