



**ACU Choice Home Equity**  
**ACU NMLSR ID #420246**  
**Line of Credit Checklist**

Updated 01/14/20

**To apply you must provide the following to the Credit Union:**

- a. Complete Home Equity Master Application (3 pages)
- b. Complete Home Equity Worksheet (Appraisal Data)
- c. Complete Notice of Right To Receive Copy of Appraisal
- d. A copy of your recorded deed.
- e. Proof of Insurance – A copy of your home-owners policy statement showing coverage on dwelling and premium.
- f. Current real estate tax bill.
- g. A copy of a recent pay check stub

**Notes:**

- **Processing time varies.** However, once your line-of-credit is approved, future advances should be processed within one business day.
- Homes that are on the market to be sold or if you plan to sell in the near future will not be considered.
- Modular or Mobile homes do not qualify
- Some restrictions apply to rental property

**NMLS IDs**

**Ernie Sue Garvin**

441314

**Josh Wyatt**

1038070

**John Quast**

979294

**Desiree Lynch**

604622

**Robin Kellogg**

458621

**Constance Le'Ann Niece**

1892887



1300 Central Ave | Ashland, KY 41101 | 800.245.8112 | Fax: 606.329.5414 | [www.ashlandcu.org](http://www.ashlandcu.org)

This credit union is federally insured by the National Credit Union Administration



**Ashland Credit Union**  
 P.O. Box 391/1300 Central Avenue  
 Ashland, KY 41105  
 (800) 245-8112 • Fax (606) 329-5414  
 www.ashlandcu.org • E-Mail: help@ashlandcu.org  
 NMLS/ \_\_\_\_ LICENSE ID \_\_\_\_\_

**MORTGAGE**

**Master Application**  
 Must be Completed in Ink.

**NOTICE TO MARRIED APPLICANTS:  
 YOU HAVE THE RIGHT TO APPLY FOR A SEPARATE ACCOUNT IN YOUR NAME.**

LOAN ORIGINATOR NAME AND NMLS/ ____ LICENSE ID		Account Number
I/We Would Like a Loan of	For the Following Purpose	Security Offered

**CHECK TYPE OF CREDIT REQUESTED**

**Individual Credit:** Complete sections **A, B, D,** and **E** if only the applicant's income is considered for loan approval. Complete sections **A, B, C, D,** and **E** (1) if your co-applicant's income is also considered for loan approval; (2) if you reside in a Community Property State; (3) if you are relying on property located in a Community Property State as a basis for repayment of the credit requested; or (4) if you are an Alaska resident subject to a community property agreement or community property trust. Community Property States include: AZ, CA, ID, LA, NM, NV, TX, WA, and WI.

**Joint Credit:** Complete sections **A, B, C, D,** and **E** if your co-applicant will be contractually liable for repayment of the loan and initial below:  
 We intend to apply for joint credit. \_\_\_\_\_ (Applicant Initials) \_\_\_\_\_ (Co-Applicant Initials)

**APPLICANT'S PERSONAL INFORMATION**

<b>A</b>	PLEASE COMPLETE ONLY IF YOU ARE APPLYING FOR JOINT CREDIT, SECURED CREDIT, OR IF YOU LIVE IN A COMMUNITY PROPERTY STATE.		Last Name	First Name	Initial	
	Married	Unmarried	Separated			
	Present Street Address		City	State	Zip	How Long?
	Previous Street Address (If present address less than two years)		City	State	Zip	How Long?
	Social Security Number	Date of Birth	Home Phone Number	Driver's License Number and State	Ages of Dependents	

**INFORMATION REGARDING APPLICANT**

<b>B</b>	Present Employer's Name and Address		City	State	Zip	Date Employed	
	Occupation	Supervisor's Name		Work Phone & Extension	Monthly Take Home Pay		
					\$		
	Previous Employer's Name and Address		City	State	Zip	How Long?	Occupation
	Real Estate Owned and Address (Include Home)				Date Purchased	Purchase Price	
						\$	
OTHER INCOME NOTICE: Do not list alimony, child or spousal support or separate maintenance payments unless you wish them considered as a basis for repayment of the credit requested. If listed, verification may be requested.			Source of Other Income	Amount	Total Monthly Income		
				\$	\$		

