1st Colonial
COMMUNITY BANK

Please provide the following documents when submitting your <u>completed</u> application for a HOME EQUITY TERM LOAN OR HOME EQUITY LINE OF CREDIT.

- **2 YEARS TAX RETURNS (MUST BE SIGNED COPIES)**
- **CURRENT PAY STUBS**
- **COPY OF HOMEOWNER'S INSURANCE**
- **PROOF OF CURRENT MORTGAGE BALANCE**
- **COPY OF DEED**
- **COPY OF PROPERTY TAX BILL (FIXED TERM EQUITY LOANS ONLY)**

Failure to provide these items with your application may cause a delay in the processing of your request.

Originator NMLS ID: _____
Origination Co. NMLS ID: 677617

1st Colonial COMMUNITY BANK

Consumer Loan Application

CREDIT REQUESTED

Account Requested
☐ Individual ☐ Joint
We intend to apply for joint credit.

Applicant _____ Co-Applicant _____

Amt. Requested

# of Payments

Specific Purpose of Loan

Collateral Offered (Description of property securing credit)

LOAN REQUEST

Check Applicable Box: ☐ Personal Loan ☐ Used Auto Loan ☐ Home Equity Line of Credit ☐ Overdraft Protection
☐ New Auto Loan ☐ Home Equity Loan – Second Mortgage ☐ Other (Please Specify) _____

Description of property securing credit or description of vehicle purchase, year/make/model and VIN (if applicable).

COMPLETION INSTRUCTIONS FOR APPLICANT

Complete the Applicant Information section for the first Applicant. Mark the appropriate box to indicate whether the Applicant is applying as a Borrower, Cosigner, Guarantor, Grantor (of collateral), or Other for a different capacity. If the Applicant is married, he or she may apply for individual credit.

APPLICANT INFORMATION

☐ Borrower ☐ Cosigner ☐ Guarantor ☐ Grantor ☐ Other: _____

Applicant's Full Name (First M.I. Last)	Social Security Number	Home Phone	Email Address

Cell Phone	Date of Birth	Driver's License Number	Ages of Dependents	Years of Education	Years in Current Profession

ADDRESS INFORMATION

Home Address (Street, City, Sate, Zip Code) (If rural, show Road and Box No.)

Since

☐ Own
☐ Rent

Mailing Address (Street or P.O. Box, City, State, Zip Code)

Previous Home Address (Street, City, State, Zip Code)

From To

EMPLOYMENT INFORMATION

Applicant's Employer (If Self-Employed, Name and Nature of Business)

Business Address (Street, City, State, Zip Code)

Type of Business	Supervisor	Phone Number	Title / Position	Since	Salary per

Second Employer (If Self-Employed, Name and Nature of Business)

Business Address (Street, City, State, Zip Code)

Type of Business	Supervisor	Phone Number	Title / Position	Since	Salary per

MARITAL STATUS

Applicant: ☐ Married ☐ Separated ☐ Unmarried (including single, divorced, and widowed) ☐ Civil Union

COMPLETION INSTRUCTIONS FOR CO-APPLICANTS

(a) If you are applying for joint credit or will be permitted to use the account, complete the Co-Applicant Information section as a Borrower. (b) If the Applicant is applying for individual credit, but relying on income from alimony, child support, or separate maintenance or on the income or assets of another person as the basis for repayment of the credit requested, complete the Co-Applicant Information section, to the extent possible, providing information about the person whose alimony, support, or maintenance payments or income or assets the Applicant is relying. (c) If the Applicant resides in a community property state or is relying on property located in such a state as a basis for repayment of the credit requested, complete the Co-Applicant Information section with regard to the Applicant's spouse.

