

# Bank of Texas

## Home Equity Line of Credit

This disclosure contains information regarding our Home Equity Line of Credit product. You should read it carefully and keep it for your records. Information regarding the Home Equity Line of Credit Interest Only Payment Privilege and Total Equity Line of Credit products can be found elsewhere in this document. This disclosure includes capitalized terms defined in the Home Equity Line of Credit Account Agreement ("Agreement") and is intended to be read in conjunction with that Agreement.

**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. Underwriting restrictions, including collateral restrictions, may apply.

**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 Credit Line Account, require you to pay us the entire outstanding balance in one payment, and charge you certain fees if: (a) you commit fraud or make a material misrepresentation in connection with this Agreement; (b) you do not meet the repayment terms of the Agreement; or (c) your action or inaction adversely affects the collateral or our rights in the collateral. We can suspend additional extensions of credit or reduce your Credit Limit if: (a) the value of the property securing your Account declines significantly below its appraised value for purposes of this Credit Line Account. This includes, for example, a decline such that the initial difference between the Credit Limit and the available equity is reduced by fifty percent (50%) and may include a smaller decline depending on the individual circumstances; (b) we reasonably believe you will be unable to fulfill your payment obligations due to a material change in your financial circumstances; (c) you are in default under any material obligations of the Credit Line Account. We consider all obligations to be material; (d) government action prevents us from imposing the ANNUAL PERCENTAGE RATE provided for in our Agreement; (e) The priority of our security interest is adversely affected by government action to the extent the value of our security interest is less than one hundred twenty percent (120%) of the Credit Limit; (f) a regulatory agency has notified us that continued credit advances would constitute an unsafe and unsound business practice. 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.

**SMARTLOCK 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 Conversion Period.

**CONVERSION PERIOD.** You can exercise your option to convert to a fixed rate and fixed payment thirty (30) calendar days from the HELOC account opening date and at any time thereafter during the Draw Period 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 SmartLock Loan Option will be determined by applying the current rate for a home equity installment loan which is determined by a combination of factors including lien position, the loan amount and the term requested at the time the SmartLock Loan Option confirmation is received by our bank. However, in no event will the ANNUAL PERCENTAGE RATE for a SmartLock Loan Option exceed the lesser of 18% 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 thirty (30) calendar days from the HELOC account opening date and at any time thereafter during the Draw Period or Repayment Period. The minimum amount which can be converted is (i) \$5,000 for a SmartLock Loan option term of less than 120 months, and (ii) \$10,000 for a SmartLock Loan Option term of 120 months or greater. The term for any SmartLock Loan Option cannot exceed the lesser of 240 months or the

combined remaining terms of the Draw and Repayment Periods. You may not have more than three (3) SmartLock Loan Options in existence (open) at any one time. If you payoff and close a SmartLock Loan Option you will need to wait until your next billing period to exercise any additional SmartLock Loan Options.

**MINIMUM PAYMENT REQUIREMENT.** You can obtain Advances of credit for 10 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 1.5% 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 4.25% and did not change, it would take 9 years, and 4 months to pay off the Advance if you made only the minimum monthly payments. During that period, you would make 36 payments varying between \$100.21 and \$150.00, 75 payments of \$100.00, and one final payment of \$36.37.

**FEES AND CHARGES.** To open and maintain a line of credit, you must pay the following fees to us: Processing fee of \$180 (due at closing), Annual maintenance fee of \$50 (due each year, first year is waived).

You must carry insurance on the property that secures, at a minimum, all indebtedness under the Credit Line Account.

**ANNUAL FEE.** This line of credit has a \$50 annual fee.

**INITIAL ANNUAL PERCENTAGE RATE.** The initial ANNUAL PERCENTAGE RATE is based on the value of an Index plus a Margin, as described in detail in the "Variable Rate Feature" section below.