**INFORMATION REGARDING [ ] CO-APPLICANT [ ] NON-APPLICANT SPOUSE/OTHER [ ] GUARANTOR**

<b>C</b>	Last Name		First Name	Initial	Date of Birth	Social Security Number		
	Street Address		City	State	Zip	Home Phone Number	Driver's License Number and State	
	Present Employer's Name and Address		City	State	Zip	Date Employed		
	Occupation	Supervisor's Name		Work Phone & Extension	Monthly Take Home Pay			
						\$		
	OTHER INCOME NOTICE: Do not list alimony, child or spousal support or separate maintenance payments unless you wish them considered as a basis for repayment of the credit requested. If listed, verification may be requested.			Source of Other Income	Amount	Total Monthly Income		
				\$	\$			

**FINANCIAL INFORMATION AND REFERENCES**

<b>D</b>	Name of Bank or Other Financial Institution		City	State	Zip	Type of Account		
						Checking	Savings	Loan
	Name of Relative Not Living with You	Name (Last, First, Initial)	Present Address	City	State	Zip	Phone Number	Relationship
Personal Reference Not Related to You	Name (Last, First, Initial)	Present Address	City	State	Zip	Phone Number		

**CONTINUE APPLICATION ON PAGES 2-4 - SIGN PAGE 2 OF THE APPLICATION BEFORE SUBMITTING.**

**E**

LIST ALL EXISTING DEBTS OF APPLICANT (and Co-Applicant or Non-Applicant Spouse/Other if any part of section C is applicable)				
Name and Address of Creditor	Purpose or Account No.	Original Amount	Present Balance	Monthly Payment
Home Mortgage or LandLord		\$	\$	\$
Credit Union		\$	\$	\$
Credit Card		\$	\$	\$
		\$	\$	\$
		\$	\$	\$
		\$	\$	\$
		\$	\$	\$
		\$	\$	\$
Automobile Loan	Automobile Make, Model and Year		\$	\$
Automobile Loan	Automobile Make, Model and Year		\$	\$
List Alimony, Child Support or Child Care Paid Monthly				\$
<b>Do Not Omit Any Debts! If More Space is Needed, Use Page 4 or Separate Sheet. Incomplete Applications Cannot Be Processed.</b>			Total Monthly Obligations	
			\$	
If you Answer "Yes" to Any of These Questions, Provide Details on Page 4.				
Are any of your debts past due?	Have you ever had your Auto, Furniture or Property repossessed?	Have you or your Co-Applicant ever declared bankruptcy?	Are you currently a Co-Maker, Endorser or Guarantor on a loan?	
Yes No	Yes No	Yes No	Yes No	

**WISCONSIN RESIDENTS:** Marital Status:  Married  Unmarried  Legally Separated

If married: the name of my spouse is \_\_\_\_\_

Spouse's SSN: \_\_\_\_\_ Spouse's Address (if different) \_\_\_\_\_

**Notice:** No provision of any marital property agreement, unilateral statement under Section 766.59, or court decree under Section 766.70 will adversely affect the rights of the Credit Union unless the Credit Union is furnished a copy of the agreement, statement or decree, or has actual knowledge of its terms, before the credit is granted or the account is opened.

**MARRIED WISCONSIN RESIDENTS APPLYING FOR AN INDIVIDUAL ACCOUNT:** By signing here, I state that the credit being applied for, if granted, will be incurred in the interest of the marriage or family of the Borrower(s).

**X** \_\_\_\_\_

**LOAN APPLICATION SIGNATURES**

**Please Read Before Signing:**

All the information in this application is true. I understand that section 1014 Title 18 U.S. Code makes it a crime to knowingly make a false statement on this application. You have my permission to verify any information contained in this application from any source named in this application. You may retain this application even if not approved. I understand that you may receive information from others about my credit history and you may answer questions and requests from others seeking credit or experience information about me or my accounts with you. If this application is approved, I agree to honor the provisions of the HomeEquity Credit Line Agreement and Truth-in-Lending Disclosure Statement or the MORTGAGE Loan Agreement-Mortgage Loan and Closing Disclosure covering my loan, whichever is applicable. (If this application is for two of us, this statement applies to both of us.)

