



Please find enclosed the information for you to complete regarding your Home Equity Request. You will need to complete the following:

- Application
- Equity Worksheet
- Certification & Authorization to Release information
- Homeowners Insurance Agreement

You will need to provide copies of your recent paystubs, tax assessment, and Homeowner's Insurance when sending in signed forms and application.

If you have any questions, please feel free to contact me at (859) 367-5846.

Sincerely,

A handwritten signature in black ink that reads "Mackenzie Huff". The signature is written in a cursive style with a long horizontal stroke at the end.

Mackenzie Huff



One Quality Street
Lexington, KY 40507
Phone: (859) 367-1230
(800) 246-9112
www.kuefcu.com



Application

1
NOTE AND COMPLETE

NOTICE TO OHIO APPLICANTS: The Ohio laws against discrimination require that all creditors make credit equally available to all credit worthy customers, and that credit reporting agencies maintain separate credit histories on each individual upon request. The Ohio Civil Rights Commission administers compliance with this law.

WISCONSIN RESIDENTS ONLY: (1) No provision of any marital property agreement, unilateral statement under Section 766.59, or court decree under Section 766.70 will adversely affect the rights of the Credit Union unless the Credit Union is furnished a copy of the agreement, statement or decree, or has actual knowledge of its terms, before the credit is granted or the account is opened. (2) Please sign if you are not applying for this account or loan with your spouse. The credit being applied for, if granted, will be incurred in the interest of the marriage or family of the undersigned. SIGNATURE FOR WISCONSIN RESIDENTS ONLY _____ DATE _____

Married Applicants may apply for a separate account.

Individual Credit: Complete **Applicant** section. Complete **Co-Applicant, Spouse**, (referred to as "Other") section: (1) about your spouse if you live in a community property state (AZ, CA, ID, LA, NM, NV, TX, WA, WI), or (2) if your spouse will use the Account. Please check box to indicate whom the information is about.
 Joint Credit: Each Applicant must **individually** complete the appropriate section below. If Co-Borrower is spouse of the Applicant, mark the Co-Applicant box.

Amount Requested \$ _____ **Purpose:** _____
Repayment: Payroll Deduction Cash Automatic Payment Military Allotment _____

STATEMENT OF INTENT

Are you interested in having your loan protected? Yes No
If you answer "yes", then the credit union will disclose the cost of this voluntary payment protection to you. A separate election which discloses the terms and conditions must be signed for protection to be effective.

2
APPLICANT INFORMATION

APPLICANT

NAME (Last - First - Initial) _____

DRIVER'S LICENSE NUMBER/STATE _____

ACCOUNT NUMBER _____ SOCIAL SECURITY NUMBER _____

BIRTH DATE _____ HOME PHONE _____ BUSINESS PHONE/EXT. _____

PRESENT ADDRESS (Street - City - State - Zip) _____ LENGTH AT RESIDENCE _____
 OWN RENT

PREVIOUS ADDRESS (Street - City - State - Zip) _____ LENGTH AT RESIDENCE _____
 OWN RENT

COMPLETE FOR JOINT CREDIT, SECURED CREDIT OR IF YOU LIVE IN A COMMUNITY PROPERTY STATE:
 MARRIED SEPARATED UNMARRIED (Single - Divorced - Widowed)

LIST AGES OF DEPENDENTS NOT LISTED BY OTHER APPLICANT (Exclude Self)

OTHER **CO-APPLICANT** **SPOUSE**

NAME (Last - First - Initial) _____

DRIVER'S LICENSE NUMBER/STATE _____

ACCOUNT NUMBER _____ SOCIAL SECURITY NUMBER _____

BIRTH DATE _____ HOME PHONE _____ BUSINESS PHONE/EXT. _____

PRESENT ADDRESS (Street - City - State - Zip) _____ LENGTH AT RESIDENCE _____
 OWN RENT

PREVIOUS ADDRESS (Street - City - State - Zip) _____ LENGTH AT RESIDENCE _____
 OWN RENT

COMPLETE FOR JOINT CREDIT, SECURED CREDIT OR IF YOU LIVE IN A COMMUNITY PROPERTY STATE:
 MARRIED SEPARATED UNMARRIED (Single - Divorced - Widowed)

LIST AGES OF DEPENDENTS NOT LISTED BY APPLICANT (Exclude Self)

