



Main Office
130 South Elmwood
Avenue, Suite 126
Buffalo, NY 14202
716-842-1320
Fax: 716-842-1623

Appletree Business Park Office
2875 Union Road, Suites 28-29
Cheektowaga, NY 14227

V.A. Medical Center Office
3495 Bailey Avenue
Basement E19
Buffalo, New York 14215

Home Equity Line of Credit Information and Instructions

To apply please:

- Review the information and instructions below
- Complete and sign the 3-page application
- Bring to your nearest BSCU location, fax to 716-842-1623, or scan and email to buffsvc@buffaloservicecu.org

ELIGIBILITY

- Member owned and occupied 1-4 family dwelling
- Must have good credit rating with the credit union and other creditors
- Taxes and homeowners insurance must be current

AMOUNT OF DRAW

- An initial advance is not required. Each subsequent advance must be at least \$500.
- Credit advances can be obtained for 10 years (the "draw period").

LOAN CALCULATION

- Amount is based up to 85% of the appraised value less any existing mortgages and/or liens

MINIMUM & MAXIMUM LINE OF CREDIT

- Maximum as determined by the Credit Union: minimum is \$10,000

CURRENT INTEREST RATE

- Check the rates section of our website or call us

RATE ADJUSTMENT

- Annually in April for all existing lines

REPAYMENT TERMS

- 20-year maximum term from date of closing

CLOSING COSTS / PREPAYMENT PENALTY

- Closing costs paid by the credit union. If the Line of Credit is discharged within 36 months from closing date, borrower will be responsible to pay the disbursements incurred by the credit union at closing. Any previously issued documents that need recording are at the member's expense

INSURANCE

- Prior to the loan closing, borrower must provide proof of homeowners insurance (including flood coverage if necessary), naming Buffalo Service Credit Union, its successors and assigns, as loss payee

DOCUMENTS

- These documents are needed at the time your application is submitted.

Photocopies are acceptable:

- o Deed
- o Survey
- o Statement of mortgage balance
- o Two current paycheck stubs or proof of other income for each applicant
- o Property tax paid receipts
- o Signed Early Disclosure

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Please print clearly in ink. Application must be fully completed and signed.

I. Home Equity Line of Credit or Loan

Borrower Account Number _____

Co-Borrower Account Number _____

Check one and indicate amount desired:

New Home Equity Loan

Line of Credit increase or renewal

New Home Equity Line of Credit

Amount \$ _____

II. Property Information and Purpose

Property Address (Street, City & Zip) _____

County _____

Purpose of Loan	Property Type <input type="checkbox"/> Single Family <input type="checkbox"/> 2-4 Family <input type="checkbox"/> Condo	Property is your: <input type="checkbox"/> Primary Residence <input type="checkbox"/> Secondary Residence	
Purchase Price	Estimated Property Value	Date Purchased	Property Deeded to:
Mortgage Holders Name		Account Number	
Balance Owing	Monthly Payment	Are taxes & insurance included in monthly payment: <input type="checkbox"/> Yes <input type="checkbox"/> No If No, Please indicate: Annual Taxes \$ _____ Annual Insurance \$ _____	

III. Borrower Information

Borrower

Co-Borrower

Borrower Name (include jr. or Sr. If applicable)	Date of Birth	Borrower Name (include jr. or Sr. If applicable)	Date of Birth
Social Security Number	Home Phone ()	Social Security Number	Home Phone ()
E-mail	Cell Phone ()	E-mail	Cell Phone ()
Marital Status <input type="checkbox"/> Married <input type="checkbox"/> Separated <input type="checkbox"/> Unmarried (including Single, Divorced, Widowed)		Marital Status <input type="checkbox"/> Married <input type="checkbox"/> Separated <input type="checkbox"/> Unmarried (including Single, Divorced, Widowed)	
Present Address (Street, City, Zip)	# of Years	Present Address (Street, City, Zip)	# of Years
If residing at present address for less than 2 years, complete the following		If residing at present address for less than 2 years, complete the following	
Former Address (Street, City, Zip)	<input type="checkbox"/> Own # of years _____ <input type="checkbox"/> Rent	Former Address (Street, City, Zip)	<input type="checkbox"/> Own # of years _____ <input type="checkbox"/> Rent
Dependents' Ages		Dependents' Ages	

