

As of May 1, 2024

FIXED EQUITY RATES

<u>YEARS</u>	<u>UP TO 90%</u>
5	7.00% APR
10	7.50% APR
15	8.00% APR

Minimum loan amount for 15-year is \$30,000.00

Maximum loan amount is \$200,000.00

90% LTV for all loan amounts.

Prime is 8.50%

VARIABLE EQUITY RATES

\$10,000 - \$49,999* 8.25% APR

\$50,000 - \$200,000** 7.75% APR

Average Prime for the 1st Quarter is 8.50%

*Average Prime - 25 basis points

**Average Prime - 75 basis points

90% LTV for all loan amounts.

At no time shall the annual percentage rate on a variable rate home equity loan be less than 4.50% per annum.



Dear Member,

Thank you for your interest in our Home Equity Programs. Below, you will find all the necessary documents to complete your application.

AT TIME OF APPLICATION THE MEMBER SHALL FURNISH THE FOLLOWING:

- a. W-2 form, most recent year signed Federal tax return and a copy of your most recent paystub; if self-employed, signed copies of Federal tax returns for the past two years
- b. Property tax assessment or recent property tax statement showing the State Equalized Value
- c. Homeowner's Insurance Policy showing current policy term
- d. Mortgage statement showing balance due on existing mortgage, if applicable
- e. Trust documentation, if applicable
- f. Judgement of Divorce, if applicable
- g. Condominium Association name and phone number, if applicable to your property
- h. Signed Borrower Authorization form
- i. Signed Borrower Acknowledgements

Rescission Period

As required by Reg Z, the three (3) day delay in monetary disbursement will be enforced from the loan settlement date.

Limitations and Restrictions

1. **Property of concern must be owner occupied (principal residence only – and located in the State of Michigan).**
2. All multiple units considered must be eligible to have a lien registered.
3. All liens will be properly recorded in the county in which the property/residence resides.
4. The mortgage is not assumable.
5. Line-of-Credit will automatically cancel upon any delinquency or if the member moves.
6. The following will not qualify for consideration of establishing a home equity loan:
 - a. Undeveloped land
 - b. Pre-constructed housing units, such as a mobile home or portable modules without permanent foundations or ownership in land parcel
 - c. New construction
 - d. Any request which would fall subsequent to an existing land contract
 - e. Any request which would fall subsequent to an existing second mortgage
 - f. Any property zoned other than residential
 - g. Any property on which there is a lien (e.g. divorce lien, judgment lien, tax lien, etc.) that has not been satisfied
 - h. Any property other than single family - i.e., duplex, etc.
 - i. Any rental/income property

** Member may be subject to paying closing costs and fees if refinancing an existing MECU Home Equity Loan **



Michigan Educational Credit Union

NMLS ID 401274

For Credit Union Use Only

Approved Denied

Credit Committee Initial Here _____ Date _____

HOME EQUITY CREDIT APPLICATION

If you are applying for joint credit with another person, complete all sections below, providing information on the right side of this document about the joint applicant. We intend to apply for joint credit:

Applicant Initial

Co-Applicant Initial

ACCOUNT NO. _____

OPTION 1: Variable Rate Equity Line of Credit <input type="checkbox"/> New Account <input type="checkbox"/> Credit Line Increase Payment Options Credit Line Requested \$ _____ <input type="checkbox"/> \$ 9 Per 1000 <input type="checkbox"/> \$ 12 Per 1000	OPTION 2: Fixed Rate Equity Installment Loan <input type="checkbox"/> New Account <input type="checkbox"/> Refinance \$ _____ Loan Term: <input type="checkbox"/> 60 months <input type="checkbox"/> 120 months Loan Amount Requested <input type="checkbox"/> 180 months (\$30,000 min)
---	--

PURPOSE _____

DESCRIPTION OF PROPERTY MUST BE PRIMARY RESIDENCE

PROPERTY TYPE <input type="checkbox"/> SINGLE FAMILY <input type="checkbox"/> CONDO <input type="checkbox"/> 2-4 UNITS <input type="checkbox"/> OTHER _____			ORIGINAL PURCHASE PRICE	ESTIMATED MARKET VALUE	STATE EQUALIZED VALUE
					IS PROPERTY CURRENTLY FOR SALE <input type="checkbox"/> YES <input type="checkbox"/> NO

APPLICANT

FIRST NAME	INITIAL	LAST NAME	SR.,JR.,I,II
SOCIAL SECURITY NUMBER		BIRTH DATE	
CURRENT STREET ADDRESS		APT. NO.	SINCE
CITY		COUNTY	
STATE	ZIP	MARITAL STATUS <input type="checkbox"/> MARRIED <input type="checkbox"/> SEPARATED <input type="checkbox"/> UNMARRIED (SINGLE, DIVORCED)	
EMAIL ADDRESS			
DO YOU: <input type="checkbox"/> OWN <input type="checkbox"/> RENT <input type="checkbox"/> LIVE WITH PARENTS		CELL/HOME TELEPHONE () ()	
NAME, ADDRESS & TELEPHONE OF NEAREST RELATIVE NOT LIVING WITH YOU			RELATIONSHIP

CO-APPLICANT

FIRST NAME	INITIAL	LAST NAME	SR.,JR.,I,II
SOCIAL SECURITY NUMBER		BIRTH DATE	
CURRENT STREET ADDRESS		APT. NO.	SINCE
CITY		COUNTY	
STATE	ZIP	MARITAL STATUS <input type="checkbox"/> MARRIED <input type="checkbox"/> SEPARATED <input type="checkbox"/> UNMARRIED (SINGLE, DIVORCED)	
EMAIL ADDRESS			
DO YOU: <input type="checkbox"/> OWN <input type="checkbox"/> RENT <input type="checkbox"/> LIVE WITH PARENTS		CELL/HOME TELEPHONE () ()	
NAME, ADDRESS & TELEPHONE OF NEAREST RELATIVE NOT LIVING WITH YOU			RELATIONSHIP

EMPLOYMENT AND INCOME IF SELF EMPLOYED CHECK HERE AND ATTACH TWO YEARS FEDERAL INCOME TAX RETURNS (INCLUDE ALL SCHEDULES).

