This booklet was initially prepared by the Board of Governors of the Federal Reserve System. The Consumer Financial Protection Bureau (CFPB) has made technical updates to the booklet to reflect new mortgage rules under Title XIV of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). A larger update of this booklet is planned in the future to reflect other changes under the Dodd-Frank Act and to align with other CFPB resources and tools for consumers as part of the CFPB’s broader mission to educate consumers.

Consumers are encouraged to visit the CFPB’s website at consumerfinance.gov/owning-a-home to access interactive tools and resources for mortgage shoppers, which are expected to be available beginning in 2014.

**When Your Home Is on the Line:**
**What You Should Know About Home Equity Lines of Credit**

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.

**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:

<table>
<thead>
<tr>
<th>Appraised value of home</th>
<th>$100,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>x 75%</td>
</tr>
<tr>
<td>Percentage of appraised value</td>
<td>= $75,000</td>
</tr>
<tr>
<td>Less balance owed on mortgage</td>
<td>- $40,000</td>
</tr>
<tr>
<td><strong>Potential line of credit</strong></td>
<td><strong>$35,000</strong></td>
</tr>
</tbody>
</table>

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,
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 CFPB’s website at consumerfinance.gov/asck/fpb/5/can-i-review-my-credit-report.html for information about how to get free copies of your credit reports) 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.

Defined Terms

This glossary provides general definitions for terms commonly used in the real estate market. They may have different legal meanings depending on the context.

**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.
Many lenders set the credit limit on a home equity line by taking a percentage of the property's value. The credit terms that best meet your borrowing needs without posing undue financial risks. And remember, failure to repay the amounts you've borrowed, even if you are not required to pay interest, can negatively affect your credit score.

In such cases, the interest rate you pay for the line of credit will change, and the amount you can borrow could be affected. Under some plans, borrowers can use a credit card or write a check to draw on your line. 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. These points are paid at closing and may be paid by the borrower or the home seller. A discount fee is not the same as the interest rate. Points usually reduce the amount that you will be charged for closing costs.

Interest rate - The percentage rate used to determine the cost of borrowing money. The interest rate on a mortgage is also referred to as the annual percentage rate (APR). With an ARM, the interest rate changes periodically. You will be paid the interest rate on the amount of your mortgage balance at the time the rate adjusts. The interest rate on a mortgage is determined by the market rate at the time of the loan and any fees or other charges you may incur. The balance of your mortgage will change as you make payments.

Margin - The number of percentage points the lender adds to the index rate to calculate the ARM interest rate at each adjustment. Margin usually refers to the difference between the index rate and the interest rate paid on a mortgage.

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.

Closing costs - Fees 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.

More information
For more information about mortgages, including home equity lines of credit, visit consumerfinance.gov/mortgage. For answers to questions about mortgages and other financial topics, visit consumerfinance.gov/askCFPB. You may also visit the CFPB’s website at consumerfinance.gov/owning-a-home to access interactive tools and resources for mortgage shoppers, which are expected to be available beginning in 2014.

Housing counselors can be very helpful, especially for first-time home buyers or if you’re having trouble paying your mortgage. The U.S. Department of Housing and Urban Development (HUD) supports housing counseling agencies throughout the country that can provide free or low-cost advice. You can search for HUD-approved housing counseling agencies in your area on the CFPB’s web site at consumerfinance.gov/find-a-housing-counselor or by calling HUD’s interactive toll-free number at 800-569-4287.

The company that collects your mortgage payments is your loan servicer. This may not be the same company as your lender. If you have concerns about how your loan is being serviced or another aspect of your mortgage, you may wish to submit a complaint to the CFPB at consumerfinance.gov/complaint or by calling (855) 411-CPFB (2372).

When you submit a complaint to the CFPB, the CFPB will forward your complaint to the company and work to get a response. Companies have 15 days to respond to you and the CFPB. You can review the company’s response and give feedback to the CFPB.

Contact Information
For additional information or to submit a complaint, you can contact the CFPB or one of the other federal agencies listed below, depending on the type of institution. If you are not sure which agency to contact, you can submit a complaint to the CFPB and if the CFPB determines that another agency would be better able to assist you, the CFPB will refer your complaint to that agency and let you know.

Insured depository institutions and credit unions with assets greater than $10 billion (and their affiliates), and non-bank providers of consumer financial products and services, including mortgages, credit cards, debt collection, consumer reports, prepaid cards, private education loans, and payday lending.