IV. Employment Information

Borrower

Co-Borrower

Name & Address of Employer	Self Employed <input type="checkbox"/> Yes <input type="checkbox"/> No	# of years on this job	Name & Address of Employer	Self Employed <input type="checkbox"/> Yes <input type="checkbox"/> No	# of years on this job
Position / Title / If Self Employed Type of Business	Business Phone ()		Position / Title / If Self Employed Type of Business	Business Phone ()	
If employed in current position for less than 2 years complete the following:			If employed in current position for less than 2 years complete the following:		
Name & Address of Previous Employer	# of years on this job		Name & Address of Previous Employer	# of years on this job	
Position / Title / If Self Employed Type of Business			Position / Title / If Self Employed Type of Business		

Continue on Next Page

V. Monthly Income & Housing Expense Information

Income from alimony, child support or separate maintenance payments need not be revealed if you choose not to rely on such income. However, to receive the maximum amount of credit for which you qualify, please complete the following as applicable per year.

Gross Monthly Income	Borrower	Co-Borrower	Total	Monthly Housing Expenses	Amount
Monthly Income*				First Mortgage Payment	
Social Security				Other Financing	
Disability				Real Estate Taxes	
Net Rental Income				Homeowner's Insurance	
Other				Other	
Total				Total	

*Self Employed Borrower(s) may be required to provide additional documentation such as tax returns and financial statements.

VI Assets and Liabilities

Assets

Borrower			Co-Borrower		
List Checking and Savings Account(s)			List Checking and Savings Account(s)		
Name of Bank or Credit Union	Balance		Name of Bank or Credit Union	Balance	
Other Assets (Stocks, Bonds, etc.)			Other Assets (Stocks, Bonds, etc.)		
Company Name	Type	Value	Company Name	Type	Value

Liabilities

List the creditor's name for all outstanding debts and indicate if you wish to pay the debt in full by placing an "X" in the "Pay in Full" column.

Borrower				Co-Borrower			
Name of Creditor	Payment Amount	Balance	Pay in Full	Name of Creditor	Payment Amount	Balance	Pay in Full
			<input type="checkbox"/>				<input type="checkbox"/>
			<input type="checkbox"/>				<input type="checkbox"/>
			<input type="checkbox"/>				<input type="checkbox"/>
			<input type="checkbox"/>				<input type="checkbox"/>
			<input type="checkbox"/>				<input type="checkbox"/>
			<input type="checkbox"/>				<input type="checkbox"/>
	Total	Total	<input type="checkbox"/>		Total	Total	<input type="checkbox"/>

Schedule of Other Real Estate Owned

Property Address	Property Type	Present Value	Mortgage Balance	Monthly Payment	Rental Income
Total		\$	\$	\$	

Continue on Next Page

VII. Financial Information

If a YES is given to a question, explain on an attached sheet.	Borrower		Co-borrower	
	YES	NO	YES	NO
Do you have any outstanding judgements?				
Have you ever filed for bankruptcy or had a debt adjustment plan confirmed under Chapter 13?				
Have you had any property foreclosed upon or repossessed in the last 7 years?				
Are you a party in a law suit?				
Are you other than a U.S. citizen or permanent resident alien?				
Is your income likely to decline in the next two years?				
Are you a co-maker, co-signer or guarantor on any loan not listed above?				
For Whom (name of others obligated on loan)				
	To whom (name of creditor)			

VIII. Signature Section

I certify to the truth of my statements above and authorize the lender to obtain credit reports in connection with this application as well as any update, renewal, extension, review or collection thereof. If it does, I will, upon request, be informed of that fact and each credit bureau's name and address. I also authorize the lender to verify with others any information contained in this Application and to report its transactions with me. I acknowledge receipt of the Home Equity Disclosures contained herein.