CURRENT EMPLOYER	SINCE	
ADDRESS		
WORK TELEPHONE ()	POSITION	GROSS MONTHLY INCOME \$
FORMER EMPLOYER (IF CURRENT IS LESS THAN 1 YEAR)	POSITION	YEARS

CURRENT EMPLOYER	SINCE	
ADDRESS		
WORK TELEPHONE ()	POSITION	GROSS MONTHLY INCOME \$
FORMER EMPLOYER (IF CURRENT IS LESS THAN 1 YEAR)	POSITION	YEARS

OTHER INCOME YOU NEED NOT LIST INCOME FROM ALIMONY, CHILD SUPPORT OR SEPARATE MAINTENANCE PAYMENTS UNLESS YOU WANT IT CONSIDERED IN EVALUATING THIS CREDIT APPLICATION.

SOURCE OF OTHER INCOME	MONTHLY AMOUNT \$
NAME AND ADDRESS OF PAYER	NO. OF YRS. RECEIVED

SOURCE OF OTHER INCOME	MONTHLY AMOUNT \$
NAME AND ADDRESS OF PAYER	NO. OF YRS. RECEIVED



Borrower Acknowledgement

I /we hereby acknowledge:

() I/we request a copy of the property appraisal report at least three (3) business days prior to the date of closing.

() That on _____, but at least three (3) business days prior to the date of closing, I/we hereby waive entitlement to a receipt of the property appraisal report.

Borrower Date

Co-borrower Date

www.michedcu.org general@michedcu.org

LIVONIA
14921 Middlebelt Road
Livonia, MI 48154
734.261.1050

ANN ARBOR
4141 Jackson Boulevard
Ann Arbor, MI 48103
734.761.7505

BRIGHTON
123 Brighton Lake Road
Suite 102
Brighton, MI 48116
810.494.6000

ROYAL OAK
1903 Rochester Road
Royal Oak, MI 48073
248.399.7473

MACOMB
47230 Hayes Road
Macomb Twp, MI 48044
586.566.5599



Borrower Acknowledgement

I /we hereby acknowledge:

I /we have received a list of HUD-approved counseling intermediaries when I/we submitted the Home Equity application.

Borrower _____ Date _____

Co-borrower _____ Date _____

www.michedcu.org general@michedcu.org

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MACOMB
47230 Hayes Road
Macomb Twp, MI 48044
586.566.5599



Borrower Acknowledgement

I /we hereby acknowledge: the intent to proceed with the loan application process.

Borrower Date

Co-borrower Date

www.michedcu.org • general@michedcu.org

LIVONIA
14921 Middlebelt Road
Livonia, MI 48154
734.261.1050

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586.566.5599

Borrower's Certification & Authorization

Certification

The undersigned certify the following:

- 1. I/We have applied for a mortgage loan from Michigan Educational Credit Union. In applying for the loan, I/we completed a loan application containing various information on the purpose of the loan, the amount and source of the down payment, employment and income information, and assets and liabilities. I/We certify that all of the information is true and complete. I/We made no misrepresentations in the loan application or other documents, nor did I/We omit any pertinent information.
- 2. I/We understand and agree that Michigan Educational Credit Union reserves the right to change the mortgage loan review process to a full documentation program. This may include verifying the information provided on the application with the employer and/or the financial institution.
- 3. I/We fully understand that it is a Federal crime punishable by fine or imprisonment, or both, to knowingly make any false statements when applying for this mortgage, as applicable under provisions of Title 18, United States Code, Section 1014.

Authorization to Release Information

To Whom It May Concern:

- 1. I/We have applied for a mortgage loan from Michigan Educational Credit Union. As part of the application process, Michigan Educational Credit Union may verify information contained in my/our loan application and in other documents required in connection with the loan, either before the loan is closed or as part of its quality control program.
- 2. I/We authorize you to provide to Michigan Educational Credit Union, and to any investor to whom Michigan Educational Credit Union may sell my/our mortgage, any and all information and documentation that they request. Such information includes, but is not limited to, employment history and income; bank, money market, and similar account balances; credit history; and copies of income tax returns.
- 3. Michigan Educational Credit Union or any investor that purchases the mortgage may address this authorization to any party named in the loan application or disclosed by consumer credit reporting agency or similar source.
- 4. A copy of this authorization may be accepted as an original.
- 5. Your prompt reply to Michigan Educational Credit Union or the investor that purchased the mortgage is appreciated.

NOTICE TO BORROWERS: This is notice to you as required by the Right to Financial Privacy Act of 1978 that HUD/FHA has a right of access to financial records held by financial institutions in connection with the consideration or administration of assistance to you. Financial records involving your transaction will be available to HUD/FHA without further notice or authorization but will not be disclosed or released by this institution to another Government Agency of Department without your consent except as required or permitted by law.

