



*Established 1911*

Dear Customer,

Thank you for your interest in applying for a "**Below Prime Line**" Home Equity Line of Credit. When returning your completed application, please include the following:

- ❖ Two of your most recent pay stubs  
If you are self-employed, substitute pay stubs with copies of your last two years' tax returns and a current *Profit and Loss* statement.
- ❖ Bank, retirement, or brokerage account statements showing six months' reserves to cover first and second mortgage payments, including property taxes.
- ❖ A copy of your Home Owner's Insurance coverage.
- ❖ A copy of your Deed.
- ❖ A copy of your Title Policy.
- ❖ A copy of a recent Survey
- ❖ \$60.00 application fee (*non-refundable*)
- ❖ \$90.00 recording fee (at time of closing)

If you have any questions, please feel free to contact me, or any of our Consumer Loan Representatives, at (973) 729-8333, Ext. 6025/3118.

Please note that when closing a Home Equity Loan, a three (3) day Right of Rescission period applies in most cases. This means that your loan will be funded three (3) business days after the loan is closed. An example would be if the loan closed on Monday, funds would be dispersed on Friday.

Thank you again for considering First Hope Bank for all your financial needs.

Very Truly Yours,

Andrew Antanaitis  
Vice President  
Consumer Loan Department

\*\* Minimum loan amount \$10,000 - otherwise loan subject to an additional \$100 processing fee.

\*\* Loans over \$100,000 may require \$275 full appraisal fee. Loans over \$350,000 may require Title Insurance at customers' expense.

\*\* Loans paid off prior to thirty month anniversary will be subject to an Early Termination Fee of 1% of total loan amount.

**ADVERTISING TRACKING FORM**

Would you please help us by telling us how you heard about First Hope Bank's Loan?

Newspaper

If so, do you remember which paper?

Advertiser News South  
Observer Tribune  
New Jersey Herald  
North Warren News  
Sparta Independent  
Township Journal

Radio

If so, do you remember which station?

WSUS FM (102.3 FM)  
WRNJ (1510 AM)

WHCY (106.3 FM)  
WNNJ (103.7 FM)

Word of Mouth

A Mailing from First Hope Bank

In-Branch Display

First Hope Bank Associate

Billboard

Website

**IMPORTANT APPLICANT INFORMATION:** Federal law requires financial institutions to obtain sufficient information to verify your identity. You may be asked several questions and to provide one or more forms of identification to fulfill this requirement. In some instances we may use outside sources to confirm the information. The information you provide is protected by our privacy policy and federal law.

**TYPE OF ACCOUNT REQUESTED:**

Check one to indicate the type of account you are requesting. Note: Married applicants may apply for separate accounts.

JOINT ACCOUNT - We intend to apply for joint credit (initials) \_\_\_\_\_

INDIVIDUAL ACCOUNT - Relying solely on my income and assets.

INDIVIDUAL ACCOUNT - Relying on my income and assets as well as income or assets of another.

