Home Equity Lines of Credit (HELOC)

Borrowing from the value of your home – What you should know

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 a 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

BMO

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 **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	$			
• Up-front charges, including points	$			
• Early termination fee	$			
• Closing costs				

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
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 a 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.

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

Terms and Conditions

Important terms of our home equity line of credit accounts

This disclosure contains important information about our Home Equity Line of Credit Plan {the "Plan"}. You should read this disclosure carefully and keep a copy for your records.

Availability of Terms. All of the terms described below are subject to change and may change at any time. 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 (such as a mortgage or deed of trust) in your home. You could lose your home if you do not meet the obligations in your agreement with us.

Possible Actions.

- ***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 happen:

  (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 50% 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 or perform the terms of any other deed of trust, mortgage or lease of the dwelling, obligations to notify us and to provide information to us (such as updated financial information), obligations to comply with applicable laws (such as zoning restrictions) and obligations of any guarantor or co-maker.

  (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% 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. To open and maintain an account, you must pay certain fees and charges.

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

Non-refundable Annual Fee	$ 75.00
When Charged	On the Plan opening date and each anniversary thereafter through the ninth anniversary of the Plan opening date.

- ***Third-Party Fees.*** For loans secured by investment properties, you must pay all third-party fees, which generally total between $250 - $15,000. For lines of credit up to and including $500K we will pay third party fees, such as appraisers, credit reporting firms, title insurance companies, settlement agents, notary, flood determination, and government recording fees on your behalf if the collateral for the Plan is owner occupied or a second home. For all other home equity lines of credit, you may be responsible for payment of the third-party closing costs listed in the table below. On request, we will provide you with an itemized list of fees you will have to pay to third parties.

Settlement Fee[1]	$250– $525
Government Recording Tax[2]	$250 - $15,000
Title Insurance	$250 - $15,000
Appraisal/Valuation	$83 - $900
Flood Determination	$3.15
Notary Fee	$135
Credit Report	$15 - $50

[1] Settlement fee is charged only on lines of credit used for purchasing real property closed at a Settlement Agent.

[2] Government recording taxes vary by state.

- ***Closing Costs Recoupment Fee.*** To the extent we pay third-party closing costs on your behalf, we have the right to charge you an amount equal to the third-party closing costs we paid on your behalf if you close the Plan within 36 months from the Plan opening date. This closing cost recoupment fee shall be due and payable at the time you close the Plan.

Property Insurance. You must carry insurance on the property that secures the Plan.

Minimum Payment Requirements.

- ***Draw Period.*** You can obtain advances of credit for 120 months after the Plan opening date (the "Draw Period"). During the Draw Period, your regular payment will equal the amount of your accrued finance charges. Your minimum payment will equal your regular payment, plus any amount past due and all other charges due. You will make 120 of these payments.
- ***Repayment Period.*** After the Draw Period ends, your Plan will immediately enter a 20-year repayment period (the "Repayment Period") during which you will no longer be permitted to obtain credit advances. During the Repayment Period, your regular payment will equal your accrued finance charges plus 1/240 of the principal balance outstanding at the end of the Draw Period. Your minimum payment will equal your regular payment, plus any amount past due and all other charges due. You will make 240 of these payments. At the end of the Repayment Period, any outstanding principal, interest or other amounts must be repaid in full in a single balloon payment.

Regular Payment Example.

- ***Draw Period.*** If you make only the minimum payment and took no other credit advances, on an initial credit advance of $10,000 at an ANNUAL PERCENTAGE RATE of 14.27%, your regular payments would be $120.87.

Regular Payment Example.

- ***Repayment Period.*** Based on an outstanding principal amount of $10,000 at the beginning of the Repayment Period and an ANNUAL PERCENTAGE RATE of 14.27%, if you make only the minimum payment, your regular payment would be $162.53 on the first payment date and a final payment of $41.36 due at maturity.

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

Introductory Rate. In some circumstances we may offer "introductory" rates to qualifying customers. Such introductory rates may be fixed or variable and apply to the Plan for a period of time. Such a feature would reduce the annual percentage rate during the introductory period, and, depending on the balance of the loan and the payment option, would probably lower the minimum monthly payment during that period. After the introductory period, the formula for the index and margins under the terms of the Plan would go into effect. The rate and payment examples above do not reflect such an introductory rate.

Rate Changes During Introductory Period. For fixed-introductory rates, the introductory rate will not change during the introductory period, but the annual percentage rate may change after the introductory period in accordance with the terms of the Plan. For variable-introductory rates, the introductory rate may change monthly based on the Index and margin applicable to the Introductory Period and, upon conclusion of the introductory period, in accordance with the terms of the Plan.

