



(818) 562-3400 or (800) 826-6946

3820 Riverside Drive, Burbank, CA 91505
14118 Magnolia Blvd., Sherman Oaks CA 91423
5757 Wilshire Blvd., Ste. 925 · Los Angeles, CA 90036

Home Equity Line of Credit

Line of Credit Features

- No points, no origination fees, no application fees*.
- No annual fees, transaction fees or prepayment penalties.
- Borrow up to 80% of your home's value, inclusive of all liens.
- Minimum interest only payments.
- Variable-Rate Index tied to Prime Rate.
- 15-year draw and repayment period (total 15-year term).
- Minimum advance amounts as low as \$100.
- Loan amounts up to \$400,000.00 on 1st lien and \$250,000.00 on 2nd lien.
- Interest may be tax deductible! Consult your tax advisor.
- Home Equity Lines of Credit are available only on property located within California that is owner-occupied or a vacation or 2nd home (rental property is not eligible).
- Most pre-approvals within 48 hours.
- Property must be free of liens other than your 1st mortgage.
- Refer to the enclosed HELOC **Program Disclosure** for detailed information!

How to Apply

Simply complete the enclosed **Loan Application, Property and Flood Insurance Authorization** and the **Confidential Information Sheet**, and return them to us in the envelope provided. For faster processing be sure to include the following required information:

1. A copy of your last statement showing balance of loan from 1st mortgage and the outstanding balance on any other subordinate lien loan(s).
2. Evidence of two (2) years annual income, e.g., your most recent W2s or federal tax returns.
3. If your home is held in a Trust, please include a copy of your Trust document.
4. A copy of your current property hazard insurance coverage.

FINAL LOAN APPROVAL CANNOT BE ISSUED UNTIL ALL REQUIRED ITEMS HAVE BEEN RECEIVED.



**We Do Business in Accordance With
the federal Fair Housing Law and the
Equal Credit Opportunity Act.**

* Fees waived provided you maintain your HELOC for at least 36 months.

See reverse for Fair Lending Notice



AFTRA-SAG Federal Credit Union Home Equity Line of Credit - Program Disclosure

This Program Disclosure contains important information about the AFTRA-SAG Federal Credit Union Home Equity Line of Credit. Please read it carefully and retain it for your records.

GENERAL: The Home Equity Line of Credit ("HELOC" or "line of credit" or "Account") is a revolving line of credit secured by the borrower's principal residence. The HELOC permits borrowers to obtain credit advances (or "draws") up to a specified credit limit throughout the term of the loan as long as credit is available. The HELOC has a 15-year term and is a variable-rate loan with the index based on the Prime Rate as published in The Wall Street Journal. Interest only payments are required monthly with the outstanding principal balance due at maturity as a "Balloon" payment.

TERMS SUBJECT TO CHANGE: The terms of this disclosure are current; however, all terms are subject to change at any time. **If any of the terms described below change prior to the opening of your HELOC (other than changes due to fluctuations in the index and corresponding ANNUAL PERCENTAGE RATE), and as a result of the change you elect not to enter into an agreement with us, you are entitled to a refund of all fees that you paid to us or anyone else in connection with your application.**

SECURITY INTEREST: We will take a security interest (a deed of trust or mortgage) on your home as security for the Home Equity Line of Credit. You could lose your home if you do not meet the obligations in your agreement with us.

POSSIBLE ACTIONS: Under certain circumstances as specified in our Agreement with you, the Credit Union may: (1) terminate your Account and require you to pay us the entire outstanding balance in one payment and also charge you certain fees; (2) refuse to make additional extensions of credit; (3) reduce your credit limit; and, (4) make specific changes to the terms that are set forth in your Agreement with us. If you ask, we will provide you with specific information about the circumstances under which we could take these actions.

COSTS PAID BY THE CREDIT UNION AND OTHER FEES AND CHARGES: There are costs associated with obtaining a HELOC that must be paid to third parties, such as fees for the credit report, appraisal and title report. These fees are tied to the loan amount and generally should not exceed \$1,000. **The Credit Union will waive the first \$700 of these fees and charges,** however, if you pay off and close your HELOC within the first 36 months, you will be required to reimburse us for these costs (see "Termination Fee for Early Closure" below). If you ask, we will provide you with an itemization of the fees to be paid to third parties.

