Consumer Handbook on Home Equity Lines of Credit

The Housing Financial Discrimination Act of 1977
Fair Lending Notice
(CALIFORNIA RESIDENTS ONLY)
It is illegal to discriminate in the provision of or in the availability of financial assistance because of the considerations of:

1. Trends, characteristics or conditions in the neighborhood or geographic area surrounding a housing accommodation unless the financial institution can demonstrate in the particular case that such consideration is required to avoid an unsafe and unsound business practice, or

2. Race, color, religion, sex, marital status, national origin or ancestry.

It is illegal to consider the racial, ethnic, religious or national origin composition of a neighborhood or geographic area surrounding a housing accommodation or whether or not such composition is undergoing change or is expected to undergo change, in appraising a housing accommodation or in determining whether or not, or under what terms and conditions, to provide financial assistance.

These provisions govern financial assistance for the purpose of the purchase, construction, rehabilitation or refinancing of one-to-four unit family residences occupied by the owner and for the purpose of the home improvement of any one-to-four unit family residence.

If you have questions about your rights, or if you wish to file a complaint, contact the management of this financial institution or:

Department of Financial Institutions
Consumer Information Desk
1810 13th Street
Sacramento, CA 95814
(800) 622-0620
consumer.complaint@dfi.ca.gov

What You Should Know about Home Equity Lines of Credit

More and more lenders are offering home equity lines of credit. By using the equity in your home, you may qualify for a sizable amount of credit, available for use when and how you please, at an interest rate that is relatively low. Furthermore, under the tax law—depending on your specific situation—you may be allowed to deduct the interest because the debt is secured by your home. Consult your tax advisor regarding the deductibility of interest. The Golden 1 does not provide tax advice.

If you are in the market for credit, a home equity plan may be right for you or perhaps another form of credit would be better. Before making this decision, you should carefully weigh the costs of a home equity line against the benefits. Shop for the credit terms that best meet your borrowing needs without posing undue financial risk, because failure to repay the line could mean the loss of your home.

What Is a Home Equity Line of Credit?

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

With a home equity line, you will be approved for a specific amount of credit—your credit limit—meaning the maximum amount you can borrow at any one time while you have the plan.

Many lenders set the credit limit on a home equity line by taking a percentage of the appraised value of the home and subtracting the balance owed on the existing mortgage. See the example below.

Appraisal of home	$200,000
Percentage	x 80%
Percentage of appraised value	$160,000
Less mortgage debt	-$90,000
Potential credit line	**$70,000**

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

Home equity plans often set a fixed time during which you can borrow money, such as 10 years. When this period is up, the plan may allow you to renew the credit line. But, in a plan that does not allow renewals, you will not be able to borrow additional money once the time has expired. Some plans may call for payment in full of any outstanding balance. Others may permit you to repay over a fixed time (for example, 10 years).

Once approved for the home equity plan, usually you will be able to borrow up to your credit limit whenever you want. Typically, you will be able to draw on your line by using special checks. Under some plans, borrowers can use a credit card or other means to borrow money and make purchases using the line; however, there may be limitations on how you use the line. Some plans may require you to borrow a minimum amount each time you draw on the line (for example, $300) and to keep a minimum amount outstanding. Some lenders also may require that you take an initial advance when you first set up the line.

What Should You Look for When Shopping for a Loan?

If you decide to apply for a home equity line, look for the plan that best meets your particular needs. Look carefully at the credit agreement and examine the terms and conditions of various plans, including the Annual Percentage Rate (APR) and the costs you'll pay to establish the plan. The disclosed APR will ***not*** reflect the closing costs and other fees and charges, so you'll need to compare these costs, as well as the APRs, among lenders.

Interest Rate Charges and Plan Features. Home equity plans typically involve variable interest rates rather than fixed rates. A variable rate must be based on a publicly available index (such as the prime rate published in some major daily newspapers or a U.S. Treasury bill rate); the interest rate will change, mirroring fluctuations in the index. To figure the interest rate that you will pay, most lenders add a margin, such as two percentage points, to the index value. Because the cost of borrowing is tied directly to the index rate, it is important to find out what index and margin each lender uses, how often the index changes and how high it has risen in the past, as well as the amount of the margin.

