

Bank of Arizona

Home Equity Line of Credit

This disclosure contains information about our Home Equity Line of Credit. Information on our other Home Equity Line of Credit programs is available upon request. You should read it carefully and keep it 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 fluctuation 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. You could lose your home if you do not meet the obligations in your Agreement with us.

POSSIBLE ACTIONS. We can terminate your Account, require you to pay us the entire Outstanding Balance in one payment, and charge you certain fees if: (a) you engage in fraud or material misrepresentation in connection with your Account; (b) you do not meet the repayment terms; or (c) 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 Maximum Credit Limit if: (a) the value of the dwelling securing your Account declines significantly below its appraised value for purposes of our Agreement, which you understand to be not less than 120% of the total outstanding indebtedness from all sources secured by an interest in the Property; (b) we reasonably believe you will not be able to meet the repayment requirements due to a material change in your financial circumstances; (c) you are in default of a material obligation under the Agreement; (d) government action prevents us from imposing the Annual Percentage Rate provided for in our Agreement or impairs our security interest such that the value of the interest is less than 120% of the Maximum Credit Limit; (e) a regulatory agency has notified us that continued advances would constitute an unsafe and unsound business practice; or (f) the maximum Annual Percentage Rate is reached. We may make certain changes to the terms of the Agreement at such times or upon the occurrence of such events as specified in the Agreement.

SMART LOCK LOAN OPTION. The Smart Lock Home Equity Line of Credit account contains an option to convert all or a portion of the variable rate principal balance along with accrued interest, fees, the Smart Lock Loan Option conversion fee and any voluntary insurance charge to a fixed rate and fixed payment at any time during the Draw Period and during the Repayment Period.

CONVERSION PERIOD. You can exercise your option to convert to a fixed rate and fixed payment at any time during the Draw or Repayment period.

CONVERSION FEES. The bank may charge a fee up to \$50.00 per conversion.

RATE DETERMINATION. The fixed rate will be determined as follows: The fixed rate for the Smart Lock Loan Option will be determined by applying the current rate for a home equity installment loan based on the loan amount and the term requested at the time the Smart Lock Loan Option confirmation is received by our bank. However, in no event will the ANNUAL PERCENTAGE RATE for a Smart Lock Loan Option exceed the lesser of 21.00% or the maximum rate allowed by law.

ANNUAL PERCENTAGE RATE. Your annual percentage rate may increase if you exercise this option to convert to a fixed rate and payment as described below.

CONVERSION RULES AND RESTRICTIONS. You can convert any or all of your variable rate principal balance to a fixed rate and fixed payment at any time during the draw or Repayment Period. The minimum amount which can be converted is \$5,000. The term for any Smart Lock Loan Option cannot exceed the repayment period of the line of credit, which is 180 months. If you choose to exercise a Smart Lock Loan Option during the repayment period your maximum loan term may not exceed the remaining repayment period of your line of credit. You may not have more than three (3) Smart Lock Loan Options open at any

one time. If you payoff and close a Smart Lock Loan Option you will need to wait until your next billing period to exercise any additional Smart Lock Loan Options.

MINIMUM PAYMENT REQUIREMENT. You can obtain advances of credit for 5 years (the "Draw Period"). During the Draw Period, payments will be due monthly. Your minimum monthly payment will be equal to the greater of \$100 or 2% of your Outstanding Principal Balance, plus any past-due amounts and other charges. After the Draw Period ends, you will no longer be able to obtain credit Advances, and you must repay your entire Outstanding Balance in monthly payments over the subsequent 15 years (the "Repayment Period"). During the Repayment Period, your minimum monthly payments will consist of principal and interest plus any past-due amounts and other charges, if any. Your monthly payment shall be based on (a) the amortization of your Outstanding Balance over a 15-year period, and (b) interest which will accrue at a variable rate as described below, but your minimum monthly payment will never be less than \$100.

MINIMUM PAYMENT EXAMPLE. If you took a single \$10,000 Advance, the APR was 5.25% and did not change, it would take 8 years and 5 months to pay off the Advance if you made only the minimum monthly payments. During that period, you would make 45 payments varying between \$200.00 and \$100.02, and 55 payments of \$100.00 and one final payment of \$56.28.

FEES AND CHARGES. The following regular closing costs of \$75 for document preparation, and any third party fees for opening the account, which range from \$177 - \$571 are currently waived for the Home Equity Line of Credit. You must carry insurance on the property that secures the account.

MINIMUM DRAW REQUIREMENT. The minimum credit Advance you can receive is \$250.00.