3
EMPLOYMENT INFORMATION

NAME AND ADDRESS OF EMPLOYER _____

YOUR TITLE/GRADE _____ SUPERVISOR'S NAME _____

START DATE _____ HOURS AT WORK _____ IF SELF EMPLOYED, TYPE OF BUSINESS _____

IF EMPLOYED IN CURRENT POSITION LESS THAN FIVE YEARS, COMPLETE PREVIOUS EMPLOYER NAME AND ADDRESS _____

STARTING DATE _____ ENDING DATE _____

IS DUTY STATION TRANSFER EXPECTED DURING NEXT YEAR YES NO
WHERE _____
ENDING/SEPARATION DATE _____

NAME AND ADDRESS OF EMPLOYER _____

YOUR TITLE/GRADE _____ SUPERVISOR'S NAME _____

START DATE _____ HOURS AT WORK _____ IF SELF EMPLOYED, TYPE OF BUSINESS _____

IF EMPLOYED IN CURRENT POSITION LESS THAN FIVE YEARS, COMPLETE PREVIOUS EMPLOYER NAME AND ADDRESS _____

STARTING DATE _____ ENDING DATE _____

IS DUTY STATION TRANSFER EXPECTED DURING NEXT YEAR YES NO
WHERE _____
ENDING/SEPARATION DATE _____

4
INCOME INFORMATION

NOTICE: Alimony, child support, or separate maintenance income need not be revealed if you do not choose to have it considered.

EMPLOYMENT INCOME \$ _____ OTHER INCOME \$ _____

PER NET GROSS PER SOURCE

NOTICE: Alimony, child support, or separate maintenance income need not be revealed if you do not choose to have it considered.

EMPLOYMENT INCOME \$ _____ OTHER INCOME \$ _____

PER NET GROSS PER SOURCE

5
REFERENCES
Please include Street, City, State and Zip.

NAME AND ADDRESS OF NEAREST RELATIVE NOT LIVING WITH YOU _____

RELATIONSHIP _____ HOME PHONE _____

NAME AND ADDRESS OF PERSONAL FRIEND - NOT A RELATIVE _____

HOME PHONE _____

NAME AND ADDRESS OF NEAREST RELATIVE NOT LIVING WITH YOU _____

RELATIONSHIP _____ HOME PHONE _____

NAME AND ADDRESS OF PERSONAL FRIEND - NOT A RELATIVE _____

HOME PHONE _____

APPLICANT

OTHER (CO-APPLICANT, SPOUSE)

6A ASSETS/ PROPERTY
Check box for Applicant/Other. List all assets and account number(s)-- Attach other sheets if necessary.

SHARE DRAFT OR CHECKING AMOUNT		NAME AND ADDRESS OF DEPOSITORY		SHARE DRAFT OR CHECKING AMOUNT		NAME AND ADDRESS OF DEPOSITORY							
\$				\$									
SAVINGS AMOUNT		NAME AND ADDRESS OF DEPOSITORY		SAVINGS AMOUNT		NAME AND ADDRESS OF DEPOSITORY							
\$				\$									
<table border="1"> <tr> <th>APPLICANT</th> <th>OTHER</th> </tr> <tr> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> <tr> <td><input checked="" type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> </table>		APPLICANT	OTHER	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	LIST HOME AND ALL OTHER ITEMS YOU OWN AND LOCATION OF PROPERTY For Example: Auto, Boat, Stocks, Bonds, Cash, Household Goods, Real Estate, etc.		MARKET VALUE	PLEGGED AS COLLATERAL FOR ANOTHER LOAN		
APPLICANT	OTHER												
<input type="checkbox"/>	<input type="checkbox"/>												
<input checked="" type="checkbox"/>	<input type="checkbox"/>												
	HOME*			\$	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>						
				\$	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>						
		SEE ATTACHED		\$	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>						

6B*
This section must be completed for the property which will be given as security, if applicable.

LIST EVERY LIEN AGAINST YOUR HOME
A lien is a legal claim filed against property as security for payment of a debt. Liens include mortgages, deeds of trust, land contracts, judgments and past due taxes.