(Borrower's Signature)

(Social Security Number)

(Borrower's Signature)

(Social Security Number)

MICHIGAN EDUCATIONAL CREDIT UNION

BORROWERS BILL OF RIGHTS

1. You have the RIGHT to shop for the best loan for you and compare the charges of different mortgage brokers and lenders.
2. You have the RIGHT to be informed about the total cost of your loan including the interest rate, points, and other fees.
3. You have the RIGHT to obtain a “Good Faith Estimate” of all loan and settlement charges before you agree to the loan or pay any fees.
4. You have the RIGHT to know what fees are nonrefundable if you decide to withdraw your loan application.
5. You have the RIGHT to ask your mortgage broker to explain what the mortgage broker will do for you.
6. You have the RIGHT to know how much the mortgage broker is being paid by you and the lender for your loan.
7. You have the RIGHT to ask questions about charges and loan terms that you do not understand.
8. You have the RIGHT to a credit decision that is not based on your race, color, religion, national origin, sex, marital status, age, or whether any income is derived from public assistance.
9. You have the RIGHT to know the reason if your loan application is turned down.

HOME EQUITY LINE OF CREDIT
("Account Disclosure")

MICHIGAN EDUCATIONAL CREDIT UNION

9200 Haggerty Road
Plymouth, Michigan 48170
("we"/"us"/"our")

"you" and "your" means the recipient of this disclosure. "e" means an estimate. "n/a" means not applicable.

FACTS ABOUT OUR HOME EQUITY LOAN

This disclosure contains important information about our home equity line of credit (Account). You should read it carefully and keep a copy for your records.

Availability of Terms. All of the terms described below are subject to change. If these terms change (other than the annual percentage rate) and you decide, as a result, not to enter into an agreement with us, you are entitled to a refund of any fees you paid to us or anyone else in connection with your application.

Security Interest. We will acquire a security interest in your home (collateral). You could lose your home if you do not meet the obligations in your agreement with us.

Possible Action. We can terminate your line and require you to pay us the entire outstanding balance in one payment, if; you engage in fraud or material misrepresentation in connection with the line; or, you do not meet the repayment terms, and/or your action or inaction adversely affects the collateral; and/or our rights in the collateral. We can refuse to make additional extensions of credit or reduce your credit line if; the value of the dwelling securing the line declines significantly below its appraised value for purposes of the line; or, we reasonably believe you will not be able to meet the repayment requirements due to a material change in your financial circumstances; or, you are in default of a material obligation in the agreement; or, government action prevents us from imposing the annual percentage rate provided for or impairs our security interest such that the value of the interest is less than 120 percent of the credit line; or, a regulatory agency has notified us that continued advances would constitute an unsafe and unsound practice; and/or the maximum annual percentage rate is reached. The initial agreement permits us to make certain changes to the terms of the agreement at specified events.

Minimum Payment Requirements. You can obtain advances of credit for five (5) years ("Draw Period"). Once the Draw Period expires, you will not be able to obtain further advances unless your Account is renewed pursuant to lenders' requirements. Your payments will be due monthly and will be calculated as follows:

We calculate your minimum monthly payment after each advance by amortizing your unpaid balance at a minimum payment level equal to \$9.00 or \$12.00 per thousand dollars or portion of one thousand dollars. This will be your fixed minimum monthly payment until you obtain another advance or your balance is paid off. Your minimum monthly payment in any event, will never be less than \$50.00, unless your balance is less, in which case your minimum monthly payment will be that lesser amount.

After the Draw Period ends, you will no longer be able to obtain credit advances and must repay the outstanding balance ("Repayment Period"). The length of the Repayment Period will depend on when you obtained your last advance. Your minimum monthly payment during the Repayment Period remains subject to the same calculation as applied during the Draw Period.

Minimum Payment Example. If you made only the minimum payment and took no other credit advances, it would take approximately 14 years to pay off a credit advance of \$10,000.00 at an ANNUAL PERCENTAGE RATE of 6.50%. During that period, you would make approximately 171 monthly payments of \$90.00.

Negative Amortization Under some circumstances, your payments will not cover the finance charge that accrues and "negative amortization" will occur. Negative amortization will increase the amount that you owe and reduce the equity in your home.

Fees and Charges. To open and maintain your Account, you must pay us the following fees: **Waived until further notice.**

Mortgage or Trust Deed Preparation	\$ _____	Appraisal	\$ _____
Title Insurance	\$ _____	Closing Fee	\$ _____
Credit Report	\$ _____	Recording Fee	\$ _____
Subordination Request	\$ _____	Application Fee	\$ _____
Annual Membership Fee	\$ _____	(Includes Appraisal Fee of \$300.00)	
Other (Identify)	\$ _____	Flood Report	\$ _____

You must carry insurance on the property that secures this plan.

*Payable at application ** Payable at closing

*** Based on \$20,000 representative amount of credit - payable at closing

Late Charge. If I am more than **10** days late in making my payment, in addition to My payment, I will pay a late charge of: **\$20.00.**

Application Fee. If an application fee is collected before or at the time that this disclosure and brochure entitled "What you should know about Home Equity Lines of Credit" is provided to you, the application fee remains refundable for up to three business days after receipt of this disclosure and "What you should know about Home Equity Lines of Credit" brochure. If this disclosure and brochure have been mailed to you, the application fee is refundable for up to six business days after the mailing of this disclosure and brochure.

If you tell us you have decided not to enter into the Account within three days of receiving this Disclosure in person, or within six days after the day we mail it to you, as the case might be, any fees or charges you might have already paid will be refunded.