INITIAL ANNUAL PERCENTAGE RATE. The initial Annual Percentage Rate will be a fixed rate until the first business day following the sixth month anniversary date of the Agreement. This Annual Percentage Rate is established at the time you open your account and is not based on the Index and Margin. Thereafter, the Annual Percentage Rate will be a variable rate as described below. The initial ANNUAL PERCENTAGE RATE has recently been 4.50%. Your Annual Percentage Rate could be different. Ask us for the current initial Annual Percentage Rate.

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

VARIABLE RATE FEATURE. The initial annual percentage rate is discounted – it is not based on the index and margin used for later rate adjustments. The initial rate will be in effect for the first six months your credit line is open. Ask us for the current discount rate. The Account 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 and the outstanding balance on your line of credit. The Index is the Wall Street Journal Prime Rate published in the Money Rates section of The Wall Street Journal each day except Saturday, Sunday and legal holidays. To determine the Annual Percentage Rate that will apply to your Account, we add a Margin to the value of the Index. The margin is determined based upon your outstanding balance on the line of credit. Ask us for the current Index value, Margin and Annual Percentage Rate. After you open an Account, rate information will be provided on the periodic statements we will send to you.

Margin

Balances less than \$25,000.01 = 2.00%

Balances \$25,000.01 - \$50,000 = 1.75%

Balances \$50,000.01 - 75,000 = 1.50%

Balances greater than \$75,000 = 1.25%

RATE CHANGES. The ANNUAL PERCENTAGE RATE can change each day. The maximum ANNUAL PERCENTAGE RATE that can apply is 21%. The minimum ANNUAL PERCENTAGE RATE that can apply is equal to the Margin. Apart from these rate limitations, there is no limit on the amount by which the rate can change during any period.

MAXIMUM RATE AND PAYMENT EXAMPLE. If you had an Outstanding Balance of \$10,000 during the

Draw Period, the minimum monthly payment at the maximum ANNUAL PERCENTAGE RATE of 21% would be \$200. The Annual Percentage Rate could be reached during the first month of the Draw Period following the introductory fixed ANNUAL PERCENTAGE RATE 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 21% would be \$183.06. This Annual Percentage Rate could be reached during the first month of the Repayment Period.

HISTORICAL EXAMPLE. The following table shows how the Annual Percentage Rate (**APR**) 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 January 1st of each year, or the prior business day if January 1st fell on a Saturday, Sunday or holiday. While only one payment amount per year is shown, actual payments may vary during each year.

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

Home Equity Line of Credit Bank of Arizona				
Year	Index	Margin*	APR	Payments
Draw Period				
1996	8.50%	2.00%	4.50%**	\$ 200.00
1997	8.25%	2.00%	10.25%	\$ 164.30
1998	8.50%	2.00%	10.50%	\$ 143.08
1999	7.75%	2.00%	9.75%	\$ 124.92
2000	8.50%	2.00%	10.50%	\$ 108.23
Repayment Period				
2001	9.50%	2.00%	11.50%	\$ 100.00
2002	4.75%	2.00%	6.75%	\$ 100.00
2003	4.25%	2.00%	6.25%	\$ 100.00
2004	4.00%	2.00%	6.00%	\$ 100.00
2005	5.25%	2.00%	7.25%	\$ 100.00
2006	7.25%	2.00%	9.25%	
2007	8.25%	2.00%	10.25%	
2008	7.25%	2.00%	9.25%	
2009	3.25%	2.00%	5.25%	
2010	3.25%	2.00%	5.25%	

*This is a margin we have used recently.

**This represents the discounted rate in effect during the first 6 months of your plan. This is a discount we have used recently. Ask us for our current discounted rate.

Home Equity Line of Credit Interest Only Payment Privilege

This disclosure contains information about our Home Equity Line of Credit with the Interest Only Payment Privilege. Information on our other Home Equity Line of Credit programs is available upon request. You should read it carefully and keep it 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 fluctuation 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. You could lose your home if you do not meet the obligations in your Agreement with us.