FIRST MORTGAGE HELD BY	OTHER LIENS (Describe)
PRESENT BALANCE \$	
IS THE PROPERTY DESCRIBED IN THIS SECTION: YOUR PRINCIPAL DWELLING? <input type="checkbox"/> YES <input type="checkbox"/> NO	
LISTED AS THE APPLICANT'S ADDRESS IN THE "APPLICANT INFORMATION" SECTION? <input type="checkbox"/> YES <input checked="" type="checkbox"/> NO	
IS ANYONE OTHER THAN YOUR SPOUSE A PART OWNER OF YOUR HOME? <input type="checkbox"/> YES <input type="checkbox"/> NO	

7 DEBTS

In addition to Rent/Mortgage list all other debts (for example, auto loans, credit cards, second mortgage, home assoc. dues, alimony, child support, child care, medical, utilities, auto insurance, IRS liabilities, etc.) Please use a separate line for each credit card and auto loan. Attach other sheets if necessary.

APPLICANT	OTHER	CREDITOR NAME AND ADDRESS	ACCOUNT NUMBER	ORIGINAL BALANCE	PRESENT BALANCE	MONTHLY PAYMENT	PAST DUE
<input type="checkbox"/>	<input type="checkbox"/>			\$	\$	\$	
		SEE ATTACHED		\$	\$	\$	
				\$	\$	\$	
				\$	\$	\$	
				\$	\$	\$	
				\$	\$	\$	
				\$	\$	\$	
				\$	\$	\$	
				\$	\$	\$	
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				\$	\$	\$	
				\$	\$	\$	
				\$	\$	\$	
				\$	\$	\$	
				\$	\$	\$	
				\$	\$	\$	
LIST ANY NAMES UNDER WHICH YOUR CREDIT REFERENCES AND CREDIT HISTORY CAN BE CHECKED				TOTALS	\$	\$	\$

8 FINANCIAL INFORMATION
These questions apply to both Applicant and Other.

IF A "YES" ANSWER IS GIVEN TO A QUESTION, EXPLAIN ON AN ATTACHED SHEET

DO YOU HAVE ANY OUTSTANDING JUDGMENTS? _____

HAVE YOU EVER FILED FOR BANKRUPTCY OR HAD A DEBT ADJUSTMENT PLAN CONFIRMED UNDER CHAPTER 13? _____

HAVE YOU HAD PROPERTY FORECLOSED UPON OR GIVEN A DEED IN LIEU OF FORECLOSURE IN THE LAST 7 YEARS? _____

ARE YOU A PARTY IN A LAWSUIT? _____

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): _____

APPLICANT		OTHER	
YES	NO	YES	NO

9 SIGNATURES

You promise that everything you have stated in this application is correct to the best of your knowledge and that the above information is a complete listing of all your debts and obligations. You authorize the credit union to obtain credit reports in connection with this application for credit and for any update, renewal or extension of the credit received. If you request, the credit union will tell you the name and address of any credit bureau from which it received a credit report on you. You understand that it is a federal crime to willfully and deliberately provide incomplete or incorrect information on loan applications made to Federal Credit Unions or State Chartered Credit Unions insured by NCUA.

If there are any important changes, you will notify us in writing immediately. You also agree to notify us of any change in your name, address or employment within a reasonable time thereafter.

X APPLICANT'S SIGNATURE _____ DATE _____

X OTHER SIGNATURE _____ DATE _____

10 CREDIT UNION INFORMATION

LOAN OFFICER ADVANCE APPROVED: YES NO COUNTER OFFER WILL BE MADE, IF ACCEPTED, ADVANCE APPROVED

CREDIT COMMITTEE OR OTHER OUTSIDE INFORMATION CONSIDERED: YES NO IF YES, ATTACH ADDITIONAL SHEET AND DESCRIBE

\$ _____ APPROVED LIMIT _____ DEBT RATIO

REFERRED TO/REASON(S) FOR REFERRAL: _____

DESCRIBE COUNTER OFFER: _____

SPECIFIC REASON(S) FOR REJECTION: _____

SIGNATURES:

LOAN OFFICER **X** _____ DATE _____ **X** _____ DATE _____

CREDIT COMMITTEE **X** _____ DATE _____ **X** _____ DATE _____

ECOA NOTICE AND REASON FOR REJECTION SENT OR DELIVERED ON _____ (DATE) BY _____ (INITIALS)

**BEFORE YOU FILL OUT LOAN APPLICATION
DO YOUR EQUITY WORKSHEET**

Appraised Value or Tax Assessment	\$ _____
80% of Appraised Value or Tax Assessment	\$ _____
Less 1 st Mortgage Balance on Property	\$ _____
Amount you can apply for home equity at KUE	\$ _____

EXAMPLE:

\$150,000.00	Tax Assessment
x .80	80% of Assessment
<hr/>	
\$120,000.00	
-\$100,000.00	Minus 1 st Mortgage Balance
<hr/>	
\$ 20,000.00	Amount you can apply for home equity loan at KUE FCU

CERTIFICATION AND AUTHORIZATION

The undersigned certify the following:

I/We have applied for a real estate loan. In applying for the loan, I/we have completed a loan application containing various information on the purpose 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 have made no misrepresentations in the loan application or other documents, not did I/we omit any pertinent information.

