Income Documentation

The way a borrower is paid will determine the type of income documentation needed for a file. Below is the documentation you will need to request. Note that income documentation differs for larger loan requests:

MINIMUM Income Documentation Requirements - Requests <=25,000	
Self Employed	Most recent years personal tax returns required for all self-employed borrowers
Salary/W-2 Wage Earner	Current paystub with YTD income information
Overtime/Bonus/Commission	Current paystub with YTD income information
Rental Property Income	Most recent years 1040's Schedule E and current lease
IRA Distribution, Interest or Dividends	Current Asset Statements
Alimony	Copy of ONE of the following documents
	• Divorce Decree
	• Property Settlement Agreement
	• Attorney Letter
	Income must be ongoing for at least 3 yrs.
Child Support	Court certified document showing receipt of income
	Income must be ongoing for 3 years
Pension or Social Security	Awards Letter, Statement of Benefit or Bank Statement (record of deposit)
MINIMUM Income Documentation Requirements - Requests > 25,000	
Self Employed	Most recent two years business and personal tax returns required for all self-employed borrowers
Salary/W-2 Wage Earner	Current paystub with YTD income information and W-2 for previous year
Overtime/Bonus/Commission	Previous 2 years W-2s; current paystub with YTD income information. Borrower must have a two year history of income
Rental Property Income	Must be owned >= 2 years; last two years 1040's Schedule E and current lease
IRA Distribution, Interest or Dividends	Current Asset Statements and ONE of the following document sets:
	• Pages 1& 2 of previous 2 yrs. 1040s and schedule B
	• Previous two years 1099 forms

Alimony	Copy of ONE of the following documents and 6 months proof of receipt of payment
	• Divorce Decree
	• Property Settlement Agreement
	• Attorney Letter
	Income must be ongoing for at least 3 yrs.
Child Support	Court certified document showing receipt of income and 6 months proof of receipt of payment
	Income must be ongoing for 3 years
Pension or Social Security	Awards Letter, Statement of Benefit or Bank Statement (record of deposit)

<u>Properties Owned</u>

For all properties the borrower owns, we need to verify their total monthly obligations for each one. Documentation required to verify this information is as follows:

- ✓ Mortgage Statement (s)- (if financed) to show if their taxes and insurance payments are included in their payment or they pay on their own.
- ✓ Hazard Insurance Dec page
- ✓ Property tax bill Name and number of Homeowner’s Association so I can obtain a Certificate of Insurance - Condominiums only.

  When we calculate the borrower’s monthly obligations, we have to include all of the items above in the ratios. If we can’t verify if the borrower escrows the taxes and insurance, we have to add them in separately and could be hitting them twice for it. That is why a mortgage statement is very important.

HOME STATE BANK N.A.
We're on your side

HELOC Documentation Checklist

_____ Completed, signed and dated HELOC Application

____ Signed & Dated disclosures: ‘

- Heloc Disclosure (3 pgs)
- Insurance Mortgagee Clause Letter
-

____ Mortgage Statements for all mortgages on all properties owned

____ Hazard Insurance Declarations Page for all properties owned

____ Property Tax bill for all properties owned

____ Clear copy of the borrower’s Driver’s License or State ID

____Income Documentation Requirements Depending on Type of Income

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Home Equity Credit Line Application

TYPE OF CREDIT REQUESTED				
	◯ Individual Credit - relying solely on my income or assets		◯ Individual Credit - relying on my income or assets as well as income or assets from other sources	
	◯ Joint Credit - We intend to apply for joint credit			
Date		Amount Requested		
Purpose	Other (requires explanation)		Purpose Explanation when “Other” is selected:	

SECTION 1 Applicant					
Full Name				Marital Status	.
Home Address City, State Zip					
Time at Address	Email			Home Phone Number	
Date of Birth				Social Security Number	
Previous Address if less than 2 years at present address					
Employer				Address	
Phone		How Long?		Position		Monthly Income	
Previous Employer if less than 2 yrs				Position	

INCOME FROM ALIMONY, CHILD SUPPORT OR MAINTENANCE NEED NOT BE REVEALED IF YOU DO NOT CHOOSE TO RELY UPON IT AS A BASIS FOR REPAYING THIS OBLIGATION