Attorneys' Fees: If your property is located outside of California in a "non-Trust Deed state" such as Florida, you must pay Attorneys' Fees and related costs incurred in connection with issuing or executing any required documentation and facilitating the closing process. These fees and related costs range from \$300 to \$1,000.

The above fees and charges must be paid by the date the Account is established.

Termination Fee For Early Closure: If you repay and close your HELOC within the first 36 months following the date your line of credit is established, we will assess a **Termination Fee for Early Closure** and you must reimburse the Credit Union for all upfront fees and charges waived on your Account, but which were paid by us to third parties in connection with the origination of your line of credit. Generally, these reimbursable costs should not exceed \$700.

Other Fees and Charges: There may be other fees and charges in connection with your HELOC, such as: (a) **Late Charges:** If any payment is 15 or more days late, a Late Charge will be assessed equal to 20% of the interest due, or \$10, whichever is greater. Also, if you make a payment which is less than the Minimum Monthly Payment when due, we will assess a Late Charge as stated above; (b) **Returned Payment Fee:** \$20 per item; (c) **Overlimit Fee:** \$10 per billing cycle; (d) **Stop Payment on Home Equity Check:** \$20 per item; and, (e) **Research/Copy Fee:** \$25 per hour (\$25 minimum - Fee is waived if it is determined there was a Credit Union error). We will also assess a **Reconveyance Fee** to release our security interest in the property securing your line of credit once final payoff of the line of credit has been received. The amount of the Reconveyance Fee varies by state but generally will not exceed \$45 in California.

MINIMUM CREDIT LIMIT AND MINIMUM DRAW AMOUNT: The minimum Credit Limit for a Home Equity Line of Credit is \$10,000 and the minimum amount for each draw or advance is \$100.

LOAN TERM, DRAW AND REPAYMENT PERIODS: The Home Equity Line of Credit loan term is fifteen (15) years. You can obtain draws/advances under the line of credit for the entire term of the loan up to the maturity date. Repayment in full is due on the Maturity Date.

MINIMUM MONTHLY PAYMENTS: Your payments will be due monthly. The Minimum Monthly Payment will equal the finance charges that accrued on the outstanding principal balance during the preceding month. **Paying only the Minimum Monthly Payment will not reduce the principal balance that is outstanding on your line of credit.** You may make larger payments at any time.

Balloon Payment Feature: If you make only the required Minimum Monthly Payment each month, or you pay an amount which will not fully repay the outstanding balance by the Maturity Date, you must pay off your entire remaining balance on the Maturity Date in a single "**Balloon Payment**" which may be much larger than the preceding payments.

PREPAYMENT: You may repay your Home Equity Line of Credit in whole or in part at any time without penalty. However, see Termination Fee for Early Closure, whereby certain upfront fees and charges which were waived by us at origination of your HELOC may be charged to you.

NEGATIVE AMORTIZATION: If you do not pay the Minimum Monthly Payment in full each month, your payments may not cover the Finance Charges that will accrue, in which case "Negative Amortization" may occur. This means that even though you are making monthly payments, the Finance Charges not covered by your payments will increase the amount that you owe us and will reduce the equity in your home by increasing the amount of the outstanding balance owed on your obligation.

VARIABLE-RATE INFORMATION: The Home Equity Line of Credit has a variable-rate feature and the **ANNUAL PERCENTAGE RATE** (corresponding to the periodic rate) and Minimum Monthly Payment can change as a result. **The ANNUAL PERCENTAGE RATE includes only interest and not other costs.**

The **ANNUAL PERCENTAGE RATE** is based on an Index Value plus a Margin. The Margin is a specific number of percentage points which is added to the Index Value to calculate the **Annual Percentage Rate** that we will apply to the line of credit at origination and when the rate adjusts. **Ask us for the current Index Value and Margin, as well as the current Annual Percentage Rate.** After you open a PrimeLine HELOC, rate information will be provided on the periodic statements that we send to you.