POSSIBLE ACTIONS. We can terminate your Account, require you to pay us the entire Outstanding Balance in one payment, and charge you certain fees if: (a) you engage in fraud or material misrepresentation in connection with your Account; (b) you do not meet the repayment terms; or (c) 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 Maximum Credit Limit if: (a) the value of the dwelling securing your Account declines significantly below its appraised value for purposes of our Agreement, which you understand to be not less than 120% of the total outstanding indebtedness from all sources secured by an interest in the Property; (b) we reasonably believe you will not be able to meet the repayment requirements due to a material change in your financial circumstances; (c) you are in default of a material obligation under the Agreement; (d) government action prevents us from imposing the Annual Percentage Rate provided for in our Agreement or impairs our security interest such that the value of the interest is less than 120% of the Maximum Credit Limit; (e) a regulatory agency has notified us that continued advances would constitute an unsafe and unsound business practice; or (f) the maximum Annual Percentage Rate is reached. We may make certain changes to the terms of the Agreement at such times or upon the occurrence of such events as specified in the Agreement.

SMART LOCK LOAN OPTION. The Smart Lock Home Equity Line of Credit account contains an option to convert all or a portion of the variable rate principal balance along with accrued interest, fees, the Smart Lock Loan Option conversion fee and any voluntary insurance charge to a fixed rate and fixed payment at any time during the Draw Period and during the Repayment Period.

CONVERSION PERIOD. You can exercise your option to convert to a fixed rate and fixed payment at any time during the Draw or Repayment period.

CONVERSION FEES. The bank may charge a fee up to \$50.00 per conversion.

RATE DETERMINATION. The fixed rate will be determined as follows: The fixed rate for the Smart Lock Loan Option will be determined by applying the current rate for a home equity installment loan based on the loan amount and the term requested at the time the Smart Lock Loan Option confirmation is received by our bank. However, in no event will the ANNUAL PERCENTAGE RATE for a Smart Lock Loan Option exceed the lesser of 21.00% or the maximum rate allowed by law.

ANNUAL PERCENTAGE RATE. Your annual percentage rate may increase if you exercise this option to convert to a fixed rate and payment as described below.

CONVERSION RULES AND RESTRICTIONS. You can convert any or all of your variable rate principal balance to a fixed rate and fixed payment at any time during the draw or Repayment Period. The minimum amount which can be converted is \$5,000. The term for any Smart Lock Loan Option cannot exceed the repayment period of the line of credit, which is 180 months. If you choose to exercise a Smart Lock Loan Option during the repayment period your maximum loan term may not exceed the remaining repayment period of your line of credit. You may not have more than three (3) Smart Lock Loan Options open at any one time. If you payoff and close a Smart Lock Loan Option you will need to wait until your next billing period to exercise any additional Smart Lock Loan Options.

MINIMUM PAYMENT REQUIREMENT PRINCIPAL AND INTEREST PAYMENT. You can obtain advances of credit for 5 years (the "Draw Period"). Payments will be due monthly. During the Draw Period your minimum monthly payment will be equal to the greater of \$100 or 2% of your Outstanding Principal Balance, plus any past-due amounts and other charges. After the Draw Period ends, you will no longer be able to obtain credit Advances, and you must repay your entire Outstanding Balance in monthly payments over the subsequent 15 years (the "Repayment Period"). During the Repayment Period, your minimum monthly payments will consist of principal and interest plus any past-due amounts and other charges. Your monthly payment shall be based on (a) the amortization of your Outstanding Balance over a 15-year period, and (b) interest which will accrue at a variable rate as described below, but your minimum monthly payment will never be less than \$100.

MINIMUM PAYMENT REQUIREMENT INTEREST ONLY PRIVILEGE. You can obtain advances of credit for 5 years (the "Draw Period"). Payments will be due monthly. During the Draw Period, if your credit-worthiness meets or exceeds the standards that we review on a periodic basis, including payment history and credit bureau score, you may choose to pay an amount equal to your accrued FINANCE CHARGES.

After the Draw Period ends, you will no longer be able to obtain credit Advances, and you must repay your entire Outstanding Balance in monthly payments over the subsequent 15 years (the "Repayment Period"). During the Repayment Period, your minimum monthly payments will consist of principal and interest plus any past-due amounts and other charges. Your monthly payment shall be based on (a) the amortization of your Outstanding Balance over a 15-year period, and (b) interest which will accrue at a variable rate as described below.

MINIMUM PAYMENT EXAMPLE. If you took a single \$10,000 Advance, the APR was 5.25% and did not change, it would take 8 years and 5 months to pay off the Advance if you made only the minimum monthly payments. During that period, you would make 45 payments varying between \$200.00 and \$100.02, and 55 payments of \$100.00 and one final payment of \$56.28.

