

# HOME EQUITY LOAN APPLICATION

PLEASE TYPE OR PRINT

**IMPORTANT APPLICANT INFORMATION:** Federal law requires financial institutions to obtain sufficient information to verify your identity. You may be asked several questions and to provide one or more forms of identification to fulfill this requirement. In some instances we may use outside sources to confirm the information. The information you provide is protected by our privacy policy and federal law.

## TYPE OF ACCOUNT REQUESTED

Check one to indicate the type of account you are requesting. Note: Married applicants may apply for separate accounts.

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

## TERMS REQUESTED

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

## COLLATERAL PROPERTY

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

Mortgage Holder

Name	Address	Phone No.	Acct. No.
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## INDIVIDUAL APPLICANT INFORMATION

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

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

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

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

## JOINT APPLICANT OR OTHER PARTY INFORMATION

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

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

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

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

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

## GENERAL INFORMATION

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

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

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

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

## PREVIOUS CREDIT REFERENCES

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

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

**ASSET AND DEBT INFORMATION**

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

**ASSETS**

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

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

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

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

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

**Ohio Residents:** The Ohio laws against discrimination require that all creditors make credit equally available to all credit worthy customers, and that credit reporting agencies maintain separate credit histories on each individual upon request. The Ohio civil rights commission administers compliance with this law.

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

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

**NOTICE - JOINT CREDIT:**

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

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

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

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

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



**CHILLICOTHE STATE BANK**  
600 WASHINGTON STREET  
CHILLICOTHE, MO 64601  
Telephone: 1-660-646-5120  
Fax Number: 1-660-646-6903  
Web Address: www.gostatebank.com  
Email Address: ebank@gostatebank.com

**Lender**

## 2014 CSB HOME EQUITY LINE OF CREDIT PROGRAM

This disclosure contains important information about our 2014 CSB HOME EQUITY LINE OF CREDIT PROGRAM. You should read it carefully and keep a copy for your records.

**1. 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 that you have paid to us or anyone else in connection with your application.

**2. SECURITY INTEREST.** We will take a security interest in your home. You could lose your home if you do not meet the obligations in your agreement with us.

**3. POSSIBLE ACTIONS.** Under certain circumstances, we can:

- A. Terminate your line of credit and require you to pay us the entire outstanding balance in one payment;
- B. Refuse to make additional extensions of credit; and
- C. Reduce your credit limit.

We can terminate your line of credit and require you to pay us the entire outstanding balance in one payment if:

- A. You fail to make a payment as required by the agreement; or
- B. Your action or inaction adversely affects the collateral or our rights in the collateral.

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

- A. The value of the dwelling securing the line of credit declines significantly below its appraised value for purposes of the line of credit;
- B. We reasonably believe you will not be able to meet the repayment requirements under the line of credit due to a material change in your financial circumstances;
- C. You are in default of a material obligation of the agreement;
- D. Government action prevents us from imposing the annual percentage rate provided for in the agreement, or impairs our security interest such that the value of the interest is less than 120 percent of the credit limit on the line of credit;
- E. A regulatory agency has notified us that continued advances would constitute an unsafe and unsound practice; or
- F. The maximum annual percentage rate is reached.

**4. MINIMUM PAYMENT REQUIREMENTS.** You can obtain credit advances for 10 years. During this period, payments will be due monthly. Your minimum monthly payment will equal the following:

\* The amount of accrued finance charges on the last day of the billing cycle.

The minimum payment amount will be rounded to the nearest \$.01. The minimum monthly payments will not reduce the principal that is outstanding on your line of credit by the end of 10 years. You will then be required to pay the entire balance in a single payment.

**5. MINIMUM PAYMENT EXAMPLE.** If you made only the minimum monthly payment and took no other credit advances, it would take 10 years to pay off a credit advance of \$10,000.00 at an **ANNUAL PERCENTAGE RATE** of 4.500%. During that period, you would make 119 payments of \$37.50 with a final payment of \$10,037.50.

**6. FEES AND CHARGES.** You must pay certain fees to third parties, such as appraisers, credit reporting firms, and government agencies. These fees generally total \$595.00. The following are an estimate of third party fees:

- \* Appraisal: \$300.00
- \* Documentation: \$40.00
- \* Official: \$45.00
- \* Title insurance: \$250.00
- \* Flood Determination: \$10.00

You must carry insurance on the property that secures the line of credit.

