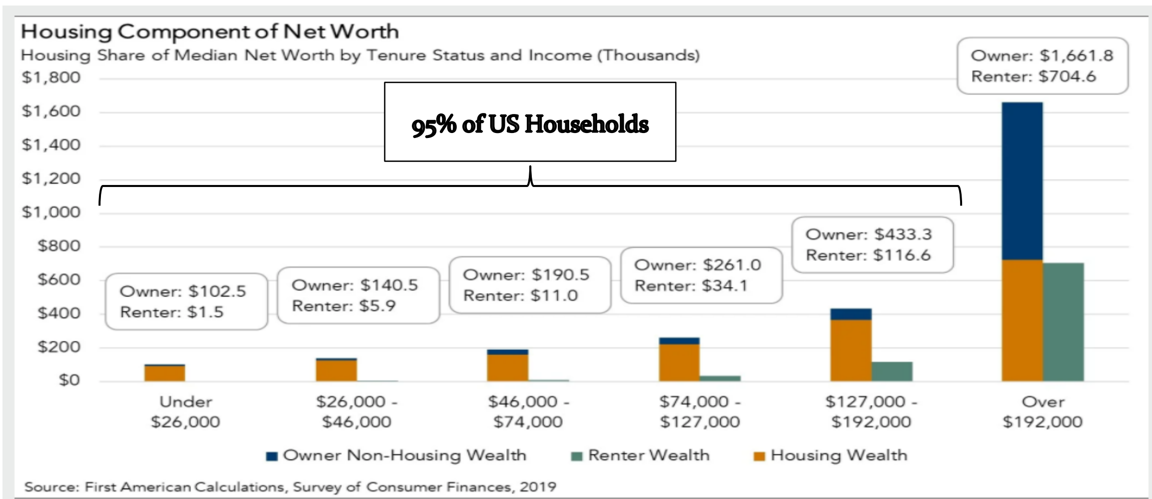
A Case for Sharing Home Equity

Simply Gray | August 2021

The Cost of Homeownership

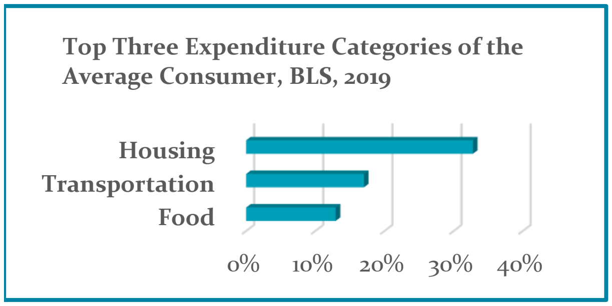
Housing is the largest source of wealth for 95% of US households. In other words, unless you're making more than $200,000 a year, your primary residence will make up more than 90% of your net worth.



Through homeownership, Americans are exposed to a significant concentration of risk in a single asset that is highly illiquid and vulnerable to market fluctuations. Despite this reality, homeownership is still heralded as the cornerstone of the American middle class. Yet does it provide the financial security that many Americans hope that it would?

What we pay for our homes has a significant impact on our financial health, but how can we reduce the housing-related outlay if housing costs continue to rise?

Americans spent on average $20,679 on housing costs in 2019, which is about 31% of the average disposable household income and is the largest spending category making up a third of total annual household expenditures.



The Need for Financial Resilience

With a savings rate of less than ten percent (maintained since the mid-80s), most Americans will not be able to cover all their monthly expenses even for a month after a disruption in income. According to one report[1], fifty-four percent of Americans live paycheck-to-paycheck, but what's even more surprising is that more than half of those making $50,000 to $100,000 are also highly dependent on their incomes every month.

Ten million households lost their homes during the massive economic downturn of 2008 because they could not buffer the near-term shock to the economy. Lax underwriting standards

The Economics Editor of the Wall Street Journal, David Wessel, said once that the success of a mortgage-financing system should be gauged not only by how many people own their homes but by whether it can absorb shocks without crumbling.

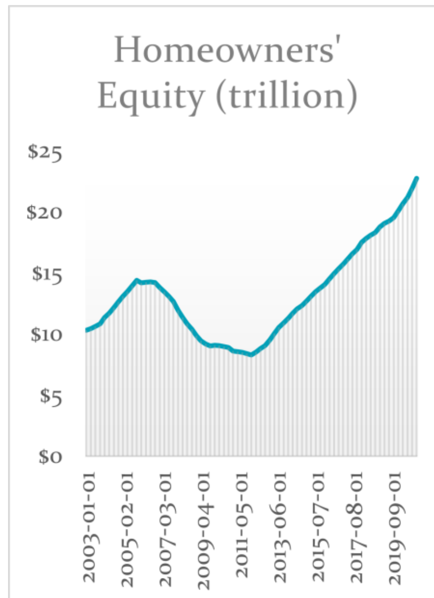
[1] https://www.pymnts.com/wp-content/uploads/2021/06/PYMNTS-Reality-Check-Paycheck-to-Paycheck-June-2021.pdf

amplified the severity of the housing crisis, but it does not eclipse the structural vulnerabilities in our system.

Today, an estimated 2.5 million households are more than 90 days past due on their mortgage payments despite over a decade of much tighter underwriting standards since the Great Recession. While we are not expected to see a wave of foreclosures as the COVID-related forbearance programs start to wind down this year, we could still see many homeowners forced to sell in response to their post-COVID financial realities.

While accessibility to wealth is essential, it is critical that we build resilience into the current system to enable the middle class to continue building their wealth and secure their financial stability uninterrupted.

10 million households collectively lost over $6 trillion in homeowner's equity from 2005 to 2012



And approximately 7 million households lost out on the upside, which created nearly $15 trillion in wealth over the next ten years.

At Simply Gray, we want to empower homeowners to better manage their most significant assets and foster financial stability and growth.

Time to Rethink Homeownership and Wealth Creation

Homeownership has many merits in terms of relative housing stability, tax benefits, and potential long-term gains. However, these benefits hinge on the state of the economy, which is outside of our control.

We are building a mechanism to help people weather economic cycles to secure their wealth and their homes through shared equity. Technology allows us to manifest a new paradigm for how we live and create personal prosperity. It levels the playing field by reducing barriers to entry. It promotes transparency and fairness, which are the actual engines of growth. For housing, this new paradigm requires us to decouple the traditional sense of ownership from wealth creation. Homeownership isn't black and white; it's Simply Gray.