I/We understand and agree that the lender 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 financial institution.

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:

I/We have applied for a real estate loan. As a part of the application process, the lender may verify information contained in my/our 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.

I/We authorize you to provide K U E Federal Credit Union, and to any investor to whom the lender may sell my mortgage, any and all information and documentation that they request. Such information includes, but is not limited to, employment history and income; bank, money market, and similar account balances; credit history; and copies of tax returns.

K U E Federal Credit Union or any investor that may purchase the mortgage, may address this authorization to any party named in the loan application.

A photographic copy or FAX copy of this authorization may be deemed to be the equivalent of the original and may be used as a duplicate original.

Borrower's Signature

Social Security Number

Co-Borrower's Signature

Social Security Number

I hereby certify this to be a true and correct copy of the original signature(s)

Lender's Signature

Date

Telephone Number

K U E FEDERAL CREDIT UNION
One Quality Street
Lexington, KY 40507
(Phone) 367-1230 Fax (859) 410-2155

BORROWERS AGREEMENT TO PROVIDE HOMEOWNERS INSURANCE

Please Read Carefully

In consideration for the granting of our home loan, we agree to provide and maintain in force for the term of such loan, and any extension or renewals thereof, an insurance policy on the home.

K U E Federal Credit Union should be listed as: _____ **First Mortgagee**
_____ **Second Mortgagee**

Account Number _____ Borrower _____
Date _____ Borrower _____
Insurance Co. _____ Policy No. _____
Phone Number of Insurance Company _____

Please call you insurance agent, request a declaration page on your homeowners policy and have them fax to K U E Federal Credit Union.

List K U E Federal Credit Union as **First Mortgagee** _____
List K U E Federal Credit Union as **Second Mortgagee** _____



One Quality Street
Lexington, KY 40507
Phone: (859) 367-1230
(800) 246-9112
www.kuefcu.com

Home Equity Early Disclosure

IMPORTANT TERMS OF OUR HOME EQUITY LINE OF CREDIT PLAN

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

AVAILABILITY OF TERMS: All of the terms described below are subject to change. If 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 pay to us or anyone else in connection with your application.

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

POSSIBLE ACTIONS: We can terminate your line, require you to pay us the entire outstanding balance in one payment, and charge you certain fees, if (1) you engage in fraud or material misrepresentation in connection with the plan; (2) you do not meet the repayment terms of this plan, or (3) 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 (1) any reasons mentioned above exist; (2) the value of the dwelling securing the line declines significantly below its appraised value for purposes of the line; (3) we reasonably believe that you will not be able to meet the repayment requirements due to a material change in your financial circumstances; (4) you are in default of a material obligation of the agreement; (5) government action prevents us from imposing the annual percentage rate provided for in the agreement; (6) the priority of our security interest is adversely affected by government action to the extent that the value of the security interest is less than 120 percent of the credit line; (7) a regulatory agency has notified us that continued advances would constitute an unsafe and unsound business practice, or (8) the maximum annual percentage rate is reached.

MINIMUM PAYMENT REQUIREMENTS: You can obtain credit advances for 8 years. This period is called the "draw period." At our option, we may renew or extend the draw period. After the draw period ends the repayment period will begin. The length of the repayment period will depend on the balance at the time of the last advance you obtain before the draw period ends. You will be required to make monthly payments during both the draw and repayment periods. At the time you obtain a credit advance a payoff period of 240 monthly payments will be used to calculate your payment. The payoff period will always be the shorter of the payoff period for your outstanding balance or the time remaining to the maturity date. Your payment will be set to repay the balance after the advance, at the current annual percentage rate, within the payoff period. Your payment will be rounded up to the nearest dollar. Your payment will remain the same unless you obtain another credit advance. Your payment may also change if the annual percentage rate increases. Each time the annual percentage rate increases, we will review the effect the increase has had on your plan. If the annual percentage rate has increased so much that your payment is

not sufficient to repay the balance within the payoff period, we will adjust your payment to repay the balance within the original payoff period. Your payment will include any amounts past due and any amount by which you have exceeded your credit limit, and all other charges. Your payment will never be less than the smaller of \$100.00, or the full amount that you owe.