The Index: The **Index** is the **Prime Rate** as published in the Wall Street Journal on the first day of each calendar month, rounded up to the nearest one-quarter of one percent (0.250%) (the "Index Value"). Details of the Prime Rate are located in the "Money Rates" section of The Wall Street Journal and are published daily. Should the Index be discontinued or otherwise be made unavailable during the term of your line of credit, we will choose a new Index that is based on comparable information and will provide you notice of this change.

Rate Changes: Increases and decreases in the **ANNUAL PERCENTAGE RATE** resulting from changes in the Index can occur monthly on the first day of each calendar month of each year during the term of the Account (the "Change Date"). On the first day of each calendar month we will adjust the **Annual Percentage Rate** on the Account, subject to the Limits on Rate Changes as set forth below, to agree to a newly computed **Annual Percentage Rate** based on the Index Value in effect as of the first day of the then current month, plus the Margin. If there is no change in the Index Value on the Change Date the **Annual Percentage Rate** will not change.

Limits on Rate Changes: The **ANNUAL PERCENTAGE RATE** cannot increase or decrease by more than two percentage points (2.00%) on any monthly Change Date, nor can the **ANNUAL PERCENTAGE RATE** increase or decrease by more than two percentage points (2.00%) in any consecutive 12-month period. This limitation is called the "Periodic Rate Cap". The **ANNUAL PERCENTAGE RATE** will never be more than 18%, nor less than the Index Value plus your Margin.

MINIMUM PAYMENT EXAMPLE: If you took a single \$10,000 advance and made no other payments other than the required Minimum Monthly Payment amount, and the **ANNUAL PERCENTAGE RATE** was 4.25% (the January 2010 Index Value plus the Margin) for the term of the line of credit, the Minimum Monthly Payment would vary between \$32.60 and \$36.10 per month for 180 months, and you would be required to pay the entire balance of \$10,000 in a single "**balloon**" payment on the maturity date.

MAXIMUM RATE AND PAYMENT EXAMPLE: If you had an outstanding balance of \$10,000, the Minimum Monthly Payment at the maximum **ANNUAL PERCENTAGE RATE** of 18% would vary between \$138.08 and \$152.88 per month. If your initial **ANNUAL PERCENTAGE RATE** was 4.25% (the January 2010 Index Value plus the Margin) the maximum **ANNUAL PERCENTAGE RATE** of 18% could be reached at the beginning of the seventh (7th) year.

VARIABLE-RATE 15-YEAR HISTORICAL EXAMPLE: The following table shows how the **ANNUAL PERCENTAGE RATE** and the Minimum Monthly Payments for an initial \$10,000 credit advance would have changed based on changes in the Prime Rate index over the last 15 years. The Index Values are as of the first week of January of each year. The table assumes no additional credit advances were taken, only Minimum Monthly Payments were made each month, and that the rate remained constant during each year. **This table does not necessarily indicate how the Index or your payments will change in the future.**

REMINDER: Making only the Minimum Monthly Payment (which is interest only) will NOT reduce the Outstanding Principal Balance and will result in a Balloon Payment of the entire Outstanding Principal Balance on the Maturity Date.

VARIABLE-RATE 15-YEAR HISTORICAL EXAMPLE:

Year as of January	Index Value	Margin (1)	Annual Percentage Rate	Minimum Monthly Payment (3)	Outstanding Principal Balance (4)
1996	8.50 %	1.00 %	9.50 %	\$ 80.68	\$10,000.00
1997	8.25 %	1.00 %	9.25 %	\$ 78.56	\$10,000.00
1998	8.50 %	1.00 %	9.50 %	\$ 80.68	\$10,000.00
1999	7.75 %	1.00 %	8.75 %	\$ 74.32	\$10,000.00
2000	8.50 %	1.00 %	9.50 %	\$ 80.68	\$10,000.00
2001	9.50 %	1.00 %	10.50 %	\$ 89.18	\$10,000.00
2002	4.75 %	1.00 %	8.50 %(2)	\$ 72.19	\$10,000.00
2003	4.25 %	1.00 %	6.50 %(2)	\$ 55.21	\$10,000.00
2004	4.00 %	1.00 %	5.00 %	\$ 42.47	\$10,000.00
2005	5.25 %	1.00 %	6.25 %	\$ 53.08	\$10,000.00
2006	7.25 %	1.00 %	8.25 %	\$ 70.07	\$10,000.00
2007	8.25 %	1.00 %	9.25 %	\$ 78.56	\$10,000.00
2008	7.25 %	1.00 %	8.25 %	\$ 70.07	\$10,000.00
2009	3.25 %	1.00 %	6.25 %(2)	\$ 53.08	\$10,000.00
2010	3.25 %	1.00 %	4.25 %(2)	\$ 36.10	\$10,000.00