**7. REFUNDABILITY OF FEES.** If you decide not to enter into this plan within three days of receiving this disclosure and the Home Equity Booklet, you are entitled to a refund of any fee you may have already paid.

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

**9. VARIABLE RATE FEATURES.** This line of credit 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 only interest and not other costs. The annual percentage rate is based on the value of an index. The index is the base rate on corporate loans posted by at least 70% of the 10 largest U.S. banks known as the Wall Street Journal U.S. Prime Rate and is published in the Wall Street Journal. To determine the annual percentage rate that will apply to your line of credit, we add a margin to the value of the index and then round to the nearest .01 percent. Ask us for the current index value, margin, and annual percentage rate. After you open a line of credit, rate information will be provided on periodic statements that we send you.

**10. RATE CHANGES.** The annual percentage rate can change monthly. There is no limit on the amount by which the rate can change in any one year period. The maximum **ANNUAL PERCENTAGE RATE** that can apply during the line of credit is 20.000 percent. The minimum **ANNUAL PERCENTAGE RATE** that can apply during the line of credit is 4.500 percent.

**11. MAXIMUM RATE AND PAYMENT EXAMPLES.** If you had an outstanding balance of \$10,000.00 the minimum monthly payment at the maximum **ANNUAL PERCENTAGE RATE** of 20.000 percent would be \$166.67. The maximum annual percentage rate could be reached in the 1st month (1 month) following an initial hold of 1 month.

**12. ADDITIONAL TERMS.** YOUR INITIAL ANNUAL PERCENTAGE INTEREST RATE IS NOT BASED ON THE INDEX USED TO MAKE LATER ADJUSTMENTS. YOUR LOAN HAS A 5.75% FLOOR, MEANING THE RATE WILL NEVER BE LESS THAN 5.75%. THIS WILL REMAIN IN EFFECT UNTIL THE INDEX PLUS THE MARGIN EXCEEDS THE FLOOR RATE.

**13. HISTORICAL EXAMPLES.** The following table shows how the annual percentage rate and the minimum payments for a single \$10,000.00 credit advance would have changed based on changes in the index over the last 15 years. The index values are from the first business day of January. 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 payment was made, and that the rate remained constant during each year. It does not necessarily indicate how the index or your payments would change in the future.

Year	Index (%)	Margin* (%)	ANNUAL PERCENTAGE RATE (%)	Minimum Monthly Payment (\$)
2000	8.500	0.500	9.000	75.00
2001	9.500	0.500	10.000	83.33
2002	4.750	0.500	5.250	43.75
2003	4.250	0.500	4.750	39.58
2004	4.000	0.500	4.500	37.50
2005	5.250	0.500	5.750	47.92
2006	7.250	0.500	7.750	64.58
2007	8.250	0.500	8.750	72.92
2008	7.250	0.500	7.750	64.58
2009	3.250	0.500	4.500 (K)	37.50 (P)
2010	3.250	0.500	4.500 (K)	N/A
2011	3.250	0.500	4.500 (K)	N/A
2012	3.250	0.500	4.500 (K)	N/A
2013	3.250	0.500	4.500 (K)	N/A
2014	3.250	0.500	4.500 (K)	N/A

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

(K) This reflects a lifetime floor of 4.500 percent.

(P) At the end of this year a balloon payment of \$10,037.50 would occur. You would be required to pay the entire balance in one payment.

This is not a commitment to make a loan.

## SERVICING DISCLOSURE STATEMENT

Lender

CHILLCOTHE STATE BANK  
600 WASHINGTON STREET  
CHILLCOTHE, MO 64601

Borrower

Date

Loan Number

Property Address

### NOTICE TO FIRST LIEN MORTGAGE LOAN APPLICANTS: THE RIGHT TO COLLECT YOUR MORTGAGE LOAN PAYMENTS MAY BE TRANSFERRED.

You are applying for a mortgage loan covered by the Real Estate Settlement Procedures Act (RESPA) (12 U.S.C. 2601 et seq.). RESPA gives you certain rights under Federal law. This statement describes whether the servicing for this loan may be transferred to a different loan servicer. "Servicing" refers to collecting your principal, interest, and escrow payments, if any, as well as sending any monthly or annual statements, tracking account balances, and handling other aspects of your loan. You will be given advance notice before a transfer occurs.

