

Home Equity Line of Credit Application

This application is designed to be completed by the applicant(s) with the Lender's assistance. Applicants should complete this form as "Borrower" or "Co-Borrower", as applicable. Co-Borrower information must also be provided (and the appropriate box checked) when the income or assets of a person other than the "Borrower" (including the Borrower's spouse) will be used as a basis for loan qualification or the income or assets of the Borrower's spouse or other person who has community property rights pursuant to state law will not be used as a basis for loan qualification, but his or her liabilities must be considered because the spouse or other person has community property rights pursuant to applicable law and Borrower resides in a community property state, the security property is located in a community property state, or the Borrower is relying on other property located in a community property state as a basis for repayment of the loan.

If this is an application for joint credit, Borrower and Co-Borrower each agree that we intend to apply for joint credit (sign below):

| Borrower _____ | Co-Borrower _____ | | |
|---|-------------------|--|--|
| I. TYPE OF MORTGAGE AND TERMS OF LOAN | | | |
| Mortgage Applied for: <input type="checkbox"/> Other (explain): Home Equity Line of Credit | | Lender Case Number | |
| Amount \$ | Interest Rate % | No. of Months | Amortization Type: <input type="checkbox"/> Other (explain): |
| II. PROPERTY INFORMATION AND PURPOSE OF LOAN | | | |
| Subject Property Address (street, city, state, & ZIP) | | | No. of Units |
| Legal Description of Subject Property (attach description if necessary) | | | Year Built |
| Purpose of Loan <input type="checkbox"/> Purchase <input type="checkbox"/> Other (explain): <input type="checkbox"/> Refinance | | Subject Property will be: <input type="checkbox"/> Primary Residence <input type="checkbox"/> Secondary Residence <input type="checkbox"/> Investment | |

Complete this line if this is a refinance loan.

| | | | | | |
|---|---------------|-----------------------|----------------------|------------------------------------|---|
| Year Acquired | Original Cost | Amount Existing Liens | Purpose of Refinance | Describe Improvements | <input type="checkbox"/> made <input type="checkbox"/> to be made |
| \$ | \$ | \$ | | Cost: \$ | |
| Title will be held in what Name(s) | | | | Manner in which Title will be held | Estate will be held in: <input type="checkbox"/> Fee Simple <input type="checkbox"/> Leasehold (show expiration date) |
| Source of Down Payment, Settlement Charges and/or Subordinate Financing (explain) | | | | | |

| Borrower | Co-Borrower | | |
|---|---|---|--|
| III. BORROWER INFORMATION | | | |
| Borrower's Name (include Jr. or Sr. if applicable) | | Co-Borrower's Name (include Jr. or Sr. if applicable) | |
| Social Security Number | Home Phone (incl. area code) | DOB (mm/dd/yyyy) | Yrs. School |
| <input type="checkbox"/> Married (includes registered domestic partners) | Dependents (not listed by Co-Borrower) No. _____ Ages _____ | <input type="checkbox"/> Married (includes registered domestic partners) | Dependents (not listed by Borrower) No. _____ Ages _____ |
| <input type="checkbox"/> Unmarried (includes single, divorced, widowed) | | <input type="checkbox"/> Unmarried (includes single, divorced, widowed) | |
| <input type="checkbox"/> Separated | | <input type="checkbox"/> Separated | |
| Present Address (street, city, state, ZIP/ country) <input type="checkbox"/> Own <input type="checkbox"/> Rent ___ No. Yrs. | | Present Address (street, city, state, ZIP/ country) <input type="checkbox"/> Own <input type="checkbox"/> Rent ___ No. Yrs. | |
| Mailing Address, if different from Present Address | | Mailing Address, if different from Present Address | |
| If residing at present address for less than two years, complete the following: | | | |
| Former Address (street, city, state, ZIP) <input type="checkbox"/> Own <input type="checkbox"/> Rent ___ No. Yrs. | | Former Address (street, city, state, ZIP) <input type="checkbox"/> Own <input type="checkbox"/> Rent ___ No. Yrs. | |
| Former Address (street, city, state, ZIP) <input type="checkbox"/> Own <input type="checkbox"/> Rent ___ No. Yrs. | | Former Address (street, city, state, ZIP) <input type="checkbox"/> Own <input type="checkbox"/> Rent ___ No. Yrs. | |

