



TRI COUNTIES BANK

IMPORTANT TERMS OF YOUR HOME EQUITY LINE OF CREDIT OR LOAN

This disclosure contains important information about a Tri Counties Bank Relationship Line or Loan. You should read this disclosure carefully and keep a copy for your records.

- HOME EQUITY LINES OF CREDIT -

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, as a result, not to enter into an agreement with us, you are entitled to a refund of any fees that you have paid to us or anyone else in connection with your application.

SECURITY INTEREST. We will take a mortgage on your home. You could lose your home if you do not meet the obligations in your agreement with us.

APPLICABLE LAW. If your loan/line is approved and funded, the loan documents will provide that our relationship is to be governed by California law, and that the venue for any action(s) between us will be in Butte County, California

IMPORTANT INFORMATION ABOUT OPENING A NEW ACCOUNT. To help the government fight the funding of terrorism and money laundering activities, Federal law (Section 326 of the USA PATRIOT Act) requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account.

REPORTING INFORMATION TO CONSUMER CREDIT BUREAUS. We may report information about your account to credit bureaus. Late payments, missed payments or other defaults on your account may be reflected in your credit report.

We will also advise any credit bureaus to whom we report that your credit line was "closed by consumer" if you either: (1) pay your loan in full and request in writing that we close your account; or (2) your loan is paid in full by a third party (e.g., escrow or title company) in connection with a request for release of any collateral which you may have given us to secure repayment.

POSSIBLE ACTIONS. We can terminate your line, 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.
- You do not meet the repayment terms.
- Your action or inaction adversely affects the collateral or our rights in the collateral.

In addition, we can refuse to make additional extensions of credit or reduce your credit limit if:

- The value of the dwelling securing the line declines significantly below its appraised value for purposes of the line.
- We reasonably believe that you will not be able to meet the repayment requirements due to a material change in your financial circumstances.
- You are in default of a material obligation in the agreement.
- Government action prevents us from imposing the annual percentage rate provided for or impairs our security interest such that the value of the interest is less than 120 percent of the credit line.
- A regulatory agency has notified us that continued advances would constitute an unsafe and unsound practice.
- The maximum annual percentage rate is reached.
- At any time we receive a request for a payoff amount from a title company or another lender, we will ask you to submit a request to freeze your line of credit. Once a demand is submitted to us, you should discontinue use of your Credit Line checks and Equity Access Card to insure that we report the correct amount due to the party requesting a payoff. Advances made to your line after the payoff amount is reported to the requesting party could result in a delay of your payoff. If an incorrect payoff is made to us, you will owe us any additional amounts advanced after receipt of a payoff demand even though another lender has attempted to pay your loan in full.

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

MINIMUM PAYMENT REQUIREMENTS. You can obtain advances of credit for ten years (the “draw period”). During the draw period, payments will be due monthly. Your minimum monthly payment during the draw period will equal the finance charges that accrued on the outstanding balance during the preceding month (an interest-only payment). However, the interest rate may fluctuate during this period, as stated in the Variable-rate Information Section below.

After the draw period ends, you will no longer be able to obtain credit advances and must pay the outstanding balance over fifteen years (the “repayment period”) depending on the outstanding balance at the beginning of it. During the repayment period, payments will be due monthly. Your minimum monthly payment will be an amount sufficient to fully repay your principal balance at the current interest rate, in equal payments of principal and interest over the remaining term, or \$150, whichever is greater. Your payment amount will be recalculated every month.

MINIMUM PAYMENT EXAMPLE. The following examples illustrate how the minimum monthly payment will be determined and the timing of the payments.

During the draw period, if you made only the minimum monthly payments and took no other credit advances, it would take 17 years 1 month to pay off a credit balance of \$10,000 at an ANNUAL PERCENTAGE RATE of 6.79%. During the draw period, you would make 120 monthly payments varying between \$52.08 and \$59.53. During the repayment period, you would make 84 monthly payments of \$150.00 plus 1 final payment of \$71.54.

