

EARLY DISCLOSURE FOR HOME BANK EQUITY PLAN

The Tri City Home Bank Equity Plan is a Home Equity Line of Credit that offers borrowers the ability to convert drawn funds within the line into fixed rate Home Equity Loans. As the principal balance on these Home Equity Loans are paid back, these funds become available within the line to draw from again.

This disclosure applies to the following Home Bank Equity Plan products:

- Option 1 - 10/15 Home Bank Equity Plan with no Fixed Introductory Discount Rate
- Option 2 - 10/15 Home Bank Equity Plan with Fixed Introductory Discount Rate

IMPORTANT TERMS OF OUR HOME BANK EQUITY PLAN

As used herein, “you” and “your” mean the recipient of this disclosure and the words “we”, “us”, “and “our” mean Tri City National Bank. The word “line” or “account” mean your Home Bank Equity Plan.

RETENTION OF INFORMATION. This disclosure contains important information about our Home Bank Equity Plan (“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 due to a change in the index), 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 take a mortgage on your home (collateral). **YOU COULD LOSE YOUR HOME IF YOU DO NOT MEET THE OBLIGATIONS IN YOUR HOME EQUITY CREDIT AGREEMENT WITH US.**

FEES AND CHARGES. To open and maintain your account, you must pay us the following estimated fees:

- **Closing Costs:** The closing costs generally total between \$276.00 and \$1,077.00. The Bank typically pays for the closing costs unless an appraisal or certain title insurance is required. Appraisals are generally required on loan amounts equal to or greater than \$100,000. If you ask, we will give you an itemization of the fees you pay to the third parties.
- **Insurance:** You must carry hazard insurance on the property that secures the Home Equity Credit Agreement and flood insurance if the improved property is in a flood zone.
- **Finance Charges:** Finance charges begin to accrue on the date loans are posted to the account.
- **Annual Fee.** A nonrefundable fee of \$60.00 will be charged to your Credit Line at the following time: Annually.
- **Returned Items.** You may be charged \$15.00 if you pay your Credit Line obligations with a check, draft, or other item that is dishonored for any reason, unless applicable law requires a lower charge or prohibits any charge.
- **Overlimit Charge.** Your Credit Line Account may be charged \$35.00 if you cause your Credit Line Account to go over your Credit Limit. This includes writing a Home Equity Line of Credit Check in excess of your available balance.
- **Charge for advance less than minimum.** Your Credit Line Account may be charged \$35.00 if you request a credit advance for less than the minimum advance amount disclosed under the Minimum Transaction Requirements section of this disclosure, whether we decide to honor it or whether we refuse to honor it, unless applicable law requires a lower charge or prohibits any charge.
- **Stop Payment Fee.** \$35 for each request to stop payment on a Draw or Draft Check.
- **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 payment.
- **Early Termination Fee.** If you pay your Credit Line balance in full and the Home Equity Credit Agreement is terminated by you within three (3) years of the date you sign your loan documents, you may have to pay an early termination fee of \$350.

MINIMUM TRANSACTION REQUIREMENTS. To qualify for the Introductory Discount Rate feature, a minimum advance of \$10,000 will be required at the time of funding of the loan. For all subsequent advances, the minimum credit advance you can receive is \$1,000 during the "Draw Period." If you choose not to receive the Introductory Discount Rate feature, the minimum credit advance will be \$1,000 for the duration of your draw period.

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

OTHER PRODUCTS. If you ask, we will provide you with information on our other available home equity products.

POSSIBLE ACTIONS. Under certain circumstances we can:

- Terminate your account and require you to pay us the entire outstanding balance in one payment.
- Refuse to make additional extensions of credit.
- Reduce your limit.
- Make specific changes that are set forth in your Home Equity Credit Agreement with us.

We may terminate your account, and require you to pay us the entire outstanding balance in one payment if:

- There has been fraud or misrepresentation by you in connection with your Home Equity Credit Agreement.
- You fail to meet the repayment terms.
- Any action or inaction by you adversely affects the Mortgage or any right we have in the real estate described in the Mortgage, including but not limited to the transfer of title to or sale of the real estate by you without our consent, your failure to maintain required insurance on improvements on the real estate, maintain such real estate, pay taxes on such real estate, or your death.