Minimum Transaction Requirements. The minimum credit advance you can obtain under this account is \$200.00. Your Account is not subject to any minimum balance requirement, however if you pay your balance in full and close the credit line within 18 months after it is open, we reserve the right to charge you a fee for doing so.

Tax Deductibility. You should consult a tax advisor regarding the deductibility of interest and charges on your Account.

Variable-Rate Feature. The line has a variable-rate feature, and the annual percentage rate (Corresponding to the periodic rate) and the minimum monthly payment can change as a result. The annual percentage rate includes interest and no other costs. The annual percentage rate is based on the value of an index. The index is Wall Street Journal published Prime Rate [Money Rates Column] (If published in a range, the highest number in the range will be used.) Information on this index is published in the Wall Street Journal. To determine the annual percentage rate that will apply to your line, we add a margin to the value of the index. Ask us for the current index value, margin and annual percentage rate. After you open a credit line, rate information will be provided on periodic statements that we send you.

Rate Changes. The annual percentage rate can change quarterly. The maximum ANNUAL PERCENTAGE RATE that can apply is 18.00%. The ANNUAL PERCENTAGE RATE will never increase more than two (2) percentage points in one year. Under no circumstances will the rate ever be less than 4.50% per annum.

Maximum Rate and Payment Example. If an ANNUAL PERCENTAGE RATE during the Draw Period equaled 18.00% maximum and you had an outstanding balance of \$10,000.00, your minimum payment would be \$90.00. The maximum interest rate can be reached the first time your interest rate changes, unless your initial rate is equal to the maximum, in which case it would be reached immediately. This Annual Percentage Rate could be reached at the beginning of the Repayment Period.

Historical Example. The following table shows how the annual percentage rate and the minimum monthly payments for a starting balance of \$10,000.00 would have changed based on changes in the index over the past 15 years. The index values are from the last business day of January each year. While only one payment amount per year is shown, payments may change in the future. The index is based upon the average Prime Rate. The table does not necessarily indicate how the index or your payments will change in the future.

Year	Index %	Margin * (%)	Annual Percentage Rate %	Minimum Period Payment (\$)
2009	3.25	-0.25	4.50**	90.00
2010	3.25	-0.25	4.50**	90.00
2011	3.25	-0.25	4.50**	90.00
2012	3.25	-0.25	4.50**	90.00
2013	3.25	-0.25	4.50**	90.00
2014	3.25	-0.25	4.50**	90.00
2015	3.25	-0.25	4.50**	90.00
2016	3.50	-0.25	4.50**	90.00
2017	4.25	-0.25	5.00	90.00
2018	5.25	-0.25	4.50**	90.00
2019	4.75	-0.25	4.50**	90.00
2020	3.25	-0.25	4.50**	90.00
2021	3.25	-0.25	4.50**	90.00
2022	3.25	-0.25	4.50**	90.00
2023	6.75	-0.25	6.50	90.00

*This is a margin we have used recently

** This rate reflects a floor rate

Property and Flood Hazard Insurance. You must carry insurance on the property that secures this plan. Under some circumstances, if your property is located in a flood hazard zone and you live in a participating community, you may be required to obtain flood hazard insurance to cover the property.

You have a right to a copy of the appraisal report used in connection with your application or credit. If you wish to receive a copy, please write to us at the mailing address we have provided. We must hear from you no later than 90 days after we notify you about the action taken on your credit application or you withdraw your application.

I (We) acknowledge a receipt of the Facts about our Home Equity Loans, the Booklet entitled "What you should know about Home Equity Lines of Credit"

X _____ X _____
Signature: Date: Signature: Date:

To our members and those eligible to become members...

Your credit union wants you to know that with respect to mortgage loans and home improvement loans the law guarantees:

- That you have the right to make a loan inquiry of the credit union.
- That you have the right to file a written loan application with the credit union.
- That you have the right to receive a written response to your inquiry or application.



Equal Opportunity Lender

LOAN POLICIES RELATIVE TO MORTGAGE LOANS & HOME IMPROVEMENT LOANS

It shall be the general policy of this credit union to grant loans for home improvement to qualified members. Loans may be granted for the purpose of home improvement under open end credit or closed end credit.

It shall also be the policy of this credit union to grant home equity first and second mortgage loans to qualified members under open end and closed end credit.

First mortgages are also available.

1. LOAN LIMITS

The maximum amount of a loan for home improvement shall not exceed \$25,000. The maximum amount of a loan secured by first or second mortgage under the Home Equity Program shall not exceed 90% of the home's value less any first mortgage balance for variable and fixed rate loans. Fixed and variable first mortgages are available through Member Mortgage Services (working in conjunction with the credit union).

2. MAXIMUM LENGTH OF LOANS

- A. Variable rate home equity repayment can vary due to variable interest rate and fixed payment amount.
- B. Fixed rate home equity – 15 years. (Minimum \$30,000)
- C. Maximum length of home improvement loan – 108 months.
- D. First mortgages are also available. Maximum loan term – 30 years.

3. COLLATERAL

- A. Home improvement loans may be granted on an unsecured basis or with various types of collateral as deemed acceptable by the credit committee.
- B. Real estate loans are secured with first or second mortgages.

4. AUTHORITY TO GRANT LOANS

With the exception of loans to officials of this credit union, the credit committee and loan officers have the responsibility for granting loans to members, subject to the restrictions set forth by the board of directors, the by-laws of this credit union, and the laws which govern its operation.

5. LOAN REJECTIONS

The credit committee has the sole responsibility for refusing a member's loan request.

