The Federal Reserve Board

What you should know about

Home Equity Lines of Credit

Board of Governors of the Federal Reserve System
www.federalreserve.gov
0708

Table of contents

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.

Home Equity Plan Checklist

Ask your lender to help fill out this checklist.

Basic Features	**Plan A**	**Plan B**
Fixed annual percentage rate	%	%
Variable annual percentage rate	%	%
■ Index used and current value	%	%
■ Amount of margin		
■ Frequency of rate adjustments		
■ Amount/length of discount (if any)		
■ Interest-rate cap and floor		
Length of plan Draw period		
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?		

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%) 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.

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.

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 6 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.

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.

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 *interest only* 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. 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.

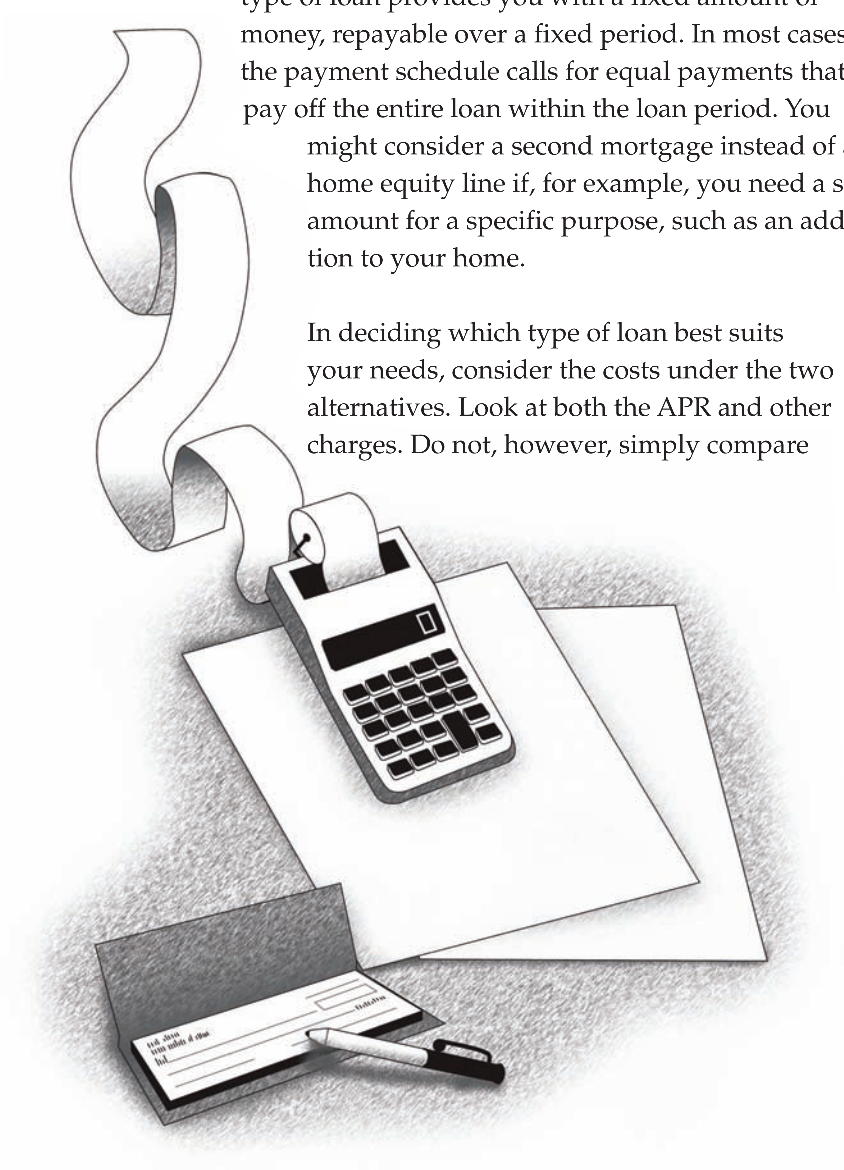
If your plan has a variable interest rate, your monthly payments may change. Assume, for example, that you borrow $10,000 under a plan that calls for interest-only payments. At a 10% interest rate, your monthly payments would be $83. If the rate rises over time to 15%, your monthly payments will increase 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.

Lines 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.

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.

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 3 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 3-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.

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 Federal Trade Commission's website, at www.ftc.gov/freereports, for information about free copies) 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. 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.

Glossary

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 (www.federalreserve.gov/pubs/arms/arms_english.htm) 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 ARM 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's, lessor's, 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.

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.

Where to go for help

For additional information or to file a complaint about a bank, savings and loan, credit union, or other financial institution, contact one of the following federal agencies, depending on the type of institution.