We can refuse to make additional extensions of credit or reduce your credit limit, or both, if:

- You no longer occupy the dwelling as a residence.
- The value of the dwelling securing the account declines significantly below its appraised values for purposes of the account.
- We reasonably believe you will not be able to meet the repayment requirements due to a material change in your financial circumstances.
- You are in default of a material obligation in the Home Equity Credit Agreement.
- Government action prevents us from imposing the Annual Percentage Rate provided for or impairs the priority of our security interest such that the value of the interest is less than 120 percent of the credit line.
- The creditor is notified by its regulatory agency that continued advances constitute an unsafe and unsound practice.

The initial Home Equity Credit Agreement permits us to make changes to the terms of said Agreement at specified times or upon the occurrence of specified events.

Any of you may terminate your right to obtain loans under your Home Equity Credit Agreement at any time and for any reason by written notice, and such notice of termination shall be binding on each of you. Such notice from you is effective when received by us. The notice must be given in time for us take appropriate action prior to presentment of a Check or other loan request to us. Termination, for whatever reason, does not affect our rights, powers, and privileges, or your duties and liabilities with regard to the then existing balance of the account.

ADDITIONAL PROVISIONS.

- Interest rate at origination may be impacted by credit score and loan to value.
- Your loan may include a discounted standard rate and a Fixed Introductory Discount Rate. To receive these rates, automatic payment out of your Tri City National Bank checking account will be required. If you do not arrange to have automatic payments or if you cancel your automatic payment arrangement at any time, the corresponding Annual Percentage Rate will increase by 0.50%, and the fixed introductory rate will be canceled. This feature as described herein (Option 2) may be offered from time to time, at the Bank's discretion. Ask us about the availability of this offer.
- To qualify for no closing costs, reduced closing costs, and/or the Fixed Introductory Discount Rate, you must not have had a home equity line of credit with Tri City National Bank within the past 12 months. To still qualify for these offers, your existing Tri City National Bank Home Equity Line of Credit must be refinanced with an increase of 50% of the current credit limit or \$25,000, whichever is less.
- This product does not contain a demand feature.

OPTION 1 – 10/15 HOME BANK EQUITY PLAN – NO FIXED INTRODUCTORY DISCOUNT RATE

VARIABLE RATE FEATURE. The account has a variable rate feature. The Annual Percentage Rate (corresponding to the periodic rate) and the minimum payment can change as a result. This Annual Percentage Rate does not include costs other than interest. The Annual Percentage Rate is based on the value of an index. The index is Wall Street Journal Prime Rate (known as 'National Prime') on the 10th of the month, or the next business day when the 10th falls on a weekend or holiday and is published in the Wall Street Journal "Money Rates" table. If the index becomes unavailable during the term of your Agreement, we may designate a substitute index after notice to you. To determine the Annual Percentage Rate that will apply to your account, we add or subtract a margin to the value of the index.

Ask us for the current index value, margin, discount, and Annual Percentage Rate. After you open an account, rate information will be provided on periodic statements that we furnish to you.

RATE CHANGES. The Annual Percentage Rate can change monthly during the "Draw Period" and annually during the "Repayment Period". The maximum Annual Percentage Rate that can apply is 18.00% (cap). Apart from this rate cap, there is no limit on the amount by which the rate can change in any one-month period during the "Draw Period" or in any one-year period during the "Repayment Period", except that, under no circumstances will the rate ever be less than the current floor at closing. The floor range is currently 3.99%-5.99%. The floor obtained for your loan will be dependent on your credit score and loan to value.

MINIMUM PAYMENT REQUIREMENTS. You may obtain advances up to the established credit limit for 120 months (the "Draw Period"). During the "Draw Period" your payments will be due monthly and will consist of interest only. During the "Draw Period" you will be required to make the minimum payments on the advances you obtain which will equal the finance charges (interest) accrued on the outstanding balance during the preceding month plus any amount past due and other charges owed on your account. The minimum payment will not reduce the principal that is outstanding on your account.