OTHER INCOME					
Source		Monthly Amt.		Source		Monthly Amt	

SECTION II – Joint Applicant or Other Party			
Full Name		Marital Status	.
Home Address City, State Zip			
Time at Address		Home Phone Number	
Date of Birth		Social Security Number	
Previous Address if less than 2 years at present address			
Employer		Address	
Phone		How Long?		Position		Salary	
Previous Employer if less than 2 yrs		Position	

INCOME FROM ALIMONY, CHILD SUPPORT OR MAINTENANCE NEED NOT BE REVEALED IF YOU DO NOT CHOOSE TO RELY UPON IT AS A BASIS FOR REPAYING THIS OBLIGATION

OTHER INCOME							
Source		Monthly Amt.		Source		Monthly Amt	

SECTION III – Property Information (if additional space is needed, please use addendum on page 2)					
Present Value of Home		Present Balance		Monthly Pmt.	
Mortgage Holder Name					
Does payment include escrow for taxes and insurance? (If not included in payment what is the annual real estate tax amount?)					.
Are there any additional owners of the property other than individuals on the loan application? (If yes these individuals are required to sign the mortgage)					.
Is property held in a Trust? (if so a complete copy of the trust agreement is required)					.

Other Real Estate Owned: Address	Mortgage Holder	Monthly Payment	Type (rental, vacation etc.)

SECTION IV - DECLARATIONS	Applicant	Other Party
HAVE YOU EVER GONE THROUGH BANKRUPTCY OR CHAPTER XIII? IF YES WHEN?	.	No
DO YOU NOW HAVE ANY UNSATISFIED JUDGMENTS AGAINST YOU? IF YES Explain in Addendum	.	No
ARE YOU A CO-SIGNER, ENDORSER OR GUARANTOR FOR OTHERS? If YES Explain in Addendum	.	No
ARE YOU OBLIGATED TO PAY ALIMONY OR CHILD SUPPORT PAYMENTS? IF YES AMOUNT:	.	No

NOTICE: 18 United States Code 1014 prescribes criminal penalties for false statements in loan applications to Federally Insured Banks. I/We hereby certify that the foregoing statements are true and complete and are made for the purpose of determining my/our eligibility for credit. I/We agree that this statement shall remain your property, whether or not the application is accepted. You are authorized to make all inquiries you deem necessary to verify the accuracy of the statements made herein, and to determine my/our creditworthiness, including but not limited to, procuring consumer reports from consumer reporting agencies and credit information from other financial institutions and extenders of credit, references, present and former employers, merchants, landlords and creditors. Each applicant consents that, upon denial of the application based on a consumer report or information received from a person other than a consumer reporting agency or any applicant, creditor may make appropriate Fair Credit Reporting Act disclosures to all applicants.

SIGNATURE OF APPLICANT:		DATE	
SIGNATURE OF JOINT APPLICANT:		DATE	

HOME STATE BANK N.A.
We're on your side

Home Equity Credit Line Application

ADDENDUM **-Asset and Debt Information**			
Other Real Estate Owned: Address	Mortgage Holder	Monthly Payment	Type (rental, vacation etc.)

Additional Information:

Home State Bank/N.A.

HOME EQUITY APPLICATION DISCLOSURE- AMORTIZATION

Home State Bank, N.A.
40 Grant Street
Crystal Lake, IL 60014

IMPORTANT TERMS OF OUR
HOME EQUITY APPLICATION DISCLOSURE- AMORTIZATION

This disclosure contains important information about our 52506 - HELOC with Amortization (the "Plan" or the "Credit Line"). You should read it carefully and keep a copy for your records.

AVAILABILITY OF TERMS. All of the terms of the Plan described herein are subject to change. If any of 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 paid to us or anyone else in connection with your application.

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.

POSSIBLE ACTIONS. Under this Plan, we have the following rights:

Termination and Acceleration. We can terminate the Plan and require you to pay us the entire outstanding balance in one payment, and charge you certain fees, if any of the following happens:

(a) You commit fraud or make a material misrepresentation at any time in connection with the Plan. This can include, for example, a false statement about your income, assets, liabilities, or any other aspect of your financial condition.

(b) You do not meet the repayment terms of the Plan.

