



SECTION I: What You Should Know About Home Equity Lines of Credit

Introduction

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
<u>Less balance owed on mortgage</u>	<u>- \$ 40,000</u>
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 the 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 six 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 any 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. However, some lenders may require you to pay special fees or penalties if you choose to pay more, so check with your lender. 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 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 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 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. Lenders are also required to provide you with a list of homeownership counseling organizations in your area.

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 lender in writing within the three-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.

The Home Ownership and Equity Protection Act of 1994 (HOEPA) addresses certain unfair practices and establishes requirements for certain loans with high rates and fees, including certain additional disclosures. HOEPA now covers some HELOCs. You can find out more information by contacting the CFPB at the website address and phone number listed in the Contact information appendix, below.

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 CFPB's website at consumerfinance.gov/askcfpb/5/can-i-review-

my-credit-report.html for information about how to get free copies of your credit reports) 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. If another lender is willing to offer you a line of credit, 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.

Appendix A:

Defined terms

This glossary provides general definitions for terms commonly used in the real estate market. They may have different legal meanings depending on the context.

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.

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 also Selected index rates for ARMs over an 11-year period (consumerfinance.gov/f/201204_CFPB_ARMs-brochure.pdf) 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. The property that secures payment of your obligation is referred to as "collateral."

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 for comparison	Plan	Plan
	A	B
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?		

Appendix B:

More information

For more information about mortgages, including home equity lines of credit, visit consumerfinance.gov/mortgage. For answers to questions about mortgages and other financial topics, visit consumerfinance.gov/owning-a-home to access interactive tools and resources for mortgage shoppers, which are expected to be available beginning in 2014.

Housing counselors can be very helpful, especially for first-time home buyers or if you're having trouble paying your mortgage. The U.S. Department of Housing and Urban Development (HUD) supports housing counseling agencies throughout the country that can provide free or low-cost advice. You can search for HUD-approved housing counseling agencies in your area on the CFPB's web site at consumerfinance.gov/find-a-housing-counselor or by calling HUD's interactive toll-free number at 800-569-4287.

The Company that collects your mortgage payments is your loan servicer. This may not be the same company as your lender. If you have concerns about how your loan is being serviced or another aspect of your mortgage, you may wish to submit a complaint to the CFPB at consumerfinance.gov/complaint or by calling (855) 411-CFPB (2372).

When you submit a complaint to the CFPB, the CFPB will forward your complaint to the company and work to get a response. Companies have 15 days to respond to you and the CFPB. You can review the company's response and give feedback to the CFPB.

Appendix C:

Contact information

For additional information or to submit a complaint, you can contact the CFPB or one of the other federal agencies listed below, depending on the type of institution. If you are not sure which agency to contact, you can submit a complaint to the CFPB and if the CFPB determines that another agency would be better able to assist you, the CFPB will refer your complaint to that agency and let you know.

Consumer Financial Protection Bureau (CFPB)
P.O. Box 4503
Iowa City, IA 52244
(855) 411-CFPB (2372)
consumerfinance.gov or
consumerfinance.gov/complaint

Insured depository institutions and credit unions with assets greater than \$10 billion (and their affiliates), and non-bank providers of consumer financial products and services, including mortgages, credit cards, debt collection, consumer reports, prepaid cards, private education loans, and payday lenders.

Board of Governors of the Federal Reserve System (FRB)
Consumer Help
PO Box 1200
Minneapolis, MN 55480
(888) 851-1920
federalreserveconsumerhelp.gov

Federally insured state-chartered bank members of the Federal Reserve System

Office of the Comptroller of the Currency (OCC)
Customer Assistance Group
1301 McKinney Street, Suite 3450
Houston, TX 77010
(800) 613-6743
occ.treas.gov or helpwithmybank.gov

National banks and federally chartered savings banks/associations

Federal Deposit Insurance Corporation (FDIC)
Consumer Response Center
1100 Walnut St, Box #11
Kansas City, MO 64106
(877) ASK-FDIC or (877) 275-3342
fdic.gov or fdic.gov/consumers

Federal insured state-chartered banks that are not members of the Federal Reserve System

Federal Housing Finance Agency (FHFA)
Consumer Communications
Constitution Center
400 7th Street, S.W.
Washington, DC 20024
Consumer Helpline (202) 649-3811
fhfa.gov or
fhfa.gov/Default.aspx?Page=369ConsumerHelp@fhfa.gov

Fannie Mae, Freddie Mac, and the Federal Home Loan Banks

National Credit Union Administration (NCUA)
Customer Assistance
1775 Duke Street
Alexandria, VA 22314
(800) 755-1030
ncua.gov or mycreditunion.gov

Federally chartered credit unions

Federal Trade Commission (FTC)
Consumer Response Center
600 Pennsylvania Avenue, N.W.
Washington, D.C. 20580
(877) FTC-HELP or (877) 382-4357
ftc.gov or ftc.gov/bcp

Finance companies, retail stores, auto dealers, mortgage companies and other lenders, and credit bureaus

Securities and Exchange Commission (SEC)
Complaint Center
100 F Street, N.E.
Washington, DC 20549
(202) 551-6551
sec.gov or sec.gov/complaint/select.shtml