X _____
Signature of Borrower Date

X _____
Signature of Co-borrower Date

IX. Information for Government Monitoring Purposes

This section must be completed only if you are paying off your first mortgage or using the proceeds to purchase a dwelling. Information for Government Monitoring purposes. The following information is requested by the federal government for certain types of loans related to a dwelling in order to monitor the lender's compliance with equal credit opportunity, fair housing and home mortgage disclosure laws. You are not required to furnish this information, but are encouraged to do so. The law provides that the lender may neither discriminate on the basis of this information, nor on whether you choose to furnish it. However, if you choose not to furnish the information and you have made this application in person under federal regulations the lender is required to note race and sex on the basis of visual observation or surname. If you do not wish to furnish this information, please check the appropriate box.

Borrower <input type="checkbox"/> I do not wish to furnish this information	Co-Borrower <input type="checkbox"/> I do not wish to furnish this information
Race or National Origin:	Race or National Origin:
<input type="checkbox"/> American Indian, Alaska Native <input type="checkbox"/> Asian, Pacific Islander <input type="checkbox"/> Black <input type="checkbox"/> Hispanic <input type="checkbox"/> White <input type="checkbox"/> Other	<input type="checkbox"/> American Indian, Alaska Native <input type="checkbox"/> Asian, Pacific Islander <input type="checkbox"/> Black <input type="checkbox"/> Hispanic <input type="checkbox"/> White <input type="checkbox"/> Other
Sex: <input type="checkbox"/> Female <input type="checkbox"/> Male	Sex: <input type="checkbox"/> Female <input type="checkbox"/> Male

Loan Officer decision _____ Date _____ Amount \$ _____

Signed by _____

Per appraisal: New amount \$ _____ Date _____

Signed by _____

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Creditor: BUFFALO SERVICE CREDIT UNION
130 SOUTH ELMWOOD AVENUE SUITE 126
BUFFALO, NEW YORK 14202

HOME EQUITY LINE OF CREDIT EARLY DISCLOSURE

This disclosure contains important information about our Home Equity Line of Credit Early Disclosure. You should read it carefully and keep a copy for your records.

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

2. 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.

3. POSSIBLE ACTIONS. Under certain circumstances, we can:

- A. Terminate your line of credit and require you to pay us the entire outstanding balance in one payment;
- B. Refuse to make additional extensions of credit; and
- C. Reduce your credit limit.

We can terminate your line of credit and require you to pay us the entire outstanding balance in one payment if:

- A. You engage in fraud or material misrepresentation in connection with the line of credit;
- B. You fail to make a payment as required by the agreement; or
- C. Your action or inaction adversely affects the collateral or our rights in the collateral.

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

- A. The value of the dwelling securing the line of credit declines significantly below its appraised value for purposes of the line of credit;
- B. We reasonably believe you will not be able to meet the repayment requirements under the line of credit due to a material change in your financial circumstances;
- C. You are in default of a material obligation of the agreement;
- D. 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 limit on the line of credit;
- E. A regulatory agency has notified us that continued advances would constitute an unsafe and unsound practice; or
- F. The maximum annual percentage rate is reached.

4. MINIMUM PAYMENT REQUIREMENTS. You can obtain credit advances for 10 years (the "draw period"). During this period, payments will be due monthly. Your minimum monthly payment will equal the following:

- An amortized payment of the loan account balance on the last day of the billing cycle, for the last billing cycle in which an advance was made. This balance will be amortized over the remaining term of the agreement. The minimum payment will change each time you make an advance and whenever the annual percentage rate changes. The minimum payment amount will be rounded up to the nearest \$1.00. After the draw period ends, you will no longer be able to obtain credit advances and must pay the outstanding balance on your line of credit (the "repayment period.") The length of the repayment period is 10 years. During the repayment period, payments will be due monthly. Your minimum monthly payment will equal the following:

- An amortized payment of the loan account balance on the last day of the draw period. This balance will be amortized over 10 years. The minimum payment will change whenever the annual percentage rate changes. The minimum payment amount will be rounded to the nearest \$1.00. The minimum monthly payments may not be sufficient to fully repay the principal that is outstanding on your line of credit by the end of the repayment period. If they are not, you will, to the extent permitted by law, be required to pay the entire balance in a single payment.