(c) Your action or inaction adversely affects the collateral for the Plan or our rights in the collateral. This can include, for example, failure to maintain required insurance, waste or destructive use of the dwelling, failure to pay taxes, death of all persons liable on the account, transfer of title or sale of the dwelling, creation of a senior lien on the dwelling without our permission, foreclosure by the holder of another lien or the use of funds or the dwelling for prohibited purposes.

Suspension or Reduction. In addition to any other rights we may have, we can suspend additional extensions of credit or reduce your credit limit during any period in which any of the following are in effect:

(a) The value of your dwelling declines significantly below the dwelling's appraised value for purposes of the Plan. This includes, for example, a decline such that the initial difference between the credit limit and the available equity is reduced by fifty percent and may include a smaller decline depending on the individual circumstances.

(b) We reasonably believe that you will be unable to fulfill your payment obligations under the Plan due to a material change in your financial circumstances.

(c) You are in default under any material obligation of the Plan. We consider all of your obligations to be material. Categories of material obligations include, but are not limited to, the events described above under Termination and Acceleration, obligations to pay fees and charges, obligations and limitations on the receipt of credit advances, obligations concerning maintenance or use of the dwelling or proceeds, obligations to pay and perform the terms of any other deed of trust, mortgage or lease of the dwelling, obligations to notify us and to provide documents or information to us (such as updated financial information), obligations to comply with applicable laws (such as zoning restrictions).

(d) We are precluded by government action from imposing the annual percentage rate provided for under the Plan.

(e) The priority of our security interest is adversely affected by government action to the extent that the value of the security interest is less than 120 percent of the credit limit.

(f) We have been notified by governmental authority that continued advances may constitute an unsafe and unsound business practice.

(g) The maximum annual percentage rate under the Plan is reached.

Change in Terms. We may make changes to the terms of the Plan if you agree to the change in writing at that time, if the change will unequivocally benefit you throughout the remainder of the Plan, or if the change is insignificant (such as changes relating to our data processing systems).

Fees and Charges. In order to open and maintain an account, you must pay certain fees and charges.

Lender Fees. The following fees must be paid to us:

Description	Amount	When Charged
Annual Fee:	$50.00	Annually
NSF Handling Fee:	$50.00	At the time a payment is returned to us for non-sufficient funds
Overlimit Charge:	$50.00	At the time your Credit Line balance exceeds your credit limit
Advance Less Than Minimum Charge:	$50.00	At the time of an advance below the required minimum amount
Lien Release:	$50.00	At Account Closing

Late Charge. Your payment will be late **if it is not received by us within 15 days after the "Payment Due Date" shown on your periodic statement.** If your payment is late we may charge you 5.000% of the payment.

Third Party Fees. You must pay certain fees to third parties such as appraisers, credit reporting firms, and government agencies.

We also will pass on any third party charges as part of an annual review of your account, in amounts estimated to be similar to those disclosed below. These third party fees generally total $0.00. Upon request, we will provide you with an itemization of the fees you will have to pay to third parties.

PROPERTY INSURANCE. You must carry insurance on the property that secures the Plan.

MINIMUM PAYMENT REQUIREMENTS. You can obtain advances of credit during the following period: ten years (the "Draw Period"). Your Regular Payment will equal the amount of your accrued FINANCE CHARGES ("First Payment Stream"). You will make 120 of these payments. Your payments will be due monthly. Your "Minimum Payment" will be the Regular Payment, plus any amount past due and all other charges. An increase in the ANNUAL PERCENTAGE RATE may increase the amount of your Regular Payment. The Minimum Payment during the First Payment Stream will not reduce the principal that is outstanding on your Credit Line.

After completion of the First Payment Stream, your Regular Payment will be based on your outstanding balance as shown below ("Second Payment Stream"). Your payments will be due monthly.

Range of Balances	Number of Payments	Amortization Period
All Balances	240	240 payments

Your "Minimum Payment" will be the Regular Payment, plus any amount past due and all other charges. The Minimum Payment will not fully repay the principal that is outstanding on your Credit Line and your final payment will be a single balloon payment.