APPLICANT INFORMATION

☐ Borrower ☐ Cosigner ☐ Guarantor ☐ Grantor ☐ Other: _____

Co-Applicant's Full Name (First M.I. Last)	Social Security Number	Home Phone	Email Address

Cell Phone	Date of Birth	Driver's License Number	Ages of Dependents	Years of Education	Years in Current Profession

ADDRESS INFORMATION

Home Address (Street, City, Sate, Zip Code) (If rural, show Road and Box No.)	Since	☐ Own ☐ Rent

Mailing Address (Street or P.O. Box, City, State, Zip Code)

Previous Home Address (Street, City, State, Zip Code)	From	To

EMPLOYMENT INFORMATION

Applicant's Employer (If Self-Employed, Name and Nature of Business)	Business Address (Street, City, State, Zip Code)

Type of Business	Supervisor	Phone Number	Title / Position	Since	Salary per

Second Employer (If Self-Employed, Name and Nature of Business)	Business Address (Street, City, State, Zip Code)

Type of Business	Supervisor	Phone Number	Title / Position	Since	Salary per

MARITAL STATUS

Applicant: ☐ Married ☐ Separated ☐ Unmarried (including single, divorced, and widowed) ☐ Civil Union

QUESTIONS

Applicant (1)	Co-Applicant (2)		Explanation
☐ Yes ☐ No	☐ Yes ☐ No	Are there any outstanding judgments against you?	
☐ Yes ☐ No	☐ Yes ☐ No	Have you ever been declared bankrupt?	
☐ Yes ☐ No	☐ Yes ☐ No	Have you had property foreclosed upon or given title or deed in lieu thereof in the last 7 years?	
☐ Yes ☐ No	☐ Yes ☐ No	Are you party to a lawsuit?	
☐ Yes ☐ No	☐ Yes ☐ No	Are you obligated on any loan resulting in judgment, foreclosure or title transfer?	
☐ Yes ☐ No	☐ Yes ☐ No	Are you delinquent/in default on any Federal debt, financial obligation, bond, or loan guarantee?	
☐ Yes ☐ No	☐ Yes ☐ No	Are you obligated to pay alimony, child support, or separate maintenance?	
☐ Yes ☐ No	☐ Yes ☐ No	Is any part of the down payment borrowed?	
☐ Yes ☐ No	☐ Yes ☐ No	Are you a co-maker or an endorser on a loan?	
☐ Yes ☐ No	☐ Yes ☐ No	Have you ever had merchandise repossessed?	
☐ Yes ☐ No	☐ Yes ☐ No	Have you ever been denied credit with this lender?	
☐ Yes ☐ No ☐ Yes ☐ No ☐ Yes ☐ No	☐ Yes ☐ No ☐ Yes ☐ No ☐ Yes ☐ No	Are you a U.S. citizen? If no, are you a resident alien? If no, are you a non-resident alien?	

QUESTIONS

Names Credit Listed In	Loan Purpose	Creditor Name and Address	Account Number	Highest Balance	Date Paid
☐ App ☐ Co-App ☐ Other					
☐ App ☐ Co-App ☐ Other					
☐ App ☐ Co-App ☐ Other					
☐ App ☐ Co-App ☐ Other					

SCHEDULE OF EXPENSES

EXPENSE TYPES: D=Dues-Homeowner Association H=Hazard Insurance P=Private Mortgage Insurance R=Rent T=Taxes (Property) U=Utilities A=Alimony/Child Support C=Child/Dependent Care E=Estimated Living Expenses F=Federal & State Taxes I=Insurance Payments M=Medical O=Other

PARTIES

App	CoA	Joint	Type	Description	Amount	Frequency

SCHEDULE OF EXPENSES

PARTIES LIABILITY TYPES: A=Automobile Loans I=Installment/Revolving T=Third Party Obligations (As Co-Maker or Guarantor) O=Other

App	CoA	Joint	Type	Creditor Name	Account Number	Original Balance	Current Balance	Payments Remaining	Payment Amount	Per

SCHEDULE OF ASSETS (NON-REAL ESTATE)