*(Applies to HELOCs only:)* I acknowledge receipt of a copy of the HomeEquity Credit Plan Predisclosures and Handbook entitled "What You Should Know About Home Equity Lines of Credit."

**Consumer and Credit Report Authorization.** By signing this Application, I authorize you to obtain my consumer and/or credit report for the purposes of evaluating this application and to obtain subsequent credit reports on an on-going basis in connection with this transaction, and for all other legitimate purposes, such as reviewing my accounts or taking collection action on the account. I authorize you to receive and review other information about me, such as my employment and income information, from third-parties or consumer reporting agencies.

**IMPORTANT NOTICE 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 identifies each person who opens an account. What this means for me: When I open an account, you will ask for my name, address, date of birth, and other information that will allow you to identify me. You may also ask to see my driver's license or other identifying information.

Signature of Applicant \_\_\_\_\_ Date \_\_\_\_\_  
**X**

Signature of Applicant (Where Applicable) \_\_\_\_\_ Date \_\_\_\_\_  
**X**

**Have you omitted anything? Remember: Incomplete applications cannot be processed.**

**SIGNATURES**

**DEMOGRAPHIC INFORMATION OF APPLICANT AND CO-APPLICANT. THE FOLLOWING APPLIES IF YOU ARE APPLYING FOR A:  
CLOSED-END HOME EQUITY LOAN                      HOME EQUITY LINE OF CREDIT**

The purpose of collecting this information is to help ensure that all applicants are treated fairly and that the housing needs of communities and neighborhoods are being fulfilled. For residential mortgage lending, Federal law requires that we ask applicants for their demographic information (ethnicity, race, and sex) in order to monitor our compliance with equal credit opportunity, fair housing, and home mortgage disclosure laws. You are not required to provide this information, but are encouraged to do so. You may select one or more designations for "Ethnicity", and one or more designations for "Race". The law provides that we may not discriminate on the basis of this information, or on whether you choose to provide it. However, if you choose not to provide the information and you have made this application in person, Federal regulations require us to note your ethnicity, race, and sex on the basis of visual observation or surname. If you do not wish to provide some or all of this information, please check below.

<p><b>Applicant:</b>  <b>Ethnicity:</b> - <i>Check one or more</i>                  Hispanic or Latino                      Mexican                      Puerto Rican                      Cuban                      Other Hispanic or Latino - <i>Print origin, for example, Argentinean, Colombian, Dominican, Nicaraguan, Salvadoran, Spaniard, and so on:</i> _____                    Not Hispanic or Latino                  I do not wish to provide this information</p> <p><b>Race:</b> <i>Check one or more</i>                  American Indian or Alaska Native - <i>Print name of enrolled or principal tribe:</i> _____                    Asian                      Asian Indian                      Chinese                      Filipino                      Japanese                      Korean                      Vietnamese                      Other Asian - <i>Print race, for example, Hmong, Laotian, Thai, Pakistani, Cambodian, and so on:</i> _____                  Black or African American                  Native Hawaiian or Other Pacific Islander                      Native Hawaiian                      Guamanian or Chamorro                      Samoan                      Other Pacific Islander - <i>Print race, for example, Fijian, Tongan, and so on:</i> _____                    White                  I do not wish to provide this information</p> <p><b>Sex:</b>     Female         Male                  I do not wish to provide this information</p>	<p><b>Co-Applicant:</b>  <b>Ethnicity:</b> - <i>Check one or more</i>                  Hispanic or Latino                      Mexican                      Puerto Rican                      Cuban                      Other Hispanic or Latino - <i>Print origin, for example, Argentinean, Colombian, Dominican, Nicaraguan, Salvadoran, Spaniard, and so on:</i> _____                    Not Hispanic or Latino                  I do not wish to provide this information</p> <p><b>Race:</b> <i>Check one or more</i>                  American Indian or Alaska Native - <i>Print name of enrolled or principal tribe:</i> _____                    Asian                      Asian Indian                      Chinese                      Filipino                      Japanese                      Korean                      Vietnamese                      Other Asian - <i>Print race, for example, Hmong, Laotian, Thai, Pakistani, Cambodian, and so on:</i> _____                  Black or African American                  Native Hawaiian or Other Pacific Islander                      Native Hawaiian                      Guamanian or Chamorro                      Samoan                      Other Pacific Islander - <i>Print race, for example, Fijian, Tongan, and so on:</i> _____                    White                  I do not wish to provide this information</p> <p><b>Sex:</b>     Female         Male                  I do not wish to provide this information</p>
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<b>To Be Completed by Financial Institution (for an application taken in person):</b>	
Was the ethnicity of the applicant collected on the basis of visual observation or surname?     Yes     No Was the race of the applicant collected on the basis of visual observation or surname?     Yes     No Was the sex of the applicant collected on the basis of visual observation or surname?     Yes     No	Was the ethnicity of the co-applicant collected on the basis of visual observation or surname?     Yes     No Was the race of the co-applicant collected on the basis of visual observation or surname?     Yes     No Was the sex of the co-applicant collected on the basis of visual observation or surname?     Yes     No

