Home Equity Line of Credit Disclosure

Thank you for applying for a home equity line of credit. We understand how important it is to make the right choice when it comes to financing. You want a competitive rate with flexible terms. You want to work with people who know the market and can process your loan quickly and easily without a lot of hassle.

Whether you're a first-time home buyer, an experienced borrower, or looking to refinance your present home, we are committed to making the financing experience a positive one. And, what's more… we make it as easy as possible.

EQUAL HOUSING LENDER

MEMBER FDIC

F1108 (03/10)

BORROWERS DOCUMENT CHECKLIST

Loan Amount less than or equal to $729,750

As a part of financing your home, we will need to review some of your financial information. This information will only be seen by the Bank staff who will be working to approve your loan, and having it will make your home financing go quickly.

This check list itemizes documents we need in order to complete your mortgage application. **PLEASE DO NOT SEND ORIGINAL DOCUMENTS.** We need copies of the original documents ONLY. Fremont Bank cannot accept responsibility for the return of original documents.

If this is a purchase transaction, please provide a copy of the sales agreement.

IMPORTANT INFORMATION ABOUT OPENING A NEW ACCOUNT

To help the government fight the funding of terrorism and money laundering activities, U.S. Federal law requires financial institutions to obtain, verify, and record information that identifies each person (individuals and businesses) 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 for your driver's license or other identifying documents.

During this application process Fremont Bank may verify your identity using commercially available databases containing information from public records, other financial institutions and consumer reporting agencies.

☐ **SALARIED (*WITHOUT OTHER INCOME*)**

- ☐ Most recent paystub with year to date earnings
- ☐ Most recent year end W-2 form
- ☐ Most recent month bank or asset statement (all pages) to support adequate funds to close loan
- ☐ Copy of current Homeowners' Insurance declaration page showing premium, coverage for fire and hazard insurance, and any other coverage

☐ **SALARIED (*WITH OTHER INCOME*)**

- ☐ Most recent paystub with year to date earnings
- ☐ Most recent year end W-2 form
- ☐ Most recent year completed personal federal tax return including all schedules
- ☐ Most recent month bank or asset statement (all pages) to support adequate funds to close loan
- ☐ Copy of current Homeowners' Insurance declaration page showing premium, coverage for fire and hazard insurance, and any other coverage

☐ **ALL OTHER INCOME (*RETIREMENT / SOCIAL SECURITY*)**

- ☐ Social Security Award Letter or form 1099 or 2 months deposit statement (all pages) to support deposited income will continue for the next 3 years
- ☐ Pension Retirement Award Letter or Form 1099 or 2 months deposit statement (all pages) to support deposited income will continue for the next 3 years
- ☐ Copy of current Homeowners' Insurance declaration page showing premium, coverage for fire and hazard insurance, and any other coverage.
- ☐ Alimony, child support or separate maintenance income, please provide your Divorce Decree or Child Support papers*.

☐ **SELF-EMPLOYED**

- ☐ Most recent year completed personal federal tax return including all schedules
- ☐ Most recent month bank or asset statement (all pages) to support adequate funds to close loan
- ☐ Copy of current Homeowners' Insurance declaration page showing premium, coverage for fire and hazard insurance, and any other coverage

☐ **SELF-EMPLOYED (*WITH PARTNERSHIP FILING*)**

- ☐ Most recent 2 years completed personal federal tax returns including all schedules
- ☐ Most recent 2 years completed Partnership tax returns (1065)
- ☐ Most recent month bank or asset statement (all pages) to support adequate funds to close loan
- ☐ Copy of current Homeowners' Insurance declaration page showing premium, coverage for fire and hazard insurance, and any other coverage

☐ **SELF-EMPLOYED (*WITH CORPORATION FILING*)**

- ☐ Most recent paystub with year to date earnings
- ☐ Most recent 2 years' W-2 forms
- ☐ Most recent 2 years' completed personal federal tax return including all schedules
- ☐ Most recent 2 years' completed Corporation tax return (1120(S))
- ☐ Most recent month bank or asset statement (all pages) to support adequate funds to close loan
- ☐ Copy of current Homeowners' Insurance declaration page showing premium, coverage for fire and hazard insurance, and any other coverage

* Alimony, child support or separate maintenance income need not be revealed if you do not choose to have it considered as a basis for determining credit worthiness.