MINIMUM PAYMENT EXAMPLE INTEREST ONLY PRIVILEGE. If you took a single \$10,000 Advance, the ANNUAL PERCENTAGE RATE was 5.25% and did not change, it would take 20 years to pay off the Advance if you made only the minimum monthly payments. During that period you would make 60 monthly interest only payments of \$43.75, and 180 monthly principal and interest payments of \$80.39.

FEES AND CHARGES. The following regular closing costs of \$75 for document preparation, and any third party fees for opening the account, which range from \$177 - \$571 are currently waived for the Home Equity Line of Credit. You must carry insurance on the property that secures the account.

MINIMUM DRAW REQUIREMENT. The minimum credit Advance you can receive is \$250.00.

INITIAL ANNUAL PERCENTAGE RATE. The initial Annual Percentage Rate will be a fixed rate until the first business day following the sixth month anniversary date of the Agreement. This Annual Percentage Rate is established at the time you open your account and is not based on the Index and Margin. Thereafter, the Annual Percentage Rate will be a variable rate as described below. The initial ANNUAL PERCENTAGE RATE has recently been 4.50%. Your Annual Percentage Rate could be different. Ask us for the current initial Annual Percentage Rate.

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

VARIABLE RATE FEATURE. The initial annual percentage rate is discounted – it is not based on the index and margin used for later rate adjustments. The initial rate will be in effect for the first six months your credit line is open. Ask us for the current discount rate. The Account 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 and the outstanding balance on your line of credit. The Index is the Wall Street Journal Prime Rate published in the Money Rates section of The Wall Street Journal each day except Saturday, Sunday and legal holidays. To determine the Annual Percentage Rate that will apply to your Account, we add a Margin to the value of the Index. The margin is determined based upon your outstanding balance on the line of credit. Ask us for the current Index value, Margin and Annual Percentage Rate. After you open an Account, rate information will be provided on the periodic statements we will send to you.

Margin

Balances less than \$25,000.01 = 2.00%
Balances \$25,000.01 - \$50,000 = 1.75%
Balances \$50,000.01 - 75,000 = 1.50%
Balances greater than \$75,000 = 1.25%

RATE CHANGES. The Annual Percentage Rate can change each day. The maximum ANNUAL PERCENTAGE RATE that can apply is 21%. The minimum ANNUAL PERCENTAGE RATE that can apply is equal to the Margin. Apart from these rate limitations, there is no limit on the amount by which the rate can change during any period.

MAXIMUM RATE AND PAYMENT EXAMPLE PRINCIPAL AND INTEREST PAYMENT. If you had an Outstanding Balance of \$10,000 during the draw period, the minimum monthly payment at the maximum ANNUAL PERCENTAGE RATE of 21% would be \$200. The Annual Percentage Rate could be reached during the first month of the Draw Period, following the introductory fixed ANNUAL PERCENTAGE RATE 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 21% would be \$183.06. This Annual Percentage Rate could be reached during the first month of the Repayment Period.

MAXIMUM RATE AND PAYMENT EXAMPLE INTEREST ONLY PRIVILEGE. If you had an Outstanding Balance of \$10,000 during the draw period, the minimum monthly payment at the maximum ANNUAL PERCENTAGE RATE of 21% would be \$175. The Annual Percentage Rate could be reached during the first month of the Draw Period, following the introductory fixed ANNUAL PERCENTAGE RATE 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 21% would be \$183.06. This Annual Percentage Rate could be reached during the first month of the Repayment Period.

HISTORICAL EXAMPLE. The following table shows how the Annual Percentage Rate (**APR**) 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 January 1st of each year, or the prior business day if January 1st fell on a Saturday, Sunday or holiday. While only one payment amount per year is shown, actual payments may vary during each year.

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

Home Equity Line of Credit Bank of Arizona					
Year	Index	Margin*	APR	Principal & Interest Payments	Interest Only Payments
Draw Period					
1996	8.50%	2.00%	4.50%**	\$200.00	\$37.50
1997	8.25%	2.00%	10.25%	\$164.30	\$85.42
1998	8.50%	2.00%	10.50%	\$143.08	\$87.50
1999	7.75%	2.00%	9.75%	\$124.92	\$81.25
2000	8.50%	2.00%	10.50%	\$108.23	\$87.50
Repayment Period					
2001	9.50%	2.00%	11.50%	\$100.00	\$116.82
2002	4.75%	2.00%	6.75%	\$100.00	\$89.72
2003	4.25%	2.00%	6.25%	\$100.00	\$87.24
2004	4.00%	2.00%	6.00%	\$100.00	\$86.09
2005	5.25%	2.00%	7.25%	\$100.00	\$91.48
2006	7.25%	2.00%	9.25%		\$91.48
2007	8.25%	2.00%	10.25%		\$102.93
2008	7.25%	2.00%	9.25%		\$99.39
2009	3.25%	2.00%	5.25%		\$87.35
2010	3.25%	2.00%	5.25%		\$87.35

* This is a margin we have used recently.

