

# HOME EQUITY LOAN APPLICATION

PLEASE TYPE OR PRINT

**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
  Individual Account - Relying solely on my income and assets.  
 Individual Account - Relying on my income and assets and as well as income or assets of another.

## TERMS REQUESTED

Amount \$	Interest Rate %	Type of Loan <input type="checkbox"/> Fixed Rate <input type="checkbox"/> ARM (type): <input type="checkbox"/> Other:	
No. of Months	Payment \$ /	Purpose <input type="checkbox"/> Home Improvement <input type="checkbox"/> Pay Debt: <input type="checkbox"/> Other:	

## COLLATERAL PROPERTY

Address	Year Built	Date Purchased	Present Value	Balance Owing
Title in Name(s) of:		Address of Title Holder		Name and Address of Insurance Carrier

Mortgage Holder

Name \_\_\_\_\_ Address \_\_\_\_\_ Phone No. \_\_\_\_\_ Acct. No. \_\_\_\_\_

## INDIVIDUAL APPLICANT INFORMATION

Name	Birthdate	Social Security No.		
Address (Street, City, State, Zip)	County	Drivers License No.		
Home Phone	Business Phone	No. of Dependents	Ages of Dependents	
Employer/Self Employed	Position	Years Employed	Employer's Address	
Wages, Salary, Commissions Gross \$ /month Net \$ /month		How Often Paid		
Previous Employer	Position	Years Employed	Previous Employer's Address	

Name and Address of Applicant's Nearest Relative	Relationship
--	--------------

**Alimony, child support, or separate maintenance income need not be revealed if you do not wish to have it considered. Alimony, child support, separate maintenance received pursuant to:**  Court Order  Written Agreement  Oral Understanding.

Other Income: Source \_\_\_\_\_ Amount/Month \_\_\_\_\_

Marital Status  Married  Separated  Unmarried (includes single, divorced and widowed)

## JOINT APPLICANT OR OTHER PARTY INFORMATION

Provide the information in this section for a joint applicant, another party that will use or contribute assets or income toward repayment on the account, or for your spouse if you live in, or the collateral property is located in, AZ, CA, ID, LA, NM, NV, TX, WA or WI.

Name	Birthdate	Social Security No.		
Address (Street, City, State, Zip)	County	Drivers License No.		
Home Phone	Business Phone	No. of Dependents	Ages of Dependents	
Employer/Self Employed	Position	Years Employed	Employer's Address	
Wages, Salary, Commissions Gross \$ /month Net \$ /month		How Often Paid		
Previous Employer	Position	Years Employed	Previous Employer's Address	

Name and Address of Applicant's Nearest Relative	Relationship
--	--------------

**Alimony, child support, or separate maintenance income need not be revealed if you do not wish to have it considered. Alimony, child support, separate maintenance received pursuant to:**  Court Order  Written Agreement  Oral Understanding.

Other Income: Source \_\_\_\_\_ Amount/Month \_\_\_\_\_

Marital Status  Married  Separated  Unmarried (includes single, divorced and widowed)

## GENERAL INFORMATION

If you or a joint applicant or other party answers "yes" to any of the following questions, please explain in the space provided.

Are you a guarantor or co-maker of any leases, contracts or debts? Applicant:  Yes  No Joint Applicant/Other Party:  Yes  No

Are there any suits or judgments pending against you? Applicant:  Yes  No Joint Applicant/Other Party:  Yes  No  
(Include amount) \_\_\_\_\_

Have you been declared bankrupt in the last 10 years? Applicant:  Yes  No Joint Applicant/Other Party:  Yes  No

## PREVIOUS CREDIT REFERENCES

Describe any previous debt obligations. Please mark Applicant-related information with an "A".

1.	\$	Date Paid
2.	\$	Date Paid

**ASSET AND DEBT INFORMATION**

If "Joint Applicant or Other Party Information" section was completed above, this section should be completed giving information about both the Applicant and the Joint Applicant or Other Party. **Attach additional sheets if necessary.**

**ASSETS**

DESCRIPTION OF CURRENT ASSETS	NAME(S) OF OWNER(S)	SUBJECT TO DEBT: YES/NO	VALUE
Checking Accounts (Institution, Acct. No.)			\$
Savings Accounts (Institution, Acct. No.)			
Automobiles (Make, Model, Year)			
Marketable Securities (Issuer, Type, No. of Shares)			
Life Insurance Cash Value (Issuer)			
Other Real Estate (Location, when acquired)			
Other Assets (Describe)			
Total Assets			\$

**OUTSTANDING DEBTS** (Include all charge accounts, installment contracts, credit cards, rents, mortgages and other obligations.)

CREDITOR	ACCOUNT NUMBER	NAMES IN WHICH THE ACCOUNT IS CARRIED	ORIGINAL AMOUNT	PRESENT BALANCE	MONTHLY PAYMENTS
Auto Loans					
Credit or Charge Cards					
Landlord or Mortgage Holder on other Real Estate					
Other					
TOTAL DEBTS			\$	\$	\$

**Maine Residents:** A consumer report may be ordered in connection with your application. Upon your request, we will inform you whether or not a report was ordered. If a report was ordered we will tell you the name and address of the consumer reporting agency that provided the report.