FEES AND CHARGES. To open and maintain a line of credit, you must pay the following fees to us:

- *Annual fee: \$75.00 (charged annually beginning the second year).*
- *You may also pay certain fees to third parties to open a line. These fees generally total between \$500 and \$900. Property insurance will be required. Flood insurance may also be required. If you request, we will give you an itemization of the fees you will have to pay to third parties.*
- *A \$500 early termination fee may be charged if you close your account within three years of the origination date of your loan.*

TRANSACTION REQUIREMENTS. The following transaction limitations apply to your Credit Line:

Minimum Draw Requirement: *The minimum credit advance you can receive is \$150.00. There is no minimum credit advance if you access your credit line using your Equity Access Card.*

Access Device Limitations: *If you have received an Equity Access Card, you agree to be bound by the terms and conditions as described in the document that will accompany your Equity Access Card. If you do not want an Equity Access Card after you have received one, please call us at 1-800-922-8742 and immediately destroy the card.*

Equity Access Card transactions at point-of-sale are limited to a maximum of \$10,000 per day up to your available credit limit, and no more than three transactions per day will be permitted. Your signature on the transaction receipt will be required in order to complete any purchase. Cash advances up to your available limit may be obtained at any Tri Counties Bank branch or at any other financial institution where cash advances are performed. Fees for any cash advance(s) will be assessed by the financial institution conducting the cash advance and may vary. There is no fee when you write a Credit Line Check for cash at any Tri Counties Bank branch. If you have a Fixed Rate Loan Option loan attached to your Equity Line of Credit, or a Fixed Rate Loan Option is established at a future date, an Equity Access Card will no longer be an eligible access device.

ACH Restrictions: *If a merchant attempts to convert your Credit Line Check to a debit entry in order to clear it through the automated clearing house (ACH) (by scanning the check and having it electronically processed as a debit entry through the ACH), the debit entry may be rejected and returned to the merchant unpaid. Due to ACH restrictions, we may not be able to charge these entries to your Equity Credit Line. You agree not to hold us responsible for returning these entries unpaid to a merchant.*

ELECTRONIC INSTRUCTIONS. We may accept instructions received by you via Internet electronic mail where you are requesting an advance(s) against, or payment(s) to, your credit line. We will process your electronic instructions following the Bank's standard security procedures.

TAX DEDUCTIBILITY. You should consult a tax advisor regarding the deductibility of interest and charges for the line.

FIXED RATE LOAN OPTION FEATURE. During the draw period, you can continue to advance funds on your credit line in the form of a variable rate revolving line of credit, referred to as the “Variable Rate Portion.” During the draw period, you may convert

portions of the balance of your credit line account to fixed rate installment loans referred to as "Fixed Rate Loan Options." You may have a Variable Rate Portion and up to three Fixed Rate Loan Options outstanding under the Credit Line at any time during the draw period. Once you have three Fixed Rate Loan Options established and active, you may establish an additional Fixed Rate Loan Option if a prior Fixed Rate Loan Option is paid in full, but in no event may you establish a fourth or subsequent Fixed Rate Loan Option until at least 365 days have passed since the establishment of the most recent Fixed Rate Loan Option.

The minimum loan amount for any fixed rate loan option is \$5000 up to the available credit limit. You may choose a term of at least 84 months up to a maximum of 240 months (20 years) but in no event can any Fixed Rate Loan Option exceed the repayment period maturity date of the account. You will be charged a \$75.00 loan document preparation fee for each Fixed Rate Loan Option.

The minimum monthly payment on any Fixed Rate Loan Option will be an amount of principal and interest sufficient to repay the balance of the Fixed Rate Loan Option over the term you selected at the interest rate then in effect on that Fixed Rate Loan Option. The annual percentage rate will be based on the current index in effect on your Variable Rate Portion as of the date of conversion, plus a different fixed-rate margin. We may offer promotional rates from time to time as well. Please ask us for the current corresponding annual percentage rate for a Fixed Rate Loan Option.

