

“Consumer Caution and Home Ownership Counseling Notice”

Pursuant to Michigan Public Act 660 of 2002

If you obtain this loan, the lender will have a mortgage on your home. You could lose your home, and all money you have invested in it, if you do not meet your obligations under the loan, including making all your payments.

Mortgage loans rates and closing costs and fees vary based on many factors, including your particular credit and financial circumstances, your earnings history, the loan-to-value requested, and the type of property that will secure your loan. Higher rates and fees may be applicable depending on the individual circumstances of a particular consumer’s application.

You should shop around and compare loan rates and fees. This particular loan may have a higher rate and total points and fees than other mortgage loans. You should consider consulting a qualified independent credit counselor or other experienced financial advisor regarding the rate, fees and provisions of this mortgage loan before you proceed. For information on contacting a qualified credit counselor, ask your lender or call the United States Department of Housing and Urban Development’s counseling hotline at 1-888-466-3487 for a list of counselors.

You are not required to complete any loan agreement merely because you have received these disclosures or have signed a loan application. If you proceed with this mortgage loan, you should also remember that you may face serious financial risks if you use this loan to pay off credit card debts or other debts in connection with this transaction and then subsequently incur significant new credit card charges or other debts.

Property taxes and homeowner’s insurance are your responsibility. Not all lenders provide escrow services for these payments. You should ask your lender about these services.

Your payments on existing debts contribute to your credit ratings. You should not accept any advice to ignore your regular payments to your existing creditors.

“Borrower’s Bill of Rights”

Pursuant to Michigan Public Act 660 of 2002

1. You have the RIGHT to shop for the best loan for you and compare the charges of different mortgage brokers and lenders.
2. You have the RIGHT to be informed about the total cost of your loan including the interest rate, points, and other fees.
3. You have the RIGHT to obtain a “Good Faith Estimate” of all loan and settlement charges before you agree to the loan or pay any fees.
4. You have the RIGHT to know what fees are nonrefundable if you decide to withdraw your loan application.
5. You have the RIGHT to ask your mortgage broker to explain exactly what the mortgage broker will do for you.
6. You have the RIGHT to know how much the mortgage broker is getting paid by you and the lender for your loan.
7. You have the RIGHT to ask questions about charges and loan terms that you do not understand.
8. You have the RIGHT to a credit decision that is not based on your race, color, religion, national origin, sex, marital status, age, or whether any income is derived from public assistance.
9. You have the RIGHT to know the reason if your loan application is turned down.
10. You have the RIGHT to receive the HUD settlement costs booklet “Buying Your Home.”

When Your Home Is On the Line

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.

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 a decision, 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 risk. And remember, failure to repay the amounts you've borrowed, plus interest, 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 consumer'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, the maximum amount you may borrow at any one time under the plan.

Many lenders set the credit limit on a home equity line by taking a percentage (say, 80 percent) of the home's appraised value and subtracting from that the balance owed on the existing mortgage. For example,

Appraised value of home	\$100,000
Percentage	x 80%
Percentage of appraised value	= \$80,000
Less balance owed on mortgage	– \$45,000
Potential credit	\$35,000

In determining your actual credit limit, 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.

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 the line.

Under some plans, borrowers can use a credit card or other means to draw on the line. 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 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 plan?

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 (APR) and the costs of establishing the plan. The APR for a home equity line is based on the interest rate alone and 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 Related Plan Features.

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); the interest rate for borrowing under the home equity line changes, mirroring fluctuations 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 as well as the amount of the margin.

Lenders sometimes offer a temporarily discounted interest rate for home equity lines—a rate that is unusually low and may last for only an introductory period, such as 6 months.

Variable-rate plans secured by a dwelling must, by law, have a ceiling (or

cam) 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 interest rates drop.

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

Plans 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 draw additional funds during a period in which the interest rate reaches the cap.

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).
- 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. 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 minimum payments that cover a portion of the principal (the amount you borrow) plus accrued interest. But (unlike the typical installment loan) the portion 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 alone 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 plan ends.

Regardless of the minimum required payment, you may choose to pay more, and many lenders may 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 percent interest rate, your monthly payments would be \$83. If the rate rises over time to 15 percent, 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 versus 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. A second mortgage provides you with a fixed amount of money repayable over a fixed period. In most cases the payment schedule calls for equal payments that will 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 APR and other charges. Do not, however, simply compare the APRs, because the APRs on the two types of loans are figured differently:

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

Disclosures from Lenders.

The federal Truth in Lending Act requires lenders to disclose the important terms and costs of their home equity plans, including the APR, 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.

GLOSSARY

Annual membership or maintenance fee — An annual charge for having the line of credit available. Charged regardless of whether or not the line is used.

Annual percentage rate (APR) — The cost of credit on a yearly basis expressed as a percentage.

Application fee — Fees that are paid upon application. May include charges for property appraisal and a credit report.

Balloon payment — A lump-sum payment that may be required when the plan ends.