**INTRODUCTORY ANNUAL PERCENTAGE RATE:** The Bank may offer an Introductory ANNUAL PERCENTAGE RATE and the introductory ANNUAL PERCENTAGE RATE may be offered as a fixed introductory Annual Percentage Rate until the first business day following the end of the introductory period OR it may be offered as a variable introductory Annual Percentage Rate based on an index plus or minus a margin until the first business day following the end of the introductory period. If offered, this introductory ANNUAL PERCENTAGE RATE is established at the time you open your account. Thereafter, the ANNUAL PERCENTAGE RATE will be a variable rate as described below. If applicable, the fixed introductory ANNUAL PERCENTAGE RATE has recently been 7.99% and the variable introductory ANNUAL PERCENTAGE RATE has recently been 3.49%. 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 based on an Index plus a Margin. 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 plus a Margin. 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 at line of credit origination. 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 you.

**MARGIN.** A Margin will be determined at line of credit origination. The Margin offered is dependent on the individual's excellent and substantial credit characteristics. Individuals with less than excellent and substantial credit may be offered a higher Margin.

**RATE CHANGES.** The ANNUAL PERCENTAGE RATE can change each day. The maximum ANNUAL PERCENTAGE RATE that can apply is 18%. 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 18% would be \$150. 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 18% would be \$180.19. This ANNUAL PERCENTAGE RATE could be reached during the first month of the Repayment Period.

**HISTORICAL EXAMPLE EXCLUDING INTRODUCTORY ANNUAL PERCENTAGE RATE.** The following table shows how the ANNUAL PERCENTAGE RATE and the minimum monthly payments for a single \$10,000 credit Advance would have changed based on changes in the Index over the past 15 years. The Index values are from January 1<sup>st</sup> of each year, or the prior business day if January 1<sup>st</sup> 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.

<b>Home Equity Line of Credit (Excluding Introductory Rate)</b>					
Year	Index %	Margin*	ANNUAL PERCENTAGE RATE %	Minimum Monthly Payment	Remaining Balance
<b>Draw Period</b>					
2010	3.25%	2.00%	5.25%	\$150.00	\$9,893.75
2011	3.25%	2.00%	5.25%	\$131.95	\$8,703.46
2012	3.25%	2.00%	5.25%	\$116.08	\$7,656.38
2013	3.25%	2.00%	5.25%	\$102.11	\$6,735.26
2014	3.25%	2.00%	5.25%	\$100.00	\$5,867.12
2015	3.25%	2.00%	5.25%	\$100.00	\$4,953.36
2016	3.50%	2.00%	5.50%	\$100.00	\$3,991.31
2017	3.75%	2.00%	5.75%	\$100.00	\$2,986.38
2018	4.50%	2.00%	6.50%	\$100.00	\$1,931.82
2019	5.50%	2.00%	7.50%	\$100.00	\$825.56
<b>Repayment Period</b>					
2020	5.00%	2.00%	7.00%	\$0.00	\$0.00
2021	3.25%	2.00%	5.25%	\$0.00	\$0.00
2022	3.25%	2.00%	5.25%	\$0.00	\$0.00
2023	7.50%	2.00%	9.50%	\$0.00	\$0.00
2024	8.50%	2.00%	10.50%	\$0.00	\$0.00

\*This is a margin we have used recently.

**HISTORICAL EXAMPLE INCLUDING INTRODUCTORY ANNUAL PERCENTAGE RATE.** The following table shows how the ANNUAL PERCENTAGE RATE and the minimum monthly payments for a single \$10,000 credit Advance would have changed based on changes in the Index over the past 15 years. The Index values are from January 1<sup>st</sup> of each year, or the prior business day if January 1<sup>st</sup> 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.