| Borrower | | IV. EMPLOYMENT INFORMATION | | Co-Borrower | | |
|---------------------------------|--|---|--|---------------------------------|--|----------------------------------|
| Name & Address of Employer | <input type="checkbox"/> Self Employed | Yrs. on this job | | Name & Address of Employer | <input type="checkbox"/> Self Employed | |
| | | Yrs. employed in this line of work/profession | | | | Yrs. on this job |
| Position/Title/Type of Business | | Business Phone (incl. area code) | | Position/Title/Type of Business | | Business Phone (incl. area code) |

If employed in current position for less than two years or if currently employed in more than one position, complete the following:

| | | | | | | |
|---------------------------------|--|----------------------------------|--|---------------------------------|--|----------------------------------|
| Name & Address of Employer | <input type="checkbox"/> Self Employed | Dates (from-to) | | Name & Address of Employer | <input type="checkbox"/> Self Employed | Dates (from-to) |
| | | Monthly Income \$ | | | | Monthly Income \$ |
| Position/Title/Type of Business | | Business Phone (incl. area code) | | Position/Title/Type of Business | | Business Phone (incl. area code) |
| Name & Address of Employer | <input type="checkbox"/> Self Employed | Dates (from-to) | | Name & Address of Employer | <input type="checkbox"/> Self Employed | Dates (from-to) |
| | | Monthly Income \$ | | | | Monthly Income \$ |
| Position/Title/Type of Business | | Business Phone (incl. area code) | | Position/Title/Type of Business | | Business Phone (incl. area code) |
| Name & Address of Employer | <input type="checkbox"/> Self Employed | Dates (from-to) | | Name & Address of Employer | <input type="checkbox"/> Self Employed | Dates (from-to) |
| | | Monthly Income \$ | | | | Monthly Income \$ |
| Position/Title/Type of Business | | Business Phone (incl. area code) | | Position/Title/Type of Business | | Business Phone (incl. area code) |
| Name & Address of Employer | <input type="checkbox"/> Self Employed | Dates (from-to) | | Name & Address of Employer | <input type="checkbox"/> Self Employed | Dates (from-to) |
| | | Monthly Income \$ | | | | Monthly Income \$ |
| Position/Title/Type of Business | | Business Phone (incl. area code) | | Position/Title/Type of Business | | Business Phone (incl. area code) |
| Name & Address of Employer | <input type="checkbox"/> Self Employed | Dates (from-to) | | Name & Address of Employer | <input type="checkbox"/> Self Employed | Dates (from-to) |
| | | Monthly Income \$ | | | | Monthly Income \$ |
| Position/Title/Type of Business | | Business Phone (incl. area code) | | Position/Title/Type of Business | | Business Phone (incl. area code) |

V. MONTHLY INCOME AND COMBINED HOUSING EXPENSE INFORMATION

| Gross Monthly Income | Borrower | Co-Borrower | Total | Combined Monthly Housing Expense | Present | Proposed |
|---|----------|-------------|-------|----------------------------------|---------|----------|
| Base Empl. Income* | \$ | \$ | \$ | Rent | \$ | |
| Overtime | | | | First Mortgage (P&I) | | \$ |
| Bonuses | | | | Other Financing (P&I) | | |
| Commissions | | | | Hazard Insurance | | |
| Dividends/Interest | | | | Real Estate Taxes | | |
| Net Rental Income | | | | Mortgage Insurance | | |
| Other (before completing, see the notice in "describe other income," below) | | | | Homeowner Assn. Dues | | |
| | | | | Other: | | |
| Total | \$ | \$ | \$ | Total | \$ | \$ |

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

Describe Other Income **Notice:** Alimony, child support, or separate maintenance income need not be revealed if the Borrower (B) or Co-Borrower (C) does not choose to have it considered for repaying this loan.

| B/C | Monthly Amount |
|-----|----------------|
| | \$ |
| | |
| | |

VI. ASSETS AND LIABILITIES

This Statement and any applicable supporting schedules may be completed jointly by both married and unmarried Co-borrowers if their assets and liabilities are sufficiently joined so that the Statement can be meaningfully and fairly presented on a combined basis; otherwise, separate Statements and Schedules are required. If the Co-Borrower section was completed about a non-applicant spouse or other person, this Statement and supporting schedules must be completed by that spouse or other person also.