6. GENERAL LOAN FACTORS CONSIDERED

1. The applicant is of good character.
2. The loan purpose is provident and productive.
3. The member's income is sufficient to repay the loan according to its terms.
4. The member's total debt load will not impair repayment of the loan requested.
5. The minimum ratio of housing expense to income will not impair repayment of the loan requested.
6. The member's past credit history with this credit union and other credit grantors has been satisfactory.
7. The member's job history and time lived at the current address show stability.
8. The member's signature and/or collateral are sufficient to cover the loan requested.
9. The member has an established credit rating.

7. SPECIFIC CRITERIA FOR MORTGAGE LOANS

- A. Credit union makes equity loans on principal residence in state of Michigan.
- B. First mortgages can be funded by credit union and serviced by Member Mortgage Services.
- C. Home equity loans may require appraisal, mortgage title insurance, and may require a survey. Please see loan officer for further information on A or B.

WE ALSO WANT YOU TO KNOW:

We have listed our criteria for these types of loans to help you with your financial needs. Please see our loan officers today for further information. We are here to help you.



Plymouth Office: 9200 Haggerty Road, Plymouth, MI 48170 • (734) 455-9200
Hours: Monday – Friday 9:30 – 5:30 • Closed Saturday and Sunday

What you should know about home equity lines of credit



Consumer Financial
Protection Bureau

January 2014

This booklet was initially prepared by the Board of Governors of the Federal Reserve System. The Consumer Financial Protection Bureau (CFPB) has made technical updates to the booklet to reflect new mortgage rules under Title XIV of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). A larger update of this booklet is planned in the future to reflect other changes under the Dodd-Frank Act and to align with other CFPB **resources and tools for consumers as part of the CFPB's broader mission to educate consumers.** Consumers are encouraged to visit the CFPB's website at consumerfinance.gov/owning-a-home to access interactive tools and resources for mortgage shoppers, which are expected to be available beginning in 2014.

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1. Introduction

If you are in the market for credit, a home equity plan is one of several options that might be right for you. Before making a decision, however, you should weigh carefully the costs of a home equity line against the benefits. Shop for the credit terms that best meet your borrowing needs **without posing undue financial risks. And remember, failure to repay the amounts you've borrowed, plus interest, could mean the loss of your home.**

1.1 Home equity plan checklist

Ask your lender to help you fill out this worksheet.

Basic features for comparison	Plan A	Plan B
Fixed annual percentage rate	%	%
Variable annual percentage rate	%	%
<input type="checkbox"/> Index used and current value	%	%
<input type="checkbox"/> Amount of margin		
<input type="checkbox"/> Frequency of rate adjustments		
<input type="checkbox"/> Amount/length of discount (if any)		
<input type="checkbox"/> Interest rate cap and floor		
Length of plan		
Draw period		

Basic features for comparison (continued)	Plan A	Plan B
Repayment period		
Initial fees		
Appraisal fee		
Application fee		
Up-front charges, including points		
Closing costs		
Repayment terms		
During the draw period		
Interest and principal payments		
Interest-only payments		
Fully amortizing payments		
When the draw period ends		
Balloon payment?		
Renewal available?		
Refinancing of balance by lender?		

2. What is a home equity line of credit?

A home equity line of credit is a form of revolving credit in which your home serves as collateral. **Because a home often is a consumer's most valuable asset, many homeowners use home equity credit lines only for major items, such as education, home improvements, or medical bills, and choose not to use them for day-to-day expenses.**

With a home equity line, you will be approved for a specific amount of credit. Many lenders set the credit limit on a home equity line by taking a percentage (say, 75 percent) **of the home's** appraised value and subtracting from that the balance owed on the existing mortgage. For example:

Appraised value of home	\$100,000
Percentage	x 75%
Percentage of appraised value	= \$75,000
Less balance owed on mortgage	– \$40,000
Potential line of credit	\$35,000

In determining your actual credit limit, the lender will also consider your ability to repay the loan (principal and interest) by looking at your income, debts, and other financial obligations as well as your credit history.

Many home equity plans set a fixed period during which you can borrow money, such as 10 years. At the **end of this “draw period,” you may be allowed to renew the credit line. If your plan**

does not allow renewals, you will not be able to borrow additional money once the period has ended. Some plans may call for payment in full of any outstanding balance at the end of the **period**. Others may allow repayment over a fixed period (the “repayment period”), for example, 10 years.

Once approved for a home equity line of credit, you will most likely be able to borrow up to your credit limit whenever you want. Typically, you will use special checks to draw on your line. Under some plans, borrowers can use a credit card or other means to draw on the line.

There may be other limitations on how you use the line. Some plans may require you to borrow a minimum amount each time you draw on the line (for example, \$300) or keep a minimum amount outstanding. Some plans may also require that you take an initial advance when the line is set up.

2.1 What should you look for when shopping for a plan?

If you decide to apply for a home equity line of credit, look for the plan that best meets your particular needs. Read the credit agreement carefully, and examine the terms and conditions of various plans, including the annual percentage rate (APR) and the costs of establishing the plan. Remember, though, that the APR for a home equity line is based on the interest rate alone and will not reflect closing costs and other fees and charges, so **you’ll need** to compare these costs, as well as the APRs, among lenders.

2.1.1 Variable interest rates

Home equity lines of credit typically involve variable rather than fixed interest rates. The variable rate must be based on a publicly available index (such as the prime rate published in some major daily newspapers or a U.S. Treasury bill rate). In such cases, the interest rate you pay for the line of credit will change, mirroring changes in the value of the index. Most lenders cite the interest rate you will pay as the value of the index at a particular time, plus a “**margin,**” such as 2 percentage points. Because the cost of borrowing is tied directly to the value of the index, it is important to find out which index is used, how often the value of the index changes, and how high it has risen in the past. It is also important to note the amount of the margin.