<b>Home Equity Line of Credit (Including Introductory Rate)</b>					
Year	Index %	Margin*	ANNUAL PERCENTAGE RATE %	Minimum Monthly Payment	Remaining Balance
<b>Draw Period</b>					
2010	3.25%	2.00%	<b>7.99%**</b>	\$150.00	\$9,916.58
2011	3.25%	2.00%	5.25%	\$135.66	\$8,947.58
2012	3.25%	2.00%	5.25%	\$119.33	\$7,871.13
2013	3.25%	2.00%	5.25%	\$104.98	\$6,924.18
2014	3.25%	2.00%	5.25%	\$100.00	\$6,057.99
2015	3.25%	2.00%	5.25%	\$100.00	\$5,154.50
2016	3.50%	2.00%	5.50%	\$100.00	\$4,203.32
2017	3.75%	2.00%	5.75%	\$100.00	\$3,210.38
2018	4.50%	2.00%	6.50%	\$100.00	\$2,169.20
2019	5.50%	2.00%	7.50%	\$100.00	\$1,079.05
<b>Repayment Period</b>					
2020	5.00%	2.00%	7.00%	\$20.69	\$0.00
2021	3.25%	2.00%	5.25%	\$0.00	\$0.00
2022	3.25%	2.00%	5.25%	\$0.00	\$0.00
2023	7.50%	2.00%	9.50%	\$0.00	\$0.00
2024	8.50%	2.00%	10.50%	\$0.00	\$0.00

\*This is a margin we have used recently.

\*\*This represents an introductory rate in effect during the first 12 months that we have used recently. Ask us for our current introductory rate and current length of offer.

## Home Equity Line of Credit Interest Only Payment Privilege

This disclosure contains information regarding our Home Equity Line of Credit Interest Only Payment Privilege product. You should read it carefully and keep it for your records. Information regarding the Home Equity Line of Credit and Total Equity Line of Credit products can be found elsewhere in this document.

**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 Credit Line Account, require you to pay us the entire outstanding balance in one payment, and charge you certain fees if: (a) you commit fraud or make a material misrepresentation in connection with this Agreement; (b) you do not meet the repayment terms of the Agreement; or (c) your action or inaction adversely affects the collateral or our rights in the collateral. We can suspend additional extensions of credit or reduce your Credit Limit if: (a) the value of the property securing your Account declines significantly below its appraised value for purposes of this Credit Line Account. This includes, for example, a decline such that the initial difference between the Credit Limit and the available equity is reduced by fifty percent (50%) and may include a smaller decline depending on the individual circumstances; (b) we reasonably believe you will be unable to fulfill your payment obligations due to a material change in your financial circumstances; (c) you are in default under any material obligations of the Credit Line Account. We consider all obligations to be material; (d) government action prevents us from imposing the ANNUAL PERCENTAGE RATE provided for in our Agreement; (e) The priority of our security interest is adversely affected by government action to the extent the value of our security interest is less than one hundred twenty percent (120%) of the Credit Limit; (f) a regulatory agency has notified us that continued credit advances would constitute an unsafe and unsound business practice. 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 Conversion Period.

**CONVERSION PERIOD.** You can exercise your option to convert to a fixed rate and fixed payment thirty (30) calendar days from the HELOC account opening date and at any time thereafter during the Draw Period 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 SmartLock Loan Option will be determined by applying the current rate for a home equity installment loan which is determined by a combination of factors including lien position, the loan amount and the term requested at the time the SmartLock Loan Option confirmation is received by our bank. However, in no event will the ANNUAL PERCENTAGE RATE for a SmartLock Loan Option exceed the lesser of 18% 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 thirty (30) calendar days from the HELOC account opening date and at any time thereafter during the Draw Period or Repayment Period. The minimum amount which can be converted is (i) \$5,000 for a SmartLock Loan option term of less than 120 months, and (ii) \$10,000 for a SmartLock Loan Option term of 120 months or greater. The term for any SmartLock Loan Option cannot exceed the lesser of 240 months or the combined remaining terms of the Draw and Repayment Periods. You may not have more than three (3) SmartLock Loan Options in existence (open) at any one time. If you payoff and close a SmartLock Loan Option you will need to wait until your next billing period to exercise any additional SmartLock Loan Options.