State-chartered bank members of the Federal Reserve System
Federal Reserve Consumer Help
PO Box 1200
Minneapolis, MN 55480
888-851-1920 (toll free)
877-766-8533 (TTY) (toll free)
877-888-2520 (fax) (toll free)
e-mail: ConsumerHelp@FederalReserve.gov
www.FederalReserveConsumerHelp.gov

National banks and national-bank-owned mortgage companies[1]
Office of the Comptroller of the Currency (OCC)
Customer Assistance Group
1301 McKinney Street, Suite 3450
Houston, TX 77010
800-613-6743 (toll free)
713-336-4301 (fax)
e-mail: customer.assistance@occ.treas.gov
www.occ.treas.gov
www.helpwithmybank.gov

Federally chartered credit unions[2]
National Credit Union Administration (NCUA)
Office of Public and Congressional Affairs
1775 Duke Street
Alexandria, VA 22314
800-755-1030 (toll free)
703-518-6409 (fax)
e-mail: consumerassistance@ncua.gov
www.ncua.gov/ConsumerInformation/index.htm

[1] Banks with “National” in their name or “N.A.” after the name.
[2] Credit unions with “Federal” in their name.

For state-chartered credit unions, contact the regulatory agency in the state in which the credit union is chartered.
www.ncua.gov/consumerinformation/consumer%20complaints/statechartered.htm

Federally insured state-chartered banks that are not members of the Federal Reserve System
Federal Deposit Insurance Corporation (FDIC)
Consumer Response Center
2345 Grand Blvd., Suite 100
Kansas City, MO 64108
877-ASK-FDIC (877-275-3342) (toll free)
e-mail: consumeralerts@fdic.gov
www.fdic.gov/consumers/consumer/ccc/index.html

Savings and loan associations[3]
Office of Thrift Supervision (OTS)
Consumer Affairs
1700 G Street, NW
Washington, DC 20552
800-842-6929 (toll free)
800-877-8339 (TTY) (toll free)
www.ots.treas.gov

Mortgage companies and other lenders
Federal Trade Commission (FTC)
Consumer Response Center
600 Pennsylvania Avenue, NW
Washington, DC 20580
202-326-3758 or (877) FTC-HELP
866-FTC-HELP (877-382-4357) (toll free)
www.ftc.gov

[3] Federally chartered and some state-chartered associations.

More resources and ordering information

For more resources on mortgages and other financial topics, visit www.federalreserve.gov/consumerinfo.

Print orders

To request additional copies of this brochure, please send your name, address, and the number of copies requested to Publications Fulfillment, Board of Governors of the Federal Reserve System, Washington, DC 20551, or see our online ordering instructions at www.federalreserve.gov/pubs/order.htm.

Home Equity Credit Line Disclosure - 2016

This disclosure contains important information about our Home Equity Line of Credit. 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 and you decide 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 take a mortgage on your home. You could lose your home if you do not meet the obligations in your agreement with us.

POSSIBLE ACTIONS: We can (1) terminate your line, require you to pay us the entire outstanding balance in one payment, and charge you certain fees if; (2) refuse to make additional extensions of credit; or (3) reduce your credit limit if:

You engage in fraud or material misrepresentation in connection with the line.

You do not meet repayment terms.

Your action or inaction adversely affects the collateral or our rights in the collateral.

Each of these is called an Event of Default.

We can refuse to make additional extensions of credit or reduce your credit limit if:

The value of the dwelling securing the line declines significantly below its appraised value for purposes of the line.

We reasonably believe that you will not be able to meet the repayment requirements due to a material change in your financial circumstances.

You are in default of a material obligation in the loan agreement.

Government action prevents us from imposing the annual percentage rate provided for under the agreement or impairing our security interest such that the value of the interest is less than 120 percent of the credit line.

A regulatory agency has notified us that continued advances would constitute an unsafe and unsound practice.

The maximum annual percentage rate is reached.

The initial agreement permits us to make certain changes to the terms of your account at specified times or upon the occurrence of specified events.

MINIMUM PAYMENT REQUIREMENTS: You can obtain advances of credit for 114 months (9-1/2 years) (the "credit line phase"). You will not be able to obtain credit advances after the credit line phase ends. During the credit line phase, payments will be due monthly. Your minimum monthly payments will equal the finance charges that have accrued on the outstanding balance plus any fees or charges due under the Agreement.

After the credit line phase ends, you will no longer be able to obtain loan advances and must pay the outstanding balance over 20 years (the "repayment period"). During the repayment period payments will be due monthly. Your minimum monthly payments will equal l/240th of the balance that was outstanding at the end of the credit line phase plus the finance charges that have accrued on the remaining balance.

At your option, you may elect to have your repayment period begin before the l 15th month of your loan. If you do, you may not reactivate the credit line phase or obtain any further credit advances, even if the maximum permissible credit line phase has not yet expired.