CASH / ACCOUNTS

PARTIES ACCOUNT TYPES: C=Checking T=Time Certificate of Deposit I=IRA/SEP M=Money Market Account S=Savings O=Other

App	CoA	Joint	Type	Description	Financial Institution	Account Number	Current Balance	Subject to Debt

STOCKS / BONDS

App	CoA	Joint	Type	Description	Broker / Company	Account Number	Value	Subject to Debt

LIFE INSURANCE

App	CoA	Joint	Description	Agent/ Company Name	Policy Number	Face Value	Net Cash Value	Beneficiary	Subject to Debt

BUSINESSES OWNED

App	CoA	Joint	Business Name	Financial Statement Date	Date Received	Value	Subject to Debt

RETIREMENT FUNDS

App	CoA	Joint	Description of Retirement Plan	Year Fully Vested	Value	Subject to Debt

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, and sex on the basis of visual observation or surname. If you do not wish to furnish the information, please check below.

APPLICANT:

☐ I do not wish to furnish this information

Ethnicity:

☐ Hispanic or Latino

☐ Not Hispanic or Latino

Race:

☐ American Indian or Alaska Native

☐ Asian

☐ Black or African American

☐ Native Hawaiian or Other Pacific Islander

☐ White

Sex:

☐ Female

☐ Male

CO-APPLICANT:

☐ I do not wish to furnish this information

Ethnicity:

☐ Hispanic or Latino

☐ Not Hispanic or Latino

Race:

☐ American Indian or Alaska Native

☐ Asian

☐ Black or African American

☐ Native Hawaiian or Other Pacific Islander

☐ White

Sex:

☐ Female

☐ Male

TO BE COMPLETED BY INTERVIEWER

This application was taken by:

☐ Face to Face

☐ Mail

☐ Telephone

☐ Internet

_____
Interviewer

_____
Interviewer's Phone Number

_____
Name and Address of Interviewer's Employer

SCHEDULE OF REAL ESTATE OWNED

PARTIES TYPES: S=Single D=Duplex T=Triplex F=Four-Plex C=Condominium P=P.U.D. L=Land O=Summer/Other

App	CoA	Joint	Type:	Property Disposition: ☐ Sold ☐ Pending Sale ☐ Rental ☐ N/A			Will Secure Loan ☐ Y ☐ N
			Description	Property Address	Date Acquired	Cost	Principal Residence ☐ Y ☐ N
			Current Market Value	Total Mortgages & Liens	Gross Rental Income	Taxes, Ins., Maint.	Net Rental Income
			Creditor 1 Name and Address	Unpaid Bal.	Pmt. Amt.	Per	Lien Position ☐ First Lien ☐ Junior Lien
			Creditor 2 Name and Address	Unpaid Bal.	Pmt. Amt.	Per	Lien Position ☐ First Lien ☐ Junior Lien

PARTIES TYPES: S=Single D=Duplex T=Triplex F=Four-Plex C=Condominium P=P.U.D. L=Land O=Summer/Other

App	CoA	Joint	Type:	Property Disposition: ☐ Sold ☐ Pending Sale ☐ Rental ☐ N/A			Will Secure Loan ☐ Y ☐ N
			Description	Property Address	Date Acquired	Cost	Principal Residence ☐ Y ☐ N
			Current Market Value	Total Mortgages & Liens	Gross Rental Income	Taxes, Ins., Maint.	Net Rental Income
			Creditor 1 Name and Address	Unpaid Bal.	Pmt. Amt.	Per	Lien Position ☐ First Lien ☐ Junior Lien
			Creditor 2 Name and Address	Unpaid Bal.	Pmt. Amt.	Per	Lien Position ☐ First Lien ☐ Junior Lien

PARTIES TYPES: S=Single D=Duplex T=Triplex F=Four-Plex C=Condominium P=P.U.D. L=Land O=Summer/Other