Lenders sometimes offer a temporarily discounted interest rate for home equity lines—an “**introductory**” rate that is unusually low for a short period, such as six months.

Variable-rate plans secured by a dwelling must, by law, have a ceiling (or cap) on how much your interest rate may increase over the life of the plan. Some variable-rate plans limit how much your payment may increase and how low your interest rate may fall if the index drops.

Some lenders allow you to convert from a variable interest rate to a fixed rate during the life of the plan, or let you convert all or a portion of your line to a fixed-term installment loan.

2.2 Costs of establishing and maintaining a home equity line

Many of the costs of setting up a home equity line of credit are similar to those you pay when you get a mortgage. For example:

- A fee for a property appraisal to estimate the value of your home;
- An application fee, which may not be refunded if you are turned down for credit;
- Up-front charges, such as one or more “**points**” (**one point** equals 1 percent of the credit limit); and
- Closing costs, including fees for attorneys, title search, mortgage preparation and filing, property and title insurance, and taxes.

In addition, you may be subject to certain fees during the plan period, such as annual membership or maintenance fees and a transaction fee every time you draw on the credit line.

You could find yourself paying hundreds of dollars to establish the plan. And if you were to draw only a small amount against your credit line, those initial charges would substantially increase **the cost of the funds borrowed. On the other hand, because the lender’s risk is lower than for** other forms of credit, as your home serves as collateral, annual percentage rates for home equity lines are generally lower than rates for other types of credit. The interest you save could **offset** the costs of establishing and maintaining the line. Moreover, some lenders waive some or all of the closing costs.

2.3 How will you repay your home equity plan?

Before entering into a plan, consider how you will pay back the money you borrow. Some plans set a minimum monthly payment that includes a portion of the principal (the amount you borrow) plus accrued interest. But, unlike with typical installment loan agreements, the portion of your payment that goes toward principal may not be enough to repay the principal by the end of the term. Other plans may allow payment of only the interest during the life of the plan, which means that you pay nothing toward the principal. If you borrow \$10,000, you will owe that amount when the payment plan ends.

Regardless of the minimum required payment on your home equity line, you may choose to pay more, and many lenders offer a choice of payment options. However, some lenders may require you to pay special fees or penalties if you choose to pay more, so check with your lender. Many consumers choose to pay down the principal regularly as they do with other loans. For example, if you use your line to buy a boat, you may want to pay it off as you would a typical boat loan.

Whatever your payment arrangements during the life of the plan—whether you pay some, a little, or none of the principal amount of the loan—when the plan ends, you may have to pay the entire balance owed, all at once. **You must be prepared to make this “balloon payment”** by refinancing it with the lender, by obtaining a loan from another lender, or by some other means. If you are unable to make the balloon payment, you could lose your home.

If your plan has a variable interest rate, your monthly payments may change. Assume, for example, that you borrow \$10,000 under a plan that calls for interest-only payments. At a 10 percent interest rate, your monthly payments would be \$83. If the rate rises over time to 15 percent, your monthly payments will increase to \$125. Similarly, if you are making payments that cover interest plus some portion of the principal, your monthly payments may increase, unless your agreement calls for keeping payments the same throughout the plan period.

If you sell your home, you will probably be required to pay off your home equity line in full immediately. If you are likely to sell your home in the near future, consider whether it makes sense to pay the up-front costs of setting up a line of credit. Also keep in mind that renting your home may be prohibited under the terms of your agreement.

2.4 Line of credit vs. traditional second mortgage loans

If you are thinking about a home equity line of credit, you might also want to consider a traditional second mortgage loan. This type of loan provides you with a fixed amount of money, repayable over a fixed period. In most cases, the payment schedule calls for equal payments that pay off the entire loan within the loan period. You might consider a second mortgage instead of a home equity line if, for example, you need a set amount for a specific purpose, such as an addition to your home.

In deciding which type of loan best suits your needs, consider the costs under the two alternatives. Look at both the APR and other charges. Do not, however, simply compare the APRs, because the APRs on the two types of loans are figured differently:

- The APR for a traditional second mortgage loan takes into account the interest rate charged plus points and other finance charges.
- The APR for a home equity line of credit is based on the periodic interest rate alone. It does not include points or other charges.

2.4.1 Disclosures from lenders

The federal Truth in Lending Act requires lenders to disclose the important terms and costs of their home equity plans, including the APR, miscellaneous charges, the payment terms, and information about any variable-rate feature. And in general, neither the lender nor anyone else may charge a fee until after you have received this information. You usually get these disclosures when you receive an application form, and you will get additional disclosures before the plan is opened. If any term (other than a variable-rate feature) changes before the plan is opened, the lender must return all fees if you decide not to enter into the plan because of the change. Lenders are also required to provide you with a list of homeownership counseling organizations in your area.

When you open a home equity line, the transaction puts your home at risk. If the home involved is your principal dwelling, the Truth in Lending Act gives you three days from the day the account was opened to cancel the credit line. This right allows you to change your mind for any reason. You simply inform the lender in writing within the three-day period. The lender must

then cancel its security interest in your home and return all fees— including any application and appraisal fees—paid to open the account.

The Home Ownership and Equity Protection Act of 1994 (HOEPA) addresses certain unfair practices and establishes requirements for certain loans with high rates and fees, including certain additional disclosures. HOEPA now covers some HELOCs. You can find out more information by contacting the CFPB at the website address and phone number listed in the Contact information appendix, below.