Date \_\_\_\_\_

Fixed / Term \_\_\_\_\_ Monthly Bi-Weekly  
Hope Line

Amount of Home Equity Requested: \$ \_\_\_\_\_

**Purpose:** \_\_\_\_\_

**INFORMATION ABOUT APPLICANT**

LAST NAME, FIRST NAME, MIDDLE INITIAL		MARITAL STATUS		DATE / CITY OF BIRTH				SOCIAL SECURITY NUMBER	
				Month	Day	Year	City		
HOME ADDRESS – NUMBER & STREET		HOME TELEPHONE #		DRIVER'S LICENSE #				ISSUE DATE	EXPIRATION DATE
CITY		TOWNSHIP		STATE	ZIP CODE	COUNTY		YEARS THERE	
PREVIOUS HOME ADDRESS (if less than 5 years at present address)								YEARS THERE	
FIRM NAME OR EMPLOYER (If self-employed two years tax returns required)				POSITION		ANNUAL SALARY		YEARS THERE	
						\$			
BUSINESS ADDRESS – NUMBER & STREET		CITY	STATE	ZIP CODE	TELEPHONE #		FAX NUMBER		
PREVIOUS EMPLOYER – NAME & ADDRESS						POSITION		YEARS THERE	
OTHER INCOME: ALIMONY, CHILD SUPPORT, OR SEPARATE MAINTENANCE INCOME NEED NOT BE REVEALED IF YOU DO NOT WISH TO HAVE IT CONSIDERED FOR REPAYING THIS OBLIGATION.				ANNUAL AMOUNT		SOURCE			
				\$					
CHECKING ACCOUNT #	NAME AND LOCATION OF YOUR BANK / ASSOCIATION			SAVINGS ACCOUNT #	NAME AND LOCATION OF YOUR BANK / ASSOCIATION			BALANCE \$	
PREVIOUS LOANS WITH FIRST HOPE BANK		PRESENT LOANS WITH FIRST HOPE BANK							
PERSONAL AUTO	HOME IMPROVEMENT MORTGAGE	OTHER	PERSONAL #	AUTO #	HOME IMPROVE #	MORTGAGE #	OTHER #		
NAME & ADDRESS OF A CLOSE RELATIVE NOT LIVING WITH YOU				RELATIONSHIP		TELEPHONE #		MOTHER'S MAIDEN NAME	

**INFORMATION ABOUT CO-APPLICANT**

LAST NAME, FIRST NAME, MIDDLE INITIAL		MARITAL STATUS		DATE / CITY OF BIRTH				SOCIAL SECURITY NUMBER	
				Month	Day	Year	City		
HOME ADDRESS – NUMBER & STREET		HOME TELEPHONE #		DRIVER'S LICENSE #				ISSUE DATE	EXPIRATION DATE
CITY		TOWNSHIP		STATE	ZIP CODE	COUNTY		YEARS THERE	
PREVIOUS HOME ADDRESS (if less than 5 years at present address)								YEARS THERE	
FIRM NAME OR EMPLOYER (If self-employed two years tax returns required)				POSITION		ANNUAL SALARY		YEARS THERE	
						\$			
BUSINESS ADDRESS – NUMBER & STREET		CITY	STATE	ZIP CODE	TELEPHONE #		FAX NUMBER		
PREVIOUS EMPLOYER – NAME & ADDRESS						POSITION		YEARS THERE	
OTHER INCOME: ALIMONY, CHILD SUPPORT, OR SEPARATE MAINTENANCE INCOME NEED NOT BE REVEALED IF YOU DO NOT WISH TO HAVE IT CONSIDERED FOR REPAYING THIS OBLIGATION.				ANNUAL AMOUNT		SOURCE			
				\$					
CHECKING ACCOUNT #	NAME AND LOCATION OF YOUR BANK / ASSOCIATION			SAVINGS ACCOUNT #	NAME AND LOCATION OF YOUR BANK / ASSOCIATION			BALANCE \$	
PREVIOUS LOANS WITH FIRST HOPE BANK		PRESENT LOANS WITH FIRST HOPE BANK							
PERSONAL AUTO	HOME IMPROVEMENT MORTGAGE	OTHER	PERSONAL #	AUTO #	HOME IMPROVE #	MORTGAGE #	OTHER #		
NAME & ADDRESS OF A CLOSE RELATIVE NOT LIVING WITH YOU				RELATIONSHIP		TELEPHONE #		MOTHER'S MAIDEN NAME	

PLEASE COMPLETE REVERSE SIDE IN DETAIL

**FINANCIAL STATEMENT**

(More detailed statements and schedules may be required)

This statement and any applicable supporting schedule may be completed jointly by both applicants if their assets and liabilities are sufficiently joined so that the statements can be meaningful and fairly presented on a combined basis; otherwise separate statements are required.