**MINIMUM PAYMENT REQUIREMENT INTEREST ONLY PRIVILEGE.** You can obtain Advances of credit for 5 years (the "Draw Period"). Payments will be due monthly and will equal the finance charges that accrued on the outstanding balance during the preceding month. 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. During the Draw Period, the minimum payment will not reduce the principal that is outstanding on your line of credit.

**MINIMUM PAYMENT EXAMPLE INTEREST ONLY PRIVILEGE.** If you took a single \$10,000 Advance, the APR was 4.25% 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 \$35.42, and 180 monthly principal and interest payments of \$75.23.

**FEES AND CHARGES.** You must carry insurance on the property that secures, at a minimum, all indebtedness under the Credit Line Account.

**ANNUAL FEE.** This line of credit has a \$50 annual fee.

**INITIAL ANNUAL PERCENTAGE RATE.** The initial ANNUAL PERCENTAGE RATE is based on the value of an Index plus a Margin, as described in detail in the "Variable Rate Feature" section below.

**INTRODUCTORY ANNUAL PERCENTAGE RATE:** The Bank may offer an Introductory ANNUAL PERCENTAGE RATE and the introductory ANNUAL PERCENTAGE RATE may be offered as a fixed introductory Annual Percentage Rate until the first business day following the end of the introductory period OR it may be offered as a variable introductory Annual Percentage Rate based on an index plus or minus a margin until the first business day following the end of the introductory period. If offered, this introductory ANNUAL PERCENTAGE RATE is established at the time you open your account. Thereafter, the ANNUAL PERCENTAGE RATE will be a variable rate as described below. If applicable, the fixed introductory ANNUAL PERCENTAGE RATE has recently been 7.99% and the variable introductory ANNUAL PERCENTAGE RATE has recently been 3.49%. 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 based on an Index plus a Margin. 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 plus a Margin. 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 at line of credit origination. 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 you.

**MARGIN.** A Margin will be determined at line of credit origination. The Margin offered is dependent on the individual's excellent and substantial credit characteristics. Individuals with less than excellent and substantial credit may be offered a higher Margin.

**RATE CHANGES.** The ANNUAL PERCENTAGE RATE can change each day. The maximum ANNUAL PERCENTAGE RATE that can apply is 18%. 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 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 18% would be \$150. 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 18% would be \$161.04. This ANNUAL PERCENTAGE RATE could be reached during the first month of the Repayment Period.

**HISTORICAL EXAMPLE **EXCLUDING** INTRODUCTORY ANNUAL PERCENTAGE RATE.** The following table shows how the ANNUAL PERCENTAGE RATE and the minimum monthly payments for a single \$10,000 credit Advance would have changed based on changes in the Index over the past 15 years. The Index values are from January 1<sup>st</sup> of each year, or the prior business day if January 1<sup>st</sup> 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 - 5 Year Draw Period with 15 Year Repayment					
(Excluding Introductory Rates)					
Year	Index %	Margin*	ANNUAL PERCENTAGE RATE %	Interest Only Payments	Remaining Balance
Draw Period					
2010	3.25%	2.00%	5.25%	\$43.75	\$10,000.00
2011	3.25%	2.00%	5.25%	\$43.75	\$10,000.00
2012	3.25%	2.00%	5.25%	\$43.75	\$10,000.00
2013	3.25%	2.00%	5.25%	\$43.75	\$10,000.00
2014	3.25%	2.00%	5.25%	\$43.75	\$10,000.00
Repayment Period					
2015	3.25%	2.00%	5.25%	\$80.39	\$9,963.36
2016	3.50%	2.00%	5.50%	\$81.63	\$9,511.75
2017	3.75%	2.00%	5.75%	\$82.81	\$9,044.33
2018	4.50%	2.00%	6.50%	\$86.16	\$8,560.00
2019	5.50%	2.00%	7.50%	\$90.41	\$8,070.48
2020	4.75%	2.00%	6.75%	\$87.46	\$7,572.17
2021	3.25%	2.00%	5.25%	\$82.22	\$7,013.22
2022	3.25%	2.00%	5.25%	\$82.22	\$6,379.69
2023	7.50%	2.00%	9.50%	\$94.29	\$5,720.45
2024	8.50%	2.00%	10.50%	\$96.89	\$5,107.82

\*This is a margin we have used recently.