App	CoA	Joint	Type:	Property Disposition: ☐ Sold ☐ Pending Sale ☐ Rental ☐ N/A			Will Secure Loan ☐ Y ☐ N
			Description	Property Address	Date Acquired	Cost	Principal Residence ☐ Y ☐ N
			Current Market Value	Total Mortgages & Liens	Gross Rental Income	Taxes, Ins., Maint.	Net Rental Income
			Creditor 1 Name and Address	Unpaid Bal.	Pmt. Amt.	Per	Lien Position ☐ First Lien ☐ Junior Lien
			Creditor 2 Name and Address	Unpaid Bal.	Pmt. Amt.	Per	Lien Position ☐ First Lien ☐ Junior Lien

APPLICANT SIGNATURE(S)

I/We hereby apply for the loan or credit described in this application. I/We certify that I/we made no misrepresentations in this loan application or in any related documents, that all information is true and complete, and that I/we did not omit any important information. I/We agree that any property securing the loan or credit will not be used for any illegal or restricted purpose. Lender is authorized to verify with other parties and to make any investigation of my/our credit, either directly or through any agency employed by Lender for that purpose. Lender may disclose to any other interested parties information as to Lender's experiences or transactions with my/our account. I/We understand that Lender will retain this application and any other credit information Lender receives, even if no loan or credit is granted. These representations and authorizations extend not only to Lender, but also to any insurer of the loan and to any investor to whom Lender may sell all or any part of the loan. I/We further authorize Lender to provide to any such insurer or investor any information and documentation that they may request with respect to my/our application, credit or loan.

APPLICANT:

X _____ _____ _____ _____

Applicant **Date** **Co-Applicant** **Date**

HOME EQUITY APPLICATION DISCLOSURE

1st Colonial National Bank
1150 Haddon Avenue
Collingswood, NJ 08108

IMPORTANT TERMS OF OUR HOME EQUITY APPLICATION DISCLOSURE

INTEREST ONLY

This disclosure contains important information about our HOME EQUITY INTEREST ONLY (P+) (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 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:

(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 a material change in your financial circumstances.

(c) 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).

(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 government 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.

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
Appraisal:	$100.00 to $500.00	AT CLOSING
Property Search:	$30.00 TO $200.00	AT CLOSING
Recording Fee/Cancellation Fee:	$20.00 TO $300.00	AT CLOSING
Processing fee:	100.00	At Account Closing

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 or $15.00, whichever is less.

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 $3,000.00. We estimate the breakdown of these as follows:

Description	Amount	When Charged
Title Insurance:	0.00 to $3,000.00	At Account Closing

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: 120 Months (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 the repayment period is as

follows: 180 Months. Your Regular Payment will equal the amount of your accrued FINANCE CHARGES ("First Payment Stream"). You will make 120 of these payments. Your payments will be due monthly. Your "Minimum Payment" will be the Regular Payment, plus any amount past 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 balance at the start of this payment period plus all accrued FINANCE CHARGES as shown below ("Second Payment Stream"). Your payments will be due monthly.

Range of Balances	Number of Payments	Regular Payment Calculation
All Balances	180	0.556% of your balance at the start of the repayment period 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 RATE may increase the amount of your Regular Payment.

MINIMUM PAYMENT EXAMPLE. If you made only the minimum payment and took no other credit advances, it would take 25 years to pay off a credit advance of $10,000.00 at an ANNUAL PERCENTAGE RATE of 4.000%. During that period, you would make 120 monthly payments ranging from $30.68 to $33.97. Then you would make 180 monthly payments ranging from $47.76 to $89.57.

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

Credit Line Equity Line - Interest Only and In Person Request Limitations. The following transaction limitations will apply to your Credit Line and the writing of Equity Line - Interest Onlys 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 $100.00. This means any Equity Line - Interest Only 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 Wall Street Journal Prime. 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 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 First Payment Stream, we add a margin to the value of the Index, then divide the value by 12 (monthly). To obtain the ANNUAL PERCENTAGE RATE we multiply the Periodic Rate by 12 (monthly). 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 add a margin to the value of the Index, then divide the value by 12 (monthly). To obtain the ANNUAL PERCENTAGE RATE we multiply the Periodic Rate by 12 (monthly). 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.