Completed Jointly Not Jointly

| Description | ASSETS | Cash or Market Value | Liabilities and Pledged Assets. List the creditor's name, address and account number for all outstanding debts, including automobile loans, revolving charge accounts, real estate loans, alimony, child support, stock pledges, etc. Use continuation sheet, if necessary. Indicate by (*) those liabilities which will be satisfied upon sale of real estate owned or upon refinancing of the subject property. | | |
|---|--------|----------------------|---|--------------------------------------|--------------------------------|
| | | | LIABILITIES | Monthly Payment & Months Left to Pay | Unpaid Balance |
| Cash deposit toward purchase held by: | | \$ | | | |
| List checking and savings accounts below | | | | | |
| Name and address of Bank, S&L, or Credit Union | | | Name and address of Company | \$ Payment/Months | \$ |
| | | | Acct. no. | | |
| Acct. no. | | \$ | Name and address of Company | \$ Payment/Months | \$ |
| Name and address of Bank, S&L, or Credit Union | | | | | |
| | | | Acct. no. | | |
| Acct. no. | | \$ | Name and address of Company | \$ Payment/Months | \$ |
| Name and address of Bank, S&L, or Credit Union | | | | | |
| | | | Acct. no. | | |
| Acct. no. | | \$ | Name and address of Company | \$ Payment/Months | \$ |
| Name and address of Bank, S&L, or Credit Union | | | | | |
| | | | Acct. no. | | |
| Acct. no. | | \$ | Name and address of Company | \$ Payment/Months | \$ |
| Stocks & Bonds (Company name/number description) | | \$ | | | |
| | | | Acct. no. | | |
| | | | Name and address of Company | \$ Payment/Months | \$ |
| Life insurance net cash value | | \$ | | | |
| Face amount: \$ | | | | | |
| Subtotal Liquid Assets | | \$ | Acct. no. | | |
| Real estate owned (enter market value from schedule of real estate owned) | | \$ | Name and address of Company | \$ Payment/Months | \$ |
| Vested interest in retirement fund | | \$ | | | |
| Net worth of business(es) owned (attach financial statement) | | \$ | Acct. no. | | |
| Automobiles owned (make and year) | | \$ | Alimony/Child Support/Separate Maintenance Payments Owed to: | \$ | |
| Other Assets (itemize) | | \$ | Job-Related Expense (child care, union dues, etc.) | \$ | |
| | | | Total Monthly Payments | \$ | |
| Total Assets a. | | \$ | Net Worth (a minus b) => | \$ | Total Liabilities b. \$ |

Schedule of Real Estate Owned (if additional properties are owned, use continuation sheet)

| Property Address (enter S if sold, PS if pending sale or R if rental being held for income) | Type of Property | Present Market Value | Amount of Mortgages & Liens | Gross Rental Income | Mortgage Payments | Insurance, Maintenance, Taxes & Misc. | Net Rental Income |
|---|------------------|----------------------|-----------------------------|---------------------|-------------------|---------------------------------------|-------------------|
| | | \$ | \$ | \$ | \$ | \$ | \$ |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | Totals | \$ | \$ | \$ | \$ | \$ | \$ |