After the "Draw Period" ends, you will no longer be able to obtain credit advances and must pay the outstanding principal balance over 180 months (the "Repayment Period"). During the "Repayment Period" your payments will be due monthly and will consist of both Principal & Interest, plus any amount past due and all other charges owed on your account amortized over a period not to exceed 180 months.

MINIMUM PAYMENT EXAMPLE. If you took a single \$10,000 advance and took no other credit advances, and the Annual Percentage Rate was 3.990% (a rate we have recently used but may not be your interest rate), you would be allowed a 120 month "Draw Period" and a 180 month "Repayment Period" to pay off the balance in full.

During the "Draw Period", if you make interest only payments, you would make 120 payments of \$33.25, followed by \$10,000 converting to the "Repayment Period". During the "Repayment Period" with an Annual Percentage Rate of 3.990% (a rate we have recently used but may not be your interest rate), you would make 180 Principal & Interest payments of \$73.92 to pay off your loan.

MAXIMUM RATE AND PAYMENT EXAMPLE. If the Annual Percentage Rate during the "Draw Period" equaled the 18.00% maximum and you had an outstanding balance of \$10,000, your minimum payment of interest only would be \$150. This annual percentage rate could be reached at the time of the 1st payment.

If the Annual Percentage Rate during the "Repayment Period" equaled the 18.00% maximum and you had an outstanding balance of \$10,000, your minimum payment of Principal & Interest would be \$161.04. This Annual Percentage Rate could be reached at the time of the 1st payment during the "Repayment Period".

HISTORICAL EXAMPLE. The following tables shows how the Annual Percentage Rate and the minimum monthly payment for a single \$10,000 credit advance would have changed based on changes in the index over the past 15 years. The index values are from January 1st of each year. While only one payment amount per year is shown, the payments would have varied during each year.

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

Year	Index %	Margin* %	APR** %	Minimum Mo. Pmt. \$
Interest Only				
2011	3.25	-0.26	3.99***	33.25
2012	3.25	-0.26	3.99***	33.25
2013	3.25	-0.26	3.99***	33.25
2014	3.25	-0.26	3.99***	33.25
2015	3.25	-0.26	3.99***	33.25
2016	3.25	-0.26	3.99***	33.25
-----Repayment Period Begins-----				
Principal & Interest				
2017	3.75	-0.26	3.99***	101.20
2018	4.50	-0.26	4.24	102.28
2019	5.50	-0.26	5.24	106.21
2020	4.75	-0.26	4.49	103.59
2021	3.25	-0.26	3.99***	101.20
2022	3.25	-0.26	3.99***	73.92
2023	7.50	-0.26	3.99***	73.92
2024	8.50	-0.51	3.99***	73.92
2025	7.50	-0.51	3.99***	73.92
2026	6.75	-0.51	3.99***	73.92

*This is a margin we have used recently; your margin may be different.

**Annual Percentage Rate.

*** 3.99% floor.

OPTION 2 – 10/15 HOME BANK EQUITY PLAN – FIXED INTRODUCTORY DISCOUNT RATE

The initial Annual Percentage Rate is a discounted rate. It is not based on the index and margin used to make later rate adjustments.

DISCOUNT RATE FEATURE – 6-MONTH OPTION. The discount rate will be in effect for 6 months. During the initial 6 months of the “Draw Period”, your rate will be fixed at the initial discounted Annual Percentage Rate. After you have had 6 months at the initial discount fixed rate, we will determine the Annual Percentage Rate for the remainder of the “Draw Period” and for the “Repayment Period” by adding or subtracting a margin to the index value as explained below in the “Variable Rate Feature”. A fixed rate will no longer apply.

DISCOUNT RATE FEATURE – 12-MONTH OPTION. The discount rate will be in effect for 12 months. During the initial 12 months of the “Draw Period”, your rate will be fixed at the initial discounted Annual Percentage Rate. After you have had 12 months at the initial discount fixed rate, we will determine the Annual Percentage Rate for the remainder of the “Draw Period” and for the “Repayment Period” by adding or subtracting a margin to the index value as explained below in the “Variable Rate Feature”. A fixed rate will no longer apply.