Sometimes lenders advertise a temporarily discounted rate for home equity lines—a rate that is unusually low and often lasts only for an introductory period, such as six months.

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

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

Agreements will generally permit the lender to freeze or reduce your credit line under certain circumstances. For example, some variable-rate plans may not allow you to get additional funds during any period the interest rate reaches the cap.

Costs to Obtain a Home Equity Line. Many of the costs in 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, which estimates the value of your home

- An application fee, which may not be refundable if you are turned down for credit

- Up-front charges, such as one or more points (one point equals one percent of the credit limit)

- Other closing costs, which include fees for attorneys, title search, mortgage preparation and filing, property and title insurance, as well as taxes

- Certain fees during the plan. For example, some plans impose yearly membership or maintenance fees

- You also may be charged a transaction fee every time you draw on the credit line.

You could find yourself paying hundreds of dollars to establish the plan. If you were to draw only a small amount against your credit line, those charges and closing costs would substantially increase the cost of the funds borrowed. On the other hand, the lender's risk is lower than for other forms of credit because your home serves as collateral. Thus, APRs for home equity lines are generally lower than rates for other types of credit. The interest you save could offset the initial costs of obtaining the line. In addition, some lenders may waive a portion 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 any money you might borrow. Some plans set minimum payments that cover a portion of the principal (the amount you borrow) plus accrued interest; however, unlike the typical installment loan, the portion that goes toward principal may not be enough to repay the debt by the end of the term. Other plans may allow interest-only payments during the life of the plan, which means that you pay nothing toward the principal. If you borrow $10,000, you will owe that entire sum when the plan ends.

Regardless of the minimum payment required, you can pay more than the minimum, and many lenders may give you a choice of payment options. Consumers often will 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 arrangement 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.

With a variable rate, your monthly payments may change. Assume, for example, that you borrow $10,000 under a plan that calls for interest-only payments. At a 10 percent interest rate, your initial payments would be $83 monthly. If the rate should rise over time to 15 percent, your payments will increase to $125 per month. Even with payments that cover interest plus some portion of the principal, there could be a similar increase in your monthly payment unless the agreement calls for keeping payments level throughout the plan.

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

Comparing a Line of Credit and a Traditional Second Mortgage Loan

If you are thinking about a home equity line of credit, you also might want to consider a more traditional second mortgage loan. This type of loan provides you with a fixed amount of money repayable over a fixed period. Usually the payment schedule calls for equal payments that will pay off the entire loan within that time. You might consider a traditional second mortgage loan 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 the APR and other charges. You cannot, however, simply compare the APR for a traditional mortgage loan with the APR for a home equity line because the APRs are figured differently:

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

Disclosures from Lenders. The Truth in Lending Act requires lenders to disclose the important terms and costs of their home equity plans, including the APRs, miscellaneous charges, the payment terms and information about any variable-rate features. 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 has changed before the plan is opened (other than a variable-rate feature), the lender must return all fees if you decide not to enter into the plan because of the changed term.

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 three 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 creditor in writing within the three-day period. The creditor must cancel the security interest in your home and return all fees, if applicable, paid to open the account.

Where to Go for Help?

Federal and some state agencies are responsible for enforcing the federal Truth in Lending Act, the law that governs credit term disclosures for home equity lines. Any questions concerning compliance with the Act by The Golden 1 Credit Union should be directed to our enforcement agency.

Federal Trade Commission
Consumer Response Center
600 Pennsylvania Avenue, NW
Washington, DC 20580
(877) FTC-HELP (1-877-382-4357)

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	________	________
Current rate	________	________
Frequency of rate adjustments	________	________
Amount/length of discount (if any)	________	________
Interest rate caps	________	________
Length of Plan		
Draw period	________	________
Repayment period	________	________
Initial Fees		
Appraisal fee	________	________
Closing costs	________	________
Application fee	________	________
During the Draw Period		
Interest and principal payments	________	________
Interest-only payments	________	________
Fully amortized payments	________	________
When the Draw Period Ends		
Balloon payment	________	________
Renewal available	________	________
Refinancing of balance by lender	________	________

Important Terms of Our Home Equity Line of Credit (secured by your home)

This disclosure contains important information about The Golden 1 Credit Union's Equity My Way℠ Line of Credit. You should read it carefully and keep a copy for your records.