**LIST ALL ASSETS**

TYPE OF ASSET	DESCRIPTION	VALUE
Home		\$
Auto		\$
Other Real Estate		\$
Other		\$
Other		\$

**LIST ALL DEBTS – Includes alimony, child support, maintenance payments as well as co-borrower / guarantor obligations**

TYPE OF DEBT	NAME AND ADDRESS OF CREDITOR	RATE (INDICATE FIXED OR VARIABLE)	ACCOUNT NUMBER	ORIGINAL AMOUNT OR AMOUNT OF CREDIT LIMIT	PRESENT BALANCE	MONTHLY PAYMENT
Mortgage						
Property Taxes						
Rent						
Have you ever transacted any business in any other name?		If yes, state name or names and full details				
Are you a co-maker, endorser, or guarantor on any loan or contract?		If yes, For whom?		To whom?		
Are there any unsatisfied judgments against you?		If yes, To whom?		Amount \$		
Have you been declared bankrupt in the last 10 years?		If yes, Where?		Date		

**PROPERTY INFORMATION**

ADDRESS – NUMBER AND STREET		CITY – TOWN	COUNTY	STATE	ZIP CODE
PRESENT MARKET VALUE	YEAR BUILT	PURCHASE PRICE	YEAR PURCHASED	PRINCIPAL RESIDENCE OF APPLICANT?	
LOT SIZE	TAX MAP BLOCK NUMBER	TAX MAP LOT NUMBER	NUMBER OF STORIES Single Family      Condo Two Family        Other _____		
UTILITIES: City Water    City Sewer    Public Gas	SQUARE FOOT LIVING SPACE	NO. OF BEDROOMS	NO. OF ROOMS	NO. OF BATHROOMS	GARAGE: 1 Car    2 Car    Attached
HOME INSURANCE AGENT	ADDRESS	TELEPHONE NUMBER	TITLE INSURANCE COMPANY		
<input type="checkbox"/> <b>IF LOAN IS GRANTED, I/WWE AGREE TO:</b> REQUEST INSURANCE COMPANY TO SEND CERTIFICATE OF INSURANCE TO THE BANK REFLECTING FIRST HOPE BANK AS LOSS PAYEE			<input type="checkbox"/> <b>PLEASE PROVIDE COPIES OF THE FOLLOWING ITEMS WITH APPLICATION:</b> 1. Copy of Home Insurance Coverage      3. Copy of Deed 2. Copy of Owner's Title Policy            4. Copy of Survey		

**INFORMATION FOR GOVERNMENT MONITORING PURPOSES**  
 The following information is requested by the Federal Government for certain types of loans related to a dwelling in order to monitor the lender's compliance with equal credit opportunity, fair housing, and home mortgage disclosure laws. You are not required to furnish this information, but are encouraged to do so. You may select one or more designations for "Race." The law provides that a lender may not discriminate on the basis of this information, or on whether you choose to furnish it. However, if you choose not to furnish the information and you have made this application in person, under federal regulations the lender is required to note ethnicity, race, origin and sex on the basis of visual observation or surname. If you do not wish to furnish this information, please check below.

BORROWER		CO- BORROWER	
I do not wish to furnish this information		I do not wish to furnish this information	
<b>Ethnicity:</b>	Hispanic or Latino      Not Hispanic or Latino	<b>Ethnicity:</b>	Hispanic or Latino      Not Hispanic or Latino
<b>Race:</b>	American Indian or Alaskan Native    Asian    Black or African American Native Hawaiian or Other Pacific Islander    White	<b>Race:</b>	American Indian or Alaskan Native    Asian    Black or African American Native Hawaiian or Other Pacific Islander    White
<b>Sex:</b>	Female    Male	<b>Sex:</b>	Female    Male

**SIGNATURE(S)**

Everything that I have stated in this application is correct to the best of my knowledge. I understand that you will retain this application whether or not it is approved. You are authorized to check my credit and employment history and to answer questions about your credit experience with me. I agree to notify the bank in writing of any material change(s) in my financial condition.