List any additional names under which credit has previously been received and indicate appropriate creditor name(s) and account number(s):

| Alternate Name | Creditor Name | Account Number |
|----------------|---------------|----------------|
| | | |
| | | |

| VII. DETAILS OF TRANSACTION | | VIII. DECLARATIONS | | | | |
|---|----|---|--------------------------|--------------------------|--------------------------|--------------------------|
| a. Purchase price | \$ | If you answer "Yes" to any questions a through i, please use continuation sheet for explanation. a. Are there any outstanding judgments against you? b. Have you been declared bankrupt within the past 7 years? c. Have you had property foreclosed upon or given title or deed in lieu thereof in the last 7 years? d. Are you a party to a lawsuit? e. Have you directly or indirectly been obligated on any loan which resulted in foreclosure, transfer of title in lieu of foreclosure, or judgment? <small>(This would include such loans as home mortgage loans, SBA loans, home improvement loans, educational loans, manufactured (mobile) home loans, any mortgage, financial obligation, bond, or loan guarantee. If "Yes," provide details, including date, name, and address of Lender, FHA or VA case number, if any, and reasons for the action.)</small> f. Are you presently delinquent or in default on any Federal debt or any other loan, mortgage, financial obligation, bond, or loan guarantee? <small>If "Yes," give details as described in the preceding question.</small> g. Are you obligated to pay alimony, child support, or separate maintenance? h. Is any part of the down payment borrowed? i. Are you a co-maker or endorser on a note? ----- j. Are you a U. S. citizen? k. Are you a permanent resident alien? l. Do you intend to occupy the property as your primary residence? <small>If "Yes," complete question m below.</small> m. Have you had an ownership interest in a property in the last three years? (1) What type of property did you own-principal residence (PR), second home (SH), or investment property (IP)? _____ (2) How did you hold title to the home-solely by yourself (S), jointly with your spouse (SP), or jointly with another person (O)? _____ | Borrower | | Co-Borrower | |
| b. Alterations, improvements, repairs | | | Yes | No | Yes | No |
| c. Land (if acquired separately) | | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| d. Refinance (incl. debts to be paid off) | | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| e. Estimated prepaid items | | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| f. Estimated closing costs | | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| g. PMI, MIP, Funding Fee | | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| h. Discount (if Borrower will pay) | | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| i. Total costs (add items a through h) | | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| j. Subordinate financing | | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| k. Borrower's closing costs paid by Seller | | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| l. Other Credits (explain) | | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| m. Loan amount (exclude PMI, MIP, Funding Fee financed) | | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| n. PMI, MIP, Funding Fee financed | | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| o. Loan amount (add m & n) | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| p. Cash from/to Borrower (subtract j, k, l & o from i) | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |

IX. ACKNOWLEDGEMENT AND AGREEMENT

Each of the undersigned specifically represents to Lender and to Lender's actual or potential agents, brokers, processors, attorneys, insurers, servicers, successors and assigns and agrees and acknowledges that: (1) the information provided in this application is true and correct as of the date set forth opposite my signature and that any intentional or negligent misrepresentation of this information contained in this application may result in civil liability, including monetary damages, to any person who may suffer any loss due to reliance upon any misrepresentation that I have made on this application, and/or in criminal penalties including, but not limited to, fine or imprisonment or both under the provisions of Title 18, United States Code, Sec. 1001, et seq.; (2) the loan requested pursuant to this application (the "Loan") will be secured by a mortgage or deed of trust on the property described in this application; (3) the property will not be used for any illegal or prohibited purpose or use; (4) all statements made in this application are made for the purpose of obtaining a residential mortgage loan; (5) the property will be occupied as indicated in this application; (6) the Lender, its servicers, successors or assigns may retain the original and/or an electronic record of this application, whether or not the loan is approved; (7) the Lender and its agents, brokers, insurers, servicers, successors and assigns may continuously rely on the information contained in the application, and I am obligated to amend and/or supplement the information provided in this application if any of the material facts that I have represented herein should change prior to closing of the Loan; (8) in the event that my payments on the Loan become delinquent, the Lender, its servicers, successors, or assigns may, in addition to any other rights and remedies that it may have relating to such delinquency, report my name and account information to one or more consumer credit reporting agencies; (9) ownership of the Loan and/or administration of the Loan account may be transferred with such notice as may be required by law; (10) neither Lender nor its agents, brokers, insurers, servicers, successors or assigns has made any representation or warranty, express or implied, to me regarding the property or the condition or value of the property; and (11) my transmission of this application as an "electronic record" containing my "electronic signature," as those terms are defined in applicable federal and/or state laws (excluding audio and video recordings), or my facsimile transmission of this application containing a facsimile of my signature, shall be as effective, enforceable and valid as if a paper version of this application were delivered containing my original written signature.

