

Loan Number:

## HOME EQUITY LINE OF CREDIT DISCLOSURE

For the purposes of this disclosure, the terms "we," "us" and "our" refer to American First Credit Union (the Lender). The terms "you" and "your" refer to the Borrower(s) receiving this disclosure.

This disclosure contains important information about our Home Equity Line of Credit (HELOC). You should carefully read this disclosure and maintain a copy in your records.

### AVAILABILITY OF TERMS

All of the terms described below are subject to change. If these terms change (other than the annual percentage rate) and you decide not to enter into an agreement with us, you are entitled to a refund of any fees that you paid to us or to anyone else in connection with your application.

### SECURITY INTEREST

The Lender will take a security interest in your home, so you could lose your home if you do not meet the obligations described in your Credit Line with us.

### POSSIBLE ACTIONS

Under each Credit Line, the Lender may:

1. We may terminate your line of credit and require you to pay the entire outstanding balance in one payment, and we may charge certain other fees, if any of the following occur:
  - a. You commit fraud or make a material misrepresentation at any time in connection with your Credit Line. For example, this may include 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 Credit Line.
  - c. Your action or inaction adversely affects the collateral or our rights in the collateral. For example, if you fail to maintain the required insurance, commit waste or destructively use the dwelling, fail to pay taxes, death of all liable persons 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.
2. We can refuse to make additional extensions of credit if any of the following occur:
  - a. The value of the secured dwelling declines significantly below the appraised value used for purposes of the Credit Line;
  - b. We have valid reasons to believe that you will be unable to fulfill the repayment terms under the Credit Line due to a material change in your financial circumstances;
  - c. You are in default of a material obligation of the agreement;
  - d. We are precluded by government action from imposing the Annual Percentage Rate (APR) provided for in the agreement, or government action impairs our security interest to the extent that the value of the security interest is less than 120 percent of the credit limit;
  - e. We have been notified by governmental authority that continued advances may constitute an unsafe and unsound business practice; or
  - f. The maximum APR under the Credit Line is reached.

The initial agreement allows us to make certain changes to the terms of the Credit Line at specified times or when and if specific events occur.

## MINIMUM PAYMENT REQUIREMENTS

You may obtain credit advances for 180 months (the "draw period"), during which time you will make monthly payments. Your minimum payment due will be the greater of the following:

- \$100.00; or
- An amortized payment of the account balance of the loan based upon the last day of the billing cycle at the variable ANNUAL PERCENTAGE RATE provided for in this Agreement over the remaining term of the account (i.e., to the Maturity Date).

The minimum payment amount will be rounded to the nearest \$.01. The minimum monthly payments during the draw period may not reduce the principal that is outstanding on your credit line.

After the draw period ends, you will no longer be able to obtain credit advances and must pay the outstanding balance on your line of credit (the "repayment period"). The length of the repayment period is 180 months. During the repayment period, payments will be due monthly. Your minimum monthly payment will equal the greater of the following:

- \$100.00; or
- An amortized payment of the account balance of the loan based on the last day of the billing cycle at the variable ANNUAL PERCENTAGE RATE provided for in this Agreement over the remaining term of the Account (i.e., to the Maturity Date).

The minimum payment shall be rounded to the nearest \$.01. During the draw period, the minimum monthly payments may be insufficient to repay the outstanding principal owed on your Credit Line by the end of the repayment period. If the payments are not sufficient to repay the principal, to the extent permitted by law, you will be required to make a balloon payment for the remainder due at the end of the repayment term. If the balance due is less than \$100.00, it must be paid in full.

## MINIMUM PAYMENT EXAMPLE

If you made only the minimum monthly payment and took no other credit advances, it would take 15 years and 4 months to pay off a credit advance of \$10,000.00 at an ANNUAL PERCENTAGE RATE of 9.000%. During that period, you would make 183 payments of \$100.00 and 1 payment of \$72.30.

## FEES AND CHARGES

In order to open a Credit Line, you must pay the Lender an annual account maintenance fee of \$75.00.

