



947 Western Ave
Lynn, MA 01905
e:mail: members@rwcuc.com
NMLS #4105564

How to Apply for a Home Equity Line of Credit:

Thank you for choosing River Works Credit Union for your Home Equity Line of Credit. As with each of our members, we consider it both a pleasure and a privilege to have the opportunity to work with you and to serve you.

To apply for a Home Equity Line of Credit, please complete the attached **Home Equity Application**, and deliver them in person, by fax, by mail or by e:mail along with the **Supporting Documentation**.

Supporting Documentation:

Please provide the following information:

1. Verification of Income, which may include
 - A copy of most recent paystubs covering a 30-day period
 - If self-employed, most recent tax returns
 - If retired, copy of most recent bank statement showing direct deposit or a copy of award letter from pension, or social security, or any other source
 - If receiving rental income, a copy of lease agreement(s) and a signed copy of recent federal tax return
2. A copy of most recent Real Estate Tax Bill
3. A copy of most recent Mortgage Statement, if applicable
4. A copy of Insurance Policy – if approved, you will be required to add River Works Credit Union as a lien holder prior to or at closing to Insurance Policy

By signing and returning these documents you are not committing yourself to the Home Equity Line of Credit, you are simply applying for a Line of Credit.

Please note that you do not need to be a member of the credit union, but you must become a member in order for River Works Credit Union to establish the Line of Credit. Membership in Rivers Works Credit Union is open to anyone who lives, or works in Essex County, Middlesex County and Suffolk County.



947 Western Avenue • Lynn, MA 01905

HOME EQUITY APPLICATION

Fax # 339-883-9268

Email gdorr@nwcu.com

PLEASE CHECK ONE
☐ INDIVIDUAL APPLICATION ☐ JOINT APPLICATION ☐ PURCHASE
☐ REFINANCE

Name _____

Street Address _____

City/Town _____ State _____ Zip _____

How long there? _____ Home/Cell Phone _____

Previous Street Address _____ City/Town _____ State _____ Zip _____

Date of Birth _____ Social Security No. _____

I/We apply for an Home Equity Line of Credit in the amount of \$ _____

This line of credit will be secured by equity in my/our real estate located at _____

Name of Co-Applicant		
Street Address		
City/Town	State	Zip
Date of Birth	Social Security No.	

APPLICANT			CO-APPLICANT			MONTHLY INCOME	
Employed by			Employed by			Applicant's Gross Monthly Earnings	
Street Address			Street Address			Co-Applicant's Gross Monthly Earnings	
City/Town	State	Zip	City/Town	State	Zip	Other Income. You need not disclose income from alimony, child support or separate maintenance if you do not choose to have it considered as a basis for repaying this loan.	
Position			Position			Other	
Business Phone	How long there?		Business Phone	How long there?		Other	
Previous Employer			Previous Employer			TOTAL MONTHLY INCOME	
Street Address			Street Address			MONTHLY PAYMENTS	
City/Town	State	Zip	City/Town	State	Zip	Monthly Mortgage Payments (Principal + Interest + Taxes)	
Position			Position			Condo Fee	
Business Phone	How long there?		Business Phone	How long there?		Alimony/Child Support or Maintenance Payments	
Real Estate Owned by: (Name(s) of Title Holder(s))			Date Purchased	Owner's Valuation \$			
				Assessed Value \$			
Home Purchase Price \$			Mortgage: Original Amount \$	Mortgage Balance \$			
Mortgage Held by							
Email:			Email:				
<input type="checkbox"/> Citizen <input type="checkbox"/> Resident Alien			<input type="checkbox"/> Citizen <input type="checkbox"/> Resident Alien				
Type of Property: <input type="checkbox"/> Single Family <input type="checkbox"/> 2-4 Family <input type="checkbox"/> Condominium							

BANK ACCOUNTS

Name of Bank	Account No.	Current Bal.	Type Account Checking/Savings/Term Cert. Money Market Acct./Etc.
		\$	
		\$	

Are you interested in additional information regarding RWCU Products or Services? ☐ Yes ☐ NoAre you interested in information regarding RiverWorks Insurance Agency? ☐ Yes ☐ No

I/We certify that the above information is true and complete. I/We authorize the Lender to obtain and release credit information on any one or more of the undersigned at any time in connection with the loan to which this application applies. The original or a copy of this application will be retained by the Lender, even if the loan is not granted. I/We acknowledge receipt of a copy of the Important Terms Disclosure.