Acknowledgement. Each of the undersigned hereby acknowledges that any owner of the Loan, its servicers, successors and assigns, may verify or reverify any information contained in this application or obtain any information or data relating to the Loan, for any legitimate purpose through any source, including a source named in this application or a consumer reporting agency.

Appraisal Notice: 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.

I acknowledge receipt of the Home Equity Brochure and the lender's Home Equity disclosure statement on today's date.

| | | | |
|----------------------------------|------|-------------------------------------|------|
| Borrower's Signature X | Date | Co-Borrower's Signature X | Date |
|----------------------------------|------|-------------------------------------|------|

To be Completed by Loan Originator:

This information was provided:

- In a face-to-face interview By the applicant and submitted by fax or mail
 In a telephone interview By the applicant and submitted via e-mail or the internet

| | |
|---|--|
| Loan Originator's Signature X | Date |
| Loan Originator's Name (print or type) | Loan Originator Identifier Loan Originator's Phone Number (including area code) |
| Loan Origination Company's Name | Loan Origination Company Identifier Loan Origination Company's Address |

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

9. 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 daily in the Wall Street Journal. To determine the annual percentage rate that will apply to your line of credit, we add a margin to the value of the index and then round to the nearest .125 percent. Ask us for the current index value, margin, and annual percentage rate. After you open a line of credit, rate information will be provided on periodic statements that we send you.

10. RATE CHANGES. The annual percentage rate can change daily. There is no limit on the amount by which the rate can change in any one year period. The maximum **ANNUAL PERCENTAGE RATE** that can apply during the line of credit is 18.000 percent. The minimum **ANNUAL PERCENTAGE RATE** that can apply during the line of credit is 4.750 percent.

11. MAXIMUM RATE AND PAYMENT EXAMPLES. If you had an outstanding balance of \$10,000.00 the minimum monthly payment at the maximum **ANNUAL PERCENTAGE RATE** of 18.000 percent would be \$150.00. The maximum annual percentage rate could be reached in the 1st month (1 month) following an initial hold of 1 day.

12. 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 January. 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 (\$) |
|------|-----------|-------------|----------------------------|------------------------------|
| 2009 | 3.250 | 2.250 | 5.500 | 45.83 |
| 2010 | 3.250 | 2.250 | 5.500 | 45.83 |
| 2011 | 3.250 | 2.250 | 5.500 | 45.83 |
| 2012 | 3.250 | 2.250 | 5.500 | N/A |
| 2013 | 3.250 | 2.250 | 5.500 | N/A |
| 2014 | 3.250 | 2.250 | 5.500 | N/A |
| 2015 | 3.250 | 2.250 | 5.500 | N/A |
| 2016 | 3.500 | 2.250 | 5.750 | N/A |
| 2017 | 3.750 | 2.250 | 6.000 | N/A |
| 2018 | 4.500 | 2.250 | 6.750 | N/A |
| 2019 | 5.500 | 2.250 | 7.750 | N/A |
| 2020 | 4.750 | 2.250 | 7.000 | N/A |
| 2021 | 3.250 | 2.250 | 5.500 | N/A |
| 2022 | 3.250 | 2.250 | 5.500 | N/A |
| 2023 | 7.500 | 2.250 | 9.750 | N/A |

* This is a margin we have used recently; your margin may be different.

This statement is not an offer to enter into an interest rate or discount point agreement. Such an offer may only be made pursuant to Minnesota Statutes 47.206, subd. 3 and 4.

WHAT YOU SHOULD KNOW ABOUT

Home Equity Lines of Credit (HELOC)

Borrowing from the
value of your home



Consumer Financial
Protection Bureau



An official publication of the U.S. government

How to use the booklet

When you and your lender discuss home equity lines of credit, often referred to as HELOCs, you receive a copy of this booklet. It helps you explore and understand your options when borrowing against the equity in your home.

You can find more information from the Consumer Financial Protection Bureau (CFPB) about home loans at cfpb.gov/mortgages. You'll also find other mortgage-related CFPB resources, facts, and tools to help you take control of your borrowing options.