The periodic payment may substantially increase or decrease depending on changes in the rate.

MINIMUM PAYMENT EXAMPLE: If you made only the minimum monthly payments and took no other loan advances, it would take 29 years and 6 months to pay off a credit advance of $10,000 at an **ANNUAL PERCENTAGE RATE** of 4.000%. During that period you would make 114 monthly payments of $33.33 followed by 240 monthly payments of between $75.00 and $41.81.

FEES AND CHARGES: To open and maintain an account, you must pay certain fees and charges. The following fees must be paid to us during the Credit Line phase:

Annual fee: $50.00 (due each year on the anniversary of the establishment of your Home Equity Credit Line.)

You may also have to pay certain fees to insurance companies to get or increase hazard insurance and flood insurance. The amount of additional premiums which you may have to pay will depend upon how much, if any, extra insurance you need.

PREPAYMENT FEE: If you close your account within two (2) years after the date of your closing, you must pay a prepayment penalty fee of I% of your approved line of credit. If you close your account more than two years after the date of your closing, there is no prepayment penalty.

MINIMUM DRAW REQUIREMENTS: The minimum loan advance you may receive at any one time is $500.

TAX DEDUCTIBILITY: You should consult a tax advisor regarding the tax deductibility of interest and charges for the line.

VARIABLE-RATE FEATURE: Our Home Equity Credit Accounts have a variable rate feature, and the annual percentage rate (corresponding to the periodic rate) and the minimum monthly payments can change as a result. The annual percentage rate is based on the value of an index. The index is the Prime Rate which is published in the Eastern Edition of The Wall Street Journal as the "Prime Rate" in its Money Rates table. If more than one Prime Rate is published in The Wall Street Journal Money Rates table, the Highest Prime Rate published will be the Index. To determine the annual percentage rate that will apply to your account, we add a margin to the value of the index.

Ask us for the current index value, margin, discount or premium and annual percentage rate. After you open an account, rate information will be provided on periodic statements that we send you.

The Annual Percentage Rate includes only interest and no other costs.

INTEREST RATE CHANGES: The annual percentage rate can change each month. The maximum **ANNUAL PERCENTAGE RATE** that can apply is 18% (the "Maximum Rate Cap"). The minimum **ANNUAL PERCENTAGE RATE** that can apply is 3.750% (the "Minimum Floor Cap"). Except for these caps, there are no limits on the amount by which that rate can change between monthly billing cycles.

MAXIMUM RATE AND PAYMENT EXAMPLE - DRAW PHASE: If you had an outstanding balance of $10,000 during the draw period, the minimum monthly payment at the maximum **ANNUAL PERCENTAGE RATE** of 18.000% would be $150.00. This annual percentage rate could be reached during the first month of the draw period.

MAXIMUM RATE AND PAYMENT EXAMPLE - REPAYMENT PHASE: If you had an outstanding balance of $10,000 at the beginning of the repayment period, the minimum monthly payment at the maximum **ANNUAL PERCENTAGE RATE** of 18.000% would be $191.67. This annual percentage rate could be reached during the first month of the repayment period.

HISTORICAL EXAMPLE: The following table shows how the annual percentage rate and the minimum monthly payments for a single $10,000 loan advance would have changed based on changes in the index over the past 15 years. The index values are from the first full week ending in JULY of each year. While only one payment amount per year is shown, payments could have varied during each year.

The table assumes that no additional loan advances were taken, that only the minimum payments were made each month and that the rate remained constant during each year. It does not necessarily indicate how the index or your payments will change in the future.

YEAR	INDEX (%)	MARGIN(a) (%)	ANNUAL PERCENTAGE RATE (%)	MONTHLY PAYMENTS ($)(b)
		DRAW PERIOD		
2002	4.750	.50	5.25	43.75
2003	4.000	.50	4.50	37.50
2004	4.250	.50	4.75	39.58
2005	6.250	.50	6.75	56.25
2006	8.250	.50	8.75	72.92
2007	8.250	.50	8.75	72.92
2008	5.000	.50	5.50	45.83
2009	3.250	.50	3.75	31.25
2010	3.250	.50	3.75	31.25
		REPAYMENT PERIOD		
2011	3.250	.50	3.75	72.92
2012	3.250	.50	3.75	71.36
2013	3.250	.50	3.75	69.80
2014	3.250	.50	3.75	68.23
2015	3.250	.50	3.75	66.67
2016	3.500	.50	4.00	66.67

USA Patriot Act

IMPORTANT INFORMTION
ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT

To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify and record information that identified each person who opens an account. What this means for you: When you open an account, we will ask for your name, address, date of birth and other information that will allow us to identify you. We may also ask to see your driver's license or other identifying documents.

This law requires us to gather and maintain specific information on our customers