Signature of Applicant

Date

Signature of Co-Applicant

Date

**DISCLOSURE REQUIRED
BY MASSACHUSETTS
GENERAL LAWS
CHAPTER 18A, § 17B**

1. The responsibility of the attorney for the Mortgagee is to protect the interest of the Mortgagee.
2. The Mortgagor may, at their own expense, engage an attorney of their own selection to represent their own interests in the transaction.

How did you hear of RWCU?



Loan Originator's Signature

Date

Loan Originator's Name (print or type)

Loan Originator Identifier

Jerry Dorr

NMLS#706669

Loan Originator's Phone Number
(including area code)
339-883-9218

Loan Origination Company's Name

Loan Origination Company Identifier

River Works Credit Union

NMLS#410564

Loan Origination Company's Address
947 Western Ave, Lynn, MA 01905

RIVER WORKS CREDIT UNION

947 Western Ave, Lynn, MA 01905 • (781) 599-0096

Option A – Principal and Interest
Option B – Interest Only

IMPORTANT TERMS OF OUR HOME EQUITY LINE OF CREDIT

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

Availability of Terms – All of the terms disclosed 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.

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

Possible Actions – Under certain circumstances, we can (1) terminate your line, require you to pay us the entire outstanding balance in one payment; (2) refuse to make additional extensions of credit; (3) reduce your credit limit; and (4), as specified in the initial agreement, implement certain changes in the plan.

If you ask, we will give you more specific information concerning when we can take these actions.

Minimum Payment Requirements – You can obtain advances of credit for 10 years (the "draw period"). During the draw period, payments will be due monthly. **Option A** – Your minimum monthly payment will equal all accrued interest as of the closing date of the billing cycle, plus 0.50% of the principal balance that was outstanding at the end of the billing cycle. **Option B** – Your minimum monthly payment will equal all accrued interest as of the closing date of the billing cycle, provided that, in either option, the payment shall not be less than \$100.00**, plus any amounts past due. **Interest Only Payments** – Your minimum monthly payment during the draw period may not reduce the amount of principal outstanding on this line of credit.

Option A and Option B – After the draw period ends, you will no longer be able to obtain credit advances and must pay the outstanding balance over 15 years (the "repayment period"). During the repayment period, payments will be due monthly. Your minimum monthly payment will equal 1/180th of the principal balance that was outstanding at the end of the draw period plus the finance charges that have accrued on the remaining balance, however, in no event shall the principal and interest payment be less than \$100.00** monthly.

Minimum Payment Example – Option A – If you made only the minimum monthly payments and took no other credit advances, it would take 9 years and 11 months to pay off a credit advance of \$10,000 at an ANNUAL PERCENTAGE RATE of 3.75%. During that period, you would make 120 monthly payments of \$100.00** followed by 1 payment of \$6.91. **Option B** – If you made only the minimum monthly payments and took no other credit advances, it would take 9 years and 11 months to pay off a credit advance of \$10,000 at an ANNUAL PERCENTAGE RATE of 3.75%. During that period, you would make 120 monthly payments of \$100.00** followed by 1 payment of \$6.91.

Fees and Charges – To open and maintain a line of credit, you may be required to pay the following fees:

Points – Points between 0.5% and 3.50% of credit limit, depending on your creditworthiness.

<input checked="" type="checkbox"/> Appraisal Fee / HVR	\$ 65.00	<input type="checkbox"/> Title Insurance Policy	\$
<input checked="" type="checkbox"/> Recording Fee	\$ 175.00 per lien	<input type="checkbox"/> Flood Determination Fee	\$
<input checked="" type="checkbox"/> Title Examination Fee	\$ 250.00 opinion letter	<input checked="" type="checkbox"/> Tax Service Fee	\$ 111.00
<input checked="" type="checkbox"/> Preparation of Legal Documents	\$ 450.00 Process/UW	<input checked="" type="checkbox"/> Insurance Service Fee	\$ 65.00
<input checked="" type="checkbox"/> Points	\$ 0.50% to 3.50%	<input type="checkbox"/> Other	\$

Note. With respect to those closing costs which have been checked above, ☒ Lender will waive the payment of such costs by Borrower; however, if Borrower terminates this Agreement and requests a discharge of the mortgage within 36 months from the date of this Agreement, Borrower shall then be obligated to pay Lender the full amount of the waived costs.