Please ask us for the current Index value, margin 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 immediately or prior to the 1st 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 $191.49. This ANNUAL PERCENTAGE RATE could be reached at the time of the 1st payment during the repayment period.

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 1996 to 2010. The Index values are from the following reference period: as of the last business day of December. 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 (as of the last business day of December)	Index (Percent)	Margin (1) (Percent)	ANNUAL PERCENTAGE RATE	Monthly Payment (Dollars)
1996	8.270	0.750	9.020	76.61
1997	8.440	0.750	9.190	78.05
1998	8.350	0.750	9.100	77.29
1999	8.000	0.750	8.750	74.32
2000	9.500	0.750	10.250	87.05
2001	5.000	0.750	5.750	48.84
2002	4.250	0.750	5.000	42.47
2003	4.000	0.750	4.750	40.34
2004	5.250	0.750	6.000	50.96
2005	7.250	0.750	8.000	67.95
2006	8.250	0.750	9.000	132.04
2007	7.250	0.750	8.000	119.01
2008	3.250	0.750	4.000	85.04
2009	3.250	0.750	4.000	82.77
2010	3.250	0.750	4.000	80.51

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

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**

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The Federal Reserve Board

What you should know about

Home Equity Lines of Credit

Board of Governors of the Federal Reserve System
www.federalreserve.gov
0411

Table of contents

Home Equity Plan Checklist 2

What is a home equity line of credit? 3
- What should you look for when shopping for a plan? 4
- Costs of establishing and maintaining a home equity line 5
- How will you repay your home equity plan? 6
- Lines of credit vs. traditional second mortgage loans 8
- What if the lender freezes or reduces your line of credit? 10

Glossary A1

Where to go for help A4

More resources and ordering information A6
- Print orders A6

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.

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?		

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
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.

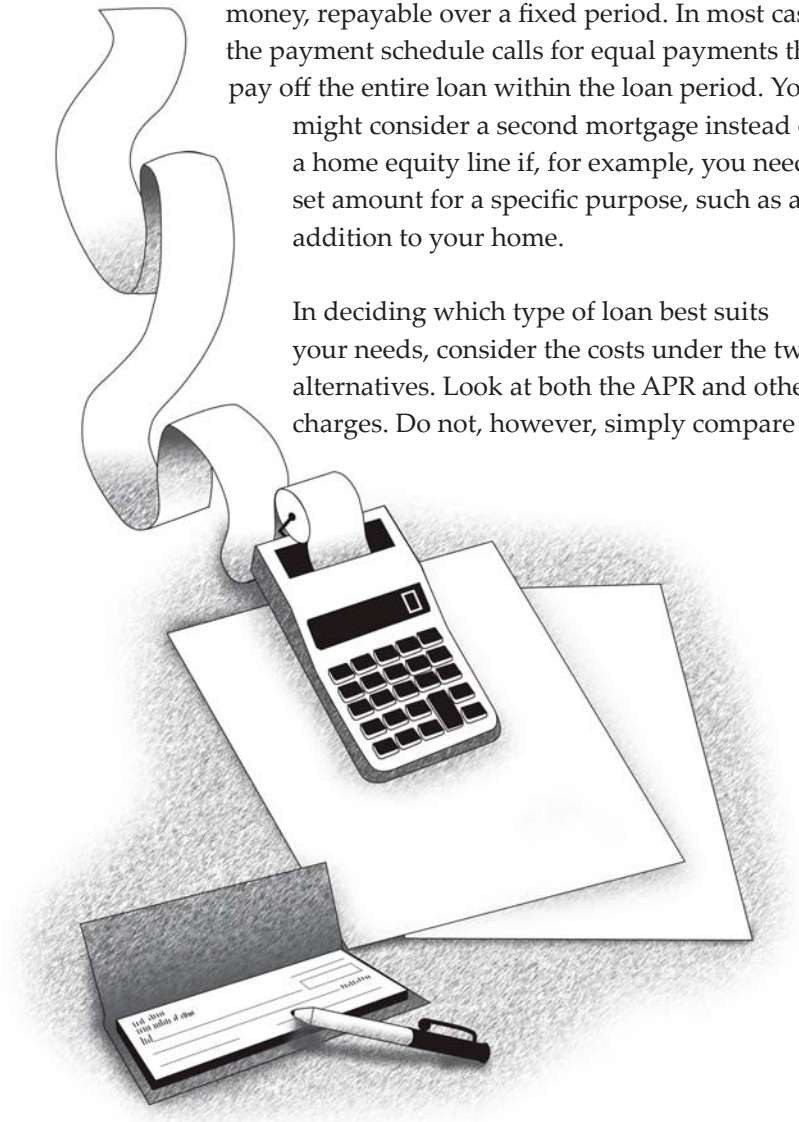
If your plan has a variable interest rate, your monthly payments may change. Assume, for example, that you borrow $10,000 under a plan that calls for interest-only payments. At a 10% interest rate, your monthly payments would be $83. If the rate rises over time to 15%, your monthly payments will increase 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.