Applicant's Signature \_\_\_\_\_ Date \_\_\_\_\_ Co-Applicant's Signature (Where Applicable) \_\_\_\_\_ Date \_\_\_\_\_

**APPLICATION FEE RECEIVED**

**To Be Completed by Interviewer:**  
 This application was taken by: \_\_\_\_\_  
 Interviewer

\_\_\_\_\_  
**First Hope Bank**  
 Name of Interviewer's Employer

face to face interview  
 by mail  
 by telephone  
 by internet

\_\_\_\_\_  
 Interviewer's Phone Extension

**BELOW PRIME LINE DISCLOSURE**

**IMPORTANT TERMS OF OUR BELOW PRIME LINE DISCLOSURE**

**This disclosure contains important information about our Below Prime Line (the "Plan"). You should read it carefully and keep a copy for your records.**

**AVAILABILITY OF TERMS.** All of the terms of the Plan described herein are subject to change. If any of 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 paid 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.** Under this Plan, we have the following rights:

**Termination and Acceleration.** We can terminate the Plan and require you to pay us the entire outstanding balance in one payment, and charge you certain fees, if any of the following happens:

- a. You commit fraud or make a material misrepresentation at any time in connection with the plan. This can include for example, a false statement about your income, assets, liabilities or any other aspect of your financial condition.
- b. You do not meet the repayment terms of the Plan
- c. Your action or inaction adversely affects the collateral for the Plan or our rights in the collateral. This can include, for example, failure to maintain required insurance, waste or destructive use of the dwelling, failure to pay taxes, death of all persons liable on the account, transfer of title or sale of the dwelling, creation of a senior lien on the dwelling without our permission, foreclosure by the holder of another lien or the use of the funds or the dwelling for prohibited purpose.

**Suspension or Reduction.** In addition to any other rights we may have, we can suspend additional extensions of credit or reduce your credit limit during any period in which any of the following are in effect:

- a. The value of your dwelling declines significantly below the dwelling's appraised value for purposes of the Plan. This includes, for example, a decline such that the initial difference between the credit limit and the available equity is reduced by fifty percent and may include a smaller decline depending on the individual circumstances.
- b. We reasonably believe that you will be unable to fulfill your payment obligations under the Plan due to material change in your financial circumstances.
- c. You are in default under any material obligation of the Plan. We consider your obligations to be material. Categories of material obligations include, but are not limited to, the events described above under Termination and Acceleration, obligations to pay fees and charges, obligations and limitations on the receipt of credit advances, obligations concerning maintenance or use of the dwelling or proceeds, obligations to pay and perform the terms of any other deed or trust, mortgage or lease of the dwelling, obligations to notify us and to provide documents or information to us (such as updated financial information), obligations to comply with applicable laws (such as zoning restrictions). No default will occur until we mail or deliver a notice of default to you, so you can restore your right to credit advances.
- d. We are precluded by government action from imposing the annual percentage rate provided for under the Plan.
- e. The priority of our security interest is adversely affected by governmental action to the extent that the value of the security interest is less than 120 percent of the credit limit
- f. We have been notified by governmental authority that continued advances may constitute an unsafe and unsound business practice.
- g. The maximum annual percentage rate under the Plan is reached.

**Changes in Terms.** We may make changes to the terms of the Plan if you agree to the change in writing at that time, if the change will unequivocally benefit you throughout the remainder of the Plan, or if the change is insignificant (such as changes relating to our data processing systems).

**Fees and Charges.** In order to open and maintain an account, you must pay certain fees and charges.

**Lender Fees.** The following fees must be paid to us:

Description	Amount	When Charged
Application Fee	\$60.00	At time of Application
Origination Fee	1% of original loan amount	When a customer is approved for a short term loan (under 12 months)

**Late Charge.** Your payment will be late if it is not received by us within **15 days after the "Payment Due Date" shown on your periodic statement.** If your payment is late we may charge you 5.000% of the unpaid amount of the payment.

**Third Party Fees.** You must pay certain fees to third parties such as appraisers, credit reporting firms, and government agencies,

These third party fees generally total between \$0.00 and \$90.00. Upon request, we will provide you with an itemization of the fee you will have to pay to third parties.