MINIMUM PAYMENT EXAMPLE: If you made only the minimum monthly payment and took no other credit advances it would take 10 years 2 months to pay off a credit advance of \$10,000 at an **ANNUAL PERCENTAGE RATE** of 4.0%. During that period, you would make 122 payments of \$100.00.

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

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.

TRANSACTION REQUIREMENTS: The minimum credit advance that you can receive is \$5,000.00 for the first advance and \$1,000.00 for each subsequent advance.

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

VARIABLE RATE FEATURE: This plan has a variable rate feature and the annual percentage rate (corresponding to the periodic rate) and the minimum payment may change as a result. The annual percentage rate includes only interest and no 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 column of *The Wall Street Journal*. When a range of rates has been published the highest rate will be used. We will use the most recent index value available to us as of 10 days before the date of any annual percentage rate adjustment. To determine the annual percentage rate that will apply to your account, we add a margin to the value of the Index. Ask us for the current index value, margin and annual percentage rate. After you open a plan, rate information will be provided on periodic statements that we send you.

RATE CHANGES: The annual percentage rate can change quarterly on the first day of January, April, July and October. There is no limit on the amount by which the annual percentage rate can change during any one year period. The maximum **ANNUAL PERCENTAGE RATE** that can apply is 18.0% or the maximum permitted by law, whichever is less. However, under no circumstances will your **ANNUAL PERCENTAGE RATE** go below 4.0% at any time during the term of the plan.

MAXIMUM RATE AND PAYMENT EXAMPLES: If you had an outstanding balance of \$10,000, the minimum payment at the maximum



HISTORICAL EXAMPLE: The following table shows how the annual percentage rate and the minimum payments for a single \$10,000 credit advance would have changed based on changes in the index over the past 15 years. The index values are as of the last business day of July of each year. While only one payment per year is shown, payments may

have varied during each year. The table assumes that no additional credit advances were taken, that only the minimum payments were made, 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.

WALL STREET JOURNAL PRIME RATE INDEX TABLE

Year (as of the last business day of July)	Index (Percent)	Margin ⁽¹⁾ (Percent)	ANNUAL PERCENTAGE RATE	Monthly Payment (Dollars)
2007.....	8.250	0.000	8.250	\$100.00 ⁽³⁾
2008.....	5.000	0.000	5.000	\$100.00 ⁽³⁾
2009.....	3.250	0.000	4.000 ⁽²⁾	\$100.00 ⁽³⁾
2010.....	3.250	0.000	4.000 ⁽²⁾	\$100.00 ⁽³⁾
2011.....	3.250	0.000	4.000 ⁽²⁾	\$100.00 ⁽³⁾
2012.....	3.250	0.000	4.000 ⁽²⁾	\$100.00 ⁽³⁾
2013.....	3.250	0.000	4.000 ⁽²⁾	\$100.00 ⁽³⁾
2014.....	3.250	0.000	4.000 ⁽²⁾	\$100.00 ⁽³⁾
2015.....	3.250	0.000	4.000 ⁽²⁾	\$100.00 ⁽³⁾
2016.....	3.500	0.000	4.000 ⁽²⁾	\$100.00 ⁽³⁾
2017.....	4.250	0.000	4.250	\$100.00 ⁽³⁾
2018.....	5.000	0.000	5.000	
2019.....	5.500	0.000	5.500	
2020.....	3.250	0.000	4.000 ⁽²⁾	
2021.....	3.250	0.000	4.000 ⁽²⁾	

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

⁽²⁾ This ANNUAL PERCENTAGE RATE reflects a 4.000% floor.

⁽³⁾ This payment reflects the minimum payment of \$100.00.



WHAT YOU SHOULD KNOW ABOUT HOME EQUITY LINES OF CREDIT

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

What is a home equity line of credit?

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

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

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

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

Many home equity plans set a fixed period during which you can borrow money, such as 10 years. At the end of this "draw period," you may be allowed to renew the credit line. If your plan does not allow renewals, you will not be able to borrow additional money once the period has ended. Some plans may call for payment in full of any outstanding balance at the end of the period. Others may allow repayment over a fixed period (the "repayment period"), for example, 10 years.

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

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

What should you look for when shopping for a plan?