**This represents the discounted rate in effect during the first 6 months of your plan. This is a discount we have used recently. Ask us for our current discounted rate.

When Your Home Is On The Line: What You Should Know About Home Equity Lines Of Credit.

The following information is intended to help consumers understand home equity lines of credit. This basic information is based on the consumer brochure entitled "When Your Home Is On the Line: What You Should Know About Home Equity Lines of Credit," published by the Federal Reserve Board.

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 this 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?

A home equity line 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:

Appraisal of home	\$100,000
Percentage	x 75%
Percentage of appraised value	75,000
<u>Less mortgage debt</u>	<u>-40,000</u>
Potential credit line	\$35,000

In determining your actual credit line, the lender also will 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 your 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 Loan or Line of Credit?

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 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 Changes and 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 only for an introductory period, such as 6 months.

Variable rate plans secured by a dwelling must, by law, have a ceiling (or cap) on 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, as well as 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 Loan or Line of Credit?

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 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 also might 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 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.

Disclosure 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.

Where To Go For Help

The following federal agencies are responsible for enforcing the federal Truth in Lending Act, the law that governs disclosure of terms for home equity lines of credit. Questions concerning compliance with the act by a particular financial institution should be directed to its enforcement agency.

State Banks that are members of the Federal Reserve System

Division of Consumer and Community Affairs
Mail Stop 801
Federal Reserve Board

Washington, D.C. 20551
(202)452-3693
www.federalreserve.gov

National Banks

Office of the Comptroller of the Currency
Consumer Assistance Unit
1301 McKinney St.
Suite 3710
Houston, TX 77010
(800)613-6743
www.occ.treas.gov

Federal Credit Unions

National Credit Union Administration
Office of Public and Congressional Affairs
1775 Duke Street
Alexandria, VA 22314
(703)518-6330
www.ncua.gov

Federally Insured Non-Member State-Chartered Banks and Savings Banks

Federal Deposit Insurance Corporation
Consumer Response Center
2345 Grand Boulevard
Suite 100
Kansas City, Missouri 64108
(877) 275-3342
www.fdic.gov

Federally Insured Savings and Loan Institutions and Federally Chartered Savings Banks

Office of Thrift Supervision
Consumer Programs
1700 G Street, N.W., 6th Floor
Washington, D.C. 20552
(202)906-6237 or (800)842-6929
www.ots.treas.gov

Mortgage Companies and Other Lenders

Federal Trade Commission
Consumer Response Center
600 Pennsylvania Avenue, N.W.
Washington, D.C. 20580
(202)326-3758 or (877)FTC-HELP
www.ftc.gov

Last update:
March 1, 2004

Glossary

Annual membership or participation fee. - An annual charge for having the line of credit available. Charged regardless of whether or not the line is used.

Annual percentage rate (APR) - The cost of credit on a yearly basis expressed as a percentage.

Application fee - Fees that are paid upon application. May include charges for property appraisal and a credit report.

Balloon payment - A lump-sum payment that may be required when the plan ends.

Cap - A limit on how much the variable interest rate may increase during the life of the plan.

Closing costs - Fees paid at closing, including attorneys fees, fees for preparing and filing a mortgage, fees for title search, taxes, and insurance.

Credit limit - The maximum amount that may be borrowed under the home equity plan.

Equity - The difference between the fair market value (appraised value) of the home and the outstanding mortgage balance.

Index - Published rate that serves as a base for the interest rate charged on a home equity line and also as the base for rate changes used by the lender.

Interest rate - The periodic charge, expressed as a percentage, for use of credit.

Margin - The number of percentage points the lender adds to the index rate to determine the annual percentage rate.

Minimum payment - The minimum amount that you must pay (usually monthly) on your account. Under some plans, the minimum payment may cover interest only; Under others, it may include both principal and interest.

Points - One point is equal to 1 percent of the amount of the credit line. Points must usually be paid at closing, and are in addition to monthly interest.

Security interest - An interest that a lender takes in the borrower's property to ensure repayment of a debt.

Transaction fee - A fee charged each time you draw on your credit line.

Variable rate - An interest rate that changes periodically in relation to an index. Payments may increase or decrease accordingly.