Variable Rate Feature. The Plan has a variable rate feature. The annual percentage rate (corresponding to the periodic rate) 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 published in the "Money Rates" section of *The Wall Street Journal* on the first business day of the month. Information about the Index is available or published in the "Money Rates" section of *The Wall Street Journal*. We will use the most recent Index value available to us as of the first business day of the calendar month in which the monthly billing period begins as the basis of any annual percentage rate adjustment. If the Index is no longer available, we will choose a new Index and margin. The new Index will have a historical movement substantially similar to the original Index, and the new Index and margin will result in an annual percentage rate that is substantially similar to the rate in effect at the time the original Index becomes unavailable.
- ***Annual Percentage Rate.*** To determine the annual percentage rate that will apply to your account, we add a margin to the value of the Index. 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 to you.

Frequency of Annual Percentage Rate Adjustments. Your annual percentage rate can change monthly. 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 (APR) be lower than the floor rate, as established within the written credit agreement, or exceed 18.00% ANNUAL PERCENTAGE RATE (APR) at any time during the term of the plan.

Maximum Rate and Payment Example. If you had an outstanding balance of $10,000, the minimum payment at the maximum ANNUAL PERCENTAGE RATE of 18.00% would be $152.46 for a 31-day month. This ANNUAL PERCENTAGE RATE could be reached at the time of the first payment.

Prepayment Penalty. None – you may prepay all or any amount owing under the Plan at any time without penalty.

Conversion Option. The Plan has a conversion feature. During the Draw Period, you may elect to convert outstanding credit advance balances in your account from a variable rate of interest to a fixed rate of interest with a fixed term payment feature (a "Rate Lock Feature") repayable in monthly installments of principal and interest. Rate Lock Features are subject to other applicable terms of the account. You may have up to three fixed-rate Rate Lock Features outstanding at any time. Repayments of principal will restore the amount available for credit advances. The ANNUAL PERCENTAGE RATE for each Rate Lock Feature will be a fixed rate equal to 18.00%. We may at our sole discretion provide a Rate Lock Feature at a discounted ANNUAL PERCENTAGE RATE that is lower than the rate stated above. If you choose to exercise this option, the effective date of the conversion is the agreement date if exercised on the closing date and after the agreement date we will apply the fixed rate to your converted balance on the first calendar day of the billing cycle after we receive the documentation necessary to process the conversion. Once exercised, this rate will not change. A recent ANNUAL PERCENTAGE RATE that we have used for the Fixed Lock Feature is 14.36% and the ANNUAL PERCENTAGE RATE does not include costs other than interest. Unless the conversion option is exercised on the Agreement Date, there will be a $75 fee, which constitutes a FINANCE CHARGE, to exercise each conversion option. The minimum monthly payment on any Rate Lock Feature will be an amount of principal and interest based upon an amortization schedule. A Rate Lock Feature must be repaid within the Draw Period or before the expiration of the Rate Lock Term. Ask us for details. There may be a balloon payment at the earlier of the expiration of the Rate Lock Term or the Maturity Date of the Equity Line Credit Agreement and Disclosure. Ask us for details. The ANNUAL PERCENTAGE RATE for any Rate Lock Feature may be higher than the rate which applies to credit advances. Each Rate Lock Feature may have a different ANNUAL PERCENTAGE RATE. You may exercise this option by contacting us. You will also have to sign and return to us documentation for each Rate Lock Feature. This feature may not be available if your account is in default.

Historical Example. The example below shows how the annual percentage rate and the minimum payments for a single $10,000 credit advance would have changed based on changes in the Index over the past 15 years. The Index values are from the following reference period: as of the first business day in September of 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 and that only the minimum payment was made. It does not necessarily indicate how the Index or your payments would change in the future.

Index Table

Year	Index[1] (percent)	Plan Margin[2] (percent)	APR[3]	Monthly Payments (Dollars)
2011	3.25%	3.45%	6.70%	$56.75
2012	3.25%	3.45%	6.70%	$56.75
2013	3.25%	3.70%	6.95%	$58.86
2014	3.25%	4.19%	7.44%	$63.02
2015	3.25%	4.19%	7.44%	$63.02
2016	3.50%	4.19%	7.69%	$65.13
2017	4.25%	4.94%	9.19%	$77.84
2018	5.00%	5.34%	10.34%	$87.58
2019	5.25%	5.25%	10.50%	$88.93
2020	3.25%	4.07%	7.32%	$62.00
2021	3.25%	6.18%	9.43%	$121.54
2022	5.50%	5.98%	11.48%	$150.14
2023	8.50%	5.78%	14.28%	$150.52
2024	8.50%	5.77%	14.27%	$144.40
2025	7.50%	6.77%	14.27%	$138.36

[1] As of the first business day in September of each year

[2] This is a margin we have used recently; your margin may be different.

[3] APR is the Annual Percentage Rate.

25-1636