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

Variable interest rates

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

Lenders sometimes offer a temporarily discounted interest rate for home equity lines -- an "introductory" rate that is unusually low for a short period, such as 6 months.

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

Costs of establishing and maintaining a home equity line

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

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

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

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

How will you repay your home equity plan?

Before entering into a plan, consider how you will pay back the money you borrow. Some plans set a 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 *interest only* during the life of the plan, which means that you pay nothing toward the principal. If you borrow \$10,000, you will owe that amount when the payment plan ends.

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

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

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

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

Lines of credit vs. traditional second mortgage loans

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

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

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

Disclosures from lenders

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

When you open a home equity line, the transaction puts your home at risk. If the home involved is your principal dwelling, the Truth in Lending Act gives you 3 days from the day the account was opened to cancel the credit line. This right allows you to change your mind for any reason. You simply inform the lender in writing within the 3-day period. The lender must then cancel its security interest in your home and return all fees -- including any application and appraisal fees -- paid to open the account.

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

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

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

Glossary

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

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

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

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

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

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

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

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

Index - The economic indicator used to calculate interest-rate adjustments for adjustable-rate mortgages or other adjustable-rate loans. The index rate can increase or decrease at any time. *See also* Selected Index Rates for ARMs over an 11-year Period (www.federalreserve.gov/pubs/arms/arms_english.htm) for examples of common indexes that have changed in the past.

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

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

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

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

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

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

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

Where to go for help

For additional information or to file a complaint about a bank, savings and loan, credit union, or other financial institution, contact one of the following federal agencies, depending on the type of institution.

Consumer Financial Protection Bureau (CFPB)

P.O. Box 4503
Iowa City, IA 52244
(855) 411-2372

www.consumerfinance.gov

Regulated Entities: Insured depository institutions and credit unions (and their affiliates) with assets greater than \$10 billion, and nondepository institutions such as mortgage originators, mortgage brokers and servicers, larger participants of other financial services products, private education loan providers, and payday lenders

Federal Housing Finance Agency (FHFA)

Consumer Communications
Constitution Center
400 7th Street, S.W.
Washington, DC 20024
(202) 649-3811

www.fhfa.gov

www.fhfa.gov/Default.aspx?Page=369

Regulated Entities: Fannie Mae, Freddie Mac, and the Federal Home Loan Banks

National Credit Union Administration (NCUA)

Consumer Assistance

1775 Duke Street

Alexandria, VA 22314-3428

(800) 755-1030

www.ncua.govwww.mycreditunion.gov

Regulated Entity: Federally chartered credit unions

Federal Trade Commission (FTC)

Consumer Response Center

600 Pennsylvania Avenue, N.W.

Washington, DC 20580

(877) FTC-HELP or (877) 382-4357

www.ftc.govwww.ftc.gov/bcp

Regulated Entities: Finance companies, retail stores, auto dealers, mortgage companies and other lenders, and credit bureaus

Farm Credit Administration

Office of Congressional and Public Affairs

1501 Farm Credit Drive

McLean, VA 22102-5090

(703) 883-4056

www.fca.gov

Regulated Entity: Agricultural lenders

Small Business Administration (SBA)

Consumer Affairs

409 3rd Street, S.W.

Washington, DC 20416

(800) U-ASK-SBA or (800) 827-5722

www.sba.gov

Regulated Entity: Small business lenders

U.S. Department of Justice (DOJ)

Criminal Division

950 Pennsylvania Avenue, N.W.

Washington, DC 20530

(202) 514-3301

www.justice.gov/criminal

Regulated Entities: Fair lending and fair housing issues

Department of Housing and Urban Development (HUD)

Office of Fair Housing/Equal Opportunity

451 7th Street, S.W.

Washington, DC 20410

(800) 669-9777

www.hud.gov/complaints

Regulated Entities: Fair lending and fair housing issues

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

Home Equity Plan Checklist
 Ask your lender to help fill out this checklist.

BASIC FEATURES	Plan A	Plan B
Fixed annual percentage rate	%	%
Variable annual percentage rate	%	%
▪ Index used and current value	%	%
▪ Amount of margin		
▪ Frequency of rate adjustments		
▪ Amount/length of discount (if any)		
▪ Interest-rate cap and floor		
Length of plan		
Draw period		
Repayment period		
Initial fees		
Appraisal fee		
Application fee		
Up-front charges, including points.		
Closing costs		

REPAYMENT TERMS		
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?		