**PROPERTY INSURANCE.** You must carry insurance on the property that secures the Plan.

**MINIMUM PAYMENT REQUIREMENTS.** You can obtain advances of credit during the following period: The draw period will be for a term of ten years from the date of the Note, (the "Draw Period"). After the Draw Period ends, the repayment period will begin. You will no longer be able to obtain credit advances. The length of repayment period is as follows: The repayment period will be for a term of fifteen years after the initial ten year draw period. Your regular payment will equal the amount of your accrued FINANCE CHARGES ("First Payment Stream"). You will make 120 of the payments. Your payments will be due monthly. Your "Minimum Payment" will be the Regular Payment, plus any amount due and all other charges. An increase in the ANNUAL PERCENTAGE RATE may increase the amount of your Regular Payment.

After completion of the First Payment Stream, your Regular Payment will be based on a percentage of your outstanding balance plus all accrued FINANCE CHARGES as shown below or \$100.00 plus all accrued FINANCE CHARGES, whichever is greater ("Second Payment Stream"). Your payments will be due monthly.

<u>Range of Balances</u>	<u>Number of Payments</u>	<u>Regular Payment Calculator</u>
All Balances	180	0.556% of your outstanding balance plus all accrued FINANCE CHARGES

Your "Minimum Payment" will be the Regular Payment, plus any amount past due and all other charges. An increase in the ANNUAL PERCENTAGE YIELD may increase the amount of your regular payment.

**BELOW PRIME LINE DISCLOSURE (Continued)**

In any event, if your Credit Line balance falls below \$100.00, you agree to pay your balance in full.

**MINIMUM PAYMENT EXAMPLE.** If you made only the minimum payment and took no other credit advances, it would take 18 years and 4 months to pay off a credit advance of \$10,000.00 at an ANNUAL PERCENTAGE RATE of 5.150%. During that period, you would make 120 monthly payments ranging from \$39.51 to \$43.74. Then you would make 100 monthly payments ranging from \$100.42 to \$143.74.

**TRANSACTION REQUIREMENTS.** The following transaction limitations will apply to the use of your Credit Line:

**In Person Request, Other Methods, Request By Mail and Credit Line Below Prime Line Check Limitations.** The following transactions limitations will apply to your Credit Line and requesting an advance in person, accessing by other methods, requesting an advance by mail and the writing of Below Prime Line Checks.

**Minimum Advance Amount.** The minimum advance amount of any credit advance that can be made on your Credit Line is \$250.00. This means any Below Prime Line Check must be written for at least the minimum advance amount.

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

**VARIABLE RATE FEATURE.** The Plan has a variable rate feature. The ANNUAL PERCENTAGE RATE (corresponding to the periodic rate), and the minimum payment amount can change as a result. The ANNUAL PERCENTAGE RATE does not include costs other than interest.

**THE INDEX.** The annual percentage rate is based on the value of an index (referred to in this disclosure as the "Index"). The Index is the highest rate on corporate loans posted by at least 75% of the USA's thirty largest banks known as The Wall Street Journal Prime Rate and is published in the Wall Street Journal. Information about the Index is available or published in the Wall Street Journal. We will use the most recent Index value available to us as of the date of any annual percentage rate adjustment. If the Index is no longer available, we will choose a new Index and margin. The new Index will have historical movement substantially similar to the original Index, and the new Index and margin will result in an annual percentage rate that is substantially similar to the rate in effect at the time the original Index becomes unavailable.

