A majority of Americans have more than half their wealth locked up in their homes; a third have 80% or more. It's a big risk to have so much wealth tied up in a single, illiquid investment, and there's essentially nothing we can do to hedge that risk.

Unless, that is, you happen to live in Syracuse. There, because of something called "home-equity protection," a homeowner can make a one-time payment and be protected from dips in the housing market. Right now, it's basically an experiment, a pilot program designed by a brain trust of economists and housing advocates, funded by a government grant and operated by a local nonprofit. Its point is twofold. For locals, it's a bid to stabilize the real estate market and revitalize the city. For the economists behind the scheme, it has a grander aim as well: to show that home-equity protection can work anywhere.

>> HOW IT WORKS Syracuse homeowners (or buyers) make a payment equal to 1.5% of the property value they want to protect--say, $3,000 on a $200,000 house. After a three-year waiting period, if a homeowner sells and average prices in that zip code have declined, the program will cut him a check. If prices decline 10%, the check is for 10% of the original protected value--$20,000 in the example.

Syracuse residents have reason to be sensitive to real estate risk. Like most rust-belt dwellers, they've seen more than their share of industrial decline and suburban flight. In 1997, 50% of the people who sold a home in the city did so at a loss. Now Syracuse is trying, with some success, to reinvent itself. The hope is that home-equity protection will help shore up its pockets of vitality. The 65 homeowners who have signed on seem to get the idea. Syracuse is a patchwork of strikingly contrasting neighborhoods--gorgeous tree-lined residential blocks within shouting distance of rows of abandoned houses. Equity-protection
customers tend to live along these fault lines, using the program as a kind of bulwark against urban decay.

Home-equity protection has worked in similar situations, most notably in the late 1970s in Oak Park, Ill., a suburb abutting Chicago's then troubled West Side. But the Syracuse program is state of the art in that it ties payouts to the performance of the local housing market (as measured by a zip-code index) rather than to the value of the policyholder's house. This is important because it automatically prevents abuse by a homeowner who lets his house fall apart—not to mention fraud and other types of insurance-related mischief.

>> GOING NATIONAL? That self-policing feature saves scads on administrative costs, giving the concept viability on a larger scale. The catch is that indexing is hard to understand. And no index can be sensitive enough to account for every factor that affects a home's value—say, a neighbor who keeps a rusted-out car in his driveway. "Coming up with a simple explanation of the methodology is definitely a challenge," concedes Eric Hangen, who helped design the program and now consults for it.

Still, the Syracuse program has brought scores of calls from worried homeowners in hot real estate markets around the country, says Hangen. Could the idea work in places like Boston or San Francisco? The cost—1.5% of a home's value—might have to go up to keep the system solvent. But the economists believe that they could keep the price attractive and the underwriting "actuarially sound." Going national, they note, would offer geographic diversification, decreasing the risk for underwriters.

Economist William Wheaton of the MIT Center for Real Estate argues that this kind of protection is unnecessary for most homeowners. "Residential real estate just isn't risky enough," he says. But the team behind the Syracuse program insists that there's an urgent need. Here's how team member and Yale economist Barry Nalebuff portrays the situation: "You're undiversified. Your home's value tends to be correlated with your job, so your job gets in trouble. Your house goes down in value. All your assets start disappearing. And you're already highly leveraged. You end up losing everything."