A fixed rate we have recently offered on a Fixed Rate Loan Option is 10.19%, which corresponds to a daily periodic rate of 0.027917%.

Credit lines having Fixed Rate Loan Options may not access funds using an Equity Access Card. (See *Access Device Limitations* above).

PREFERRED RATES. Automated Repayment service from Tri Counties Bank checking account is optional on your account at any time. If you agree to make monthly payments by automatic repayment service at the time your line or loan account is opened, the initial interest rate on the fixed-rate or variable-rate line or Fixed Rate Loan Option will be decreased by .25% percentage point. If you choose this option and the automated repayment service is cancelled for any reason by you or by the Bank, the interest rate will be subject to a one-time increase of .25% percentage point.

VARIABLE-RATE INFORMATION. The following variable rate information applies to the following plan:

This Home Equity Line of Credit Plan has a variable-rate feature, and the annual percentage rate (corresponding to the periodic rate) and the minimum payment can change as a result. The annual percentage rate is based on the value of an index. The index is the prime rate as published in the Wall Street Journal, Western Edition. To determine the annual percentage rate that will apply to your line, we add a margin to the value of the index. Ask us for the current index value, margin, discount and annual percentage rate.

The annual percentage includes only interest and no other costs. After you open a credit line, rate information will be provided on periodic statements that we will send to you.

VARIABLE-RATE CHANGES. The ANNUAL PERCENTAGE RATE can change each monthly billing cycle. The **minimum** ANNUAL PERCENTAGE RATE, or "floor", for the Variable Rate Portion of your Account, (excluding the discounted initial rate period, if applicable), will be within the range of 5.00% and 10.00%. As us about currently available rate "floors." The **maximum** ANNUAL PERCENTAGE RATE that can apply is 18.75%. Apart from the rate "cap" and "floor", there is no annual or other limit on the amount by which the rate can increase or decrease. A lower lifetime cap may be available depending upon your initial interest rate. Ask your Tri Counties Bank representative for more information.

MAXIMUM RATE AND PAYMENT EXAMPLE. If you had an outstanding balance of \$10,000 during the draw period, the minimum monthly payment at the maximum ANNUAL PERCENTAGE RATE of 18.75% would be \$159.25. This annual percentage rate could be reached during the second billing period of the draw period. Under an **Initial Fixed Rate Plan**, the maximum annual percentage rate could be reached during the 61st month of your credit line. If you had an outstanding balance of \$10,000 at the beginning of the repayment period, the minimum monthly payment at the maximum ANNUAL PERCENTAGE RATE of 18.75% would be \$167.18. This annual percentage rate could be reached during the first billing period of the repayment period.

HISTORICAL EXAMPLE. The following table shows how the annual percentage rate and the minimum monthly payments for a single \$10,000 credit advance would have changed based on changes in the index over the past 15 years. The index values are from July of each year. While only one payment amount per year is shown, payments might have varied during each year. The table assumes that no additional credit advances were taken, that only the minimum payments were made each month, and that the rate remained constant during each year. It does not necessarily indicate how the index or your payments will change in the future.

INITIAL VARIABLE RATE PLAN

YEAR	INDEX	MARGIN ¹	APR	MINIMUM MONTHLY PAYMENT
	%	%	%	\$
1995	8.75	1.00	9.75	82.81
1996	8.25	1.00	9.25	78.56
1997	8.50	1.00	9.50	80.68
1998	8.50	1.00	9.50	80.68
1999	8.00	1.00	9.00	76.44
2000	9.50	1.00	10.50	89.18
2001	6.75	1.00	7.75	65.82
2002	4.75	1.00	5.75	48.84
2003	4.00	1.00	5.00	42.46
2004	4.25	1.00 ¹	5.25	44.59
2005	6.25	3.50	9.75	150.00 ²
2006	8.25	3.50	11.75	150.00 ²
2007	8.25	3.50	11.75	150.00 ²
2008	5.00	3.50	8.50	150.00 ²
2009	3.25	3.50 ¹	6.75	150.00 ²

¹This is a margin we have used recently

²This payment reflects a minimum payment amount of \$150 per month.