**COMMENTS**

**ADDITIONAL COMMENTS**

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**CREDIT UNION**

**FOR CREDIT UNION USE ONLY**

<b>Loan Officer:</b>	Approved	Rejected	Referred to Credit Committee
Reason			
Loan Officer's Signature			Date
<b>X</b>			
<b>Credit Committee:</b>	Approved	Rejected	
Reason			
Credit Committee's Signatures	Date	Date	Date
<b>X</b>		<b>X</b>	<b>X</b>
EOCA Notice Sent or Delivered on		By	

# HOME EQUITY WORKSHEET

## APPRAISAL DATA

Name \_\_\_\_\_ Date \_\_\_\_\_

Street/Route \_\_\_\_\_ Phone \_\_\_\_\_

City \_\_\_\_\_ County \_\_\_\_\_ State \_\_\_\_\_

**In order to get an accurate mortgage prepared, please complete the following:**

**Single – Y/N      Married – Y/N**

**If married, print spouses name:**

\_\_\_\_\_

Directions \_\_\_\_\_

Landmarks if needed to locate property \_\_\_\_\_

Purchase date \_\_\_\_\_ Purchase Price \_\_\_\_\_ Yr. Built \_\_\_\_\_

House Structure – Frame \_\_\_ Brick \_\_\_ Modular \_\_\_ Other \_\_\_ Lot Size \_\_\_\_\_

Main Floor # of rooms \_\_\_\_\_ # of baths \_\_\_\_\_ sq. ft. \_\_\_\_\_

Upper Floors if applicable # of rooms \_\_\_\_\_ # of baths \_\_\_\_\_ sq ft. \_\_\_\_\_

Basement Y/N estimated square foot of basement \_\_\_\_\_ finished Y/N

Central Air Conditioning Y/N      Public Water Y/N      Public Sewer Y/N

Estimated market value \$ \_\_\_\_\_, based on : recent appraisal : tax assessment, etc.

**Do you plan to sell this house in the next 12 months? Y/N**

Please complete this form accurately to enable the appraiser to fairly estimate the market value of your home. Add any pertinent data below.

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**NOTICE TO APPLICANT OF RIGHT TO RECEIVE COPY OF APPRAISAL**

We may order an appraisal to determine the property's value and charge you for this appraisal. We will promptly give you a copy of any appraisal, even if your loan does not close. You can pay for an additional appraisal for your own use at your own cost.

**Ashland Credit Union  
P.O. Box 391 / 1300 Central Ave  
Ashland, KY 41105-0391**

**Indicate that you have read this disclosure form and understand its contents by including your signature(s) below.**

Borrower: \_\_\_\_\_ Date: \_\_\_\_\_

Co-Borrower: \_\_\_\_\_ Date: \_\_\_\_\_



**IMPORTANT TERMS OF OUR HOME EQUITY LINE OF CREDIT**

This disclosure contains important information about your Home Equity Open-End Credit Plan. 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 any of 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 that you paid to us or anyone else in connection with your application.