**ANNUAL PERCENTAGE RATE.** To determine the Periodic Rate that will apply to your First Payment Stream, we subtract a margin from the value of the Index, then divide the value by the number of days in the year (daily). To obtain the ANNUAL PERCENTAGE RATE we multiply the Periodic Rate by the number of days in a year (daily). This result is the ANNUAL PERCENTAGE RATE for your First Payment Stream. To determine the Periodic Rate that will apply to your Second Payment Stream, we subtract a margin from the value of the Index, then divide the value by the number of days in the year (daily). To obtain the ANNUAL PERCENTAGE RATE we multiply the Periodic Rate by the number of days in a year (daily). This result is the ANNUAL PERCENTAGE RATE for your Second Payment Stream. A change in the Index rate generally will result in a change in the ANNUAL PERCENTAGE RATE. The amount that your ANNUAL PERCENTAGE RATE may change also may be affected by the lifetime annual percentage rate limits, as discussed below.

**Annual Percentage Rate.** Your rate will be 101 basis points below Wall Street Journal Prime.

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

**FREQUENCY OF ANNUAL PERCENTAGE RATE ADJUSTMENTS.** Your ANNUAL PERCENTAGE RATE can change Daily. There is no limit on the amount by which the annual percentage rate can change during any one year period. However, under no circumstances will your ANNUAL PERCENTAGE RATE exceed 16.000% per annum, or go below 4.000% per annum at any time during the term of the Plan.

**MAXIMUM RATE AND PAYMENT EXAMPLE.**

**Draw Period.** If you had an outstanding balance of \$10,000.00, the minimum payment at the maximum ANNUAL PERCENTAGE RATE of 16.000% would be \$135.89. This ANNUAL PERCENTAGE RATE could be reached at the time of the 6th payment.

**Repayment Period.** If you had an outstanding balance of \$10,000.00, the minimum payment at the maximum ANNUAL PERCENTAGE RATE of 16.000% would be \$235.89. This ANNUAL PERCENTAGE RATE could be reached at the time of the 1st payment during the prepayment period.

**PREPAYMENT.** If you pay your Credit Line balance in full, you may have to pay a prepayment penalty of zero dollars. However, an EARLY TERMINATION FEE of 1% of the loan amount will be assessed if the loan is paid off prior to thirty months.

**HISTORICAL EXAMPLE.** The example below shows how the ANNUAL PERCENTAGE RATE and the minimum payments for a single \$10,000.00 credit advance would have changed based on the changes in the Index from 1995 to 2009. The Index values are from the following reference period: As of the first business day of January. While only one payment per year is shown, payments may have varied during each year. Different outstanding principle balances could result in different payment amounts

The table assumes that no additional credit advances were taken and that only the minimum payment was made. It does not necessarily indicate how the Index or your payments would change in the future.

**INDEX TABLE**

Year (As of the first business day of January)	Index (Percent)	Margin <sup>(1)</sup> (Percent)	ANNUAL PERCENTAGE RATE	Monthly Payment (Dollars)
1995	8.500	-1.010	7.490	63.61
1996	8.500	-1.010	7.490	63.61
1997	8.250	-1.010	7.240	61.49
1998	8.500	-1.010	7.490	63.61
1999	7.750	-1.010	6.740	57.24
2000	8.500	-1.010	7.490	63.61
2001	9.500	-1.010	8.490	72.11
2002	4.750	-1.010	5.000 <sup>(8)</sup>	42.47
2003	4.250	-1.010	5.000 <sup>(8)</sup>	142.47
2004	4.000	-1.010	5.000 <sup>(8)</sup>	137.37
2005	5.250	-1.010	5.000 <sup>(8)</sup>	132.27
2006	7.250	-1.010	6.240	133.92
2007	8.250	-1.010	7.240	131.98
2008	7.250	-1.010	6.240	133.92
2009	7.250	-1.010	6.240	127.56

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

(8) This A.P.R. reflects a 4.000 percent floor.

### **DISCLOSURE FOR THE RIGHT TO YOUR OWN ATTORNEY**

That the interest of the borrower and lender are or may be different and may conflict, and that the lender's attorney represents only the lender and not the borrower and the borrower is, therefore, advised to employ an attorney of the borrower's choice licensed to practice law in the State to represent the interests of the borrower.