Important Facts About Interest-Only Home Equity Lines of Credit

This information can help you decide if an interest-only home equity line of credit is right for you. These mortgages can be complicated. If you do not understand how they work, you should not sign any loan contracts, and you might want to consider other types of loans.

Interest-Only Home Equity Lines of Credit allow you to pay only the interest on the money you borrowed for the first few years of the mortgage (the "interest-only period").

If you pay only the amount due, then at the end of the interest-only period:

- You will still owe the original amount you borrowed.
- Your monthly payment will increase because you must pay back the principal as well as interest. Your payment could increase even more if interest rates increase.
- Your interest-only payments will not repay the principal that is outstanding on your loan. You may be required to pay the entire outstanding balance in a single payment.

Additional Information

- **Home Equity** - If you make interest-only payments, your payments are not building home equity. This may make it harder to refinance your mortgage or to obtain funds from selling or refinancing your home.
- **Prepayment Penalties** - Some mortgages require you to pay a lump-sum prepayment penalty if you sell your home or refinance during the first few years of the loan. You should find out if your mortgage has a prepayment penalty, how it works, and how much it could be.
- **No Doc/Low Doc Loans** - "Reduced documentation" or "stated income" loans usually have higher interest rates or other costs compared to "full documentation" loans that require you to verify your income and assets.

APPRAISAL NOTICE

IF WE USED AN APPRAISAL REPORT IN CONNECTION WITH YOUR APPLICATION FOR CREDIT, YOU HAVE THE RIGHT TO A COPY OF THE APPRAISAL REPORT WE USED. IF YOU WISH A COPY, PLEASE WRITE US AT:

**Tri Counties Bank Loan Center
P.O. Box 2178
Chico, CA 95927**

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.

IN YOUR LETTER TO US, YOU MUST STATE YOUR NAME, MAILING ADDRESS, AND THE ADDRESS OF THE APPRAISED PROPERTY.

WE MAY REQUIRE YOU TO REIMBURSE US FOR THE COST OF THE APPRAISAL AND ANY COSTS ASSOCIATED WITH PHOTOCOPYING AND/OR MAILING THE COPY TO YOU.

**SERVICING DISCLOSURE STATEMENT NOTICE TO FIRST-LIEN
MORTGAGE LOAN APPLICANTS: THE RIGHT TO COLLECT YOUR
MORTGAGE LOAN PAYMENTS MAY BE TRANSFERRED.**

You are applying for a mortgage loan covered by the Real Estate Settlement Procedures Act (RESPA) (12 USC 2601 *et seq.*). RESPA gives you certain rights under Federal law. This statement describes whether the servicing for this loan may be transferred to a different loan servicer. "Servicing" refers to collecting your principal, interest, and escrow payments, if any, as well as sending any monthly or annual statements, tracking account balances, and handling other aspects of your loan. You will be given advance notice before a transfer occurs.

Servicing Transfer Information:

We may assign, sell or transfer the servicing of your loan while the loan is outstanding.

**STATE OF CALIFORNIA FAIR LENDING NOTICE –
THE HOUSING FINANCIAL DISCRIMINATION ACT OF 1977**

IT IS ILLEGAL TO DISCRIMINATE IN THE PROVISION OF OR IN THE AVAILABILITY OF FINANCIAL ASSISTANCE BECAUSE OF THE CONSIDERATION 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 ARE 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 Institution
300 South Springs Street, Suite 15513
Los Angeles, CA 90013-1204**

**Department of Financial Institutions
45 Fremont Street, Suite 1700
San Francisco, CA 94105-2219**

- HOME EQUITY LOANS -

ADJUSTABLE RATE MORTGAGE LOAN PROGRAM DISCLOSURE (PREFERRED RATE PROGRAM)

This disclosure described the features of the Preferred Rate Loan you are considering. Because a Preferred Rate Loan secured by your home is considered an Adjustable Rate Mortgage (ARM) program, we are furnishing you this ARM Loan Program Disclosure Statement.