Property Insurance – You must carry insurance on the property that secures this line of credit.

Minimum Draw Requirements – The minimum credit advance you can receive is \$300.00.

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

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 published in the Money Rates section of The Wall Street Journal (if more than one Prime Rate is published, the higher rate shall be used), as most recently published at the beginning of each monthly billing cycle.

To determine the annual percentage rate, we apply a margin to the value of the index.

Ask us for the current index value, margin, discount if applicable and annual percentage rate. After you open a credit line, rate information will be provided on periodic statements that we send you.

Rate Changes – The annual percentage rate will change at the beginning of each monthly billing cycle. The maximum ANNUAL PERCENTAGE RATE that can apply is 18.0%.

Other than as disclosed in this paragraph, there are no annual or more frequent periodic limitations on changes in the Annual Percentage Rate.

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 18.0% would be **Option A - \$202.88**, and in **Option B - \$152.88**. This annual percentage rate could be reached during the 1st month of the draw period.

Option A or B: 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 18.0% would be **\$208.44**. This annual percentage rate could be reached at the start of the 1st month of the repayment period.

Historic Example – The following table shows how the annual percentage rate and the minimum 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 last business day in the Index month of each year. 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 payments were made each month, and that the rate remained constant during each year. It does not necessarily indicate how the index or your payments will change in the future.

Year	Repayment Period Starts	January Index Rate	Margin This is a margin we have used recently	*ANNUAL PERCENTAGE RATE (rounded, if applicable)	Minimum Monthly Payment Option A	Minimum Monthly Payment Option B
2003	<input type="checkbox"/>	4.25%	0.00	4.25%	\$ 100.00**	\$ 100.00**
2004	<input type="checkbox"/>	4.00%	0.00	4.00%	\$ 100.00**	\$ 100.00**
2005	<input type="checkbox"/>	5.25%	0.00	5.25%	\$ 100.00**	\$ 100.00**
2006	<input type="checkbox"/>	7.25%	0.00	7.25%	\$ 100.00**	\$ 100.00**
2007	<input type="checkbox"/>	8.25%	0.00	8.25%	\$ 100.00**	\$ 100.00**
2008	<input type="checkbox"/>	6.00%	0.00	6.00%	\$ 100.00**	\$ 100.00**
2009	<input type="checkbox"/>	3.25%	0.00	3.25%	\$ 100.00**	\$ 100.00**
2010	<input type="checkbox"/>	3.25%	0.00	3.25%	\$ 100.00**	\$ 100.00**
2011	<input type="checkbox"/>	3.25%	0.00	3.25%	\$ 100.00**	\$ 100.00**
2012	<input type="checkbox"/>	3.25%	0.00	3.25%	\$ 100.00**	\$ 100.00**
2013	<input checked="" type="checkbox"/>	3.25%	0.00	3.25%	\$ 100.00**	\$ 100.00**
2014	<input type="checkbox"/>	3.25%	0.00	3.25%	\$ -0-	\$ -0-
2015	<input type="checkbox"/>	3.25%	0.00	3.25%	\$ -0-	\$ -0-
2016	<input type="checkbox"/>	3.50%	0.00	3.50%	\$ -0-	\$ -0-
2017	<input type="checkbox"/>	3.75%	0.00	3.75%	\$ -0-	\$ -0-

*The annual percentage rate has been adjusted to reflect any interest rate caps.
** Minimum Payment Amount.

Borrower's Certification & Authorization

Certification

The undersigned certify the following:

1. I/We have applied for a mortgage loan from .
In applying for the loan.
I/We completed a loan application containing various information on the purposes of the loan, the amount and source of the down payment, employment and income information, and assets and liabilities. I/We certify that all of the information is true and complete. I/We made no misrepresentations in the loan application with the employer and/or other documents, nor did I/We omit any pertinent information.
2. I/We understand and agree that reserves the right to change the mortgage loan review process to a full documentation program. This may include verifying the information provided on the application with the employer and/or the financial institution.
3. I/We fully understand that it is a Federal crime punishable by fine or imprisonment, or both, to knowingly make any false statements when applying for this mortgage, as applicable under the provisions of Title 18, United States Code, Section 1014.

