



**Dear Member,**

Thank you for your interest in our Home Equity Programs. Below, you will find all the necessary documents to complete your application.

**AT TIME OF APPLICATION THE MEMBER SHALL FURNISH THE FOLLOWING:**

- a. W-2 form, most recent year signed Federal tax return and a copy of your most recent paystub; if self-employed, signed copies of Federal tax returns for the past two years
- b. Property tax assessment or recent property tax statement showing the State Equalized Value
- c. Homeowner's Insurance Policy showing current policy term
- d. Mortgage statement showing balance due on existing mortgage, if applicable
- e. Trust documentation, if applicable
- f. Judgement of Divorce, if applicable
- g. Condominium Association name and phone number, if applicable to your property
- h. Signed Borrower Authorization form
- i. Signed Borrower Acknowledgements

**Rescission Period**

As required by Reg Z, the three (3) day delay in monetary disbursement will be enforced from the loan settlement date.

**Limitations and Restrictions**

1. **Property of concern must be owner occupied (principal residence only – and located in the State of Michigan).**
2. All multiple units considered must be eligible to have a lien registered.
3. All liens will be properly recorded in the county in which the property/residence resides.
4. The mortgage is not assumable.
5. Line-of-Credit will automatically cancel upon any delinquency or if the member moves.
6. The following will not qualify for consideration of establishing a home equity loan:
  - a. Undeveloped land
  - b. Pre-constructed housing units, such as a mobile home or portable modules without permanent foundations or ownership in land parcel
  - c. New construction
  - d. Any request which would fall subsequent to an existing land contract
  - e. Any request which would fall subsequent to an existing second mortgage
  - f. Any property zoned other than residential
  - g. Any property on which there is a lien (e.g. divorce lien, judgment lien, tax lien, etc.) that has not been satisfied
  - h. Any property other than single family - i.e., duplex, etc.
  - i. Any rental/income property

\*\* Member may be subject to paying closing costs and fees if refinancing an existing MECU Home Equity Loan \*\*



# Michigan Educational Credit Union

NMLS ID 401274

### For Credit Union Use Only

Approved  Denied

Credit Committee Initial Here \_\_\_\_\_ Date \_\_\_\_\_

## HOME EQUITY CREDIT APPLICATION

If you are applying for joint credit with another person, complete all sections below, providing information on the right side of this document about the joint applicant. We intend to apply for joint credit:

\_\_\_\_\_  
Applicant Initial

\_\_\_\_\_  
Co-Applicant Initial

ACCOUNT NO. \_\_\_\_\_

<b>OPTION 1: Variable Rate Equity Line of Credit</b> <input type="checkbox"/> New Account <input type="checkbox"/> Credit Line Increase <b>Payment Options</b> Credit Line Requested \$ _____ <input type="checkbox"/> \$ 9 Per 1000 <input type="checkbox"/> \$ 12 Per 1000	<b>OPTION 2: Fixed Rate Equity Installment Loan</b> <input type="checkbox"/> New Account <input type="checkbox"/> Refinance \$ _____ Loan Term: <input type="checkbox"/> 60 months <input type="checkbox"/> 120 months Loan Amount Requested <input type="checkbox"/> 180 months (\$30,000 min)
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PURPOSE \_\_\_\_\_

### DESCRIPTION OF PROPERTY MUST BE PRIMARY RESIDENCE

PROPERTY TYPE <input type="checkbox"/> SINGLE FAMILY <input type="checkbox"/> CONDO <input type="checkbox"/> 2-4 UNITS <input type="checkbox"/> OTHER _____			ORIGINAL PURCHASE PRICE	ESTIMATED MARKET VALUE	STATE EQUALIZED VALUE
					IS PROPERTY CURRENTLY FOR SALE <input type="checkbox"/> YES <input type="checkbox"/> NO