Availability of Terms: All the terms described below are subject to change. If these terms change (other than the APR due to fluctuations 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 security interest in 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 line of credit, require you to pay us the entire outstanding balance in one payment and charge you certain fees if:

- You engage in fraud or material misrepresentation in connection with the line of credit.
- You do not meet the repayment terms.
- Your action or inaction adversely affects the collateral or our rights in the collateral.

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

- The value of the dwelling securing the line of credit declines significantly below the appraised value for purposes of the line of credit.
- We reasonably believe you will not be able to meet the repayment requirements due to a material change in your financial circumstances.
- You are in default of any material provision of this Agreement. Credit union membership is a material provision of the Agreement.

- We are precluded by government action from imposing the APR provided under this Agreement.

- The value 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.

- A regulatory agency has notified us that continued advances would be an unsafe and unsound practice.

- The maximum APR allowed under the plan has been reached.

The initial line of credit Agreement permits us to make certain changes to the terms of the Agreement at specified times or upon the occurrence of specified events.

Notice of Right to Copy of Appraisal

You have a right under the law to receive a copy of any appraisal, evaluation or assessment report prepared in connection with your application for a loan or line of credit to be secured by real property. Please note that any appraisal, evaluation or assessment obtained is to assist The Golden 1 Credit Union in determining whether or not to extend credit to you under the terms you have requested. The valuation should not be relied upon by you or anyone else to determine the value of the property.

If you want a copy of the property valuation, we must hear from you no later than 90 days after we notify you about the action taken on your credit application or you withdraw your application. Please write us at the following address:

The Golden 1 Credit Union
Attn: Equity Lending
P.O. Box 15966
Sacramento, CA 95852-0966

Include in your letter: your name, the property address and your loan number, if known. Under certain circumstances, you may be required to reimburse us for the cost of the valuation as a condition of receiving the copy.

Equity My Way Line of Credit

Term: You can obtain advances of credit for 14 years and 11 months (the "draw period"). After the draw period ends, you must repay the remaining balance within 15 years (the "repayment" period). Minimum monthly payments will be required. Additional draws are not permitted during the repayment period.

Fixed-Rate Loan Conversion: In addition to having the flexibility of a line of credit, you will be able to convert outstanding balances of your line of credit to a fixed payment, rate and term. This option will allow you to have five fixed-rate loan conversions at any one time. Fixed-rate loan conversions can only be requested during the draw period for the line of credit. Term options will be from 1 to 20 years, as long as it does not exceed the original term.

Total Minimum Payment Requirements: The total amount due each month will consist of any fixed-rate loan conversion payment(s) and line of credit monthly minimum payments, as well as any past due amounts and other charges due.

Minimum Line of Credit Payment Requirements—Draw Period: During the draw period, payments will be due monthly. Your minimum monthly payment will be determined by one of the following methods (for the line of credit only):

Balance-Reduction Plan: The minimum payment will be 1.25% of the unpaid balance, which includes any assessed late charges, plus the past due amount, over-limit amount and your voluntary insurance. Your payment will be due monthly as indicated on your billing statement.

In no event will your minimum payment be less than $100, unless the amount that you owe us is less than $100—in which case the amount you owe will be the minimum payment. For example, if you owe $10,000 and no other amounts are past due, your monthly payment would equal $125 (.0125 x $10,000).

Interest-Only Plan (only available with preferred credit): The minimum payment will be the amount of accrued interest of the unpaid balance, which includes any assessed late charges plus any past due amount. over-limit amount and voluntary insurance. Your payment will be due monthly as indicated on your billing statement. This payment amount is not subject to the $100 minimum. For example, if you owe $10,000 at 7.75% APR and no other amounts are past due and your average daily balance remains $10,000 and there were 30 days between payments, your monthly payment would equal $63.70 ($10,000 x 7.75% ÷ 365 x 30, actual payments may vary based on number of days between payments).

Minimum Fixed-Rate Loan Conversion Payment Example—Draw or Repayment Period:
The minimum monthly payment for each fixed-rate loan conversion will be equal to the amount of principal plus the finance charge sufficient to repay the balance within the term selected at the time of the conversion. For example, if you had an outstanding balance of $10,000 at a rate of 8.00% for a term of 180 months (15 years) and no other amounts were past due, your fixed monthly payment would equal $95.62.