Some fees are conditional upon certain events occurring and are provided herein for informational purposes.

Additionally, you must pay certain fees to third parties, including, but not limited to, appraisers, credit reporting agencies, and government agencies. The total of these third-party fees is usually \$1000.00. Upon request, we will provide you with an itemized list of the fees you will be required to pay to third parties.

You are required to maintain insurance on the property that secures the Credit Line.

## REFUNDABILITY OF FEES

Within three days of receiving this disclosure and the Home Equity Booklet, you may decide not to enter into this Credit Line. If you choose not to enter into this Credit Line within that timeframe, you are entitled to a complete refund of any fee you have already paid.

## MINIMUM DRAW REQUIREMENTS

The initial credit advance must be at least \$25,000.00, or maximum credit line whichever is less for loans up to \$99,999.99 and \$50,000.00 for loans = > \$100,000.00.

## NEGATIVE AMORTIZATION

In some situations, your monthly payment will not be sufficient to cover the accrued finance charges, and your account will have "negative amortization." Negative amortization will result in an increase in the total amount you owe to us, and it will reduce the equity in your home.

## TAX DEDUCTIBILITY

You should consult a tax advisor regarding the deductibility of interest and charges for this Credit Line.

## VARIABLE RATE FEATURES

This Credit Line has a variable rate feature and the APR (corresponding to the periodic rate) and the minimum monthly payment can change as a result. The APR includes only interest and no other costs. The APR is based on the value of an index. The index is *The Wall Street Journal* Prime Rate as published in *The Wall Street Journal*. To determine the APR that will apply to your account, the Lender adds a margin to the value of the index and then rounds to the nearest 0.25 percent. The initial APR used by the Lender has a premium feature: it is not based on the index and margin used to make later rate adjustments. Upon request, we will provide you with the current index value, margin, premium and APR. Once you open your Credit Line, we will provide rate information on the periodic statements we send to you.

## RATE CHANGES

The APR on your Credit Line can change quarterly. There is no limit to the amount your rate can change in any twelve-month period. The maximum APR that can apply during the term of your Credit Line is 18.000 percent. The annual percentage rate will never be less than the initial rate. Your Credit Line has a "preferred rate" provision, which is conditional upon your automatic debit agreement with us. If you terminate the automatic debit agreement, then your new APR will be calculated by adding 0.250 percentage points to the margin value usually used to calculate your APR. Your new APR may be impacted by rate caps.

## MAXIMUM RATE AND PAYMENT EXAMPLES

If you had an outstanding Credit Line balance of \$10,000.00 at the beginning of your draw period, the minimum monthly payment at the maximum APR of 18.000 percent would be \$150.71. The maximum APR during the draw period may be reached in the first month.

If you had an outstanding balance of \$10,000.00 at the beginning of the repayment period, the minimum monthly payment at the maximum APR of 18.000 percent would be \$161.04. The maximum APR during the repayment period could be reached in the first month.

## HISTORICAL EXAMPLES

The following table shows how the APR and the minimum payments for a single \$10,000.00 credit advance would have changed based on the changes in the index over the last 15 years. The index values are from the last business day of December. While only one payment amount per year is shown, payments would have varied during each year. The table assumes that no additional credit advances were taken, that only the minimum payment was made, and that the rate remained constant during each year. It does not necessarily indicate how the index or your payments would change in the future.

### HISTORICAL EXAMPLE ASSUMING A \$10,000 BALANCE

Year	Index (%)	Margin* (%)	Annual Percentage Rate (%)	Minimum Monthly Payment (\$)
2008	3.25	1.50	4.75	100.00
2009	3.25	1.50	4.75	100.00
2010	3.25	1.50	4.75	100.00
2011	3.25	1.50	4.75	100.00
2012	3.25	1.50	4.75	100.00
2013	3.25	1.50	4.75	100.00
2014	3.25	1.50	4.75	100.00
2015	3.50	1.50	5.00	100.00
2016	3.75	1.50	5.25	100.00
2017	4.50	1.50	6.00	100.00
2018	5.50	1.50	7.00	100.00
2019	4.75	1.50	6.25	100.00
2020	3.25	1.50	4.75	100.00
2021	3.25	1.50	4.75	100.00
2022	7.50	1.50	9.00	100.00

\* This is a margin we have used recently; your margin may be different.