NOTES:

- (1) This is a margin we have used recently.
- (2) This rate represents a maximum 2.00% "Periodic Rate Cap" adjustment.
- (3) The Minimum Monthly Payment represents interest only.
- (4) If you make only the Minimum Monthly Payment (which is interest only) the Outstanding Principal Balance will be due in full as a Balloon Payment on the Maturity Date.

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



We Do Business in Accordance With the federal Fair Housing Law and the Equal Credit Opportunity Act.



AFTRA-SAG FEDERAL CREDIT UNION

134 N. Kenwood St., PO Box 11419 Burbank, CA 91510
(818) 562-3400, or (800) 826-6946 outside Los Angeles

Loan Application Home Equity Line of Credit

COMPLETE THIS APPLICATION IN ITS ENTIRETY. Applicants should complete this form as "Borrower" or "Co-Borrower", as applicable. Complete only "Borrower" information if applying for Individual Credit. Complete Borrower and Co-Borrower information if applying for Joint Credit, or when (1) the income or assets of a person other than the "Borrower" (including the borrower's spouse) will be used as a basis for loan qualification, or (2) the income or assets of the Borrower's spouse will not be used as a basis for loan qualification but his or her liabilities must be considered because the borrower resides in a community property state, the property is located in a community property state, or the Borrower is relying on other property located in a community property state as a basis for repayment of the loan. **NOTE: You must occupy the Subject Property to qualify.**

BY COMPLETING THIS LOAN APPLICATION YOU ARE REQUESTING A HOME EQUITY (REVOLVING) LINE OF CREDIT

AMOUNT REQUESTED \$ _____

PURPOSE OF LOAN _____

How are you Applying? Individually Jointly with your spouse
 Jointly with someone other than your spouse

Answer only if you live in a community property state: Married Separated Unmarried
Note - Married Applicants may apply for an individual account

Record Subject Property **Street** Address above: _____ **City** _____ **State** _____ **Zip** _____

The Subject Property is your: Primary Residence Secondary Residence **Property Type:** Single Family Dwelling PUD
 Condominium Other

Estimated Value of Subject Property \$ _____ Balance of 1st Mortgage on Subject Property \$ _____

Monthly Mortgage Payment \$ _____ Monthly H.O.A. \$ _____ Monthly Property Taxes \$ _____ Monthly Hazard Ins \$ _____

Lender on First Mortgage _____ Fixed Rate or ARM? Fixed ARM

Title will be held in what Name(s) _____ Manner in which Title will be held _____

Other (i.e existing 2nd or 3rd T.D.) _____ Outstanding Liens (describe) _____ Balance(s) \$ _____

BORROWER

CO-BORROWER

Name (Last - First - MI)		Name (Last - First - MI)	
Credit Union Account Number	Social Security Number	Credit Union Account Number	Social Security Number
Date of Birth (MM/DD/YY)	Home Phone	Cell Phone	Date of Birth (MM/DD/YY)
Home Phone	Cell Phone	Home Phone	Cell Phone
Present Address (If same as Subject Property, write "Same")		Present Address (If same as Subject Property, write "Same")	
Number of Years		Number of Years	

Name of Employer <input type="checkbox"/> Self employed	Number of Years _____	Name of Employer <input type="checkbox"/> Self employed	Number of Years _____
Address _____		Address _____	
Position _____		Position _____	
Employer's Telephone Number _____		Employer's Telephone Number _____	
IF LESS THAN 2 YEARS - RECORD NAME/ADDRESS/TELEPHONE OF PRIOR EMPLOYER		IF LESS THAN 2 YEARS - RECORD NAME/ADDRESS/TELEPHONE OF PRIOR EMPLOYER	
Position _____		Position _____	
Employer's Telephone Number _____		Employer's Telephone Number _____	