Additional Payment Information: You may make payments on your account at any time, and you may prepay all or any portion of the amounts that you may owe at any time without penalty as long as the account remains open the first three years. You must pay the minimum payment each billing cycle regardless of any prepayments, as long as any balance exists. All payments will be applied first to late charges, if any, then to finance charges, next to unpaid line of credit cash advances, and—in the order they were posted to your account—to unpaid purchases, then to fixed-rate conversion balances—in the order they were posted to your account. If two or more transactions were posted on the same day, your payment will be applied to the oldest first.

Minimum Line of Credit Payment Example—Repayment Period: During the repayment period, your minimum monthly payments will be 1.25% of the unpaid balance with a minimum payment of $100. Under this payment plan, the minimum payment may not fully repay the principal that is outstanding on your line of credit if subsequent credit advances are taken during the draw period. You will then be required to pay the entire remaining loan balance in a single "balloon" payment at the end of the repayment period.

Balance-Reduction Plan Minimum Payment Example: If you made only the minimum payments and took no other credit advances, it would take 12 years and 6 months to pay off a credit advance of $10,000 at an APR of 7.75%. During that period, you would make 150 payments ranging from $125 to $100 and a final monthly payment of $83.57.

Interest-Only Plan Minimum Payment Example:
If you made only the minimum payments and took no other credit advances, it would take you 27 years and 6 months (330 payments) to pay off a credit advance of $10,000 at an APR of 7.75%. You would initially make 179 interest-only payments of $63.70 during the draw period (based on 30 days between payments). Then you would make 150 payments ranging from $125 to $100 and a final monthly payment of $83.57.

Maximum Line of Credit Payment and Rate Examples: The maximum payment and rate examples shown below are for both the *balance-reduction* and *interest-only plans*. If you had an outstanding balance of $10,000, the minimum monthly payment at the maximum APR of 15% would be between $122.56 and $125.00 for 358 months with a final balloon payment of $9,930.09.

Line of Credit Fees and Charges: There is currently no annual fee for your participation in the credit plan under this Agreement. There are no other fees to open, use or maintain this account except for third-party fees, such as property insurance, as required under your Agreement. You must carry insurance on the property that secures this plan.

Other Provisions for the Equity My Way Line of Credit

Hazard Insurance: Hazard insurance coverage against risks to the property secured by these plans will be required in an amount not to exceed the replacement value of the improvements on the property.

Minimum Draw Requirements: There is no minimum draw requirement.

Late Charges: Late charges are 6% of the current payment or $10, whichever is greater.

Fixed-Rate Conversion Fee: A $50 conversion fee will be charged for each fixed-rate conversion you request and are granted.

Early Closure Fee: A $250 early closure fee will be assessed if the line of credit is paid in full and closed within three years from the date of opening.

Grace Period: The Equity My Way Line of Credit does not have a grace period. These payment amounts are based on assumptions that payments are received on the first day of the payment billing cycle.

Negative Amortization: Under some circumstances, your payments will not cover the finance charges that accrue, and "negative amortization" will occur. Negative amortization will increase the amount that you owe and reduce the equity in your home.

Tax Deductibility: You should consult your tax advisor regarding the deductibility of interest and charges for the line of credit. The Golden 1 does not provide tax advice.

Other Provisions: If you ask, we will provide you with information on our other available home equity products. You authorize The Golden 1 Credit Union to obtain a credit report in conjunction with this loan application and consent to the reuse of information contained in this credit report to offer other Golden 1 products and services.

Variable Rate Features: The Equity My Way Line of Credit may have an initial "discounted" APR. It is not based on the index used for rate adjustments. Any applicable initial discounted rate will be in effect for the first three months on the line of credit only. The Equity My Way Line of Credit has a variable rate feature; the APR (corresponding to the periodic rate) and the minimum monthly payment can change as a result. An increase in the rate may cause more payments to be necessary.