2.5 What if the lender freezes or reduces your line of credit?

Plans generally permit lenders to freeze or reduce a credit line if the value of the home “declines significantly” or when the lender “reasonably believes” that you will be unable to make your payments due to a “material change” in your financial circumstances. If this happens, you may want to:

- **Talk with your lender.** Find out what caused the lender to freeze or reduce your credit line and what, if anything, you can do to restore it. You may be able to provide additional information to restore your line of credit, such as documentation showing that your **house has retained its value or that there has not been a “material change” in your** financial circumstances. You may want to get copies of your credit reports (go to the **CFPB’s website** at consumerfinance.gov/askcfpb/5/can-i-review-my-credit-report.html for information about how to get free copies of your credit reports) to make sure all the information in them is correct. If your lender suggests getting a new appraisal, be sure you discuss appraisal firms in advance so that you know they will accept the new appraisal as valid.
- **Shop around for another line of credit.** If your lender does not want to restore your line of credit, shop around to see what other lenders have to offer. If another lender is willing to offer you a line of credit, you may be able to pay off your original line of credit and take out another one. Keep in mind, however, that you may need to pay some of the same application fees you paid for your original line of credit.

APPENDIX A:

Defined terms

This glossary provides general definitions for terms commonly used in the real estate market. They may have different legal meanings depending on the context.

DEFINED TERM

**ANNUAL
MEMBERSHIP OR
MAINTENANCE FEE**

An annual charge for access to a financial product such as a line of credit, credit card, or account. The fee is charged regardless of whether or not the product is used.

**ANNUAL
PERCENTAGE RATE
(APR)**

The cost of credit, expressed as a yearly rate. For closed-end credit, such as car loans or mortgages, the APR includes the interest rate, points, broker fees, and other credit charges that the borrower is required to pay. An APR, or an equivalent rate, is not used in leasing agreements.

APPLICATION FEE

Fees charged when you apply for a loan or other credit. These fees may include charges for property appraisal and a credit report.

BALLOON PAYMENT

A large extra payment that may be charged at the end of a mortgage loan or lease.

**CAP (INTEREST
RATE)**

A limit on the amount that your interest rate can increase. Two types of interest-rate caps exist. *Periodic adjustment caps* limit the interest-rate increase from one adjustment period to the next. *Lifetime caps* limit the interest-rate increase over the life of the loan. By law, all adjustable-rate mortgages have an overall cap.

CLOSING OR SETTLEMENT COSTS

Fees paid when you close (or settle) on a loan. These fees may include application fees; title examination, abstract of title, title insurance, and property survey fees; fees for preparing deeds, mortgages, and settlement documents; attorneys' fees; recording fees; estimated costs of taxes and insurance; and notary, appraisal, and credit report fees. Under the Real Estate Settlement Procedures Act, the borrower receives a good faith estimate of closing costs within three days of application. The good faith estimate lists each expected cost as an amount or a range.

CREDIT LIMIT

The maximum amount that may be borrowed on a credit card or under a home equity line of credit plan.

EQUITY

The difference between the fair market value of the home and the outstanding balance on your mortgage plus any outstanding home equity loans.

INDEX

The economic indicator used to calculate interest-rate adjustments for adjustable-rate mortgages or other adjustable-rate loans. The index rate can increase or decrease at any time. See also Selected index rates for ARMs over an 11-year period (consumerfinance.gov/f/201204_CFPB_ARMs-brochure.pdf) for examples of common indexes that have changed in the past.

INTEREST RATE

The percentage rate used to determine the cost of borrowing money, stated usually as a percentage of the principal loan amount and as an annual rate.

MARGIN

The number of percentage points the lender adds to the index rate to calculate the adjustable-rate-mortgage interest rate at each adjustment.

MINIMUM PAYMENT

The lowest amount that you must pay (usually monthly) to keep your account in good standing. Under some plans, the minimum payment may cover interest only; under others, it may include both principal and interest.

POINTS (ALSO CALLED DISCOUNT POINTS)

One point is equal to 1 percent of the principal amount of a mortgage loan. For example, if a mortgage is \$200,000, one point equals \$2,000. Lenders frequently charge points in both fixed-rate and adjustable-rate mortgages to cover loan origination costs or to provide additional compensation to the lender or broker. These points usually are paid at closing and may be paid by the borrower or the home seller, or may be split between them. In some cases, the money needed to pay points can be borrowed (incorporated in the loan amount), but doing so will increase the loan amount and the total costs. Discount points (also called discount fees) are points that you voluntarily choose to pay in return for a lower interest rate.

SECURITY INTEREST

If stated in your credit agreement, a creditor, lessor, or assignee's legal right to your property (such as your home, stocks, or bonds) that secures payment of your obligation under the credit agreement. The property that secures payment of your obligation is referred to as "collateral."

TRANSACTION FEE

Fee charged each time a withdrawal or other specified transaction is made on a line of credit, such as a balance transfer fee or a cash advance fee.

VARIABLE RATE

An interest rate that changes periodically in relation to an index, such as the prime rate. Payments may increase or decrease accordingly.

APPENDIX B:

More information

For more information about mortgages, including home equity lines of credit, visit consumerfinance.gov/mortgage. For answers to questions about mortgages and other financial topics, visit consumerfinance.gov/askcfpb. You **may also visit the CFPB's website at consumerfinance.gov/owning-a-home** to access interactive tools and resources for mortgage shoppers, which are expected to be available beginning in 2014.