5. MINIMUM PAYMENT EXAMPLE. If you made only the minimum monthly payment and took no other credit advances, it would take 20 years to pay off a credit advance of \$10,000.00 at an **ANNUAL PERCENTAGE RATE** of 4.000%. During that period, you would make 120 payments of \$60.60 followed by 120 payments of \$60.60.

6. INSURANCE REQUIREMENTS.

- A. You must carry insurance on the property that secures the line of credit.
- B. The cost of any title insurance and mortgage recording tax will be based on the maximum amount of credit available to you, whether it has been advanced or not.

7. REFUNDABILITY OF FEES. If you decide not to enter into this plan within three business days of receiving this disclosure and the home equity brochure, you are entitled to a refund of any fee you may have already paid.

8. MINIMUM DRAW REQUIREMENTS. The minimum credit advance that you can receive is \$500.00.

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

10. VARIABLE RATE FEATURES. This line of credit has a variable rate feature and the annual percentage rate (corresponding to the periodic rate) and the minimum monthly payment can change as a result. The annual percentage rate includes only interest and not other costs. The annual percentage rate is based on the value of an index. The index is the base rate on corporate loans posted by at least 70% of the 10 largest U.S. banks known as the Wall Street Journal U.S. Prime Rate and is published in the Wall Street Journal. Ask us for the current index value and annual percentage rate. After you open a line of credit, rate information will be provided on periodic statements that we send you.

11. RATE CHANGES. The annual percentage rate can change annually. The rate cannot increase by more than 2.000 percentage point(s) in any one year period. The maximum **ANNUAL PERCENTAGE RATE** that can apply during the line of credit is 16.000 percent. The minimum **ANNUAL PERCENTAGE RATE** that can apply during the line of credit is 4.000 percent.

12. MAXIMUM RATE AND PAYMENT EXAMPLES. If you had an outstanding balance of \$10,000.00 at the beginning of the draw period, the minimum monthly payment at the maximum **ANNUAL PERCENTAGE RATE** of 16.000 percent would be \$139.13. The maximum annual percentage rate during the draw period, could be reached in the 61st month (5 years, 1 month) following an initial hold of 12 months. If you had an outstanding balance of \$10,000.00 at the beginning of the repayment period, the minimum monthly payment at the maximum **ANNUAL PERCENTAGE RATE** of 16.000 percent would be \$167.51. The maximum annual percentage rate during the repayment period, could be reached in the 73rd month (6 years, 1 month).

13. HISTORICAL EXAMPLES. The following table shows how the annual percentage rate and the minimum payments for a single \$10,000.00 credit advance would have changed based on changes in the index over the last 15 years. The index values are from the first business day of May. While only one payment amount per year is shown, payments would have varied during each year. The table assumes that no additional credit advances were taken, that only the minimum payment was made, and that the rate remained constant during each year. It does not necessarily indicate how the index or your payments would change in the future.

Year	Index (%)	Margin (%)	ANNUAL PERCENTAGE RATE (%)	Minimum Monthly Payment (\$)
2007	8.250	0.000	8.250	85.21
2008	7.250	0.000	7.250	79.25
2009	3.250	0.000	4.000(K)	62.07
2010	3.250	0.000	4.000(K)	62.07
2011	3.250	0.000	4.000(K)	62.07
2012	3.250	0.000	4.000(K)	62.07
2013	3.250	0.000	4.000(K)	62.07
2014	3.250	0.000	4.000(K)	62.07
2015	3.250	0.000	4.000(K)	62.07
2016	3.500	0.000	4.000(K)	62.07
2017(O)	3.750	0.000	4.000(K)	62.06
2018	4.500	0.000	4.500	63.39
2019	5.500	0.000	5.500	65.82
2020	4.750	0.000	4.750	64.20
2021	3.250	0.000	4.000(K)	62.82

(K) This reflects a lifetime floor of 4.000 percent.

(O) The repayment period begins in this year.