VARIABLE RATE FEATURE. The account has a variable rate feature. The Annual Percentage Rate (corresponding to the periodic rate) and the minimum payment can change as a result. This Annual Percentage Rate does not include costs other than interest. The Annual Percentage Rate is based on the value of an index. The index is Wall Street Journal Prime Rate (known as ‘National Prime’) on the 10th of the month, or the next business day when the 10th falls on a weekend or holiday and is published in the Wall Street Journal “Money Rates” table. If the index becomes unavailable during the term of your Agreement, we may designate a substitute index after notice to you. To determine the Annual Percentage Rate that will apply to your account, we add or subtract a margin to the value of the index.

Ask us for the current index value, margin, discount, and Annual Percentage Rate. After you open an account, rate information will be provided on periodic statements that we furnish to you.

RATE CHANGES. The first Annual Percentage Rate change for this account does not occur with the same frequency as later changes. Depending on the introductory discount rate option chosen, the first Annual Percentage Rate change for this account will occur after you have had 6 months or 12 months at the fixed initial discount rate. Thereafter, the Annual Percentage Rate can change monthly during the “Draw Period” and annually during the “Repayment Period”. The maximum Annual Percentage Rate that can apply is 18.00% (cap). Apart from this rate cap, there is no limit on the amount by which the rate can change in any one-month period during the “Draw Period” or in any one-year period during the “Repayment Period”, except that after the expiration of the initial fixed discount

rate period, under no circumstances will the rate ever be less than the current floor at closing. The floor range is currently 3.99%-5.99%. The floor obtained for your loan will be dependent on your credit score and loan to value.

MINIMUM PAYMENT REQUIREMENTS. You may obtain advances up to the established credit limit for 120 months (the "Draw Period"). During the "Draw Period" your payments will be due monthly and will consist of interest only. During the "Draw Period" you will be required to make the minimum payments on the advances you obtain which will equal the finance charges (interest) accrued on the outstanding balance during the preceding month plus any amount past due and other charges owed on your account. The minimum payment will not reduce the principal that is outstanding on your account.

After the "Draw Period" ends, you will no longer be able to obtain credit advances and must pay the outstanding principal balance over 180 months (the "Repayment Period"). During the "Repayment Period" your payments will be due monthly and will consist of both Principal & Interest, plus any amount past due and all other charges owed on your account amortized over a period not to exceed 180 months.

MINIMUM PAYMENT EXAMPLE. If you took a single \$10,000 advance and took no other credit advances, and the Annual Percentage Rate was 3.990% (a rate we have recently used but may not be your interest rate), you would be allowed a 120 month "Draw Period" and a 180 month "Repayment Period" to pay off the balance in full.

During the "Draw Period", if you make interest only payments, you would make 120 payments of \$33.25, followed by \$10,000 converting to the "Repayment Period". During the "Repayment Period" with an Annual Percentage Rate of 3.990% (a rate we have recently used but may not be your interest rate), you would make 180 Principal & Interest payments of \$73.92 to pay off your loan.

MAXIMUM RATE AND PAYMENT EXAMPLE. If the Annual Percentage Rate during the "Draw Period" equaled the 18.00% maximum and you had an outstanding balance of \$10,000, your minimum payment of interest only would be \$150. Depending on the introductory discount rate option chosen, this annual percentage rate could be reached at the time of the 7th or 13th payment.

If the Annual Percentage Rate during the "Repayment Period" equaled the 18.00% maximum and you had an outstanding balance of \$10,000, your minimum payment of Principal & Interest would be \$161.04. This Annual Percentage Rate could be reached at the time of the 1st payment during the "Repayment Period".

HISTORICAL EXAMPLE. The following tables shows how the Annual Percentage Rate and the minimum monthly payment for a single \$10,000 credit advance would have changed based on changes in the index over the past 15 years. The index values are from January 1st of each year. While only one payment amount per year is shown, the payments would have varied during each year.

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

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2017	3.75	-0.26	3.99***	101.20
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2025	7.50	-0.51	3.99***	73.92
2026	6.75	-0.51	3.99***	73.92

*This is a margin we have used recently; your margin may be different.

**Annual Percentage Rate.

*** 3.99% floor.

^This rate reflects an initial discount rate we have used recently.