HISTORICAL EXAMPLE **INCLUDING** INTRODUCTORY ANNUAL PERCENTAGE RATE. The following table shows how the ANNUAL PERCENTAGE RATE and the minimum monthly payments for a single \$10,000 credit Advance would have changed based on changes in the Index over the past 15 years. The Index values are from January 1<sup>st</sup> of each year, or the prior business day if January 1<sup>st</sup> 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.

Interest Only Home Equity Line of Credit					
(Including Introductory Rate)					
Year	Index %	Margin*	ANNUAL PERCENTAGE RATE %	Interest Only Payments	Remaining Balance
Draw Period					
2010	3.25%	2.00%	<b>7.99%**</b>	\$66.58	\$10,000.00
2011	3.25%	2.00%	5.25%	\$43.75	\$10,000.00
2012	3.25%	2.00%	5.25%	\$43.75	\$10,000.00
2013	3.25%	2.00%	5.25%	\$43.75	\$10,000.00
2014	3.25%	2.00%	5.25%	\$43.75	\$10,000.00
Repayment Period					
2015	3.25%	2.00%	5.25%	\$80.39	\$9,963.36
2016	3.50%	2.00%	5.50%	\$81.63	\$9,511.75
2017	3.75%	2.00%	5.75%	\$82.81	\$9,044.33
2018	4.50%	2.00%	6.50%	\$86.16	\$8,560.00
2019	5.50%	2.00%	7.50%	\$90.41	\$8,070.48
2020	4.75%	2.00%	6.75%	\$87.46	\$7,572.17
2021	3.25%	2.00%	5.25%	\$82.22	\$7,013.22
2022	3.25%	2.00%	5.25%	\$82.22	\$6,379.69
2023	7.50%	2.00%	9.50%	\$94.29	\$5,720.45
2024	8.50%	2.00%	10.50%	\$96.89	\$5,107.82

\*This is a margin we have used recently.

\*\*This represents an introductory rate in effect during the first 6 months that we have used recently. Ask us for our current introductory rate and current length of offer.



## 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.*

If you are in the market for credit, a home equity plan is one of several options that might be right for you. Before making a decision, however, you should weigh carefully the costs of a home equity line against the benefits. Shop for the credit terms that best meet your borrowing needs without posing undue financial risks. And remember, failure to repay the amounts you've borrowed, plus interest, could mean the loss of your home.

### Home Equity Plan Checklist

*Ask your lender to help fill out this checklist*

Basic Features	Plan A	Plan B
Fixed ANNUAL PERCENTAGE RATE	%	%
Variable ANNUAL PERCENTAGE RATE	%	%
• Index used and current value	%	%
• Amount of margin		
• Frequency of rate adjustments		
• Amount/length of introductory offer (if any)		
• Interest-rate cap and floor		
<b>Length of Plan</b>		
Draw Period		
Repayment Period		
<b>Initial Fees</b>		
Appraisal Fee		
Application Fee		
Up-front charges, including points		
Closing costs		
<b>Repayment Terms</b>		
<b>During the draw period</b>		
Interest and principal payments		
Interest-only payments		
Full amortizing payments		
<b>When the draw period ends</b>		
Balloon payment?		
Renewal available?		
Refinancing of balance by lender?		