Cap — A limit on how much the variable interest rate may increase during the life of the plan.

Closing costs — Fees paid at closing, including attorneys fees, fees for preparing and filing a mortgage, fees

for title search, taxes, and insurance.

Credit limit — The maximum amount that may be borrowed under the home equity plan.

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

Index — Published rate that serves as a base for the interest rate charged on a home equity line and also as the base for rate changes used by the lender.

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.

Minimum payment — The minimum amount that you must pay (usually monthly) on your account. Under some plans, the minimum payment may cover interest only; under others, it may include both principal and interest.

Points — One point is equal to 1 percent of the amount of the credit line. Points must usually be paid at closing and are in addition to monthly interest.

Security interest — An interest that a lender takes in the borrower's property to ensure 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.

Home Equity Plan Checklist

Ask your lender to help fill out this checklist.

	Plan A	Plan B
Basic Features		
Fixed annual percentage rate	_____ %	_____ %
Variable annual percentage rate	_____ %	_____ %
Index used and current value	_____ %	_____ %
Amount of margin	_____	_____
Frequency of rate adjustments	_____	_____
Amount/length of discount (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	_____	_____
Closing costs	_____	_____
Repayment Terms		
During the draw period		
Interest and principal payments	_____	_____
Interest-only payments	_____	_____
Fully amortizing payments	_____	_____
When the draw period ends		
Balloon payment?	_____	_____
Renewal available?	_____	_____
Refinancing of balance by lender?	_____	_____

Where to Go for Help

The following federal agencies are responsible for enforcing the federal Truth in Lending Act, the law that governs disclosure of terms for home equity lines of credit. Questions concerning compliance with the act by a particular financial institution should be directed to the institution's enforcement agency.

State Banks that are Members of the Federal Reserve System
 Division of Consumer and Community Affairs
 Mail Stop 801
 Federal Reserve Board
 Washington, DC 20551
 (202) 452-3693
www.federalreserve.gov

National Banks
 Office of the Comptroller of the Currency
 Customer Assistance Unit
 1301 McKinney St. Suite 3710
 Houston, TX 77010
 (800) 613-6743
www.occ.treas.gov

Federal Credit Unions
 National Credit Union Administration
 Office of Public and Congressional Affairs
 1775 Duke Street
 Alexandria, VA 22314
 (703) 518-6330
www.ncua.gov

Federally Insured Non-Member State-Chartered Banks and Savings Banks
 Federal Deposit Insurance Corporation
 Office of Compliance and Consumer Affairs
 550 17th Street, NW, Room PA-1730, 7th Floor
 Washington, DC 20429
 (202) 942-3100 or (800) 934-FDIC
www.fdic.gov

Federally Insured Savings and Loan Institutions and Federally Chartered Savings Banks
 Office of Thrift Supervision
 Consumer Programs
 1700 G Street, NW, 6th Floor
 Washington, DC 20552
 (202) 906-6237 or (800) 842-6929
www.ots.treas.gov

Mortgage Companies and Other Lenders Federal Trade Commission
 Consumer Response Center
 600 Pennsylvania Avenue, NW
 Washington, DC 20580
 (202) 326-3758 or (877) FTC-HELP
www.ftc.gov



Application for Home Equity Loan



Type of loan being applied for: Line of Credit \$ _____
 Fixed Rate Loan \$ _____ No. of Months _____

(Please Print or Type) Account Number _____ Date _____

APPLICANT

Name _____ Account No. _____ Birth Date _____

Address _____
Number Street City State Zip Code County

Phone No. _____ Years There _____

Previous Address _____ Years There _____
Number Street City State Zip Code

Drivers License No. _____ Social Security No. _____

Marital Status: Married Unmarried Divorced Separated No. of Dependents & Ages _____

Employer _____ Position _____ Hire Date _____

Company Address _____
Number Street City State Zip Code

Gross Income \$ _____ Per _____ Hourly Wage \$ _____ Work Phone No. _____

Previous Employer _____ Position _____ Hire Date _____

Company Address _____
Number Street City State Zip Code

Other Income \$ _____ Per _____ Source _____
(Alimony, child support or separate maintenance income need not be revealed if you do not wish considered as a basis for repaying this obligation.)

Reference (Name of relative not living with you) _____ Phone No. _____

Address _____
Number Street City State Zip Code

Reference (Name of friend not living with you) _____ Phone No. _____

Address _____
Number Street City State Zip Code

JOINT APPLICANT

Name _____ Account No. _____ Birth Date _____

Address _____
Number Street City State Zip Code County

Phone No. _____ Years There _____

Drivers License No. _____ Social Security No. _____

Employer _____ Position _____ Hire Date _____

Company Address _____
Number Street City State Zip Code

Gross Income \$ _____ Per _____ Hourly Wage \$ _____ Work Phone No. _____

Other Income \$ _____ Per _____ Source _____
(Alimony, child support or separate maintenance income need not be revealed if you do not wish considered as a basis for repaying this obligation.)