- Your interest rate and monthly payment can change under this loan program only once.
- During the term of your loan, interest will accrue at a preferred rate based upon your having the monthly payments on your loan automatically deducted from your Tri Counties Bank checking account.
- Ask us for the current preferred rate for the loan you are considering, as well as the prevailing rate for loans without an automatic payment feature.
- If you or we should terminate your automatic payment deductions from your Tri Counties Bank deposit account, or if you or we close the deposit account, we will immediately increase the interest rate on your loan by one quarter of one percent (.25%). After that, the higher interest rate will apply to your loan and your monthly payments will increase.
- You will be notified in writing at least 25 days before the due date of the payment at the new level. This notice will contain information about the current and prior interest rates, new payment amount and the loan balance.

- WHAT YOU SHOULD KNOW ABOUT HOME EQUITY LINES OF CREDIT -

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

What is a home equity line of credit?

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

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

Appraised value of home	\$100,000
Percentage	x 75%
Percentage of appraised value	= \$ 75,000
Less balance owed on mortgage	- \$ 40,000
Potential line of credit	\$ 35,000

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

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

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

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

What should you look for when shopping for a 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. Remember, though, that the APR for a home equity line is based on the interest rate alone and will not reflect closing costs and other fees and charges, so you'll need to compare these costs, as well as the APRs, among lenders.

Variable interest rates

Home equity lines of credit typically involve variable rather than fixed interest rates. The variable rate must be based on a publicly available index (such as the prime rate published in some major daily newspapers or a U.S. Treasury bill rate). In such cases, the interest rate you pay for the line of credit will change, mirroring changes in the value of the index. Most lenders cite the interest rate you will pay as the value of the index at a particular time, plus a "margin," such as 2 percentage points. Because the cost of borrowing is tied directly to the value of the index, it is important to find out which index is used, how often the value of the index changes, and how high it has risen in the past. It is also important to note the amount of the margin.

Lenders sometimes offer a temporarily discounted interest rate for home equity lines--an "introductory" rate that is unusually low for a short period, such as 6 months.

Variable-rate plans secured by a dwelling must, by law, have a ceiling (or cap) on how much your interest rate may increase over the life of the plan. Some variable-rate plans limit how much your payment may increase and how low your interest rate may fall if the index drops.

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

Costs of establishing and maintaining a home equity line

Many of the costs of setting up a home equity line of credit are similar to those you pay when you buy a home. For example:

- A fee for a property appraisal to estimate the value of your home;
- An application fee, which may not be refunded if you are turned down for credit;
- Up-front charges, such as one or more "points" (one point equals 1 percent of the credit limit); and
- Closing costs, including fees for attorneys, title search, mortgage preparation and filing, property and title insurance, and taxes.

In addition, you may be subject to certain fees during the plan period, such as annual membership or maintenance fees and a transaction fee every time you draw on the credit line.

You could find yourself paying hundreds of dollars to establish the plan. And if you were to draw only a small amount against your credit line, those initial charges would substantially increase the cost of the funds borrowed. On the other hand, because the lender's risk is lower than for other forms of credit, as your home serves as collateral, annual percentage rates for home equity lines are generally lower than rates for other types of credit. The interest you save could offset the costs of establishing and maintaining the line. Moreover, some lenders waive some or all of the closing costs.

How will you repay your home equity plan?

Before entering into a plan, consider how you will pay back the money you borrow. Some plans set a minimum monthly payment that includes a portion of the principal (the amount you borrow) plus accrued interest. But, unlike with typical installment loan agreements, the portion of your payment that goes toward principal may not be enough to repay the principal by the end of the term. Other plans may allow payment of *interest only* during the life of the plan, which means that you pay nothing toward the principal. If you borrow \$10,000, you will owe that amount when the payment plan ends.

Regardless of the minimum required payment on your home equity line, you may choose to pay more, and many lenders offer a choice of payment options. Many consumers choose to pay down the principal regularly as they do with other loans. For example, if you use your line to buy a boat, you may want to pay it off as you would a typical boat loan.