## What is a Home Equity Line of Credit?

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

With a home equity line, you will be approved for a specific amount of credit. Many lenders set the credit limit on a home equity line by taking a percentage (say, 75%) of the home's appraised value and subtracting from that the balance owed on the existing mortgage. For example:

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

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

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

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

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

## What Should You Look For When Shopping for a 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 and the costs of establishing the plan. Remember, though, that the ANNUAL PERCENTAGE RATE for a home equity line is based on the interest rate alone and will not reflect closing costs and other fees and charges, so you'll need to compare these costs, as well as the ANNUAL PERCENTAGE RATES, among lenders.

### Variable interest rates

Home equity lines of credit typically involve variable rather than fixed interest rates. The variable rate must be based on a publicly available index (such as the prime rate published in some major daily newspapers or a U.S. Treasury bill rate). In such cases, the interest rate you pay for the line of credit will change, mirroring changes 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. It is also important to note the amount of the margin.

The Bank may offer a temporarily discounted interest rate for home equity lines—an "introductory" rate that is unusually low for a short 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 the index drops.

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

## 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); and
- 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. And 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 a minimum monthly payment that includes a portion of the principal (the amount you borrow) plus accrued interest. But, unlike with typical installment loan agreements, the portion of your payment 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 only 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 payment plan ends.

Regardless of the minimum required payment on your home equity line, 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% interest rate, your monthly payments would be \$83. If the rate rises over time to 15%, 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. This type of loan provides you with a fixed amount of money, repayable over a fixed period. In most cases, the payment schedule calls for equal payments that pay off the entire loan within the loan period. You might consider a second mortgage instead of a home equity line if, for example, you need a set amount for a specific purpose, such as an addition to your home.

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

- The ANNUAL PERCENTAGE RATE for a traditional second mortgage takes into account the interest rate charged plus points and other finance charges.
- The ANNUAL PERCENTAGE RATE 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 ANNUAL PERCENTAGE RATE, 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. Lenders are also required to provide you with a list of homeownership counseling organizations in your area.

### **What if the lender freezes or reduces your line of credit?**

Plans generally permit lenders to freeze or reduce a credit line if the value of the home “declines significantly” or, when the lender “reasonably believes” that you will be unable to make your payments due to a “material change” in your financial circumstances. If this happens, you may want to:

- **Talk with your lender.** Find out what caused the lender to freeze or reduce your credit line and what, if anything, you can do to restore it. You may be able to provide additional information to restore your line of credit, such as documentation showing that your house has retained its value or that there has not been a “material change” in your financial circumstances. You may want to get copies of your credit reports (go to the Federal Trade Commission’s website, at [www.ftc.gov/freereports](http://www.ftc.gov/freereports), for information about free copies) to make sure all the information in them is correct. If your lender suggests getting a new appraisal, be sure you discuss appraisal firms in advance so that you know they will accept the new appraisal as valid.
- **Shop around for another line of credit.** If your lender does not want to restore your line of credit, shop around to see what other lenders have to offer. You may be able to pay off your original line of credit and take out another one. Keep in mind, however, that you may need to pay some of the same application fees you paid for your original line of credit.

## **Glossary**

### **Annual membership or maintenance fee**

An annual charge for access to a financial product such as a line of credit, credit card, or account. The fee is charged regardless of whether or not the product is used.

### **ANNUAL PERCENTAGE RATE (APR)**

The cost of credit, expressed as a yearly rate. For closed-end credit, such as car loans or mortgages, the ANNUAL PERCENTAGE RATE includes the interest rate, points, broker fees, and other credit charges that the borrower is required to pay. An ANNUAL PERCENTAGE RATE, or an equivalent rate, is not used in leasing agreements.

### **Application fee**

Fees charged when you apply for a loan or other credit. These fees may include charges for property appraisal and a credit report.

### **Balloon payment**

A large extra payment that may be charged at the end of a mortgage loan or lease.