Current Income	Prior Year Income	Other Income*	Current Income	Prior Year Income	Other Income*
Gross Income Year to Date	Gross Prior Year's Income	Gross Other Annual Income	Gross Income Year to Date	Gross Prior Year's Income	Gross Other Annual Income
\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
*Source of Other Income _____			*Source of Other Income _____		
*Notice: Alimony, child support, or separate maintenance income need not be revealed if you do not wish to have it considered as a basis for repayment of this loan.			*Notice: Alimony, child support, or separate maintenance income need not be revealed if you do not wish to have it considered as a basis for repayment of this loan.		

By signing below, I/we individually and jointly apply for an AFTRA-SAG Federal Credit Union Home Equity Line of Credit. I/We state under penalty of perjury that all information is accurate, true and complete as of the date set forth opposite my/our signature(s) below, and acknowledge and agree to promptly notify AFTRA-SAG Federal Credit Union (the Credit Union) if any of the material facts which I/we have represented herein should change prior to closing. I/We understand that it is a federal crime to willfully and deliberately provide incomplete or incorrect information on loan applications. I/We understand that the loan requested by this application will be secured by a mortgage or deed of trust on the Subject Property and authorize the Credit Union to make inquiries and obtain credit reports and to request financial information from credit reporting agencies, employers, and others, as well as to provide information about my/our credit experience with the Credit Union to other creditors and credit reporting agencies.

Borrower Signature _____	Date _____	Co-Borrower Signature _____	Date _____
Credit Union Use Only: Application taken by: <input type="checkbox"/> by Mail <input type="checkbox"/> by Telephone <input type="checkbox"/> Face-to-Face Interview (in Person) <input type="checkbox"/> Internet		Loan Officer's Initials: _____	Date App. Rec'd: _____

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14118 Magnolia Blvd., Sherman Oaks, CA 91423
5757 Wilshire Blvd., Ste. 925, Los Angeles, CA 90036

Confidential Information Sheet – Please Return to Credit Union

The title company in issuing its policies of Title Insurance will rely upon the information contained herein

For CU Use Only

Title Order Number _____

Title Company _____

Proper completion of this form will help protect you enabling the title company to eliminate title problems that might arise through similarity of our name with the name of another person against whom there may be judgments, tax liens, or other matters affecting property ownership.

Applicant (Full Name Please)

First Name _____ Middle _____ Last _____

Birth Date _____ Social Security Number _____ Driver's License Number _____

Birthplace _____ Have you declared Bankruptcy within the last 7 years: Yes No Are you a US Citizen: Yes No

Spouse First Name _____ Middle _____ Last _____

Birth Date _____ Social Security Number _____ Driver's License Number _____

Birthplace _____ Have you declared Bankruptcy within the last 7 years: Yes No Are you a US Citizen: Yes No

Date Married _____ at (city) _____ Wife's Maiden Name _____

Residence(s) for Last 10 Years (if more space is required, use reverse side of form.)

Address _____ City _____ State _____ Zip _____ Years _____ Months _____

Address _____ City _____ State _____ Zip _____ Years _____ Months _____

Address _____ City _____ State _____ Zip _____ Years _____ Months _____

Employment for Last 10 Years (if more space is required, use reverse side of form.)

Applicant information:

Employer: _____ Position _____ Number of years _____

Address _____ City _____ State _____ Zip _____

Employer: _____ Position _____ Number of years _____

Address _____ City _____ State _____ Zip _____

Spouse information:

Employer: _____ Position _____ Number of years _____

Address _____ City _____ State _____ Zip _____

Employer: _____ Position _____ Number of years _____

Address _____ City _____ State _____ Zip _____

Former Marriage(s) Yes No (if more space is required, use reverse side of form.)