Consumer Financial Protection Bureau (CFPB)
P.O. Box 2900
Clinton, IA 52733
(855) 411-2372
www.consumerfinance.gov
www.consumerfinance.gov/complaint

Federally Insured state-chartered bank members of the Federal Reserve System
Board of Governors of the Federal Reserve System (FRB)
Consumer Help
P.O. Box 1200 • Minneapolis, MN 55480
(888) 851-1920
www.federalreservconsumerhelp.gov

Brokerage firms, mutual fund companies, and investment advisors
Securities and Exchange Commission (SEC)
Complaint Center
100 F Street, N.E.
Washington, DC 20549
(202) 551-6551
www.sec.gov
www.sec.gov/complaint/select.shtml

Agricultural Lenders
Farm Credit Administration
Office of Congressional and Public Affairs
1501 Farm Credit Drive
McLean, VA 22102
(703)883-4056
www.fca.gov

Small business lenders
Small Business Administration (SBA)
Consumer Affairs
409 3rd Street, S.W.
Washington, DC 20416
(800)ASK-SBA or (800)827-5722
www.sba.gov

Commodity brokers, commodity trading advisers, commodity pools and introducing brokers
Commodity Futures Trading Commission (CFTC)
1155 21st Street, N.W.
Washington, DC 20581
(866) 366-2382
www.cftc.gov/ConsumerProtection/index.htm
Check List

Ask your lender to help fill out this check list.

Basic Features

<table>
<thead>
<tr>
<th>PLAN A</th>
<th>PLAN B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed annual percentage rate</td>
<td>%</td>
</tr>
<tr>
<td>Variable annual percentage rate</td>
<td>%</td>
</tr>
<tr>
<td>• Index used and current value</td>
<td>%</td>
</tr>
<tr>
<td>• Amount of margin</td>
<td>--------</td>
</tr>
<tr>
<td>• Frequency of rate adjustments</td>
<td>--------</td>
</tr>
<tr>
<td>• Amount/length of discount (if any)</td>
<td>--------</td>
</tr>
<tr>
<td>• Interest rate cap and floor</td>
<td>--------</td>
</tr>
</tbody>
</table>

Length of Plan

<table>
<thead>
<tr>
<th>DRAW PERIOD</th>
<th>REPAYMENT PERIOD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Draw period</td>
<td>Repayment period</td>
</tr>
</tbody>
</table>

Initial fees

<table>
<thead>
<tr>
<th>APPRAISAL FEE</th>
<th>APPLICATION FEE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up-front charges, including points</td>
<td>Closing costs</td>
</tr>
</tbody>
</table>

Repayment Terms

During the draw period

<table>
<thead>
<tr>
<th>INTEREST AND PRINCIPAL PAYMENTS</th>
<th>INTEREST ONLY PAYMENTS</th>
<th>FULLY AMORTIZING PAYMENTS</th>
</tr>
</thead>
</table>

When the draw period ends

<table>
<thead>
<tr>
<th>BALLOON PAYMENT</th>
<th>RENEWAL AVAILABLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refinancing of balance by lender</td>
<td></td>
</tr>
</tbody>
</table>
IMPORTANT TERMS OF OUR HOME EQUITY LINE OF CREDIT

This disclosure contains important information about our Home Equity Line of Credit. You should read it carefully and keep a copy for your records.

Availability of Terms – All of the terms disclosed 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 that you have paid to us or anyone else in connection with your application.

Security Interest – We will take a mortgage on your home. You could lose your home if you do not meet the obligations in your agreement with us.

Possible Actions – Under certain circumstances, we can (1) terminate your line, require you to pay us the entire outstanding balance in one payment, and charge you certain fees; (2) refuse to make additional extensions of credit; (3) reduce your credit limit and (4), as specified in the initial agreement, implement certain changes in the plan.

If you ask, we will give you more specific information concerning when we can take these actions.

Minimum Payment Requirements – You can obtain advances of credit for 10 (ten) years (the "draw period"). During the draw period, payments will be due monthly. Your minimum payment will equal 1/120th of the principal balance that was outstanding at the end of the draw period, plus the finance charges that have accrued on the remaining balance, however, in no event shall the principal and interest payment be less than $100.00 plus any amounts past due. Note: your minimum monthly payment during the draw period may not reduce the amount of principal outstanding on this line of credit.

After the draw period ends, you will no longer be able to obtain credit advances and must pay the outstanding balance over 10 (ten) years (the "repayment period"). Payments will be due monthly. Your minimum payment will equal 1/120th of the principal balance that was outstanding at the end of the draw period. During that period, you make 116 monthly payments of $100.00***, followed by 1 payment of $78.72.

Fees and Charges – Third Party Fees to Open the Account. In order to open, use, or maintain your account, you may have to pay certain fees to third parties in connection with opening the account. These fees generally range between $0.00 and $3,000.00, depending upon the line amount, how the property is titled, and property location. Upon request or within three business days from date you submit your application, we will provide you with an itemization of the fees that you will have to pay to third parties.

If you ask, we will give you an itemization of the fees you will have to pay to third parties.

Early Termination Fee – If you close your Account and request a discharge of the mortgage, within 3 years after the date the Agreement is signed, you agree to pay an early termination fee of $500 to reimburse us for certain third-party charges we incurred on your behalf in connection with this line. Examples of such charges include property valuation fees, title charges, credit report fees and recording fees.

Late Charge – The Borrower shall pay a late charge equal to ten percent (10%) of the outstanding payment or ten dollars ($10.00), whichever is less, in the event any installment of principal and/or interest is not paid within fifteen (15) days of the due date.

Property Insurance – You must carry insurance on the property that secures this line of credit.

Minimum Draw Requirements – None.

Tax Deductibility – You should consult a tax advisor regarding the deductibility of interest and charges for the line.