### **Cap (interest rate)**

A limit on the amount that your interest rate can increase. Two types of interest-rate caps exist. Periodic adjustment caps limit the interest-rate increase from one adjustment period to the next. Lifetime caps limit the interest-rate increase over the life of the loan. By law, all adjustable-rate mortgages have an overall cap.

**Closing or settlement costs**

Fees paid when you close (or settle) on a loan. These fees may include application fees; title examination, abstract of title, title insurance, and property survey fees; fees for preparing deeds, mortgages, and settlement documents; attorneys' fees; recording fees; estimated costs of taxes and insurance; and notary, appraisal, and credit report fees. Under the Real Estate Settlement Procedures Act, the borrower receives a good faith estimate of closing costs within three days of application. The good faith estimate lists each expected cost as an amount or a range.

**Credit limit**

The maximum amount that may be borrowed on a credit card or under a home equity line of credit plan.

**Equity**

The difference between the fair market value of the home and the outstanding balance on your mortgage plus any outstanding home equity loans.

**Index**

The economic indicator used to calculate interest-rate adjustments for adjustable-rate mortgages or other adjustable-rate loans. The index rate can increase or decrease at any time. See also Selected Index Rates for ARMs over an 11-year Period ([www.federalreserve.gov/pubs/arms/arms\\_english.htm](http://www.federalreserve.gov/pubs/arms/arms_english.htm)) for examples of common indexes that have changed in the past.

**Interest rate**

The percentage rate used to determine the cost of borrowing money, stated usually as a percentage of the principal loan amount and as an annual rate.

**Margin**

The number of percentage points the lender adds to the index rate to calculate the ARM interest rate at each adjustment.

**Minimum payment**

The lowest amount that you must pay (usually monthly) to keep your account in good standing. Under some plans, the minimum payment may cover interest only; under others, it may include both principal and interest.

**Points** (also called discount points)

One point is equal to 1 percent of the principal amount of a mortgage loan. For example, if a mortgage is \$200,000, one point equals \$2,000. Lenders frequently charge points in both fixed-rate and adjustable-rate mortgages to cover loan origination costs or to provide additional compensation to the lender or broker. These points usually are paid at closing and may be paid by the borrower or the home seller, or may be split between them. In some cases, the money needed to pay points can be borrowed (incorporated in the loan amount), but doing so will increase the loan amount and the total costs. Discount points (also called discount fees) are points that you voluntarily choose to pay in return for a lower interest rate.

**Security interest**

If stated in your credit agreement, a creditor's, lessor's, or assignee's legal right to your property (such as your home, stocks, or bonds) that secures payment of your obligation under the credit agreement.

**Transaction fee**

Fee charged each time a withdrawal or other specified transaction is made on a line of credit, such as a balance transfer fee or a cash advance fee.

**Variable rate**

An interest rate that changes periodically in relation to an index, such as the prime rate. Payments may increase or decrease accordingly.

## Where To Go For Help

For additional information or to file a complaint about a bank, savings and loan, credit union, or other financial institution, contact one of the following federal agencies, depending on the type of institution.