State-chartered bank members of the Federal Reserve System
Federal Reserve Consumer Help
PO Box 1200
Minneapolis, MN 55480
888-851-1920 (toll free)
877-766-8533 (TTY) (toll free)
877-888-2520 (fax) (toll free)
e-mail: ConsumerHelp@FederalReserve.gov
www.FederalReserveConsumerHelp.gov

National banks and national-bank-owned mortgage companies[1]
Office of the Comptroller of the Currency (OCC)
Customer Assistance Group
1301 McKinney Street, Suite 3450
Houston, TX 77010
800-613-6743 (toll free)
713-336-4301 (fax)
e-mail: customer.assistance@occ.treas.gov
www.occ.treas.gov
www.helpwithmybank.gov

Federally chartered credit unions[2]
National Credit Union Administration (NCUA)
Office of Public and Congressional Affairs
1775 Duke Street
Alexandria, VA 22314
800-755-1030 (toll free)
703-518-6409 (fax)
e-mail: consumerassistance@ncua.gov
www.ncua.gov/ConsumerInformation/index.htm

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[1] Banks with "National" in their name or "N.A." after the name.
[2] Credit unions with "Federal" in their name.

For state-chartered credit unions, contact the regulatory agency in the state in which the credit union is chartered.
www.ncua.gov/consumerinformation/consumer%20complaints/statechartered.htm

Federally insured state-chartered banks that are not members of the Federal Reserve System
Federal Deposit Insurance Corporation (FDIC)
Consumer Response Center
1100 Walnut Street, Box #11
Kansas City, MO 64106
877-ASK-FDIC (877-275-3342) (toll free)
e-mail: consumeralerts@fdic.gov
www.fdic.gov/consumers/consumer/ccc/index.html

Savings and loan associations[3]
Office of Thrift Supervision (OTS)
Consumer Affairs
1700 G Street, NW
Washington, DC 20552
800-842-6929 (toll free)
800-877-8339 (TTY) (toll free)
www.ots.treas.gov

Mortgage companies and other lenders
Federal Trade Commission (FTC)
Consumer Response Center
600 Pennsylvania Avenue, NW
Washington, DC 20580
202-326-3758 or (877) FTC-HELP
866-FTC-HELP (877-382-4357) (toll free)
www.ftc.gov

[3] Federally chartered and some state-chartered associations.

More resources and ordering information

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

Print orders

To request additional copies of this brochure, please send your name, address, and the number of copies requested to Publications Fulfillment, Board of Governors of the Federal Reserve System, Washington, DC 20551, or see our online ordering instructions at www.federalreserve.gov/pubs/order.htm.