About the CFPB

The CFPB is a 21st century agency that implements and enforces federal consumer financial law and ensures that markets for consumer financial products are fair, transparent, and competitive.

This pamphlet, titled What you should know about home equity lines of credit, was created to comply with federal law pursuant to 15 U.S.C. 1637a(e) and 12 CFR 1026.40(e).

How can this booklet help you?

This booklet can help you decide whether home equity line of credit is the right choice for you, and help you shop for the best available option.

A home equity line of credit (HELOC) is a loan that allows you to borrow, spend, and repay as you go, using your home as collateral.

Typically, you can borrow up to a specified percentage of your equity. Equity is the value of your home minus the amount you owe on your mortgage.

Consider a HELOC if you are confident you can keep up with the loan payments. If you fall behind or can't repay the loan on schedule, you could lose your home.

After you finish this booklet:

- You'll understand the effect of borrowing against your home
- You'll think through your borrowing and financing options, besides a HELOC
- You'll see how to shop for your best HELOC offer
- You'll see what to do if the economy or your situation changes

Compare a HELOC to other money sources

Before you decide to take out a HELOC, it might make sense to consider other options that might be available to you, like the ones below.

TIP

Renting your home out to other people may be prohibited under the terms of your line of credit.

| MONEY SOURCE | HOW MUCH CAN YOU BORROW | VARIABLE OR FIXED RATE | IS YOUR HOME AT RISK? | TYPICAL ADVANTAGES | TYPICAL DISADVANTAGES |
|---|---|------------------------|-----------------------|---|---|
| HELOC <i>You borrow against the equity in your home</i> | Generally a percentage of the appraised value of your home, minus the amount you owe on your mortgage | Variable, typically | Yes | Continue repaying and borrowing for several years without additional approvals or paperwork | Repayment amount varies; repayment is often required when you sell your home |
| SECOND MORTGAGE OR HOME EQUITY LOAN <i>You borrow against the equity in your home</i> | Generally a percentage of the appraised value of your home, minus the amount you owe on your mortgage | Fixed | Yes | Equal payments that pay off the entire loan | If you need more money, you need to apply for a new loan; repayment is often required when you sell your home |
| CASH-OUT REFINANCE <i>You replace your existing mortgage with a bigger mortgage and take the difference in cash</i> | Generally a percentage of the appraised value of your home; the amount of your existing loan plus the amount you want to cash out | Variable or fixed | Yes | Continue to make just one mortgage payment | Closing costs are generally higher; it may take longer to pay off your mortgage; interest rate may be higher than your current mortgage |
| PERSONAL LINE OF CREDIT <i>You borrow based on your credit, without using your home as collateral</i> | Up to your credit limit, as determined by the lender | Variable, typically | No | Continue repaying and borrowing for several years without additional approvals or paperwork | Solid credit is required; you may need to pay the entire amount due once a year; higher interest rate than a loan that uses your home as collateral |

Compare a HELOC to other money sources

| MONEY SOURCE | HOW MUCH CAN YOU BORROW | VARIABLE OR FIXED RATE | IS YOUR HOME AT RISK? | TYPICAL ADVANTAGES | TYPICAL DISADVANTAGES |
|--|--|---------------------------------|-----------------------|---|---|
| <p>RETIREMENT PLAN LOAN <i>You borrow from your retirement savings in a 401(k) or similar plan through your current employer</i></p> | <p>Generally, up to 50% of your vested balance or \$50,000, whichever is less</p> | <p>Fixed</p> | <p>No</p> | <p>Repay through paycheck deductions; paperwork required but no credit check and no impact on your credit score</p> | <p>If you leave or lose your job, repay the whole amount at that time or pay taxes and penalties; spouse may need to consent</p> |
| <p>HOME EQUITY CONVERSION MORTGAGE (HECM) <i>You must be age 62 or older, and you borrow against the equity in your home</i></p> | <p>Depends on your age, the interest rate on your loan, and the value of your home</p> | <p>Fixed or variable</p> | <p>Yes</p> | <p>You don't make monthly loan payments—instead, you typically repay the loan when you move out, or your survivors repay it after you die</p> | <p>The amount you owe grows over time; you might not have any value left in your home if you want to leave it to your heirs</p> |
| <p>CREDIT CARD <i>You borrow money from the credit card company and repay as you go</i></p> | <p>Up to the amount of your credit limit, as determined by the credit card company</p> | <p>Fixed or variable</p> | <p>No</p> | <p>No minimum purchase; consumer protections in the case of fraud or lost or stolen card</p> | <p>Higher interest rate than a loan that uses your home as collateral</p> |
| <p>FRIENDS AND FAMILY <i>You borrow money from someone you are close to</i></p> | <p>Agreed on by the borrower and lender</p> | <p>Variable, fixed or other</p> | <p>No</p> | <p>Reduced waiting time, fees, and paperwork compared to a formal loan</p> | <p>Forgiven loans and unreported or forgiven interest can complicate taxes, especially for large loans; can jeopardize important personal relationships if something goes wrong</p> |