### APPLICANT

FIRST NAME	INITIAL	LAST NAME	SR.,JR.,I,II
SOCIAL SECURITY NUMBER		BIRTH DATE	
CURRENT STREET ADDRESS		APT. NO.	SINCE
CITY		COUNTY	
STATE	ZIP	MARITAL STATUS <input type="checkbox"/> MARRIED <input type="checkbox"/> SEPARATED <input type="checkbox"/> UNMARRIED (SINGLE, DIVORCED)	
EMAIL ADDRESS			
DO YOU: <input type="checkbox"/> OWN <input type="checkbox"/> RENT <input type="checkbox"/> LIVE WITH PARENTS		CELL/HOME TELEPHONE ( ) ( )	
NAME, ADDRESS & TELEPHONE OF NEAREST RELATIVE NOT LIVING WITH YOU			RELATIONSHIP

### CO-APPLICANT

FIRST NAME	INITIAL	LAST NAME	SR.,JR.,I,II
SOCIAL SECURITY NUMBER		BIRTH DATE	
CURRENT STREET ADDRESS		APT. NO.	SINCE
CITY		COUNTY	
STATE	ZIP	MARITAL STATUS <input type="checkbox"/> MARRIED <input type="checkbox"/> SEPARATED <input type="checkbox"/> UNMARRIED (SINGLE, DIVORCED)	
EMAIL ADDRESS			
DO YOU: <input type="checkbox"/> OWN <input type="checkbox"/> RENT <input type="checkbox"/> LIVE WITH PARENTS		CELL/HOME TELEPHONE ( ) ( )	
NAME, ADDRESS & TELEPHONE OF NEAREST RELATIVE NOT LIVING WITH YOU			RELATIONSHIP

### EMPLOYMENT AND INCOME IF SELF EMPLOYED CHECK HERE AND ATTACH TWO YEARS FEDERAL INCOME TAX RETURNS (INCLUDE ALL SCHEDULES).

CURRENT EMPLOYER	SINCE	
ADDRESS		
WORK TELEPHONE ( )	POSITION	GROSS MONTHLY INCOME \$
FORMER EMPLOYER (IF CURRENT IS LESS THAN 1 YEAR)	POSITION	YEARS

CURRENT EMPLOYER	SINCE	
ADDRESS		
WORK TELEPHONE ( )	POSITION	GROSS MONTHLY INCOME \$
FORMER EMPLOYER (IF CURRENT IS LESS THAN 1 YEAR)	POSITION	YEARS

### OTHER INCOME YOU NEED NOT LIST INCOME FROM ALIMONY, CHILD SUPPORT OR SEPARATE MAINTENANCE PAYMENTS UNLESS YOU WANT IT CONSIDERED IN EVALUATING THIS CREDIT APPLICATION.

SOURCE OF OTHER INCOME	MONTHLY AMOUNT \$
NAME AND ADDRESS OF PAYER	NO. OF YRS. RECEIVED

SOURCE OF OTHER INCOME	MONTHLY AMOUNT \$
NAME AND ADDRESS OF PAYER	NO. OF YRS. RECEIVED





## **Borrower Acknowledgement**

I /we hereby acknowledge:

( ) I/we request a copy of the property appraisal report at least three (3) business days prior to the date of closing.

( ) That on \_\_\_\_\_, but at least three (3) business days prior to the date of closing, I/we hereby waive entitlement to a receipt of the property appraisal report.

\_\_\_\_\_  
Borrower

\_\_\_\_\_  
Date

\_\_\_\_\_  
Co-borrower

\_\_\_\_\_  
Date

[www.michedcu.org](http://www.michedcu.org)    general@michedcu.org

LIVONIA  
14921 Middlebelt Road  
Livonia, MI 48154  
734.261.1050

ANN ARBOR  
4141 Jackson Boulevard  
Ann Arbor, MI 48103  
734.761.7505

BRIGHTON  
123 Brighton Lake Road  
Suite 102  
Brighton, MI 48116  
810.494.6000

ROYAL OAK  
1903 Rochester Road  
Royal Oak, MI 48073  
248.399.7473

MACOMB  
47230 Hayes Road  
Macomb Twp, MI 48044  
586.566.5599



## **Borrower Acknowledgement**

I /we hereby acknowledge:

I /we have received a list of HUD-approved counseling intermediaries when I/we submitted the Home Equity application.