#### Servicing Transfer Information

- We may assign, sell, or transfer the servicing of your loan while the loan is outstanding.
- We do not service mortgage loans of the type for which you applied. We intend to assign, sell, or transfer the servicing of your mortgage loan before the first payment is due.
- The loan for which you have applied will be serviced at this financial institution and we do not intend to sell, transfer, or assign the servicing of the loan.

By signing below, I/we acknowledge receiving a copy of this disclosure.

\_\_\_\_\_  
Applicant

\_\_\_\_\_  
Date

\_\_\_\_\_  
Applicant

\_\_\_\_\_  
Date

\_\_\_\_\_  
Applicant

\_\_\_\_\_  
Date

\_\_\_\_\_  
Applicant

\_\_\_\_\_  
Date

# ***NOTICE TO APPLICANT***

We may order an appraisal to determine the property's value and charge you for this appraisal. We will promptly give you a copy of any appraisal, even if your loan does not close. You can pay for an additional appraisal for your own use at your own cost.

**FACTS****WHAT DOES CHILLICOTHE STATE BANK  
DO WITH YOUR PERSONAL INFORMATION?**

<b>Why?</b>	Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.
<b>What?</b>	<p>The types of personal information we collect and share depend on the product or service you have with us. This information can include:</p> <ul style="list-style-type: none"> <li>▶ Social Security number and account balances</li> <li>▶ Account transactions and transaction history</li> <li>▶ Credit history and payment history</li> </ul> <p>When you are <i>no longer</i> our customer, we continue to share your information as described in this notice.</p>
<b>How?</b>	All financial companies need to share customers' personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers' personal information; the reasons Chillicothe State Bank chooses to share; and whether you can limit this sharing.

Reasons we can share your personal information	Does Chillicothe State Bank share?	Can you limit this sharing?
<b>For our everyday business purposes—</b> such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	<b>Yes</b>	<b>No</b>
<b>For our marketing purposes—</b> to offer our products and services to you	<b>Yes</b>	<b>No</b>
<b>For joint marketing with other financial companies</b>	<b>No</b>	<b>We Don't Share</b>
<b>For our affiliates' everyday business purposes—</b> information about your transactions and experiences	<b>No</b>	<b>We Don't Share</b>
<b>For our affiliates' everyday business purposes—</b> information about your creditworthiness	<b>No</b>	<b>We Don't Share</b>
<b>For nonaffiliates to market to you</b>	<b>No</b>	<b>We Don't Share</b>

<b>Questions?</b>	Call 660-646-5120
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## Who we are

Who is providing this notice?

**Chillicothe State Bank**

## What we do

**How does Chillicothe State Bank protect my personal information?**

To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings.

**How does Chillicothe State Bank collect my personal information?**

We collect your personal information, for example, when you

- ▶ Open an account or deposit money
- ▶ Pay your bills or use your debit card
- ▶ Apply for a loan

We also collect your personal information from others, such as credit bureaus, affiliates, or other companies.

**Why can't I limit all sharing?**

Federal law gives you the right to limit only

- ▶ sharing for affiliates' everyday business purposes—information about your creditworthiness
- ▶ affiliates from using your information to market to you
- ▶ sharing for nonaffiliates to market to you

State laws and individual companies may give you additional rights to limit sharing.

## Definitions

**Affiliates**

Companies related by common ownership or control. They can be financial and nonfinancial companies.

- ▶ *Chillicothe State Bank does not share with our affiliates.*

**Nonaffiliates**

Companies not related by common ownership or control. They can be financial and nonfinancial companies.

- ▶ *Chillicothe State Bank does not share with nonaffiliates so they can market to you.*

**Joint marketing**

A formal agreement between nonaffiliated financial companies that together market financial products or services to you.

- ▶ *Chillicothe State Bank does not jointly market.*

## Other important information



## The Federal Reserve Board

[ESPAÑOL](#)

### What you should know about Home Equity Lines of Credit



More and more lenders are offering home equity lines of credit. By using the [equity](#) in your home, you may qualify for a sizable amount of credit, available for use when and how you please, at an [interest rate](#) that is relatively low.

Furthermore, under the tax law--depending on your specific situation--you may be allowed to deduct the interest because the debt is secured by your home.