How HELOCs work

PREPARE FOR UP-FRONT COSTS

Some lenders waive some or all of the up-front costs for a HELOC. Others may charge fees. For example, you might get charged:

- A fee for a property **appraisal**, which is a formal estimate of the value of your home
- An application fee, which might not be refunded if you are turned down
- Closing costs, including fees for attorneys, title search, mortgage preparation and filing, property and title insurance, and taxes

PULL MONEY FROM YOUR LINE OF CREDIT

Once approved for a HELOC, you can generally spend up to your credit limit whenever you want. When your line of credit is open for spending, you are in the you are in the **borrowing period**, also called the **draw period**. Typically, you use special checks or a credit card to draw on your line. Some plans require you to borrow a minimum amount each time (for example, \$300) or keep a minimum amount outstanding. Some plans require you to take an initial amount when the credit line is set up.

MAKE REPAYMENTS DURING THE “DRAW PERIOD”

Some plans set a minimum monthly payment that includes a portion of the **principal** (the amount you borrow) plus accrued interest. The portion of your payment that goes toward principal typically does not repay the principal by the end of the term. Other plans may allow payment of the interest only, during the draw period, which means that you pay nothing toward the principal.

If your plan has a variable interest rate, your monthly payments may change even if you don't draw more money.

ENTER THE “REPAYMENT PERIOD”

Whatever your payment arrangements during the draw period—whether you pay some, a little, or none of the principal amount of the loan—when the draw period ends you enter a repayment period. Your lender may set a schedule so that you repay the full amount, often over ten or 15 years.

Or, you may have to pay the entire balance owed, all at once, which might be a large amount called a **balloon payment** by refinancing it with the lender, getting a loan from another lender, or some other means. If you are unable to pay the balloon payment in full, you could lose your home.

RENEW OR CLOSE OUT THE LINE OF CREDIT

At the end of the repayment period, your lender might encourage you to leave the line of credit open. This way you don't have to go through the cost and expense of a new loan, if you expect to borrow again. Be sure you understand if annual maintenance fees or other fees apply, even if you are not actively using the credit line.

TIP

If you sell your home, you are generally required to pay off your HELOC in full immediately. If you are likely to sell your home in the near future, consider whether or not to pay the up-front costs of setting up a line of credit.



GET THREE HELOC ESTIMATES

Shopping around lets you compare costs and features, so you can feel confident you're making the best choice for your situation.

| | | OFFER A | OFFER B | OFFER C |
|---|----|---------|---------|---------|
| Initiating the HELOC | | | | |
| Credit limit | \$ | | | |
| First transaction | \$ | | | |
| Minimum transaction | \$ | | | |
| Minimum balance | \$ | | | |
| Fixed annual percentage rate | % | | | |
| Variable annual percentage rate | % | | | |
| » Index used and current value | | | | |
| » Amount of margin | | | | |
| » Frequency of rate adjustments | | | | |
| » Amount/length of discount rate (if any) | | | | |
| » Interest rate cap and floor | | | | |
| Length of plan | | | | |
| » Draw period | | | | |
| » Repayment period | | | | |
| Initial fees | | | | |
| » Appraisal fee | \$ | | | |
| » Application fee | \$ | | | |



