Company X Financial Product Exercise

Instructions

Using the data in the prompt below, please build a product model to assess Company X's Home Equity Investments (HEIs). We would like you to evaluate the product performance from the perspective of two key stakeholders: our Homeowners and our Capital Partners.

- What is Homeowner cost of capital across various HPA and settlement timing scenarios? How does this compare to alternative forms of financing available? What is the Homeowner value proposition vs potential drawbacks of our product?
- What is the investor return profile (IRR and MoM) across various HPA and settlement timing scenarios? How would you articulate the value proposition to a potential Capital Partner? What are some of their key considerations when determining whether to commit capital to buying HEIs?

Given the above analysis, what is something we should change or introduce? Please share your thoughts on potential product feature/structure modifications or an entirely new product that Company X should offer. How does your proposal impact the value proposition to homeowners and to investors?

Background

Company X Equity Partners acquires minority equity stakes in U.S. owner occupied homes. In exchange for every 1.00% invested in the property, Company X receives 1.70% of the future value if the home appreciates (>= 0%) or 1.40% if the home depreciates (< 0%). Our returns are subject to a 20% IRR Cap, which protects homeowners against overpaying for the investment. Homeowners can settle their investment at any point during the 10-year term via a sale, repurchase or refinance.

Relevant Investment Data

- $1,000,000 Average Beginning Home Value
- $100,000 Average Investment Size
- 1.70% Up Share Multiplier (if home price change >= 0%)
- 1.40% Down Share Multiplier (if home price change < 0%)
- 20% IRR Cap
- 10 Year Investment Term
- Portfolio level: Capital Partner deploys $200 million in HEIs

Assumptions Guidance

- Home Price Appreciation (HPA) Scenarios
- Base case: assume 3% flat annual home price appreciation
- Include one downside case and one upside case
- Please note any other assumptions you made and your rationale