**New York Residents:** A consumer report may be ordered in connection with your application. Upon your request, we will inform you whether or not a report was ordered. If a report was ordered we will tell you the name and address of the consumer reporting agency that provided the report. Subsequent reports may be ordered or utilized in connection with an update, renewal or extension of credit for which you have applied.

**Ohio Residents:** 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.

Any person who, with intent to defraud or knowing that he is facilitating a fraud against an insurer, submits an application or files a claim containing a false or deceptive statement is guilty of insurance fraud.

**Married Wisconsin Residents:** No provision of any marital property agreement, unilateral statement under Wisc. Statutes §766.59 or a court decree under Wisc. Statutes §766.70 adversely affects the interest of the lender unless the lender, prior to the time the credit is granted, is furnished a copy of the agreement, statement or decree or has actual knowledge of the adverse provision when the obligation to the lender is incurred.

**NOTICE - JOINT CREDIT:**

We intend to apply for joint credit. (initials) \_\_\_\_\_

I certify that everything I have stated in this application and on any attachments is correct. Lender may keep this application whether or not it is approved. By signing below, I authorize Lender to check my credit and employment history, to have a consumer credit report prepared on me for the purpose of evaluating this application for credit, and to answer questions others may ask Lender about my credit record with Lender. I understand that I must update this credit information at Lender's request and if my financial condition changes.

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

**Applicant** \_\_\_\_\_ **Date** \_\_\_\_\_ **Joint-Applicant** \_\_\_\_\_ **Date** \_\_\_\_\_

CREDITOR USE ONLY			
This application was taken by: <input type="checkbox"/> face-to-face interview <input type="checkbox"/> mail <input type="checkbox"/> telephone <input type="checkbox"/> internet.			
Date Application Received:	Received By:	Amount Requested	
Date Application Completed:	Approved By: /	\$	
Rescindable? <input type="checkbox"/> Yes <input type="checkbox"/> No	RESPA Applicable? <input type="checkbox"/> Yes <input type="checkbox"/> No	Funding Date:	Initial Advance
			\$

# HOME EQUITY APPLICATION DISCLOSURE

PLANTERS BANK, INC.  
MAIN OFFICE  
1312 SOUTH MAIN STREET  
P O BOX 1570  
HOPKINSVILLE, KY 42241-1570

## IMPORTANT TERMS OF OUR HOME EQUITY APPLICATION DISCLOSURE

This disclosure contains important information about our Home Equity LOC (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:

- 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.
- You do not meet the repayment terms of the Plan.
- 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 funds or the dwelling for prohibited purposes.

**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:

- 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.
- We reasonably believe that you will be unable to fulfill your payment obligations under the Plan due to a material change in your financial circumstances.
- You are in default under any material obligation of the Plan. We consider all of 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 of 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).
- We are precluded by government action from imposing the annual percentage rate provided for under the Plan.
- 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 limit.
- We have been notified by governmental authority that continued advances may constitute an unsafe and unsound business practice.
- The maximum annual percentage rate under the Plan is reached.

**Change 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
LOAN PROCESSING FEE:	75.00	At closing

**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 \$50.00 and \$750.00. Upon request, we will provide you with an itemization of the fees 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: 180 Months (the "Draw Period"). Your Regular Payment will be based on a percentage of your outstanding balance as shown below or \$50.00, whichever is greater. Your payments will be due monthly.

<u>Range of Balances</u>	<u>Number of Payments</u>	<u>Regular Payment Calculation</u>
All Balances	180	1.500% of your outstanding balance

Your "Minimum Payment" will be the Regular Payment, plus any amount past due and all other charges. The Minimum Payment will not fully repay the principal that is outstanding on your Credit Line and your final payment will be a single balloon payment.

A change in the ANNUAL PERCENTAGE RATE can cause the balance to be repaid more quickly or more slowly. When rates decrease, less interest is due, so more of the payment repays the principal balance. When rates increase, more interest is due, so less of the payment repays the principal balance. If this happens, we may adjust your payment as follows: your final payment may be increased. Each time the ANNUAL PERCENTAGE RATE increases, we will check to see if your payment is sufficient to pay the interest due. If it is not, your payment will be increased by an amount sufficient to cover all accrued FINANCE CHARGES.

In any event, if your Credit Line balance falls below \$50.00, 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 15 years to pay off a credit advance of \$10,000.00 at an ANNUAL PERCENTAGE RATE of 5.000%. During that period, you would make 180 monthly payments ranging from \$7.25 to \$150.00.

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

**Credit Line Planters Bank Home Equity Line of Credit Check, Telephone Request, Overdraft and In Person Request Limitations.** The following transaction limitations will apply to your Credit Line and the writing of Planters Bank Home Equity Line of Credit Checks, requesting an advance by telephone, writing a check in excess of your checking account balance and requesting an advance in person.

**Minimum Advance Amount.** The minimum amount of any credit advance that can be made on your Credit Line is \$50.00. This means any Planters Bank Home Equity Line of Credit Check must be written for at least the minimum advance amount.