Authorization to Release Information

To Whom It May Concern:

1. I/We have applied for a mortgage loan from .
As part of the application process, may verify information contained in my/our loan application and in other documents required in connection with the loan, either before the loan is closed or as part of its quality control program.
2. I/We understand and agree that reserves the right to change the mortgage loan review process to a full documentation program. This may include verifying the information provided on the application with the employer and/or the financial institution.
3. or any investor that purchases the mortgage may address this authorization to any party names in the loan application.
4. A copy of this authorization may be accepted as an original.
5. Your prompt reply to or the investor that purchased the mortgage is appreciated.

Date

Date

Social Security Number:

Social Security Number:

Borrower Signature Authorization

Privacy Act Notice: This information is to be used by the agency collecting it or its assignees in determining whether you qualify as a prospective mortgagor under its program. It will not be disclosed outside the agency except as required and permitted by law. You do not have to provide this information, but if you do not your application for approval as a prospective mortgagor or borrower may be delayed or rejected. The information requested in this form is authorized by Title 38, USC, Chapter 37 (If VA); by 12 USC, Section 1701 et. Seq. (if HUD/FHA); by 42 USC, Section 1452b (if HUD/CPD); and Title 42 USC, 1471 et. Seq., or 7 USC, 1921 et. Seq. (if (USDA/FMHA).

Part I – General Information

1. Borrower(s) – Include Full Name & Home Address	2. Name and Address of Lender/Broker RiverWorks Credit Union 947 Western Avenue Lynn, MA 01905-2640 NMLS #410564 Telephone: 800-367-1207
3. Date:	4. Loan Number:

Part II – Borrower Authorization

I hereby authorize the Lender/Broker to verify my past and present employment earnings record, bank accounts, stock holdings, and any other asset balances that are needed to process my mortgage application. I further authorize the Lender/Broker to order a consumer credit report and verify other credit information, including past and present mortgage and landlord references. It is understood that a copy of this form will also serve as authorization.

The information the Lender/Broker obtains is only to be used in the processing of my application for a mortgage.

Please Provide Responses to the following two Security Questions:

What city or town were you born in? _____

What is your mother's maiden name? _____

Borrower Signature: _____

Date: _____

Co-Borrower Signature Authorization

Privacy Act Notice: This information is to be used by the agency collecting it or its assignees in determining whether you qualify as a prospective mortgagor under its program. It will not be disclosed outside the agency except as required and permitted by law. You do not have to provide this information, but if you do not your application for approval as a prospective mortgagor or borrower may be delayed or rejected. The information requested in this form is authorized by Title 38, USC, Chapter 37 (If VA); by 12 USC, Section 1701 et. Seq. (if HUD/FHA); by 42 USC, Section 1452b (if HUD/CPD); and Title 42 USC, 1471 et. Seq., or 7 USC, 1921 et. Seq. (if (USDA/FMHA).

Part I – General Information

1. Co-Borrower(s) – Include Full Name & Home Address	2. Name and Address of Lender/Broker RiverWorks Credit Union 947 Western Avenue Lynn, MA 01905-2640 NMLS #410564 Telephone: 800-367-1207
3. Date:	4. Loan Number:

Part II – Co-Borrower Authorization

I hereby authorize the Lender/Broker to verify my past and present employment earnings record, bank accounts, stock holdings, and any other asset balances that are needed to process my mortgage application. I further authorize the Lender/Broker to order a consumer credit report and verify other credit information, including past and present mortgage and landlord references. It is understood that a copy of this form will also serve as authorization.

The information the Lender/Broker obtains is only to be used in the processing of my application for a mortgage.

Please Provide Responses to the following two Security Questions:

What city or town were you born in? _____

What is your mother's maiden name? _____

Co-Borrower Signature: _____

Date: _____

NOTICE OF RIGHT TO COPY OF APPRAISAL (ECOA)

Borrower(s):

Date:

Loan Number:

Property Address:

Lender/Broker:

Loan Originator:

This notice is being provided to you pursuant to 12 CFR § 1002.14(a).

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.

You will be provided a copy of each appraisal or written valuation concerning this property promptly upon completion, or three (3) business days prior to the time you become contractually obligated on the transaction (for closed-end credit) or account opening (for open-end credit), whichever is earlier.