CONVERSION OPTION – OFFERED WITH OR WITHOUT INTRODUCTORY DISCOUNT RATE FEATURE

This product contains an option to convert all or a portion of the Credit Line into a fixed-rate loan repayable in regular fixed payments of principal and interest until a final due date on which any remaining balance will be paid in full (an “Installment Loan”).

1. YOUR RIGHT TO CONVERT A LOAN MADE UNDER THE CREDIT AGREEMENT INTO AN INSTALLMENT LOAN.

- a. Eligibility.** As long as your Home Equity Credit Agreement remains in effect, and as long as you are not in default under the terms of your Home Equity Credit Agreement or any Change in Terms agreement (a CIT Agreement) entered into in connection with your Home Equity Credit Agreement, you may convert all or a portion of the Credit Line made under your Home Equity Credit Agreement into an Installment Loan governed by the terms of said agreement and a CIT Agreement.
- b. Number of times you may exercise your option to convert and conversion limitations.** Five times per calendar year prior to the Maturity Date you may convert all or a portion of the Credit Line into an Installment Loan subject, however, to the following limitations: (1) you may not have any more than five (5) Installment Loans outstanding at any one time under your Home Equity Credit Agreement, and (2) the minimum Election Amount (as defined below) is \$5,000.00.
- c. How the terms of the resulting Installment Loan will be determined.** You may initiate the process to convert all or a portion of the Credit Line into an Installment Loan by calling us at (888)-874-2489. When you call, you will tell us the amount that you wish to convert (the “Election Amount”). Based on your request, we will tell you the Installment Loan terms that are then available, including, without limitation, the conversion fee of \$100, the applicable Annual Percentage Rate and other terms of repayment. We will determine the maximum Installment Loan term and the amortization period used to determine the amount of the regular monthly payment under an Installment Loan. The applicable term and amortization for the Installment Loan will depend on the Election Amount and other underwriting factors determined by us. The Installment Loan will be a fully amortizing loan.
- d. How you may exercise your option to convert.** If you are eligible for a conversion, you request a conversion and you specify an Election Amount that you would like to convert to an Installment

Loan, we will prepare a CIT Agreement and will mail it to you. If you accept those terms, you will sign that CIT Agreement and return it to us promptly. The CIT Agreement must be signed by all Borrowers under your Home Equity Credit Agreement. If we do not receive the fully-signed CIT Agreement from you by the date specified in the CIT Agreement, that CIT Agreement shall not become effective and we will not convert the Election Amount under such CIT Agreements into an Installment Loan.

2. EFFECT OF EXERCISING YOUR INSTALLMENT LOAN ELECTION.

- a. **Terms of Repayment.** If we receive the signed CIT Agreement from you by the date specified in the CIT Agreement, repayment of the Election Amount will be governed by the terms of the CIT Agreement. Accordingly, the amount of the Installment Loan may no longer be included in the statement that we provide to you each billing period under your home equity credit agreement.
- b. **Repayment: Effect on your Credit Limit.** The Installment loan will be repayable as a closed-end loan, in accordance with the terms of the CIT Agreement. However, the outstanding balance of the Installment Loan, as it exists from time to time, will be counted against your Credit Limit under your Home Equity Credit Agreement, and the additional funds that may be available to you under said agreement will be reduced by that outstanding balance as set forth in the CIT Agreement.
- c. **Security Interest: Parties obligated to repay.** Your obligations under the Installment Loan will be secured by any and all mortgages or other security interests you may provide to secure repayment of the Credit Line and by such additional security interest you may provide in connection with the Installment Loan. You agree that the conversion of all or a portion of the Credit Line to an Installment Loan will modify the manner in which the amount is repaid but will not relieve any party to your Home Equity Credit Agreement of their obligation to repay the amounts advanced under said agreement together with interest thereon whether or not converted. Each party who is obligated to repay the Credit Line will be obligated to repay the Installment Loan resulting from the conversion of all or a portion of the Credit Line under the terms of your Home Equity Credit Agreement.