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

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Co-borrower \_\_\_\_\_ Date \_\_\_\_\_



## **Borrower Acknowledgement**

I /we hereby acknowledge: the intent to proceed with the loan application process.

\_\_\_\_\_  
Borrower

\_\_\_\_\_  
Date

\_\_\_\_\_  
Co-borrower

\_\_\_\_\_  
Date

## Borrower's Certification & Authorization

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### Certification

The undersigned certify the following:

1. I/We have applied for a loan from Michigan Educational Credit Union. In applying for the loan, I/we completed a loan application containing various information on the purpose of the loan, the amount and source of the down payment, employment and income information, and assets and liabilities. I/We certify that all of the information is true and complete. I/We made no misrepresentations in the loan application or other documents, nor did I/We omit any pertinent information.
2. I/We understand and agree that Michigan Educational Credit Union reserves the right to change the loan review process to a full documentation program. This may include verifying the information provided on the application with the employer and/or the financial institution.
3. I/We fully understand that it is a Federal crime punishable by fine or imprisonment, or both, to knowingly make any false statements when applying for this loan, as applicable under provisions of Title 18, United States Code, Section 1014.

### Authorization to Release Information

To Whom It May Concern:

1. I/We have applied for a loan from Michigan Educational Credit Union. As part of the application process, Michigan Educational Credit Union may verify information contained in my/our loan application and in other documents required in connection with the loan, either before the loan is closed or as part of its quality control program.
2. I/We authorize you to provide to Michigan Educational Credit Union any and all information and documentation that they request. Such information includes, but is not limited to, employment history and income; bank, money market, and similar account balances; credit history; and copies of income tax returns.
3. Michigan Educational Credit Union may address this authorization to any party named in the loan application or disclosed by consumer credit reporting agency or similar source.
4. A copy of this authorization may be accepted as an original.
5. Your prompt reply to Michigan Educational Credit Union is appreciated.

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(Borrower's Signature)

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(Date)

---

(Borrower's Signature)

---

(Date)

## **MICHIGAN EDUCATIONAL CREDIT UNION**

### **BORROWERS BILL OF RIGHTS**

1. You have the RIGHT to shop for the best loan for you and compare the charges of different mortgage brokers and lenders.
2. You have the RIGHT to be informed about the total cost of your loan including the interest rate, points, and other fees.
3. You have the RIGHT to obtain a “Good Faith Estimate” of all loan and settlement charges before you agree to the loan or pay any fees.
4. You have the RIGHT to know what fees are nonrefundable if you decide to withdraw your loan application.
5. You have the RIGHT to ask your mortgage broker to explain what the mortgage broker will do for you.
6. You have the RIGHT to know how much the mortgage broker is being paid by you and the lender for your loan.
7. You have the RIGHT to ask questions about charges and loan terms that you do not understand.
8. You have the RIGHT to a credit decision that is not based on your race, color, religion, national origin, sex, marital status, age, or whether any income is derived from public assistance.
9. You have the RIGHT to know the reason if your loan application is turned down.

**HOME EQUITY LINE OF CREDIT**  
("Account Disclosure")

**MICHIGAN EDUCATIONAL CREDIT UNION**  
9200 Haggerty Road  
Plymouth, Michigan 48170  
("we"/"us"/"our")

"you" and "your" means the recipient of this disclosure. "e" means an estimate. "n/a" means not applicable.

**FACTS ABOUT OUR HOME EQUITY LOAN**

This disclosure contains important information about our home equity line of credit (Account). You should read it carefully and keep a copy for your records.

**Availability of Terms.** All of the terms described below are subject to change. If these terms change (other than the annual percentage rate) and you decide, as a result, not to enter into an agreement with us, you are entitled to a refund of any fees you paid to us or anyone else in connection with your application.

**Security Interest.** We will acquire a security interest in your home (collateral). You could lose your home if you do not meet the obligations in your agreement with us.