The APR includes only interest and no other costs and is based on the value of an index. During the draw period and the repayment period, the index is the lowest prime rate of interest as published on the last business day of each month in the Money Rates column of *The Wall Street Journal* and identified as the "base rate on corporate loans at large U.S. money center commercial banks." Beginning in the fourth month, a margin will be added to the index on the Equity My Way Line of Credit. The margin will range from -.50% to 2.00% and will be determined based on the available equity in your home and the occupancy status.

Ask us for the current index value, APR, margin and discount. After you open a credit line, rate information will be provided on periodic statements we send you.

Rate Changes: The APR can change monthly. There is no limit on the amount by which the rate can change in any one-year period. The maximum APR that can apply for an Equity My Way Line of Credit is 15% and the minimum APR that can apply is 3.5%.

Fixed Rate Features: If you choose to convert any portion of your balance to a fixed rate using the fixed rate conversion option, you will incur a finance charge. Finance charges will begin to accrue the next business day following the request. The interest rate for such products is based on the Index (described above) plus a margin; however, lower rates may be offered from time to time. Exercise of the fixed rate conversion option may increase or decrease your rate. Ask for our current interest rates before exercising the fixed rate conversion option. If you have multiple fixed rate conversions, the finance charge for each conversion may be different depending on when you request the conversion.

Loan Servicing Fees: Reconveyance and demand fees will be charged at our then current rate when the line of credit is paid in full and closed.

Historical Example

The following table shows how the APR and the minimum monthly payments for a single $10,000 credit advance would have changed based on changes in the indices over the past 15 years. The index values selected were effective July 1 of each year. While only one payment amount per year is shown, payments could have varied during each year.

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

Equity My Way Line of Credit Example:

Year	Index	Margin*	Annual Percentage Rate	Balance Reduction Payment**	Interest-Only Payment***
Draw Period:					
1992-1993	6.50%	-0.50%	6.00%	$125.00	$49.32
1993-1994	6.00%	-0.50%	5.50%	$114.20	$45.21
1994-1995	7.25%	-0.50%	6.75%	$103.81	$55.48
1995-1996	9.00%	-0.50%	8.50%	$100.00	$69.86
1996-1997	8.25%	-0.50%	7.75%	$100.00	$63.70
1997-1998	8.50%	-0.50%	8.00%	$100.00	$65.75
1998-1999	8.50%	-0.50%	8.00%	$100.00	$65.75
1999-2000	7.75%	-0.50%	7.25%	$100.00	$59.59
2000-2001	9.50%	-0.50%	9.00%	$100.00	$73.97
2001-2002	6.75%	-0.50%	6.25%	$100.00	$51.37
2002-2003	4.75%	-0.50%	4.25%	$100.00	$34.93
2003-2004	4.00%	-0.50%	3.50%	$100.00	$28.77
2004-2005	4.00%	-0.50%	3.50%	$100.00	$28.77
2005-2006	6.00%	-0.50%	5.50%	$100.00	$45.21
2006-2007	8.25%	-0.50%	7.75%	$100.00	$63.70

* The margin in this table is an example and may not be the margin on your line of credit.

** With the higher minimum payment of $100, the loan is paid off in 142 payments with a final payment of $99.03. (Sample loan origination date 7/1/92, first payment due 8/1/92 and paid on the 1st of each subsequent month.)

*** This payment is based on the actual number of days between payments.

Glossary

Annual membership or participation fee: An amount that is charged annually for having the line of credit available. It is charged regardless of whether or not you use the line.

Annual Percentage Rate (APR): The cost of credit on a yearly basis expressed as a percentage.

Application fee: Fees that are paid upon application. An application fee may include charges for property appraisal and a credit report.

Balloon payment: A lump-sum payment that you may be required to make under a plan when the plan ends.

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

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

Credit limit: The maximum amount that you can borrow under the home equity plan.

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

Index: The basis for rate changes that the lender uses to decide how much the annual percentage rate will change over time.

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

Margin: The number of percentage points the lender adds to the index rate to determine the annual percentage rate to be charged.

Minimum payment: The minimum amount that you must pay (usually monthly) on your account. In some plans, the minimum payment may be "interest only." In other plans, the minimum payment may include principal and interest.

Points: A point is equal to one percent of the amount of your credit line. Points are usually collected at closing and are in addition to monthly interest.

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

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

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