### **DISCLOSURE FOR YOUR RIGHT TO YOUR COPY OF THE APPRAISAL**

You have the right to a copy of the appraisal report obtained in connection with your application for credit. You may be required to reimburse us for the cost of providing the appraisal report before you receive it. If you wish a copy, please write us at:

First Hope Bank  
220 Woodport Road  
Sparta, NJ 07871  
Attention: Loan Department

We must hear from you no later than 90 days after you are notified by us about the action taken on your credit application or you withdraw your application.

### **NOTICE OF ACTION TAKEN REGARDING PRICING**

The rate, term and amount of loan requested are subject to be adjusted by First Hope Bank based on information that we find contained in your credit report. Under the Fair and Accurate Credit Transactions Act (FACT Act), you have the right to know the information contained in your credit file at the consumer-reporting agency. You also have a right to a free copy of your report from the reporting agency, the agency we use is:

Trans Union  
2 Baldwin Place  
Crum Lynne, PA 19022  
800-888-4213

## WHAT YOU SHOULD KNOW ABOUT HOME EQUITY LINES OF CREDIT

More and more lenders are offering home equity lines of credit. By using the equity in your home, you may qualify for a sizable amount of credit, available for use when and how you please, at an interest rate that is relatively low.

Furthermore, under the tax law—depending on your specific situation—you may be allowed to deduct the interest because the debt is secured by your home.

If you are in the market for credit, a home equity plan may be right for you. Or perhaps another form of credit would be better. Before making a decision, 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 risk. 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 the home is likely to be a consumer's largest asset, many homeowners use their credit lines only for major items such as education, home improvements, or medical bills and not for day-to-day expenses.

With a home equity line, you will be approved for a specific amount of credit—your credit limit, the maximum amount you may borrow at any one time under the plan. 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 65%
Percentage of appraised value	= \$ 65,000
Less balance owed on mortgage	- \$ 40,000
Potential credit	\$ 25,000

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

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

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

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

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

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

### Interest rate charges and related plan features

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); the interest rate for borrowing under the home equity line changes, mirroring fluctuations 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 as well as the amount of the margin.

Lenders sometimes offer a temporarily discounted interest rate for home equity lines—a rate that is unusually low and may last for only an introductory period, such as 6 months.

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

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

Plans generally permit the lender to freeze or reduce your credit line under certain circumstances. For example, some variable-rate plans may not allow you to draw additional funds during a period in which the interest rate reaches the cap.

### Costs of establishing and maintaining a home equity line

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

- A fee for a property appraisal to estimate the value of your home
- An application fee, which may not be refunded if you are turned down for credit
- Up-front charges, such as one or more points (one point equals 1 percent of the credit limit)
- Closing costs, including fees for attorneys, title search, and 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. If you were to draw only a small amount against your credit line, those initial charges would substantially increase the cost of the funds borrowed. On the other hand, because the lender's risk is lower than for other forms of credit, as your home serves as collateral, annual percentage rates for home equity lines are generally lower than rates for other types of credit. The interest you save could offset the costs of establishing and maintaining the line. Moreover, some lenders waive some or all of the closing costs.

### How will you repay your home equity plan?

Before entering into a plan, consider how you will pay back the money you borrow. Some plans set minimum payments that cover a portion of the principal (the amount you borrow) plus accrued interest. But (unlike with the typical installment loan) the portion 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 alone 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 plan ends.

Regardless of the minimum required payment, 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 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.

#### **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. A second mortgage provides you with a fixed amount of money repayable over a fixed period. In most cases the payment schedule calls for equal payments that will pay off the entire loan within the loan period. You might consider a second mortgage instead of a home equity line if, for example, you need a set amount for a specific purpose, such as an addition to your home.

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

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

#### **Disclosures from lenders**

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

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

### **GLOSSARY**

#### **Annual membership or maintenance fee**

An annual charge for having the line of credit available. Charged regardless of whether or not the line is used.

#### **Annual percentage rate (APR)**

The cost of credit on a yearly basis expressed as a percentage.