It's fast and easy to apply by phone!	**800-659-7334** **9:00 am to 6:00 pm Monday – Friday**	***Apply online at*** **www.fremontbank.com**

FREMONT BANK
MEMBER FDIC

Equity Loan Department
P.O. Box 5101
Fremont, CA 94537

Home Equity Line of Credit Disclosure

This disclosure contains important information about our Prime Line of Credit. You should read it carefully and keep this disclosure for your records.

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

Prime Line of Credit: Maximum total loans to value cannot exceed 75%.

Security Interest: We will take a deed of trust on your home. You could lose your home if you do not meet the obligations in your agreement with us.

Possible Actions: 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 credit line.
- We reasonably believe you will not be able to meet the repayment requirements of the credit line due to a material change in your financial circumstances.
- You are in default of a material obligation in the agreement.
- Government action prevents us from imposing the ANNUAL PERCENTAGE RATE provided for in the agreement or impairs 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 or unsound practice.
- The maximum ANNUAL PERCENTAGE RATE is reached.

Possible Actions: We can terminate your line, require you to pay us the entire outstanding balance in one payment, and charge you certain fees if:

- You engage in fraud or material misrepresentation in connection with the credit line whether during the application process or at any time after your credit line is opened.
- You do not meet the repayment terms of the credit line agreement.
- Your action or inaction adversely affects the collateral or our rights in the collateral.

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

APPLICATION FEE AGREEMENT

You may be required to pay an application fee of $250 to Fremont Bank at the time you submit your loan application for a loan or line of credit. This fee is non-refundable.

You understand that the interest rate, points and/or origination fee for your loan will be set at the time the loan documents are prepared for signature and, therefore, may be higher or lower than the rate, points, and/or origination fee at the time of application. You understand and agree that Fremont Bank will determine the date on which your loan documents will be prepared and the date of loan funding.

If you close your Fremont Bank loan under a “No Closing Cost” Loan Program, there will be no charge for the following customary closing costs for a mortgage loan:

- Appraisal
- Reconveyance Tracking
- Lender’s Title Insurance
- Courier Expense
- Points
- Wire Fee
- Recording*
- Flood Certification
- Credit Report
- Loan Origination
- Loan Documentation
- Escrow
- Tax Service
- Notary*

*Fremont Bank Documents

Only those costs listed above will be paid by Fremont Bank. If your application is for a loan to purchase a home, all other customary costs associated with the purchase transaction (including title company document preparation fees) will be paid by you. If your application is for a refinance loan, you will be responsible for paying all fees and charges imposed directly or indirectly by an existing third party lender (for example, a payoff demand statement fee and/or a Reconveyance fee). Loans with lower nominal rates may be available for borrowers willing to pay points and/or closing costs.

Closing costs **DO NOT** include the following: interest; owner’s title policy; mortgage, hazard, flood, or earthquake insurance premiums; property or transfer taxes; impounds; nor structural pest control, roof, or other inspections. The “No Closing Cost” Loan Programs do not include extraordinary items, including but not limited to the following: the additional cost of a “complex” residential real estate appraisal (as defined under federal appraisal guidelines); additional credit reports for the same loan transaction; redrawing of loan documents due to changes requested by you; and grant deeds and any associated notary or recording fees. Additionally, if your application is for a refinance loan, you will be responsible for paying any prepayment penalty on an existing loan, whether imposed by a third party lender or by Fremont Bank.

Minimum Draw Requirements: THE MINIMUM CREDIT ADVANCE YOU CAN RECEIVE IS $300.