This is not a commitment to make a loan. By signing below, you acknowledge that you have received this Home Equity Line of Credit Disclosure and the Home Equity Brochure on today's date.

Borrower TESTER TEST

Date \_\_\_\_\_

WHAT YOU SHOULD KNOW ABOUT

# Home Equity Lines of Credit (HELOC)

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Borrowing from the  
value of your home



Consumer Financial  
Protection Bureau



An official publication of the U.S. government

## How to use the booklet

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

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

## About the CFPB

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

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

## How can this booklet help you?

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

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

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

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

## After you finish this booklet:

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

## Compare a HELOC to other money sources

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

### TIP

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

MONEY SOURCE	HOW MUCH CAN YOU BORROW	VARIABLE OR FIXED RATE	IS YOUR HOME AT RISK?	TYPICAL ADVANTAGES	TYPICAL DISADVANTAGES
<b>HELOC</b> <i>You borrow against the equity in your home</i>	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
<b>SECOND MORTGAGE OR HOME EQUITY LOAN</b> <i>You borrow against the equity in your home</i>	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
<b>CASH-OUT REFINANCE</b> <i>You replace your existing mortgage with a bigger mortgage and take the difference in cash</i>	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
<b>PERSONAL LINE OF CREDIT</b> <i>You borrow based on your credit, without using your home as collateral</i>	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
<b>RETIREMENT PLAN LOAN</b> <i>You borrow from your retirement savings in a 401(k) or similar plan through your current employer</i>	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
<b>HOME EQUITY CONVERSION MORTGAGE (HECM)</b> <i>You must be age 62 or older, and you borrow against the equity in your home</i>	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
<b>CREDIT CARD</b> <i>You borrow money from the credit card company and repay as you go</i>	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
<b>FRIENDS AND FAMILY</b> <i>You borrow money from someone you are close to</i>	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 **draw period**, also called the **draw period**. Typically, you use special checks or a credit card to draw on your line. Some plans require you to borrow a minimum amount each time (for example, \$300) or keep a minimum amount outstanding. Some plans require you to take an initial amount when the credit line is set up.

### MAKE REPAYMENTS DURING THE “DRAW PERIOD”

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

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

### ENTER THE “REPAYMENT PERIOD”

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

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

### RENEW OR CLOSE OUT THE LINE OF CREDIT

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

### TIP

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

**GET THREE HELOC ESTIMATES**

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

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

**GET THREE HELOC ESTIMATES**

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

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

## How variable interest rates work

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

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

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

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

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

## Rights and responsibilities

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

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

- Annual fees
- Miscellaneous charges

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

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

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

### Right to cancel (also called right to rescind)

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

### TIP

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

## If something changes during the course of the loan

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

- **Talk with your lender.** Find out the reason for the freeze or reduction. You might need to check your credit reports for errors that might have caused a downgrade in your credit. Or, you might need to talk with your lender about a new appraisal on your home and make sure the lender agrees to accept a new appraisal as valid.
- **Shop for another line of credit.** If another lender offers you a line of credit, you may be able to use that to pay off your original line of credit. Application fees and other fees may apply for the new loan.



### WELL DONE!

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



## In this booklet:

### ? ASK YOURSELF

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

Have I shopped around for HELOC features and fees?

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



### ONLINE TOOLS

CFPB website  
[cfpb.gov](https://cfpb.gov)

Answers to common questions  
[cfpb.gov/askcfpb](https://cfpb.gov/askcfpb)

Tools and resources for home buyers  
[cfpb.gov/owning-a-home](https://cfpb.gov/owning-a-home)

Talk to a HUD-approved housing counselor  
[cfpb.gov/find-a-housing-counselor](https://cfpb.gov/find-a-housing-counselor)

Submit a complaint  
[cfpb.gov/complaint](https://cfpb.gov/complaint)

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