**Possible Action.** We can terminate your line and require you to pay us the entire outstanding balance in one payment, if; you engage in fraud or material misrepresentation in connection with the line; or, you do not meet the repayment terms, and/or your action or inaction adversely affects the collateral; and/or our rights in the collateral. We can refuse to make additional extensions of credit or reduce your credit line if; the value of the dwelling securing the line declines significantly below its appraised value for purposes of the line; or, we reasonably believe you will not be able to meet the repayment requirements due to a material change in your financial circumstances; or, you are in default of a material obligation in the agreement; or, government action prevents us from imposing the annual percentage rate provided for or impairs our security interest such that the value of the interest is less than 120 percent of the credit line; or, a regulatory agency has notified us that continued advances would constitute an unsafe and unsound practice; and/or the maximum annual percentage rate is reached. The initial agreement permits us to make certain changes to the terms of the agreement at specified events.

**Minimum Payment Requirements.** You can obtain advances of credit for five (5) years ("Draw Period"). Once the Draw Period expires, you will not be able to obtain further advances unless your Account is renewed pursuant to lenders' requirements. Your payments will be due monthly and will be calculated as follows:

We calculate your minimum monthly payment after each advance by amortizing your unpaid balance at a minimum payment level equal to \$9.00 or \$12.00 per thousand dollars or portion of one thousand dollars. This will be your fixed minimum monthly payment until you obtain another advance, or your balance is paid off. Your minimum monthly payment in any event will never be less than \$50.00, unless your balance is less, in which case your minimum monthly payment will be that lesser amount.

After the Draw Period ends, you will no longer be able to obtain credit advances and must repay the outstanding balance ("Repayment Period"). The length of the Repayment Period will depend on when you obtained your last advance. Your minimum monthly payment during the Repayment Period remains subject to the same calculation as applied during the Draw Period.

**Minimum Payment Example.** If you made only the minimum payment and took no other credit advances, it would take approximately 17 years to pay off a credit advance of \$10,000.00 at an ANNUAL PERCENTAGE RATE of 8.25%. During that period, you would make approximately 211 monthly payments of \$90.00.

**Negative Amortization** Under some circumstances, your payments will not cover the finance charge that accrues and "negative amortization" will occur. Negative amortization will increase the amount that you owe and reduce the equity in your home.

**Fees and Charges.** To open and maintain your Account, you must pay us the following fees: **Waived until further notice.**

Mortgage or Trust Deed Preparation	\$ _____	Appraisal	\$ 300.00e**
Title Insurance	\$ 220.00e***	Closing Fee	\$ 150.00e**
Credit Report	\$ _____	Recording Fee	\$ 33.40e**
Subordination Request	\$ 75.00e**	Application Fee	\$ _____
Annual Membership Fee	\$ _____	(Includes Appraisal Fee of \$300.00)	
Other (Identify)	\$ _____	Flood Report	\$ 11.00e**

You must carry insurance on the property that secures this plan.

\*Payable at application \*\* Payable at closing \*\*\* Based on \$10,000 representative amount of credit - payable at closing

**Late Charge.** If I am more than **10** days late in making my payment, in addition to My payment, I will pay a late charge of: **\$20.00.**

**Application Fee.** If an application fee is collected before or at the time that this disclosure and brochure entitled "What you should know about Home Equity Lines of Credit" is provided to you, the application fee remains refundable for up to three business days after receipt of this disclosure and "What you should know about Home Equity Lines of Credit" brochure. If this disclosure and brochure have been mailed to you, the application fee is refundable for up to six business days after the mailing of this disclosure and brochure.

If you tell us you have decided not to enter into the Account within three days of receiving this Disclosure in person, or within six days after the day we mail it to you, as the case might be, any fees or charges you might have already paid will be refunded.

**Minimum Transaction Requirements.** Your Account is not subject to any minimum balance requirement, however if you pay your balance in full and close the credit line within 18 months after it is open, we reserve the right to charge you a fee for doing so.

**Tax Deductibility.** You should consult a tax advisor regarding the deductibility of interest and charges on your Account.

**Variable-Rate Feature.** The line has a variable-rate feature, and the annual percentage rate (Corresponding to the periodic rate) and the minimum monthly payment can change as a result. The annual percentage rate includes interest and no other costs. The annual percentage rate is based on the value of an index. The index is Wall Street Journal published Prime Rate [Money Rates Column] (If published in a range, the highest number in the range will be used.) Information on this index is published in the Wall Street Journal. To determine the annual percentage rate that will apply to your line, we add a margin to the value of the index. Ask us for the current index value, margin and annual percentage rate. After you open a credit line, rate information will be provided on periodic statements that we send you.