If you are in the market for credit, a home equity plan may be right for you. Or perhaps another form of credit would be better. Before making a decision, you should weigh carefully the costs of a home equity line against the

benefits. Shop for the credit terms that best meet your borrowing needs without posing undue financial risk. And remember, failure to repay the amounts you've borrowed, plus interest, could mean the loss of your home.

[What is a home equity line of credit?](#)

[What should you look for when shopping for a plan?](#)

[Costs of establishing and maintaining a home equity line](#)

[How will you repay your home equity plan?](#)

[Lines of credit vs. traditional second mortgage loans](#)

### What is a home equity line of credit?

A home equity line of credit is a form of revolving credit in which your home serves as collateral. Because the home is likely to be a consumer's largest asset, many homeowners use their credit lines only for major items such as education, home improvements, or medical bills and not for day-to-day expenses.

With a home equity line, you will be approved for a specific amount of credit--your [credit limit](#), the maximum amount you may borrow at any one time under the plan. Many lenders set the credit limit on a home equity line by taking a percentage (say, 75 percent) of the home's appraised value and subtracting from that the balance owed on the existing mortgage. For example:

Appraised value of home	\$100,000
Percentage	x 75%
Percentage of appraised value	= \$ 75,000
Less balance owed on mortgage	- \$ 40,000
<hr/>	
Potential credit	\$ 35,000

In determining your actual credit limit, the lender will also consider your ability to repay, by looking at your income, debts, and other financial obligations as well as your credit history.

Many home equity plans set a fixed period during which you can borrow money, such as 10 years. At the end of this "draw period," you may be allowed to renew the credit line. If your plan does not allow renewals, you will not be able to borrow additional money once the period has ended. Some plans may call for payment in full of any outstanding balance at the end of the period. Others may allow repayment over a fixed period (the "repayment period"), for example, 10 years.

Once approved for a home equity line of credit, you will most likely be able to borrow up to your credit limit whenever you want. Typically, you will use special checks to draw on your line. Under some plans, borrowers can use a credit card or other means to draw on the line.

There may be limitations on how you use the line. Some plans may require you to borrow a minimum amount each time you draw on the line (for example, \$300) and to keep a minimum amount outstanding. Some plans may also require that you take an initial advance when the line is set up.

## What should you look for when shopping for a plan?

If you decide to apply for a home equity line of credit, look for the plan that best meets your particular needs. Read the credit agreement carefully, and examine the terms and conditions of various plans, including the [annual percentage rate \(APR\)](#) and the costs of establishing the plan. The APR for a home equity line is based on the interest rate alone and will not reflect the [closing costs](#) and other fees and charges, so you'll need to compare these costs, as well as the APRs, among lenders.

### Interest rate charges and related plan features

Home equity lines of credit typically involve [variable](#) rather than fixed interest rates. The variable rate must be based on a publicly available [index](#) (such as the prime rate published in some major daily

newspapers or a U.S. Treasury bill rate); the interest rate for borrowing under the home equity line changes, mirroring fluctuations in the value of the index. Most lenders cite the interest rate you will pay as the value of the index at a particular time plus a "[margin](#)," such as 2 percentage points. Because the cost of borrowing is tied directly to the value of the index, it is important to find out which index is used, how often the value of the index changes, and how high it has risen in the past as well as the amount of the margin.

Lenders sometimes offer a temporarily discounted interest rate for home equity lines--a rate that is unusually low and may last for only an introductory period, such as 6 months.

Variable-rate plans secured by a dwelling must, by law, have a ceiling (or [cap](#)) on how much your interest rate may increase over the life of the plan. Some variable-rate plans limit how much your payment may increase and how low your interest rate may fall if interest rates drop.

Some lenders allow you to convert from a variable interest rate to a fixed rate during the life of the plan, or to convert all or a portion of your line to a fixed-term installment loan.

Plans generally permit the lender to freeze or reduce your credit line under certain circumstances. For example, some variable-rate plans may not allow you to draw additional funds during a period in which the interest rate reaches the cap.

## Costs of establishing and maintaining a home equity line

Many of the costs of setting up a home equity line of credit are similar to those you pay when you buy a home. For example:

- A fee for a property appraisal to estimate the value of your home
- An [application fee](#), which may not be refunded if you are turned down for credit
- Up-front charges, such as one or more [points](#) (one point equals 1 percent of the credit limit)
- Closing costs, including fees for attorneys, title search, and mortgage preparation and filing; property and title insurance; and taxes.