GET THREE HELOC ESTIMATES

Shopping around lets you compare costs and features, so you can feel confident you're making the best choice for your situation.

| | | OFFER A | OFFER B | OFFER C |
|---|----|---------|---------|---------|
| » Up-front charges, including points | \$ | | | |
| » Early termination fee | \$ | | | |
| » Closing costs | | | | |
| During the draw period | | | | |
| » Interest and principal payments | \$ | | | |
| » Interest-only payments? | \$ | | | |
| » Fully amortizing payments | \$ | | | |
| » Annual fee (if applicable) | \$ | | | |
| » Transaction fee (if applicable) | \$ | | | |
| » Inactivity fee | \$ | | | |
| » Prepayment and other penalty fees | \$ | | | |
| During the repayment period | | | | |
| » Penalty for overpayments? | | | | |
| » Fully amortizing payment amount? | | | | |
| » Balloon repayment of full balance owed? | | | | |
| » Renewal available? | | | | |
| » Refinancing of balance by lender? | | | | |
| » Conversion to fixed-term loan? | | | | |

How variable interest rates work

Home equity lines of credit typically involve variable rather than fixed interest rates.

A variable interest rate generally has two parts: the index and the margin.

An **index** is a measure of interest rates generally that reflects trends in the overall economy. Different lenders use different indexes in their loans. Common indexes include the U.S. prime rate and the Constant Maturity Treasury (CMT) rate. Talk with your lender to find out more about the index they use.

The **margin** is an extra percentage that the lender adds to the index.

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

Rights and responsibilities

Lenders are required to disclose the terms and costs of their home equity lines of credit. They need to tell you:

- Annual percentage rate (APR)
- Information about variable rates
- Payment terms
- Requirements on transactions, such as minimum draw amounts and number of draws allowed per year

- Annual fees
- Miscellaneous charges

You usually get these disclosures when you receive a loan application, and you get additional disclosures before the line of credit is opened. In general, the lender cannot charge a nonrefundable fee as part of your application until three days after you have received the disclosures.

If the lender changes the terms before the loan is made, you can decide not to go forward with it, and the lender must return all fees. There is one exception: the variable interest rate might change, and in that case if you decide not to go ahead with the loan, your fees are not refunded.

Lenders must give you a list of HUD-approved housing counselors in your area. You can talk to counselor about how HELOCs work and get free or low-cost help with budgeting and money management.

Right to cancel (also called right to rescind)

If you change your mind for any reason, under federal law, you can cancel the credit line in the first three days. Notify the lender in writing within the first three days after the account was opened. The lender must then cancel the loan and return the fees you paid, including application and appraisal fees.

TIP

Some HELOCs let you convert some of your balance to a fixed interest rate. The fixed interest rate is typically higher than the variable rate, but it means more predictable payments.

If something changes during the course of the loan

HELOCs generally permit the lender to freeze or reduce your credit line if the value of your home falls or if they see a change for the worse in your financial situation. If this happens, you can:

- **Talk with your lender.** Find out the reason for the freeze or reduction. You might need to check your credit reports for errors that might have caused a downgrade in your credit. Or, you might need to talk with your lender about a new appraisal on your home and make sure the lender agrees to accept a new appraisal as valid.
- **Shop for another line of credit.** If another lender offers you a line of credit, you may be able to use that to pay off your original line of credit. Application fees and other fees may apply for the new loan.



WELL DONE!

For most people, a home is their most valuable asset. A HELOC can help you make the most of this asset, when you understand the ins and outs and know what to expect.

In this booklet:

ASK YOURSELF

Have I considered other sources of money and loans, besides a HELOC?

Have I shopped around for HELOC features and fees?

Am I comfortable with the worst-case scenario, where I could lose my home?

ONLINE TOOLS

CFPB website
cfpb.gov

Answers to common questions
cfpb.gov/askcfpb

Tools and resources for home buyers
cfpb.gov/owning-a-home

Talk to a HUD-approved housing counselor
cfpb.gov/find-a-housing-counselor

Submit a complaint
cfpb.gov/complaint