3. MISCELLANEOUS PROVISIONS APPLICABLE TO THE INSTALLMENT LOAN.

- a. **Prepayment without penalty.** You may prepay the Installment Loan at any time without penalty.
- b. **Covenant not to impair your ability to repay.** You agree not to take any action or permit any event to occur that materially impairs your ability to pay any amount due under the Installment Loan. Events of default under the Installment Loan shall include, but are not limited to, the death of you, your spouse, or any surety or guarantor of the Installment Loan; a change in the marital status of you, your spouse, or any surety or guarantor of the Installment Loan; or the commencement of a bankruptcy or insolvency proceeding of which you, your spouse, or any surety or guarantor of the Installment Loan is subject.
- c. **Charge for returned checks.** You agree to pay a charge of \$15.00 for each check presented to you for payment on the Installment Loan which is returned unsatisfied. This charge may be changed from time to time by you, and you agree to provide us with a revised schedule of charges if any charge is made.
- d. **Renewals, extensions, and modifications.** We may, without notice, grant renewals or extensions, accept partial payments, release or impair any security for the Installment Loan or agree not to sue any party liable on it, without affecting your liability or the ability of any surety or guarantor of the Installment Loan or any Loan made under your Home Equity Credit Agreement.
- e. **Final Agreement: Amendments.** Your Home Equity Credit Agreement, the CIT Agreement, and the documents securing your Home Equity Credit Agreement and the CIT Agreement are intended to be the final expression of the Installment Loan and a complete and exclusive statement of its terms and may be amended only in writing signed by us and accepted by you.
- f. **Annual Percentage Rate increase.** Your Annual Percentage Rate may increase if you exercise this option to convert to a fixed rate.
- g. **Conversion Periods.** You can exercise the option to convert to a fixed rate only during the following period or periods: for as long as your Home Equity Credit Agreement remains in effect, and as long as you are not in default under the terms of said agreement or any CIT Agreement entered into in connection with your Home Equity Credit Agreement. You may convert all or a portion of the Credit Line into an Installment Loan governed by the terms of your Home Equity Credit Agreement and a CIT Agreement entered into in accordance with your Home Equity Credit Agreement.

- h. Rate Determination.** The fixed rate will be determined as follows: See conversion Provisions above.
- i. Conversion Rules.** You can convert to a fixed rate only during the period or periods described above. In addition, the following rules apply to the conversion option under your Home Equity Credit Agreement: Your Annual Percentage Rate may increase if you exercise this option to convert to a fixed rate.

WHAT YOU SHOULD KNOW ABOUT

Home Equity Lines of Credit (HELOC)

Borrowing from the
value of your home



 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. 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
HELOC <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
SECOND MORTGAGE OR HOME EQUITY LOAN <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
CASH-OUT REFINANCE <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
PERSONAL LINE OF CREDIT <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
RETIREMENT PLAN LOAN <i>You borrow from your retirement savings in a 401(k) or similar plan through your current employer</i>	Generally, up to 50% of your vested balance or \$50,000, whichever is less	Fixed	No	Repay through paycheck deductions; paperwork required but no credit check and no impact on your credit score	If you leave or lose your job, repay the whole amount at that time or pay taxes and penalties; spouse may need to consent
HOME EQUITY CONVERSION MORTGAGE (HECM) <i>You must be age 62 or older, and you borrow against the equity in your home</i>	Depends on your age, the interest rate on your loan, and the value of your home	Fixed or variable	Yes	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	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
CREDIT CARD <i>You borrow money from the credit card company and repay as you go</i>	Up to the amount of your credit limit, as determined by the credit card company	Fixed or variable	No	No minimum purchase; consumer protections in the case of fraud or lost or stolen card	Higher interest rate than a loan that uses your home as collateral
FRIENDS AND FAMILY <i>You borrow money from someone you are close to</i>	Agreed on by the borrower and lender	Variable, fixed or other	No	Reduced waiting time, fees, and paperwork compared to a formal loan	Forgiven loans and unreported or forgiven interest can complicate taxes, especially for large loans; can jeopardize important personal relationships if something goes wrong

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 **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**. You must be prepared to make this **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

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	\$			

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		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?				

My best HELOC offer is: _____

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.

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

Answers to common questions
cfpb.gov/askcfpb

Tools and resources for home buyers
cfpb.gov/owning-a-home

Talk to a HUD-approved housing counselor
cfpb.gov/find-a-housing-counselor

Submit a complaint
cfpb.gov/complaint