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

Minimum Payment Requirements: You can obtain advances of credit for one hundred twenty (120) monthly statement cycles (the "draw period"). During the draw period, payments will be due monthly. Your minimum monthly payment will be the amount of the Finance Charges that accrued on the outstanding balance during the preceding month, plus any amount which is past due, plus any Late Charges, plus any amount over limit. The minimum payment during the draw period will not reduce the principal that is outstanding on your credit line.

After the draw period ends, you will no longer be able to obtain credit advances and must repay the outstanding balance on your account over one hundred eighty (180) monthly statement cycles (the repayment period"). During the repayment period, payments will be due monthly. Your minimum monthly payment will equal 1/180th of the balance that was outstanding at the beginning of the repayment period plus the FINANCE CHARGES that accrue on the remaining balance each month, plus any amount which is past due, plus any Late Charges.

Minimum Payment Example: If you made only the minimum monthly payments and took no other credit advances, it would take 25 years to pay off a credit advance of $10,000. During that period, you would make payments as follows:

> **Prime Line of Credit:** At an ANNUAL PERCENTAGE RATE of 4.990%, one hundred twenty (120) monthly payments of approximately $41.58, followed by one hundred eighty (180) monthly payments varying between $97.14 and $55.79.

An introductory discounted rate may be available. Ask for details.

Fees and Charges: To open and maintain a Home Equity Line of Credit, you may be required to pay the following fees to us:

- Application fee as described in our Application Fee Agreement. The Application fee is generally $250.00 (due at application)
- Setup Fee: $150.00 (due when account opened)
- Annual Fee: $75 (due each year during the Draw Period)
- Re-issue Fee: $25 after checks are lost or stolen (due when a new account is opened)
- Early Closure Fee: $500 in the event you voluntarily terminate the Home Equity Line of Credit during the first three years of the credit line.

You also may be required to pay certain fees to open this credit line. These fees generally total between $0 and $500. If you ask, we will give you an itemization of the fees you may have to pay.

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

Mortgage Broker Fees: If you utilize the services of a mortgage broker in applying for an Account, you may be charged fees by the broker. In addition, the Bank may pay the broker compensation for the goods and services provided to the Bank in connection with your Account application. These fees may be a specific dollar amount or they may be based on a percentage of the line of credit limit. These mortgage broker fees range from 0% to 3%. For example, if the mortgage broker fee is based on 3% of a $10,000 line of credit limit, you would owe the broker $300.00. The Bank may pay the Mortgage Broker additional compensation. You should be certain that you understand the fee arrangement that you have agreed to with the mortgage broker, the total compensation your mortgage broker will receive and its relationship to the rate of interest on your Account.

Release/Reconveyance: When your line of credit is paid off and closed, you will be charged a fee in connection with either the release of the Mortgage or the reconveyance of the Deed of Trust on the property securing the Account, whichever is the case. Except where such fee is prohibited, this fee will be the greater of $45 or the maximum amount permitted by applicable law.

Variable-Rate Information: The line has a variable-rate feature, and the ANNUAL PERCENTAGE RATE (corresponding to the periodic rate) and the minimum payment can change as a result.

The ANNUAL PERCENTAGE RATE includes only interest and not other costs.

The ANNUAL PERCENTAGE RATE is based on the value of an index. The index is the Prime Rate, as shown in the "Money Rates" section of *The Wall Street Journal* (Western Edition) in effect on the first business day of the month. If more than one rate is shown, we will use the lowest rate shown. To determine the ANNUAL PERCENTAGE RATE that will apply to your line, we add a margin to the value of the index.

The initial ANNUAL PERCENTAGE RATE may be "discounted", which means the initial rate is not based on the index and margin used for later rate adjustments. We have offered discounted initial rates in effect for three (3) months. Ask us for the current index value, margin, discount availability and ANNUAL PERCENTAGE RATE. After you open a credit line, rate information will be provided on periodic statements that we will send you.

Rate Changes: The ANNUAL PERCENTAGE RATE can change each month. The maximum ANNUAL PERCENTAGE RATE that can apply is 18%. Except for this 18% "cap", there is no limit on the amount by which the rate can change during any one-year period. However, under no circumstances will your ANNUAL PERCENTAGE RATE be less than 4.990% at any time during the term of your credit line.