Rev. March 2015

FACTS	WHAT DOES RIVER WORKS CREDIT UNION DO WITH YOUR PERSONAL INFORMATION?	
Why?	Financial companies choose how they share your personal information. Federal Law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share and protect your personal information. Please read this notice carefully to understand what we do.	
What?	<p>The types of personal information we collect and share depend on the product or service you have with us.</p> <p>This information can include:</p> <ul style="list-style-type: none"> • Social Security Number and income • Account Balances and payment history • Credit History and Credit Scores <p>When you are <i>no longer</i> our member, we continue to share your information as described in this notice.</p>	
How?	All Financial companies need to share customer's personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customer's personal information; the reasons River Works Credit Union chooses to share; and whether you can limit this sharing.	
Reason we can share your personal information	Does River Works Credit Union Share?	Can you limit this sharing?
For Everyday Business Purposes Such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus.	YES	NO
For our marketing purposes To offer our products and services to you.	YES	NO
For joint marketing with other financial institutions.	YES	NO
For our affiliates' everyday business purposes Information about your transactions and experiences.	NO	WE DON'T SHARE
For our affiliates' everyday business purposes Information about your creditworthiness.	NO	WE DON'T SHARE
For our affiliates to market to you.	NO	WE DON'T SHARE
For non affiliates to market to you.	NO	WE DON'T SHARE
Questions?	Call (781) 599-0096, 800-367-1207 or go to www.rwcu.com	

Who we are

Who is providing this notice?

RIVER WORKS CREDIT UNION

What we do

How does River Works Credit Union protect my personal information?

To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings

How does River Works Credit Union collect my personal information?

We collect your personal information, for example, when you;

- open an account or deposit money
- pay your bills or apply for a loan
- use your credit or debit card

We also collect your personal information from others, such as credit bureaus, affiliates or other companies.

Why can't I limit all sharing?

Federal law gives you the right to limit only

- sharing for affiliates' everyday business purposes - information about your creditworthiness
- affiliates from using your information to market to you
- sharing for non-affiliates to market to you

State laws and individual companies may give you additional rights to limit sharing.

(See below for more on your rights under state law).

Definitions

Affiliates

Companies related by common ownership or control. They can be financial or non-financial companies.

- River Works Credit Union has no affiliates.

Nonaffiliates

Companies not related by common ownership or control. They can be financial or non-financial companies.

- Nonaffiliates we share with can include Insurance Companies.

Joint Marketing

A formal agreement between nonaffiliated financial companies that together market financial products or services to you.

- Our joint marketing partners include Insurance Companies.

Other Important Information

State Law - If you give us written permission to share your information about electronic funds transfers, such permission will expire after 45 days.

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 4503 Iowa City, IA 52244	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
Office of the Comptroller of the Currency (OCC) Customer Assistance Group 1301 McKinney Street Suite 3450 Houston, TX 77010	National banks and federally chartered savings banks/associations	(800) 613-6743 occ.treas.gov helpwithmybank.gov
Federal Deposit Insurance Corporation (FDIC) Consumer Response Center 1100 Walnut Street, Box #11 Kansas City, MO 64106	Federally insured state-chartered banks that are not members of the Federal Reserve System	(877) ASK-FDIC or (877) 275-3342 fdic.gov fdic.gov/consumers
Federal Housing Finance Agency (FHFA) Consumer Communications Constitution Center 400 7th Street, S.W. Washington, DC 20024	Fannie Mae, Freddie Mac, and the Federal Home Loan Banks	Consumer Helpline (202) 649-3811 fhfa.gov fhfa.gov/Default.aspx?Page=369 ConsumerHelp@fhfa.gov
National Credit Union Administration (NCUA) Consumer Assistance 1775 Duke Street Alexandria, VA 22314	Federally chartered credit unions	(800) 755-1030 ncua.gov mycreditunion.gov
Federal Trade Commission (FTC) Consumer Response Center 600 Pennsylvania Ave, N.W. Washington, DC 20580	Finance companies, retail stores, auto dealers, mortgage companies and other lenders, and credit bureaus	(877) FTC-HELP or (877) 382-4357 ftc.gov ftc.gov/bcp

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

Regulatory agency	Regulated entities	Contact information
U.S. Department of Justice (DOJ) Civil Rights Division 950 Pennsylvania Ave, N.W. Housing and Civil Enforcement Section Washington DC 20530	Fair lending and housing issues	(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
Department of Housing and Urban Development (HUD) Office of Fair Housing/Equal Opportunity 451 7 th Street, S.W. Washington, DC 20410	Fair lending and housing issues	(800) 669-9777 hud.gov/complaints