In addition, you may be subject to certain fees during the plan period, such as [annual membership or maintenance fees](#) and a [transaction](#) fee every time you draw on the credit line.

You could find yourself paying hundreds of dollars to establish the plan. If you were to draw only a small amount against your credit line, those initial charges would substantially increase the cost of the funds borrowed. On the other hand, because the lender's risk is lower than for other forms of credit, as your

home serves as collateral, annual percentage rates for home equity lines are generally lower than rates for other types of credit. The interest you save could offset the costs of establishing and maintaining the line. Moreover, some lenders waive some or all of the closing costs.

## How will you repay your home equity plan?

Before entering into a plan, consider how you will pay back the money you borrow. Some plans set [minimum payments](#) that cover a portion of the principal (the amount you borrow) plus accrued interest. But (unlike with the typical installment loan) the portion that goes toward principal may not be enough to repay the principal by the end of the term. Other plans may allow payment of interest alone during the life of the plan, which means that you pay nothing toward the principal. If you borrow \$10,000, you will owe that amount when the plan ends.

Regardless of the minimum required payment, you may choose to pay more, and many lenders offer a choice of payment options. Many consumers choose to pay down the principal regularly as they do with other loans. For example, if you use your line to buy a boat, you may want to pay it off as you would a typical boat loan.

Whatever your payment arrangements during the life of the plan--whether you pay some, a little, or none of the principal amount of the loan--when the plan ends you may have to pay the entire balance owed, all at once. You must be prepared to make this ["balloon payment"](#) by refinancing it with the lender, by obtaining a loan from another lender, or by some other means. If you are unable to make the balloon payment, you could lose your home.

If your plan has a variable interest rate, your monthly payments may change. Assume, for example, that you borrow \$10,000 under a plan that calls for interest-only payments. At a 10 percent interest rate, your monthly payments would be \$83. If the rate rises over time to 15 percent, your monthly payments will increase to \$125. Similarly, if you are making payments that cover interest plus some portion of the principal, your monthly payments may increase, unless your agreement calls for keeping payments the same throughout the plan period.



If you sell your home, you will probably be required to pay off your home equity line in full immediately. If you are likely to sell your home in the near future, consider whether it makes sense to pay the up-front costs of setting up a line of credit. Also keep in mind that renting your home may be prohibited under the terms of your agreement.

## Lines of credit vs. traditional second mortgage loans

If you are thinking about a home equity line of credit, you might also want to consider a traditional second mortgage loan. A second mortgage provides you with a fixed amount of money repayable over a fixed period. In most cases the payment schedule calls for equal payments that will pay off the entire loan within the loan period. You might consider a second mortgage instead of a home equity line if, for example, you need a set amount for a specific purpose, such as an addition to your home.

In deciding which type of loan best suits your needs, consider the costs under the two alternatives. Look at both the APR and other charges. Do not, however, simply compare the APRs, because the APRs on the two types of loans are figured differently:

- The APR for a traditional second mortgage loan takes into account the interest rate charged plus points and other finance charges.
- The APR for a home equity line of credit is based on the periodic interest rate alone. It does not include points or other charges.

## Disclosures from lenders

The federal Truth in Lending Act requires lenders to disclose the important terms and costs of their home equity plans, including the APR, miscellaneous charges, the payment terms, and information about any variable-rate feature. And in general, neither the lender nor anyone else may charge a fee until after you have received this information. You usually get these disclosures when you receive an application form, and you will get additional disclosures before the plan is opened. If any term (other than a variable-rate feature) changes before the plan is opened, the lender must return all fees if you decide not to enter into the plan because of the change.

When you open a home equity line, the transaction puts your home at risk. If the home involved is your principal dwelling, the Truth in Lending Act gives you 3 days from the day the account was opened to cancel the credit line. This right allows you to change your mind for any reason. You simply inform the lender in writing within the 3-day period. The lender must then cancel its [security interest](#) in your home and return all fees--including any application and appraisal fees--paid to open the account.

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The information on this site is adapted from the brochure "What You Should Know about Home Equity Lines of Credit." Single or multiple copies of the brochure are available without charge. Order the brochure [by telephone, mail, or fax](#). Order [online](#).

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**Last update: March 1, 2004**