A change in the ANNUAL PERCENTAGE RATE can cause the balance to be repaid more quickly or more slowly. When rates decrease, less interest is due, so more of the payment repays the principal balance. When rates increase, more interest is due, so less of the payment repays the principal balance. If this happens, we may adjust your payment as follows: your final payment may be increased. Each time the ANNUAL PERCENTAGE RATE increases, we will review the effect the increase has on your Credit Line Account to see if your payment is sufficient to pay the interest due. If it is not, your payment will be increased by an amount necessary to repay the balance at the new ANNUAL PERCENTAGE RATE, within the original amortization period.

MINIMUM PAYMENT EXAMPLE. If you made only the minimum payment and took no other credit advances, it would take 30 years to pay off a credit advance of $10,000.00 at an ANNUAL PERCENTAGE RATE of 8.250%. During that period, you would make 120 monthly payments ranging from $63.29 to $70.07. Then you would make 240 monthly payments of $85.22.

TRANSACTION REQUIREMENTS. The following transaction limitations will apply to the use of your Credit Line:

Credit Line Home Equity Check, In Person Request and Other Methods Limitations. There are no transaction limitations for the writing of Home Equity Checks, requesting an advance in person or accessing by other methods.

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

VARIABLE RATE FEATURE. The Plan has a variable rate feature. The ANNUAL PERCENTAGE RATE (corresponding to the periodic rate), the amount of the final payment, and the minimum payment amount can change as a result. The ANNUAL PERCENTAGE RATE does not include costs other than interest.

THE INDEX. The annual percentage rate is based on the value of an index (referred to in this disclosure as the "Index"). The Index is the Highest Prime Rate as published in the Wall Street Journal . Information about the Index is available or published in the Wall Street Journal. We will use the most recent Index value available to us as of the date of any annual percentage rate adjustment.

ANNUAL PERCENTAGE RATE. To determine the Periodic Rate that will apply to your First Payment Stream, we add a margin to the value of the Index, then divide the value by 365 days. To obtain the ANNUAL PERCENTAGE RATE we multiply the Periodic Rate by the number of days in a year (366 during leap years). This result is the ANNUAL PERCENTAGE RATE for your First Payment Stream. To determine the Periodic Rate that will apply to your Second Payment Stream, we add a margin to the value of the Index, then divide the value by 365 days. To obtain the ANNUAL PERCENTAGE RATE we multiply the Periodic Rate by the number of days in a year (366 during leap years). This result is the ANNUAL PERCENTAGE RATE for your Second Payment Stream. A change in the Index rate generally will result in a change in the ANNUAL PERCENTAGE RATE. The amount that your ANNUAL PERCENTAGE RATE may change also may be affected by the lifetime annual percentage rate limits, as discussed below.

Please ask us for the current Index value, margin and annual percentage rate. After you open a credit line, rate information will be provided on periodic statements that we send you.

FREQUENCY OF ANNUAL PERCENTAGE RATE ADJUSTMENTS. Your ANNUAL PERCENTAGE RATE can change Daily. There is no limit on the amount by which the annual percentage rate can change during any one year period. However, under no circumstances will your ANNUAL PERCENTAGE RATE exceed 18.000% per annum or, go below 3.750% per annum at any time during the term of the Plan.

MAXIMUM RATE AND PAYMENT EXAMPLE.

Draw Period. If you had an outstanding balance of $10,000.00, the minimum payment at the maximum ANNUAL PERCENTAGE RATE of 18.000% would be $152.88. This ANNUAL PERCENTAGE RATE could be reached at the time of the 1st payment.

Repayment Period. If you had an outstanding balance of $10,000.00, the minimum payment at the maximum ANNUAL PERCENTAGE RATE of 18.000% would be $154.34. This ANNUAL PERCENTAGE RATE could be reached at the time of the 1st payment during the repayment period.

PREPAYMENT. AN EARLY TERMINATION FEE OF $500.00 WILL BE CHARGED IF ACCOUNT IS CLOSED WITHIN FIRST THREE YEARS OF THE LOAN DATE.

HISTORICAL EXAMPLE. The example below 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 from 2009 to 2023. The Index values are from the following reference period: as of the 2nd week in June each year. While only one payment per year is shown, payments may have varied during each year. Different outstanding principal balances could result in different payment amounts.