Housing counselors can be very helpful, especially for first-time **home buyers or if you're having** trouble paying your mortgage. The U.S. Department of Housing and Urban Development (HUD) supports housing counseling agencies throughout the country that can provide free or low-cost advice. You can search for HUD-approved housing counseling agencies in your area on the **CFPB's web site at consumerfinance.gov/find-a-housing-counselor or by calling HUD's** interactive toll-free number at 800-569-4287.

The company that collects your mortgage payments is your loan servicer. This may not be the same company as your lender. If you have concerns about how your loan is being serviced or another aspect of your mortgage, you may wish to submit a complaint to the CFPB at consumerfinance.gov/complaint or by calling (855) 411-CFPB (2372).

When you submit a complaint to the CFPB, the CFPB will forward your complaint to the company and work to get a response. Companies have 15 days to respond to you and the **CFPB. You can review the company's response and give feedback to the CFPB.**

APPENDIX C:

Contact information

For additional information or to submit a complaint, you can contact the CFPB or one of the other federal agencies listed below, depending on the type of institution. If you are not sure which agency to contact, you can submit a complaint to the CFPB and if the CFPB determines that another agency would be better able to assist you, the CFPB will refer your complaint to that agency and let you know.

Regulatory agency	Regulated entities	Contact information
Consumer Financial Protection Bureau (CFPB) P.O. Box 4503 Iowa City, IA 52244	Insured depository institutions and credit unions with assets greater than \$10 billion (and their affiliates), and non-bank providers of consumer financial products and services, including mortgages, credit cards, debt collection, consumer reports, prepaid cards, private education loans, and payday lending	(855) 411-CFPB (2372) consumerfinance.gov consumerfinance.gov/complaint
Board of Governors of the Federal Reserve System (FRB) Consumer Help P.O. Box 1200 Minneapolis, MN 55480	Federally insured state-chartered bank members of the Federal Reserve System	(888) 851-1920 federalreserveconsumerhelp.gov

Regulatory agency	Regulated entities	Contact information
<p>Office of the Comptroller of the Currency (OCC) Customer Assistance Group 1301 McKinney Street Suite 3450 Houston, TX 77010</p>	<p>National banks and federally chartered savings banks/associations</p>	<p>(800) 613-6743 occ.treas.gov helpwithmybank.gov</p>
<p>Federal Deposit Insurance Corporation (FDIC) Consumer Response Center 1100 Walnut Street, Box #11 Kansas City, MO 64106</p>	<p>Federally insured state-chartered banks that are not members of the Federal Reserve System</p>	<p>(877) ASK-FDIC or (877) 275-3342 fdic.gov fdic.gov/consumers</p>
<p>Federal Housing Finance Agency (FHFA) Consumer Communications Constitution Center 400 7th Street, S.W. Washington, DC 20024</p>	<p>Fannie Mae, Freddie Mac, and the Federal Home Loan Banks</p>	<p>Consumer Helpline (202) 649-3811 fhfa.gov fhfa.gov/Default.aspx?Page=369 ConsumerHelp@fhfa.gov</p>
<p>National Credit Union Administration (NCUA) Consumer Assistance 1775 Duke Street Alexandria, VA 22314</p>	<p>Federally chartered credit unions</p>	<p>(800) 755-1030 ncua.gov mycreditunion.gov</p>
<p>Federal Trade Commission (FTC) Consumer Response Center 600 Pennsylvania Ave, N.W. Washington, DC 20580</p>	<p>Finance companies, retail stores, auto dealers, mortgage companies and other lenders, and credit bureaus</p>	<p>(877) FTC-HELP or (877) 382-4357 ftc.gov ftc.gov/bcp</p>

Regulatory agency	Regulated entities	Contact information
<p>Securities and Exchange Commission (SEC) Complaint Center 100 F Street, N.E. Washington, DC 20549</p>	<p>Brokerage firms, mutual fund companies, and investment advisers</p>	<p>(202) 551-6551 sec.gov sec.gov/complaint/select.shtml</p>
<p>Farm Credit Administration Office of Congressional and Public Affairs 1501 Farm Credit Drive McLean, VA 22102</p>	<p>Agricultural lenders</p>	<p>(703) 883-4056 fca.gov</p>
<p>Small Business Administration (SBA) Consumer Affairs 409 3rd Street, S.W. Washington, DC 20416</p>	<p>Small business lenders</p>	<p>(800) U-ASK-SBA or (800) 827-5722 sba.gov</p>
<p>Commodity Futures Trading Commission (CFTC) 1155 21st Street, N.W. Washington, DC 20581</p>	<p>Commodity brokers, commodity trading advisers, commodity pools, and introducing brokers</p>	<p>(866) 366-2382 cftc.gov/ConsumerProtection/index.htm</p>

Regulatory agency	Regulated entities	Contact information
<p>U.S. Department of Justice (DOJ) Civil Rights Division 950 Pennsylvania Ave, N.W. Housing and Civil Enforcement Section Washington DC 20530</p>	<p>Fair lending and housing issues</p>	<p>(202) 514-4713 TTY-(202) 305-1882 FAX-(202) 514-1116 To report an incident of housing discrimination: 1-800-896-7743 fairhousing@usdoj.gov</p>
<p>Department of Housing and Urban Development (HUD) Office of Fair Housing/Equal Opportunity 451 7th Street, S.W. Washington, DC 20410</p>	<p>Fair lending and housing issues</p>	<p>(800) 669-9777 hud.gov/complaints</p>