**Security Interest:** We will take a security interest in your home. You could lose your home if you do not meet the obligations in your agreement with us.

**Possible Actions:**

**Termination and Acceleration**

*For Wisconsin Borrowers Only:*

We can terminate the Home Equity Open-end Credit Plan and require you to pay us the entire outstanding balance in one payment and charge you certain fees if:

- (a) if you are late two times during a twelve month period, or
- (b) your failure to observe the terms of this Plan materially impairs the condition, value, or protection of, or our rights in, the property securing this Plan

*For All Other Borrowers:*

We can terminate the Home Equity Open-end Credit Plan and require you to pay us the entire outstanding balance in one payment and charge you certain fees if:

- (a) you commit fraud or material misrepresentation at any time in connection with this Plan;
- (b) you do not meet the repayment terms of this Plan;
- (c) your action or inaction adversely affects the secured property for the Plan or our rights in the collateral.

**Suspension or Reduction**

*For All Borrowers:*

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

- (a) the value of your dwelling declines significantly below its appraised value for purposes of this Plan;
- (b) we reasonably believe that you will not be able to meet the repayment requirements due to a material change in your financial circumstances;
- (c) you are in default of a material obligation of this Plan;
- (d) government action prevents us from imposing the **ANNUAL PERCENTAGE RATE** provided for under this Plan or impairs our security interest such that the value of the interest is less than 120 percent of the credit line;
- (e) a regulatory agency has notified us that continued advances would constitute an unsafe and unsound practice;
- (f) the maximum **ANNUAL PERCENTAGE RATE** under this Plan is reached.
- (g) *For Wisconsin Borrowers Only:* you engage in fraud or material misrepresentation in connection with the Plan;
- (h) *For Wisconsin Borrowers Only:* upon our receipt of a notice of termination under Wis. Stat. 766.565(5).

**Change in Terms**

Our home equity credit agreement permits us to make certain changes to the terms of this Plan at specified times or upon the occurrence of specified events.

**Minimum Payment Requirements:** You can obtain advances of credit for 10 year(s) (the "draw period"). At our option, we may renew or extend the draw period. During this period, payments will be due monthly. At the time you obtain a credit advance, monthly payments will be recalculated based upon a maximum payment period of 180 months with a minimum of \$5.00. Your payment will be set to repay the balance after the advance, at the current Annual Percentage Rate, within the payoff period. Each time the Annual Percentage Rate changes, we will adjust your payment to repay the balance within the remaining payoff period. Your payment will never be less than the smaller of \$5.00 or the full amount you owe.

**Minimum Payment Example:** If you made only the minimum monthly payment and took no other credit advances, it would take 15 year(s) to pay off a credit advance of \$10,000 at an **ANNUAL PERCENTAGE RATE** of 5.25%. During that period, you would make 179 payments of \$80.39, with a final payment of \$79.86.

**Fees and Charges:** To open and maintain an account, you must pay the following fees to us:

*Late Charges:* If you are more than 15 days late on any payment, we may charge you a late fee of \$15.00 as authorized by applicable law.

*Non-Sufficient Funds Fee:* \$25.00

**Third Party Fees:** We do not charge you for third party fees such as for appraisals or credit reports.

**Property Insurance:** You must carry insurance on the property that secures this Plan. If the property is located in a Special Flood Hazard Area we will require you to obtain flood insurance if it is available.

**Access to the Plan:** You may obtain advances under your plan by mail, by telephone, by check, by Internet Teller, or in person.

**Transaction Requirements:** The minimum initial credit advance must be at least \$10,000.00. There is a minimum of \$500.00 for subsequent advances.

**Tax Deductibility:** You should consult a tax advisor regarding the deductibility of interest and charges for this Plan.

**Special Introductory Rate:** The initial Annual Percentage Rate is discounted, which means that it may not be based on the index and margin used for later rate adjustments. The initial rate will be in effect for 6 months. The Annual Percentage Rate may change semi-annually on the first day of April and October.