#### **Application fee**

Fees that are paid upon application. May include charges for property appraisal and a credit report.

#### **Balloon payment**

A lump-sum payment that may be required when the plan ends.

#### **Cap**

A limit on how much the variable interest rate may increase during the life of the plan.

#### **Closing costs**

Fees paid at closing, including attorneys fees, fees for preparing and filing a mortgage, fees for title search, taxes, and insurance.

#### **Credit limit**

The maximum amount that may be borrowed under the home equity plan.

#### **Equity**

The difference between the fair market value (appraised value) of the home and the outstanding mortgage balance.

#### **Index**

Published rate that serves as a base for the interest rate charged on a home equity line and also as the base for rate changes used by the lender.

#### **Interest rate**

The periodic charge, expressed as a percentage, for use of credit.

#### **Margin**

The number of percentage points the lender adds to the index rate to determine the annual percentage rate.

#### **Minimum payment**

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

#### **Points**

One point is equal to 1 percent of the amount of the credit line. Points must usually be paid at closing and are in addition to monthly interest.

#### **Security interest**

An interest that a lender takes in the borrower's property to ensure repayment of a debt.

#### **Transaction fee**

A fee charged each time you draw on your credit line.

#### **Variable rate**

An interest rate that changes periodically in relation to an index. Payments may increase or decrease accordingly.

## WHERE TO GO FOR HELP

The following federal agencies are responsible for enforcing the federal Truth in Lending Act, the law that governs disclosure of terms for home equity lines of credit.

Questions concerning compliance with the act by a particular financial institution should be directed to the institution's enforcement agency.

### **State Banks that Are Members of the Federal Reserve System**

Division of Consumer and Community Affairs  
Mail Stop 801  
Federal Reserve Board  
Washington DC 20551  
(202) 452-3693  
[www.federalreserve.gov](http://www.federalreserve.gov)

### **National Banks**

Office of the Comptroller of the Currency  
Customer Assistance Unit  
1301 McKinney St.  
Suite 3710  
Houston, TX 77010  
(800) 613-6743  
[www.occ.treas.gov](http://www.occ.treas.gov)

### **Federal Credit Unions**

National Credit Union Administration  
Office of Public and Congressional Affairs  
1775 Duke St.  
Alexandria, VA 22314  
(703) 518-6330  
[www.ncua.gov](http://www.ncua.gov)

### **Federally Insured Non-Member State-Chartered Banks and Savings Banks**

Federal Deposit Insurance Corporation  
Consumer Response Center  
2345 Grand Boulevard  
Suite 100  
Kansas City, Missouri 64108  
(877) 275-3342  
[www.fdic.gov](http://www.fdic.gov)

### **Federally Insured Savings and Loan Institutions and Federally Chartered Savings Banks**

Office of Thrift Supervision  
Consumer Programs  
1700 G Street, NW, 6th Floor  
Washington, DC 20552  
(202) 906-6237 or (800) 842-6929  
[www.ots.treas.gov](http://www.ots.treas.gov)

### **Mortgage Companies and Other Lenders**

Federal Trade Commission  
Consumer Response Center  
600 Pennsylvania Avenue, NW  
Washington, DC 20580  
(202) 326-3758 or (877) FTC-HELP  
[www.ftc.gov](http://www.ftc.gov)

## Home Equity Plan Checklist

Ask your lender to help fill out this checklist.

### Basic Features

#### Plan A

#### Plan B

Fixed annual percentage rate

%

%

Variable annual percentage rate

%

%

Index used and current value

%

%

Amount of margin

Frequency of rate adjustments

Amount/length of discount (if any)

Interest rate cap and floor

### Length of Plan

Draw period

Repayment period

### Initial fees

Appraisal fee

Application fee

Up-front charges, including points

Closing costs

### Repayment Terms

#### Plan A

#### Plan B

#### During the draw period

Interest and principal payments

Interest-only payments

Fully amortizing payments

#### When the draw period ends

Balloon payment?

Renewal available?

Refinancing of balance by lender?