Name of former spouse _____ Deceased Divorced Date _____ Where _____

The street address of the property in this transaction is: (if no address write "none") _____

Improvements: Single residence Multiple residence Commercial

Occupied by: Owner Lessee Tenants

Any portion of new loan funds to be used for construction: Yes No

Has any construction or improvements been made to the property in the last six months: Yes No

Signature _____ Date _____ Spouse's Signature _____ Date _____



FAIR LENDING NOTICE

It is illegal to discriminate in the provision of or in the availability of financial assistance for the purpose of purchasing, constructing, rehabilitating, improving, or refinancing housing accommodations due, in whole or in part, to the consideration of:

1. Conditions, characteristics or trends in the neighborhood or geographic area surrounding a housing accommodation, unless the financial institution can demonstrate that consideration of these conditions in the particular case is required to avoid an unsafe and unsound business practice; or
2. Race, color, religion, sex, marital status, national origin or ancestry.

It is illegal to consider the racial, ethnic, religious or national origin composition of a neighborhood or geographic area surrounding a housing accommodation or whether or not such composition is undergoing change, or is expected to undergo change, in appraising a housing accommodation or in determining whether or not, or under what terms and conditions, to provide financial assistance for the purpose of purchasing, constructing, rehabilitating, improving, or refinancing a housing accommodation.

These provisions govern financial assistance for the purpose of the purchase, construction, rehabilitation or refinancing of one-to four-unit family residences occupied by the owner and for the purpose of the home improvement of any one-to four-unit family residence.

If you have any questions about your rights, or if you wish to file a complaint, contact the management of this credit union or:

**National Credit Union Administration
Office of Examination and Insurance
1775 Duke Street, Alexandria, VA 22314-3428
or call: (703) 518-6300**

If you file a complaint with the National Credit Union Administration, California State law requires that you receive a decision within 30 days of receipt of the complaint.



We Do Business in Accordance with the federal Fair Housing Law and the Equal Credit Opportunity Act.



AFTRA-SAG Federal Credit Union

(818) 562-3400 or (800) 826-6946

Property and Flood Insurance Notice and Authorization

Member Name: _____ A/C Number: _____

Property Insurance:

AFTRA-SAG Federal Credit union must be recorded as Loss Payee on your property hazard insurance and a copy of your insurance policy declaration page is required before we can establish your home equity line of credit.

California law requires that the minimum property insurance coverage be equal to the current replacement cost of the subject property improvements. CA Civil Code §2955.5 states: "No lender shall require a borrower, as a condition of receiving or maintaining a loan secured by real property, to provide hazard insurance coverage against risk to the improvements on that real property in an amount exceeding the replacement value of the improvements on the property."

In order for us to verify that you have adequate property hazard insurance coverage and in order to record the credit union as Loss Payee, kindly provide us with the following information:

Name of Insurance Co. _____ Policy Number: _____

Agent's Name: _____ Agent's Telephone: _____

Flood Insurance:

Federal regulation requires that the Credit Union perform a flood determination on the subject property securing your loan prior to funding to determine whether the property is located in a flood zone. Borrowers with property located in flood zones must obtain adequate floor insurance and will be advised of the flood insurance coverage requirements at that time. In addition to the initial flood determination, regulation requires that we track changes in flood mapping during the life of your loan to identify property subsequently reclassified by FEMA as being located in a flood zone. If it is determined that your property is subsequently classified in a flood zone, you will be advised and will be required to obtain flood insurance at that time. If you do not obtain the required flood insurance the Credit Union will be obligated to "force place" the required flood insurance and you will be liable for the flood insurance payments.

I/We understand and agree to the foregoing requirements and authorize AFTRA-SAG Federal Credit Union to contact the above Insurance Company regarding my insurance coverage, to record AFTRA-SAG Federal Credit Union as loss payee on my property insurance and to obtain copies of evidence of insurance coverage as necessary.

Borrower's Signature

Date

Co-Borrower's Signature

Date



What You Should Know About Home Equity Lines of Credit

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.

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[What should you look for when shopping for a plan?](#)

[Costs of establishing and maintaining a home equity line](#)

[How will you repay your home equity plan?](#)

[Lines of credit vs. traditional second mortgage loans](#)

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[Glossary](#)

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[Federal Agency Contacts](#)

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
<hr/>	
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 buy a home. 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 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.

Last update: July 22, 2008