**Refundability of Fees:** If you decide not to enter into this Plan within three business days of receiving this disclosure and the handbook entitled "What You Should Know About Home Equity Lines of Credit," you are entitled to a refund of any fees you may have already paid.

**Variable Rate Feature:** This Plan has a variable rate and the **ANNUAL PERCENTAGE RATE** and corresponding periodic rate and minimum payment can change as a result. The **ANNUAL PERCENTAGE RATE** does not include costs other than interest.

The **ANNUAL PERCENTAGE RATE** is based on the value of an index. The index is the highest rate of interest identified as the 'Prime Rate' in the 'Money Rates' section of the Wall Street Journal. We will use the most recent index value available to us on March 1 and September 1 prior to the semi-annual rate adjustment. To determine the **ANNUAL PERCENTAGE RATE** that will apply to your account, we add a margin based on your creditworthiness and Loan- to-Value (LTV) Ratio to the value of the index.

Ask us for the current index value, margins and **ANNUAL PERCENTAGE RATES**. After you open an account, rate information will be provided on periodic statements that we send you.



**Rate Changes:** The annual percentage rate can change semi-annually on the first of April and October. There is no limit on the amount by which the rate can change in any one year period. The maximum **ANNUAL PERCENTAGE RATE** that can apply is 24% or the maximum permitted by applicable law. However, under no circumstances will your **ANNUAL PERCENTAGE RATE** go below 3.25% at any time during the term of the Plan.

**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 24% would be \$205.83. The maximum annual percentage rate could be reached in the 1st month (1 month) following an initial hold of 15 days.

**Prepayment:** Payment in full shall not terminate this agreement or cancel the security instrument securing this Plan unless you specifically request that we do so. The following applies with regard to prepayment:

**Early Termination Fee; Lien:** If you pay your line in full and close the Plan within (N/A) months of the date you opened the Plan, you will have to pay an Early Termination fee of \$0.00. We may take this fee from your savings or checking account or you may pay this fee in any other manner acceptable to us. The Early Termination Fee shall be secured by the Mortgage securing this Plan, and Ashland Credit Union's Lien against the Property shall not be satisfied, nor the Mortgage released, until the Fee is paid in full. Additionally, the Fee will be added to the payoff amount (including the beneficiary's demand) and must be paid prior to the issuance of any reconveyance. This paragraph does not apply if the reason for the early termination is because you refinanced your first mortgage with the Credit Union's first mortgage department.

**Historical Example:** The following table shows how the percentage rate and the minimum payments for a single \$10,000 credit advance would have changed based on changes in the index over the past 15 years. The index values are from the first Monday in September. If the first Monday is a holiday then the index values are from the first business day following that Monday.

The table assumes that no additional credit advances were taken and that only the minimum payment was made. It does not necessarily indicate how the index or your payments would change in the future.

YEAR	INDEX (%)	MARGIN (1) (Percent)	ANNUAL PERCENTAGE RATE	MONTHLY PAYMENT (Dollars)
2005	6.50	0.00	6.50 (2)	\$87.11
2006	8.25	0.00	8.25	\$96.46
2007	8.25	0.00	8.25	\$96.46
2008	5.00	0.00	5.00	\$81.39
2009	3.25	0.00	3.25	\$74.42
2010	3.25	0.00	3.25	\$74.42
2011	3.25	0.00	3.25	\$74.42
2012	3.25	0.00	3.25	\$74.42
2013	3.25	0.00	3.25	\$74.42
2014	3.25	0.00	3.25	\$74.42
2015	3.25	0.00	3.25	\$74.42
2016	3.50	0.00	3.50	\$74.80
2017	4.25	0.00	4.25	\$75.65
2018	5.00	0.00	5.00	\$76.24
2019	5.25	0.00	5.25	\$76.33

1. This is a margin we have used recently; your margin may be different and based on your creditworthiness and LTV Ratio.
2. There may be a discounted rate for a period of time within the first year.