Regulatory Agency	Regulated Entity(ies)	Telephone/Website
Federal Reserve Consumer Help P.O. Box 1200 Minneapolis, MN 55480	Federally insured state-chartered bank members of the Federal Reserve System	(888) 851-1920 <a href="http://www.federalreserveconsumerhelp.gov">www.federalreserveconsumerhelp.gov</a>
Consumer Financial Protection Bureau (CFPB) P.O. Box 4503 Iowa City, IA 52244	Insured depository institutions and credit unions (and their affiliates) with assets greater than \$10 billion, and non-depository institutions such as mortgage originators, mortgage brokers and servicers, larger participants of other financial services products, private education loan providers, and payday lenders	(855) 411-2372 <a href="http://www.consumerfinance.gov">www.consumerfinance.gov</a>
Office of the Comptroller of the Currency (OCC) Customer Assistance Unit 1301 McKinney Street Suite 3450 Houston, TX 77010	National banks and federally chartered savings banks/associations	(800) 613-6743 <a href="http://www.occ.treas.gov">www.occ.treas.gov</a> <a href="http://www.helpwithmybank.gov">www.helpwithmybank.gov</a>
Federal Deposit Insurance Corporation (FDIC) Consumer Response Center 1100 Walnut Street, Box #11 Kansas City, MO 64106	Federally insured state-chartered banks that are not members of the Federal Reserve System	(877) ASK-FDIC or (877) 275-3342 <a href="http://www.fdic.gov">www.fdic.gov</a> <a href="http://www.fdic.gov/consumers">www.fdic.gov/consumers</a>
Federal Housing Finance Agency (FHFA) Consumer Communications Constitution Center 400 7th Street, S.W. Washington, DC 20024	Fannie Mae, Freddie Mac, and the Federal Home Loan Banks	(202) 649-3811 <a href="http://www.fhfa.gov">www.fhfa.gov</a> <a href="http://www.fhfa.gov/Default.aspx?Page=369">www.fhfa.gov/Default.aspx?Page=369</a>
National Credit Union Administration (NCUA) Consumer Assistance 1775 Duke Street Alexandria, VA 22314-3428	Federally chartered credit unions	(800) 755-1030 <a href="http://www.ncua.gov">www.ncua.gov</a> <a href="http://www.mycreditunion.gov">www.mycreditunion.gov</a>
Federal Trade Commission (FTC) Consumer Response Center 600 Pennsylvania Avenue, N.W. Washington, DC 20580	Finance companies, retail stores, auto dealers, mortgage companies and other lenders, and credit bureaus	(877) FTC-HELP or (877) 382-4357 <a href="http://www.ftc.gov">www.ftc.gov</a> <a href="http://www.ftc.gov/bcp">www.ftc.gov/bcp</a>
Securities and Exchange Commission (SEC) Complaint Center 100 F Street, N.E. Washington, DC 20549-0213	Brokerage firms, mutual fund companies, and investment advisers	(202) 551-6551 <a href="http://www.sec.gov">www.sec.gov</a> <a href="http://www.sec.gov/complaint/question.shtml">www.sec.gov/complaint/question.shtml</a>

<b>Regulatory Agency</b>	<b>Regulated Entity(ies)</b>	<b>Telephone/Website</b>
Farm Credit Administration Office of Congressional and Public Affairs 1501 Farm Credit Drive McLean, VA 22102-5090	Agricultural lenders	(703) 883-4056 <a href="http://www.fca.gov">www.fca.gov</a>
Small Business Administration (SBA) Consumer Affairs 409 3rd Street, S.W. Washington, DC 20416	Small business lenders	(800) U-ASK-SBA or (800) 827-5722 <a href="http://www.sba.gov">www.sba.gov</a>
Commodity Futures Trading Commission (CFTC) 1155 21st Street, N.W. Washington, DC 20581	Commodity brokers, commodity trading advisers, commodity pools, and introducing brokers	(866) 366-2382 <a href="http://www.cftc.gov/Consumer-Protection">www.cftc.gov/Consumer-Protection</a>
U.S. Department of Justice (DOJ) Criminal Division 950 Pennsylvania Avenue, N.W. Washington, DC 20530	Fair lending and fair housing issues	(202) 514-3301 <a href="http://www.justice.gov/criminal">www.justice.gov/criminal</a>
Department of Housing and Urban Development (HUD) Office of Fair Housing/ Equal Opportunity 451 7th Street, S.W. Washington, DC 20410	Fair lending and fair housing issues	(800) 669-9777 <a href="http://www.hud.gov/complaints">www.hud.gov/complaints</a>

## More Resources

For more resources on mortgages and other financial topics, visit [www.federalreserv.gov/consumerinfo](http://www.federalreserv.gov/consumerinfo).