Variable Rate Information – The line has a variable-rate feature, and the annual percentage rate (corresponding to the periodic rate) and the minimum payment can change as a result.

The annual percentage rate includes only interest and no other costs.

The annual percentage rate is based on the value of an index. The index is the Prime Rate published in the Money Rates section of The Wall Street Journal (if more than one Prime Rate is published, the higher rate shall be used), as most recently published on the last business day of the prior monthly billing cycle.

Rate Floor – The minimum annual percentage rate will be 3.0%.

To determine the annual percentage rate, we apply a margin to the value of the index.

Upon request or within three business days of the due date.

Minimum payment can change as a result.

Other than as disclosed in this paragraph, there are no annual or more frequent periodic limitations on changes in the annual percentage rate.

Rate Changes – The annual percentage rate can change at the beginning of each monthly billing cycle. The maximum annual percentage rate that can apply is 18.0%. Rate Floor – The minimum annual percentage rate will be 3.0%.

Other than as disclosed in this paragraph, there are no annual or more frequent periodic limitations on changes in the annual percentage rate.

Maximum Rate and Payment Examples – If you had an outstanding balance of $10,000 during the draw period, the minimum monthly payment at the maximum annual percentage rate of 18.0% would be $152.88. This annual percentage rate could be reached during the 1st month of the draw period.

If you had an outstanding balance of $10,000 at the beginning of the repayment period, the minimum monthly payment at the maximum annual percentage rate of 18.0% would be $236.21. This annual percentage rate could be reached at the start of the 1st month of the repayment period.

Historic Example – The following table shows how the annual percentage rate and the minimum monthly payments 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 the last business day in the index month of each year. While only one payment amount per year is shown, payments would have varied during each year.

The table assumes that no additional credit advances were taken, that only the minimum payments were made each month, 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.

Ask us for the current index value, margin, discount or premium if applicable and annual percentage rate. After you open a credit line, rate information will be provided on periodic statements that we send you.
<table>
<thead>
<tr>
<th>YEAR</th>
<th>RE-PAYMENT STARTS</th>
<th>MARCH INDEX MONTH</th>
<th>MARGIN</th>
<th>*ANNUAL PERCENTAGE RATE Rounded, if appl.</th>
<th>MINIMUM MONTHLY PAYMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>☐</td>
<td>8.25%</td>
<td>0.00</td>
<td>8.25%</td>
<td>100.00***</td>
</tr>
<tr>
<td>2008</td>
<td>☐</td>
<td>5.25%</td>
<td>0.00</td>
<td>5.25%</td>
<td>100.00***</td>
</tr>
<tr>
<td>2009</td>
<td>☐</td>
<td>3.25%</td>
<td>0.00</td>
<td>3.25%</td>
<td>100.00***</td>
</tr>
<tr>
<td>2010</td>
<td>☐</td>
<td>3.25%</td>
<td>0.00</td>
<td>3.25%</td>
<td>100.00***</td>
</tr>
<tr>
<td>2011</td>
<td>☐</td>
<td>3.25%</td>
<td>0.00</td>
<td>3.25%</td>
<td>100.00***</td>
</tr>
<tr>
<td>2012</td>
<td>☐</td>
<td>3.25%</td>
<td>0.00</td>
<td>3.25%</td>
<td>100.00***</td>
</tr>
<tr>
<td>2013</td>
<td>☐</td>
<td>3.25%</td>
<td>0.00</td>
<td>3.25%</td>
<td>100.00***</td>
</tr>
<tr>
<td>2014</td>
<td>☐</td>
<td>3.25%</td>
<td>0.00</td>
<td>3.25%</td>
<td>100.00***</td>
</tr>
<tr>
<td>2015</td>
<td>☐</td>
<td>3.25%</td>
<td>0.00</td>
<td>3.25%</td>
<td>100.00***</td>
</tr>
<tr>
<td>2016</td>
<td>☐</td>
<td>3.50%</td>
<td>0.00</td>
<td>3.50%</td>
<td>100.00***</td>
</tr>
<tr>
<td>2017</td>
<td>☒</td>
<td>4.00%</td>
<td>0.00</td>
<td>4.00%</td>
<td>100.00***</td>
</tr>
<tr>
<td>2018</td>
<td>☐</td>
<td>4.75%</td>
<td>0.00</td>
<td>4.75%</td>
<td>—0—</td>
</tr>
<tr>
<td>2019</td>
<td>☐</td>
<td>5.50%</td>
<td>0.00</td>
<td>5.50%</td>
<td>—0—</td>
</tr>
<tr>
<td>2020</td>
<td>☐</td>
<td>3.25%</td>
<td>0.00</td>
<td>3.25%</td>
<td>—0—</td>
</tr>
<tr>
<td>2021</td>
<td>☐</td>
<td>3.25%</td>
<td>0.00</td>
<td>3.25%</td>
<td>—0—</td>
</tr>
</tbody>
</table>

* The Annual Percentage Rate has been adjusted to reflect any applicable interest rate caps.
** The Annual Percentage Rate reflects a discount we have used recently.
*** Minimum Payment Amount.