Maximum Rate and Payment Examples: 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% on a Prime Line of Credit would be $150.00. This maximum ANNUAL PERCENTAGE RATE could be reached during the first month of the draw period.

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% on a Prime Line of Credit would be $205.56. This maximum ANNUAL PERCENTAGE RATE could be reached during the first month of the repayment period.

Historical Example: The following tables show how the ANNUAL PERCENTAGE RATE and the monthly 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 business day of January each year. While only one payment amount per year is shown, payments during both the draw period and the repayment period would have varied during each year. During the draw period, your minimum monthly payments equal the finance charges which have accrued on your outstanding balance (plus any Late Charges and any amount over limit). When the repayment period begins, your minimum monthly payments will increase because each payment includes a portion of the principal balance in addition to the accrued finance charges.

The table assumes that no additional credit advances were taken, that only the minimum payments were made, that all payments were made on time, 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.

As used herein, “loan” and “line of credit” have the same meaning. “Our”, “we” and “Bank” refer to Fremont Bank; “you” and “your” refer to all persons signing the application.

	Year	Index%	Margin(1) %	Auto Pay(2) %	Index + Margin - Auto Pay	**ANNUAL Percentage Rate**	Monthly Payment	Ending Balance
Draw Period	Jan-97	8.250%	2.500%	-1.000%	9.750%	9.750%	$81.25	$10,000.00
	Jan-98	8.500%	2.500%	-1.000%	10.000%	10.000%	$83.33	$10,000.00
	Jan-99	7.750%	2.500%	-1.000%	9.250%	9.250%	$77.08	$10,000.00
	Jan-00	8.500%	2.500%	-1.000%	10.000%	10.000%	$83.33	$10,000.00
	Jan-01	9.500%	2.500%	-1.000%	11.000%	11.000%	$91.67	$10,000.00
	Jan-02	4.750%	2.500%	-1.000%	6.250%	6.250%	$52.08	$10,000.00
	Jan-03	4.250%	2.500%	-1.000%	5.750%	5.750%	$47.92	$10,000.00
	Jan-04	4.000%	2.500%	-1.000%	5.500%	5.500%	$45.83	$10,000.00
	Jan-05	5.250%	2.500%	-1.000%	6.750%	6.750%	$56.25	$10,000.00
	Jan-06	7.250%	2.500%	-1.000%	8.750%	8.750%	$72.92	$10,000.00
Repayment Period	Jan-07	8.250%	2.500%	-1.000%	9.750%	9.750%	$136.81	$9,333.33
	Jan-08	7.250%	2.500%	-1.000%	8.750%	8.750%	$123.61	$8,666.67
	Jan-09	3.250%	2.500%	-1.000%	4.990%	4.990%(3)	$91.59	$8,000.00
	Jan-10	3.250%	2.500%	-1.000%	4.990%	4.990%(3)	$88.82	$7,333.33
	Jan-11	3.250%	2.500%	-1.000%	4.990%	4.990%(3)	$86.05	$6,666.67

Footnotes:

(1) This is a margin we have used recently; your margin may be different.

(2) This is the rate reduction for automatic payments from a Fremont Bank account.

(3) This ANNUAL PERCENTAGE RATE reflects a 4.99% floor which includes a 1.00% reduction to the floor rate for automatic payments from a Fremont Bank account.

THE HOUSING FINANCIAL DISCRIMINATION ACT OF 1977 FAIR LENDING NOTICE

It is illegal to discriminate in the provision of, or in the availability of financial assistance because of the consideration of:

- Trends, characteristics or conditions in the neighborhood or geographic area surrounding a housing accommodation, unless the financial institution can demonstrate in the particular case that such consideration is required to avoid an unsafe and unsound business practice; or

- 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.