Whatever your payment arrangements during the life of the plan--whether you pay some, a little, or none of the principal amount of the loan--when the plan ends, you may have to pay the entire balance owed, all at once. You must be prepared to make this "balloon

payment" by refinancing it with the lender, by obtaining a loan from another lender, or by some other means. If you are unable to make the balloon payment, you could lose your home.

If your plan has a variable interest rate, your monthly payments may change. Assume, for example, that you borrow \$10,000 under a plan that calls for interest-only payments. At a 10% interest rate, your monthly payments would be \$83. If the rate rises over time to 15%, your monthly payments will increase to \$125. Similarly, if you are making payments that cover interest plus some portion of the principal, your monthly payments may increase, unless your agreement calls for keeping payments the same throughout the plan period.

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

Lines of credit vs. traditional second mortgage loans

If you are thinking about a home equity line of credit, you might also want to consider a traditional second mortgage loan. This type of loan provides you with a fixed amount of money, repayable over a fixed period. In most cases, the payment schedule calls for equal payments that pay off the entire loan within the loan period. You might consider a second mortgage instead of a home equity line if, for example, you need a set amount for a specific purpose, such as an addition to your home.

In deciding which type of loan best suits your needs, consider the costs under the two alternatives. Look at both the 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. An application fee, which may not be refunded if you are turned down for credit;
- 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.

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

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

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

Glossary

Annual membership or maintenance fee

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

Annual percentage rate (APR)

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

Application fee

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

Balloon payment

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

Cap (interest rate)

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

Closing or settlement costs

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

Credit limit

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

Equity

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

Index

The economic indicator used to calculate interest-rate adjustments for adjustable-rate mortgages or other adjustable-rate loans. The index rate can increase or decrease at any time. See [chart Selected Index Rates for ARMs over an 11-year Period](#) in the *Consumer Handbook on Adjustable Rate Mortgages* for examples of common indexes that have changed in the past.

Interest rate

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

Margin

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

Minimum payment

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

Points (also called discount points)

One point is equal to 1 percent of the principal amount of a mortgage loan. For example, if a mortgage is \$200,000, one point equals \$2,000. Lenders frequently charge points in both fixed-rate and adjustable-rate mortgages to cover loan origination costs or to provide additional compensation to the lender or broker. These points usually are paid at closing and may be paid by the borrower or the home seller, or may be split between them. In some cases, the money needed to pay points can be borrowed

(incorporated in the loan amount), but doing so will increase the loan amount and the total costs. Discount points (also called discount fees) are points that you voluntarily choose to pay in return for a lower interest rate.

Security interest

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

Transaction fee

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

Variable rate

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

Home Equity Plan Checklist

Ask your lender to help fill out this checklist.

Basic Features	Plan A	Plan B
Fixed annual percentage rate	<input type="text"/> %	<input type="text"/> %
Variable annual percentage rate	<input type="text"/> %	<input type="text"/> %
<ul style="list-style-type: none"> • Index used and current value 	<input type="text"/> %	<input type="text"/> %
<ul style="list-style-type: none"> • Amount of margin 	<input type="text"/>	<input type="text"/>
<ul style="list-style-type: none"> • Frequency of rate adjustments 	<input type="text"/>	<input type="text"/>
<ul style="list-style-type: none"> • Amount/length of discount (if any) 	<input type="text"/>	<input type="text"/>
<ul style="list-style-type: none"> • Interest-rate cap and floor 	<input type="text"/>	<input type="text"/>
Length of Plan		
Draw period	<input type="text"/>	<input type="text"/>
Repayment period	<input type="text"/>	<input type="text"/>
Initial fees		
Appraisal fee	<input type="text"/>	<input type="text"/>
Application fee	<input type="text"/>	<input type="text"/>
Up-front charges, including points	<input type="text"/>	<input type="text"/>
Closing costs	<input type="text"/>	<input type="text"/>

Repayment Terms**Plan A****Plan B****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?