**Rate Changes.** The annual percentage rate can change quarterly. The maximum ANNUAL PERCENTAGE RATE that can apply is 18.00%. The ANNUAL PERCENTAGE RATE will never increase more than two (2) percentage points in one year. Under no circumstances will the rate ever be less than 4.50% per annum.

**Maximum Rate and Payment Example.** If an ANNUAL PERCENTAGE RATE during the Draw Period equaled 18.00% maximum and you had an outstanding balance of \$10,000.00, your minimum payment would be \$90.00. The maximum interest rate can be reached the first time your interest rate changes, unless your initial rate is equal to the maximum, in which case it would be reached immediately. This Annual Percentage Rate could be reached at the beginning of the Repayment Period.

**Historical Example.** The following table shows how the annual percentage rate and the minimum monthly payments for a starting balance of \$10,000.00 would have changed based on changes in the index over the past 15 years. The index values are from the last business day of January each year. While only one payment amount per year is shown, payments may change in the future. The index is based upon the average Prime Rate. The table does not necessarily indicate how the index or your payments will change in the future.

Year	Index %	Margin * (%)	Annual Percentage Rate %	Minimum Period Payment (\$)
2011	3.25	-0.25	4.50**	90.00
2012	3.25	-0.25	4.50**	90.00
2013	3.25	-0.25	4.50**	90.00
2014	3.25	-0.25	4.50**	90.00
2015	3.25	-0.25	4.50**	90.00
2016	3.50	-0.25	4.50**	90.00
2017	3.50	-0.25	4.50**	90.00
2018	4.25	-0.25	4.50**	90.00
2019	5.25	-0.25	5.00	90.00
2020	4.75	-0.25	4.50**	90.00
2021	3.25	-0.25	4.50**	90.00
2022	3.25	-0.25	4.50**	90.00
2023	6.75	-0.25	6.50	90.00
2024	8.50	-0.25	8.25	90.00
2025	7.75	-0.25	7.50	90.00

\*This is a margin we have used recently

\*\* This rate reflects a floor rate

**Property and Flood Hazard Insurance.** You must carry insurance on the property that secures this plan. Under some circumstances, if your property is located in a flood hazard zone and you live in a participating community, you may be required to obtain flood hazard insurance to cover the property.

You have a right to a copy of the appraisal report used in connection with your application or credit. If you wish to receive a copy, please write to us at the mailing address we have provided. We must hear from you no later than 90 days after we notify you about the action taken on your credit application or you withdraw your application.

I (We) acknowledge receipt of the Facts about our Home Equity Loans, the Booklet entitled "What you should know about Home Equity Lines of Credit"

X \_\_\_\_\_ X \_\_\_\_\_  
Signature: Date: Signature: Date:

## *To our members and those eligible to become members...*

Your credit union wants you to know that with respect to mortgage loans and home improvement loans the law guarantees:

- That you have the right to make a loan inquiry of the credit union.
- That you have the right to file a written loan application with the credit union.
- That you have the right to receive a written response to your inquiry or application.



Equal Opportunity Lender

### ***LOAN POLICIES RELATIVE TO MORTGAGE LOANS & HOME IMPROVEMENT LOANS***

It shall be the general policy of this credit union to grant loans for home improvement to qualified members. Loans may be granted for the purpose of home improvement under open end credit or closed end credit.

It shall also be the policy of this credit union to grant home equity first and second mortgage loans to qualified members under open end and closed end credit.

First mortgages are also available.

#### **1. LOAN LIMITS**

The maximum amount of a loan for home improvement shall not exceed \$25,000. The maximum amount of a loan secured by first or second mortgage under the Home Equity Program shall not exceed 90% of the home's value less any first mortgage balance for variable and fixed rate loans. Fixed and variable first mortgages are available through Member Mortgage Services (working in conjunction with the credit union).