THE TERM OF THE LINE OF CREDIT IS 240 MONTHS. AS A RESULT, YOU MAY BE REQUIRED TO REPAY THE ENTIRE PRINCIPAL BALANCE AND ANY ACCRUED INTEREST THEN OWING 240 MONTHS FROM THE DATE ON WHICH THE LINE OF CREDIT IS MADE. THE LENDER HAS NO OBLIGATION TO REFINANCE THIS LINE OF CREDIT AT THE END OF ITS TERM. THEREFORE, YOU MAY BE REQUIRED TO REPAY THE LINE OF CREDIT OUT OF ASSETS YOU OWN OR YOU MAY HAVE TO FIND ANOTHER LENDER WILLING TO REFINANCE THE LINE OF CREDIT. ASSUMING THIS LENDER OR ANOTHER LENDER REFINANCES THIS LINE OF CREDIT AT MATURITY, YOU WILL PROBABLY BE CHARGED INTEREST AT MARKET RATES PREVAILING AT THAT TIME AND SUCH RATES MAY BE HIGHER THAN THE INTEREST RATE ON THIS LINE OF CREDIT. YOU MAY ALSO HAVE TO PAY SOME OR ALL OF THE CLOSING COSTS NORMALLY ASSOCIATED WITH A NEW MORTGAGE LOAN. **YOU SHOULD CHECK WITH YOUR LEGAL ADVISOR AND WITH OTHER MORTGAGE LIEN HOLDERS AS TO WHETHER ANY PRIOR LIENS CONTAIN ACCELERATION CLAUSES WHICH WOULD BE ACTIVATED BY A JUNIOR ENCUMBRANCE.**

This is not a commitment to make a loan. You hereby acknowledge receipt of this Home Equity Plan Disclosure and a copy of the Home Equity Brochure on today's date.

Signature _____

Date _____

Signature _____

Date _____

What you should know about home equity lines of credit



Consumer Financial
Protection Bureau

January 2014

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

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1. Introduction

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

1.1 Home equity plan checklist

Ask your lender to help you fill out this worksheet.

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

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

2. What is a home equity line of credit?

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

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

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

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

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

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

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

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

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

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

2.1.1 Variable interest rates

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

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

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

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

2.2 Costs of establishing and maintaining a home equity line

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

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

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

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

2.3 How will you repay your home equity plan?

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

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

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

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

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

2.4 Line of credit vs. traditional second mortgage loans

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

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

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

2.4.1 Disclosures from lenders

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

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

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

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

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

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

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

APPENDIX A:

Defined terms

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

DEFINED TERM

**ANNUAL
MEMBERSHIP OR
MAINTENANCE FEE**

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

**ANNUAL
PERCENTAGE RATE
(APR)**

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

APPLICATION FEE

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

BALLOON PAYMENT

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

**CAP (INTEREST
RATE)**

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

CLOSING OR SETTLEMENT COSTS

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

CREDIT LIMIT

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

EQUITY

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

INDEX

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

INTEREST RATE

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

MARGIN

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

MINIMUM PAYMENT

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

POINTS (ALSO CALLED DISCOUNT POINTS)

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

SECURITY INTEREST

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

TRANSACTION FEE

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

VARIABLE RATE

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

APPENDIX B:

More information

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

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

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

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

APPENDIX C:

Contact information

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

Regulatory agency	Regulated entities	Contact information
Consumer Financial Protection Bureau (CFPB) P.O. Box 2900 Clinton, IA 52733	Insured depository institutions and credit unions with assets greater than \$10 billion (and their affiliates), and non-bank providers of consumer financial products and services, including mortgages, credit cards, debt collection, consumer reports, prepaid cards, private education loans, and payday lending	(855) 411-CFPB (2372) consumerfinance.gov consumerfinance.gov/complaint
Board of Governors of the Federal Reserve System (FRB) Consumer Help P.O. Box 1200 Minneapolis, MN 55480	Federally insured state-chartered bank members of the Federal Reserve System	(888) 851-1920 federalreserveconsumerhelp.gov

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

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

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