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

INDEX TABLE

	Year (as of the 2nd week in June each year)	Index (Percent)	Margin (1) (Percent)	ANNUAL PERCENTAGE RATE	Monthly Payment (Dollars)
Draw Period	2009	3.250	0.000	3.750 (8)	31.85
	2010	3.250	0.000	3.750 (8)	31.85
	2011	3.250	0.000	3.750 (8)	31.85
	2012	3.250	0.000	3.750 (8)	31.85
	2013	3.250	0.000	3.750 (8)	31.85
	2014	3.250	0.000	3.750 (8)	31.85
	2015	3.250	0.000	3.750 (8)	31.85
	2016	3.500	0.000	3.750 (8)	31.85
	2017	4.250	0.000	4.250	36.10
	2018	4.750	0.000	4.750	40.34
Repayment Period	2019	5.500	0.000	5.500	68.80
	2020	3.250	0.000	3.750 (8)	68.80
	2021	3.250	0.000	3.750 (8)	68.80
	2022	4.750	0.000	4.750	68.80
	2023	8.250	0.000	8.250	68.80

(1) This is a margin we have used recently; your margin may be different.

(8) This A.P.R. reflects a 3.750 percent floor.

BORROWER ACKNOWLEDGMENT

The Borrower, after having read the contents of the above disclosure, acknowledges receipt of this Disclosure Statement and further acknowledges that this Disclosure was completed in full prior to its receipt. The Borrower also acknowledges receipt of the handbook entitled "What you should know about Home Equity Lines of Credit".

BORROWER:

X____________________ __________
Borrower **Date**

X____________________ __________
Borrower **Date**

INSURANCE MORTGAGEE CLAUSE LETTER

Agent's Name: ______________________________

Agent's Address: ______________________________

Policy #: ______________________________

Phone #: ______________________________

Please change the mortgagee clause on the hazard insurance policy issued for:

Borrower Name:______________________________________

Property Address:______________________________________

TO:
Home State Bank, N.A., ISAOA, ATIMA
40 Grant Street
Crystal Lake, IL 60014

I/We authorize the mortgagee clause to be changed to the above referenced lender.

______________________________ ______________________________

Please do not hesitate to contact us if you have any questions. Please fax new dec. page with paid receipt to me at **815-361-1736**

Thank You!

NOTICE OF RIGHT TO COPY OF APPRAISAL/VALUATION

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.

You will be provided a copy of each appraisal or other written valuation concerning this property promptly upon completion, or three (3) business days prior to the time you become contractually obligated on the transaction (for closed-end credit) or account opening (for open-end credit), whichever is earlier.

WHAT YOU SHOULD KNOW ABOUT

Home Equity Lines of Credit (HELOC)

Borrowing from the value of your home

cfpb Consumer Financial Protection Bureau

An official publication of the U.S. government

How to use the booklet

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

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

About the CFPB

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

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

How can this booklet help you?

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

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

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

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

After you finish this booklet:

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

Compare a HELOC to other money sources

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

TIP

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

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

Compare a HELOC to other money sources

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

How HELOCs work

PREPARE FOR UP-FRONT COSTS

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

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

PULL MONEY FROM YOUR LINE OF CREDIT

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

MAKE REPAYMENTS DURING THE “DRAW PERIOD”

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

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

ENTER THE “REPAYMENT PERIOD”

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

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

RENEW OR CLOSE OUT THE LINE OF CREDIT

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

TIP

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

GET THREE HELOC ESTIMATES

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

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

GET THREE HELOC ESTIMATES

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

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

My best HELOC offer is: ____________

How variable interest rates work

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

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

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

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

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

Rights and responsibilities

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

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

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

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

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

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

TIP

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

If something changes during the course of the loan

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

- **Talk with your lender.** Find out the reason for the freeze or reduction. You might need to check your credit reports for errors that might have caused a downgrade in your credit. Or, you might need to talk with your lender about a new appraisal on your home and make sure the lender agrees to accept a new appraisal as valid.

- **Shop for another line of credit.** If another lender offers you a line of credit, you may be able to use that to pay off your original line of credit. Application fees and other fees may apply for the new loan.

WELL DONE!

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

In this booklet:

ASK YOURSELF

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

Have I shopped around for HELOC features and fees?

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

ONLINE TOOLS

CFPB website
cfpb.gov

Answers to common questions
cfpb.gov/askcfpb

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

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

Submit a complaint
cfpb.gov/complaint

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