#### **2. MAXIMUM LENGTH OF LOANS**

- A. Variable rate home equity repayment can vary due to variable interest rate and fixed payment amount.
- B. Fixed rate home equity – 15 years. (Minimum \$30,000)
- C. Maximum length of home improvement loan – 108 months.
- D. First mortgages are also available. Maximum loan term – 30 years.

### **3. COLLATERAL**

- A. Home improvement loans may be granted on an unsecured basis or with various types of collateral as deemed acceptable by the credit committee.
- B. Real estate loans are secured with first or second mortgages.

### **4. AUTHORITY TO GRANT LOANS**

With the exception of loans to officials of this credit union, the credit committee and loan officers have the responsibility for granting loans to members, subject to the restrictions set forth by the board of directors, the by-laws of this credit union, and the laws which govern its operation.

### **5. LOAN REJECTIONS**

The credit committee has the sole responsibility for refusing a member's loan request.

### **6. GENERAL LOAN FACTORS CONSIDERED**

1. The applicant is of good character.
2. The loan purpose is provident and productive.
3. The member's income is sufficient to repay the loan according to its terms.
4. The member's total debt load will not impair repayment of the loan requested.
5. The minimum ratio of housing expense to income will not impair repayment of the loan requested.
6. The member's past credit history with this credit union and other credit grantors has been satisfactory.
7. The member's job history and time lived at the current address show stability.
8. The member's signature and/or collateral are sufficient to cover the loan requested.
9. The member has an established credit rating.

### **7. SPECIFIC CRITERIA FOR MORTGAGE LOANS**

- A. Credit union makes equity loans on principal residence in state of Michigan.
- B. First mortgages can be funded by credit union and serviced by Member Mortgage Services.
- C. Home equity loans may require appraisal, mortgage title insurance, and may require a survey. Please see loan officer for further information on A or B.

### **WE ALSO WANT YOU TO KNOW:**

We have listed our criteria for these types of loans to help you with your financial needs. Please see our loan officers today for further information. We are here to help you.



Plymouth Office: 9200 Haggerty Road, Plymouth, MI 48170 • (734) 455-9200  
Hours: Monday – Friday 9:30 – 5:30 • Closed Saturday and Sunday

WHAT YOU SHOULD KNOW ABOUT

# Home Equity Lines of Credit (HELOC)

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Borrowing from the  
value of your home



Consumer Financial  
Protection Bureau



An official publication of the U.S. government

## How to use the booklet

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

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

## About the CFPB

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

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

## How can this booklet help you?

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

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

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

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

## After you finish this booklet:

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

# Compare a HELOC to other money sources

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

## TIP

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

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

# Compare a HELOC to other money sources

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

# How HELOCs work

## PREPARE FOR UP-FRONT COSTS

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

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

## PULL MONEY FROM YOUR LINE OF CREDIT

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

## MAKE REPAYMENTS DURING THE “DRAW PERIOD”

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

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

## ENTER THE “REPAYMENT PERIOD”

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

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

## RENEW OR CLOSE OUT THE LINE OF CREDIT

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

## TIP

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



### GET THREE HELOC ESTIMATES

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

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



### GET THREE HELOC ESTIMATES

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

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

## How variable interest rates work

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

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

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

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

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

## Rights and responsibilities

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

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

- Annual fees
- Miscellaneous charges

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

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

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

### **Right to cancel (also called right to rescind)**

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

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### **TIP**

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

## If something changes during the course of the loan

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

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



### WELL DONE!

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

## In this booklet:

### **ASK YOURSELF**

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

Have I shopped around for HELOC features and fees?

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

### **ONLINE TOOLS**

**CFPB website**  
[cfpb.gov](https://cfpb.gov)

**Answers to common questions**  
[cfpb.gov/askcfpb](https://cfpb.gov/askcfpb)

**Tools and resources for home buyers**  
[cfpb.gov/owning-a-home](https://cfpb.gov/owning-a-home)

**Talk to a HUD-approved housing counselor**  
[cfpb.gov/find-a-housing-counselor](https://cfpb.gov/find-a-housing-counselor)

**Submit a complaint**  
[cfpb.gov/complaint](https://cfpb.gov/complaint)