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 questions about your rights, or if you wish to file a complaint, contact the management of this financial institution or:

State of California
Department of Financial Institutions
300 South Spring Street, Suite 15513
Los Angeles, California 90013-1204

OR

State of California
Department of Financial Institutions
111 Pine Street
Suite 1100
San Francisco, California 94111

Notice of Right to Copy of Appraisal

You have a right under the law to receive a copy of any appraisal, evaluation or assessment report prepared in connection with your application for a loan or line of credit to be secured by real property. Please note that any appraisal, evaluation, or assessment obtained is to assist Fremont Bank in determining whether or not to extend credit to you under the terms you have requested. The valuation should not be relied upon by you or anyone else to determine the value of the property. If you wish professional assistance in determining these matters, you should retain your own appraiser or other advisor.

If you want a copy of the property valuation, we must hear from you no later than 90 days after we notify you about the action taken on your credit application or you withdraw your application. Please write us at the address shown below and include in your letter: 1) your name, 2) the property address, and 3) your loan number, if known. Under certain circumstances, you may be required to reimburse us for the cost of the valuation as a condition to receiving the copy.

Fremont Bank
Appraisal Department
PO BOX 5101
Fremont, CA 94537-5101

Key Facts About Home Equity Lines of Credit Loans and Interest Only Mortgages

Interest-Only Mortgages: An “interest-only” mortgage loan, including a Home Equity Line of Credit, allow you to pay only the interest on the money you borrowed for the first few years of the loan. This is known as the “interest-only period” (for example, the first 5 years of the loan). If you only pay the amount of interest that’s due, once the interest-only period ends:

- You will still owe the original amount you borrowed.

- Your monthly payment will **increase –** even if interest rates stay the same - because you must pay back the principal as well as the interest.

- Ask what the payments on your loan will be after the end of the interest-only period. If you have an adjustable rate loan, ask about what your payments can be if interest rates increase.

Home Equity: Home equity is created when the value of your home increases and/or when you reduce the amount you owe on your home through your loan payments. If your home does not increase in value and you make interest-only payments, you are not building equity. This may make it harder to refinance your mortgage, or to receive funds from the sale of your home. In fact, if the amount you owe on your home, along with the costs associated with selling it (such as the real estate sales commissions and closing costs) exceeds the sales price, you will not receive any cash when you sell, and will have to pay additional funds to your lender or to other parties when you pay off your mortgage.

Prepayment Penalties: Some mortgages have prepayment penalties or early closure fees. If you sell your home or refinance your loan during the penalty period, you could owe additional fees or penalty. Ask whether your mortgage has a prepayment penalty and, if so, how much it can be. Most mortgages let you make extra, additional principal payments with your monthly payment – this is NOT “prepayment” of the entire loan, and there usually is no penalty for these extra amounts.

No Doc/Low Doc Loans: Lenders often charge more for “reduced documentation” loans. These loans typically have higher interest rates or other costs compared to “full documentation” loans that require you to verify your income and other assets. (By verifying your income, you help the lender to be sure that you can afford the loan payments.) If you are considering a loan with a reduced documentation feature, ask if you’ll be required to pay more (in interest and/or fees) for not submitting income and asset documentation.

Consumer Handbook on Home Equity Lines of Credit

From the Federal Reserve Board

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 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 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 the 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 interest rates drop.

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 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 minimum payments that cover a portion of the principal (the amount you borrow) plus accrued interest. But, unlike with the 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 will 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.

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 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 chart 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. A fee charged each time you 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

Federal 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

Federally insured state-chartered banks that are not members of the Federal Reserve System
Federal Deposit Insurance Corporation (FDIC)
Consumer Response Center
1100 Walnut St, Box #11
Kansas City, MO 64106
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

---

[1] Banks with “National” in their name or “N.A.” after the name.
[2] Credit unions with “Federal” in their name.
[3] Federally charter and some state-charted associations.

More resources

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

The information above is adapted from the brochure "What You Should Know about Home Equity Lines of Credit."
www.federalreserve.gov/pubs/equity/equity_english.htm
Last update: August 21, 2009

EQUAL HOUSING LENDER

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	**Plan A**	**Plan B**
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?		