**Other Transaction Requirements.** MUST NOT EXCEED AUTHORIZED CREDIT LIMIT.

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

# HOME EQUITY APPLICATION DISCLOSURE (Continued)

**ADDITIONAL HOME EQUITY PROGRAMS.** Please ask us about our other available Home Equity Line of Credit plans.

**VARIABLE RATE FEATURE.** The Plan has a variable rate feature. The ANNUAL PERCENTAGE RATE (corresponding to the periodic rate), the amount of the final payment, 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 PRIME RATE AS PUBLISHED IN THE MONEY RATES SECTION OF THE WALL STREET JOURNAL. Information about the Index is available or published IN THE MONEY RATES SECTION OF THE WALL STREET JOURNAL. We will use the most recent Index value available to us as of THE FIRST DAY OF EACH MONTH 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 an 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 account, we add a margin to the value of the Index, round that sum to the nearest 0.125%, then divide the rounded value by the number of days in a 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. 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.

**Forgo Rate Increases.** If we forgo an annual percentage rate increase, at the time of a later adjustment we may return to the full rounded Index value plus margin.

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 FIRST DAY OF EACH MONTH. 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 18.000% per annum or, go below 5.000% per annum at any time during the term of the Plan.

**MAXIMUM RATE AND PAYMENT EXAMPLE.** If you had an outstanding balance of \$10,000.00, the minimum payment at the maximum ANNUAL PERCENTAGE RATE of 18.000% would be \$152.88. This ANNUAL PERCENTAGE RATE could be reached at the time of the 2nd payment.

**PREPAYMENT.** You may prepay all or any amount owing under the Plan at any time without penalty.

**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 changes in the Index from 1995 to 2009. The Index values are from the following reference period: FIRST WEEK ENDING IN JULY. While only one payment per year is shown, payments may have varied during each year. Different outstanding principal balances could result in different payment amounts.

The table assumes that no additional credit advances were taken, that only the minimum payments were made, and that the rate remained constant during the year. It does not necessarily indicate how the Index or your payments would change in the future.

**INDEX TABLE**

Year (FIRST WEEK ENDING IN JULY)	Index (Percent)	Margin <sup>(1)</sup> (Percent)	ANNUAL PERCENTAGE RATE	Monthly Payment (Dollars)
1995.....	8.750.....	0.000	8.750	150.00
1996.....	8.250.....	0.000	8.250	136.70
1997.....	8.500.....	0.000	8.500	123.95
1998.....	8.500.....	0.000	8.500	112.67
1999.....	8.000.....	0.000	8.000	102.45
2000.....	8.500.....	0.000	9.500	92.66
2001.....	6.750.....	0.000	6.750	85.08
2002.....	4.750.....	0.000	5.000 <sup>(8)</sup>	75.99
2003.....	4.000.....	0.000	5.000 <sup>(8)</sup>	66.69
2004.....	4.250.....	0.000	5.000 <sup>(8)</sup>	58.52
2005.....	6.250.....	0.000	6.250	51.35
2006.....	8.250.....	0.000	8.250	50.00
2007.....	8.250.....	0.000	8.250	50.00
2008.....	5.000.....	0.000	5.000	50.00
2009.....	3.250.....	0.000	5.000 <sup>(8)</sup>	50.00

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

<sup>(8)</sup> This A.P.R. reflects a 5.000 percent floor.

## BORROWER ACKNOWLEDGMENT

The Borrower, after having read the contents of the above disclosure, acknowledges receipt of this Disclosure Statement and further acknowledges that this Disclosure was completed in full prior to its receipt. The Borrower also acknowledges receipt of the handbook entitled "What you should know about Home Equity Lines of Credit".

**BORROWER:**

X \_\_\_\_\_  
Borrower Date

X \_\_\_\_\_  
Borrower Date

# When Your Home is on the Line:

## 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 75%
Percentage of appraised value	= \$ 75,000
Less balance owed on mortgage	- \$ 40,000
Potential credit	\$ 35,000

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.

# Home Equity Plan Check List

Ask your lender to help fill out this check list.

## Basic Features

- 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? \_\_\_\_\_

	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	_____	_____
Draw period	_____	_____
Repayment period	_____	_____
Appraisal fee	_____	_____
Application fee	_____	_____
Up-front charges, including points	_____	_____
Closing costs	_____	_____

	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?	_____	_____

Revised 2007

# 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

Federal Reserve Consumer Help  
 PO Box 1200  
 Minneapolis, MN 55480  
 888-851-1920 (Phone)  
 877-766-8533 (TTY)  
 877-888-2520 (Fax)  
 Email: [ConsumerHelp@FederalReserve.gov](mailto:ConsumerHelp@FederalReserve.gov)  
[www.FederalReserveConsumerHelp.gov](http://www.FederalReserveConsumerHelp.gov)

## National Banks

Office of the Comptroller of the Currency  
 Customer Assistance Unit  
 1301 McKinney St.  
 Suite 3450  
 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, MO 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  
Washington, DC 20552  
(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  
(877) FTC-HELP  
[www.ftc.gov](http://www.ftc.gov)

Last update October 11, 2007