## 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.

### WHAT IS A HOME EQUITY LINE OF CREDIT?

A home equity line is a form of revolving credit in which your home serves as collateral. Because the 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	x75%
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) and to 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 index drops. Some lenders allow you to convert from a variable interest rate to a fixed rate during the life of the plan, or to 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 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 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 Federal Trade Commission's website, at [www.ftc.gov/freereports](http://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](http://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](mailto:ConsumerHelp@federalReserve.gov)

[www.FederalReserveConsumerHelp.gov](http://www.FederalReserveConsumerHelp.gov)

### *National banks and national-bank owned mortgage companies*<sup>1</sup>

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](mailto:customer.assistance@occ.treas.gov)

[www.occ.treas.gov](http://www.occ.treas.gov)

[www.helpwithmybank.gov](http://www.helpwithmybank.gov)

***Federally chartered credit unions<sup>2</sup>***

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](mailto:consumerassistance@ncua.gov)  
[www.ncua.gov/ConsumerInformation/index.htm](http://www.ncua.gov/ConsumerInformation/index.htm)

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](http://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](mailto:consumeralerts@fdic.gov)  
[www.fdic.gov/consumers/consumer/ccs/index.html](http://www.fdic.gov/consumers/consumer/ccs/index.html)

***Savings and loan associations<sup>3</sup>***

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](http://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](http://www.ftc.gov)

<sup>1</sup> Banks with "National" in their name or "N.A." after the name.

<sup>2</sup> Credit unions with "Federal" in their name.

<sup>3</sup> 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](http://www.federalreserve.gov/consumerinfo).

**HOME EQUITY PLAN CHECK LIST**  
*Ask your lender to help fill out this checklist.*

	Plan A	Plan B
<b>BASIC FEATURES</b>		
Fixed annual percentage rate . . . . .	<input style="width: 100px;" type="text" value="%"/>	<input style="width: 100px;" type="text" value="%"/>
Variable annual percentage rate . . . . .	<input style="width: 100px;" type="text" value="%"/>	<input style="width: 100px;" type="text" value="%"/>
Index used and current value . . . . .	<input style="width: 100px;" type="text" value="%"/>	<input style="width: 100px;" type="text" value="%"/>
Amount of margin . . . . .	<input style="width: 100px;" type="text"/>	<input style="width: 100px;" type="text"/>
Frequency of rate adjustments . . . . .	<input style="width: 100px;" type="text"/>	<input style="width: 100px;" type="text"/>
Amount/length of discount (if any) . . . . .	<input style="width: 100px;" type="text"/>	<input style="width: 100px;" type="text"/>
Interest rate cap and floor . . . . .	<input style="width: 100px;" type="text"/>	<input style="width: 100px;" type="text"/>
<b>Length of plan</b>		
Draw period . . . . .	<input style="width: 100px;" type="text"/>	<input style="width: 100px;" type="text"/>
Repayment period . . . . .	<input style="width: 100px;" type="text"/>	<input style="width: 100px;" type="text"/>
<b>Initial fees</b>		
Appraisal fee . . . . .	<input style="width: 100px;" type="text"/>	<input style="width: 100px;" type="text"/>
Application fee . . . . .	<input style="width: 100px;" type="text"/>	<input style="width: 100px;" type="text"/>
Up-front charges, including points. . . . .	<input style="width: 100px;" type="text"/>	<input style="width: 100px;" type="text"/>
Closing costs . . . . .	<input style="width: 100px;" type="text"/>	<input style="width: 100px;" type="text"/>
<b>REPAYMENT TERMS</b>		
<b>During the draw period</b>		
Interest and principal payments . . . . .	<input style="width: 100px;" type="text"/>	<input style="width: 100px;" type="text"/>
Interest-only payments . . . . .	<input style="width: 100px;" type="text"/>	<input style="width: 100px;" type="text"/>
Fully amortizing payments . . . . .	<input style="width: 100px;" type="text"/>	<input style="width: 100px;" type="text"/>
<b>When the draw period ends</b>		
Balloon payment?. . . . .	<input style="width: 100px;" type="text"/>	<input style="width: 100px;" type="text"/>
Renewal available?. . . . .	<input style="width: 100px;" type="text"/>	<input style="width: 100px;" type="text"/>
Refinancing of balance by lender? . . . . .	<input style="width: 100px;" type="text"/>	<input style="width: 100px;" type="text"/>