Brokerage firms, mutual fund companies, and investment advisers

Farm Credit Administration
Office of Congressional and Public Affairs
1501 Farm Credit Drive
McLean, VA 22102
(703) 883-4056
fca.gov

Agricultural lenders

Small Business Administration (SBA)
Consumer Affairs
409 3rd Street, S.W.
Washington, DC 20416
(800) U-ASK-SBA or (800) 827-5722
sba.gov

Small Business Lenders

Commodity Futures Trading Commission (CFTC)
1155 21st Street, N.W.
Washington, DC 20581
(866) 366-2382
cftc.gov/consumer-protection

Commodity brokers, commodity trading advisors, commodity pools, and introducing brokers

U.S. Department of Justice (DOJ)
Civil Rights Division
950 Pennsylvania Avenue, N.W.
Housing and Civil Enforcement Section
Washington, DC 20530
(202) 514-4713
TTY: (202) 305-1882
FAX: (202) 514-1116
To report an incident of housing discrimination: 1-800-896-7743
fairhousing@usdoj.gov

Fair lending and housing issues

Department of Housing and Urban Development (HUD)
Office of Fair Housing/Equal Opportunity
451 7th Street, S.W.
Washington, DC 20410
(800) 669-9777
Hud.gov/complaints

Fair lending and housing issues

SECTION II: IMPORTANT TERMS OF OUR HOME EQUITY LINE OF CREDIT ACCOUNT

This disclosure contains important information about our Home Equity Line of Credit. (For definitions of some of the terms used see paragraph 13 below.) You should read this disclosure carefully and keep a copy for your records.

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

2. 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.

3. Possible Actions:

(a) We can terminate your account, and require you to pay us the entire outstanding balance in one payment ("accelerate"), if any one of the following "events of default" occurs:

- 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

(b) We can also refuse to make additional extensions of credit or reduce your credit limit if:

- The value of your home declines significantly below its appraised value for purposes of the line.
- 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 a material obligation in the agreement or an "event of default" is occurring.
- Government action prevents us from imposing the annual percentage rate provided for in the agreement, or impairs our security interest such that the value of the interest is less than 120 percent of the credit line.
- Our regulatory agency has notified us

that continued advances would constitute an unsafe and unsound practice.

- The maximum annual percentage rate is reached.

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

4. Minimum Payment Requirements: After you open an account, you can obtain loan advances for the first nine (9) years and ten (10) months (estimated). This period is called the "Borrowing Period". During the Borrowing Period, payments will be due monthly and will equal the interest that has accrued on outstanding balances plus any fees that you owe us. Payment of this minimum payment alone will not repay any of the principal balance that you may have borrowed through loan advances.

After the expiration of the Borrowing Period, your Account will enter a "Repayment Period". The Repayment Period will last approximately fifteen (15) years. During the Repayment Period, payments will be due monthly and your minimum payment will be equal to a "Principal Component" plus the interest and fees for the monthly billing cycle. The Principal Component will be equal to the greater of (i) 1/180th of principal balance that is outstanding as of the end of the Borrowing Period, or (ii) \$50. If the result of this calculation produces a minimum payment that is greater than your total outstanding account balance, your minimum payment will be equal to your total outstanding account balance. Note that by only paying the minimum payment, you may not completely pay off all principal by the final maturity date and you may have to make a final balloon payment.

5. Fees to Open and Maintain an Account:

(a) **Lawyer's Fees.** If your credit limit is above \$250,000, we may, at our option, have a lawyer represent us in the transaction (including title work) and you will have to pay the attorney's fees before we will open the account. We estimate that these fees will range from \$400 to \$800. If your credit limit is \$250,000 or less, you will not have to pay any fees to third parties (other than hazard and flood insurance, if applicable). In some cases, we may require these loans to be closed by an attorney and you will have to pay all the third party fees including attorney fees.

(b) **Annual Membership Fee and Hazard Insurance.** In order to maintain an account, you must pay us an Annual Membership Fee of \$50.00 due each year during the Borrowing Period. We also require that you maintain adequate fire and other hazard insurance (including where applicable, flood insurance) with respect to your home.

(c) **Appraisal Fee.** In some cases you may have to pay an appraisal fee.

6. Minimum Draw Requirement. The minimum loan advance that you can receive is \$500.

7. Tax Deductibility: You should consult a tax advisor regarding the deductibility of interest and charges that are imposed in connection with the account.

8. Variable-Rate Feature: The account has a variable-rate feature. The annual percentage rate (corresponding to the daily periodic rate) can change on a monthly basis and the minimum monthly payment can change as a result. The annual percentage rates disclosed in this statement include only interest and not other costs.

The annual percentage rate is based on the value of an Index. The "Index" is the rate published in the *Wall Street Journal*, Eastern Edition, under the heading "Money Rates" and shown as "prime rate" or "base rate on corporate loans posted by at least 75% of the nation's 30 largest banks" or similar language used by the *Journal* for that index. If more than one rate is shown, we use the highest. To determine the annual percentage rate each monthly billing cycle, we subtract a "Discount" from or add a "Premium" to the applicable Index value. Ask us for the current Index value, Discount/Premium and annual percentage rate. After you open an account, rate information will be provided on periodic statements that we send to you.

9. Rate Changes:

Option 1 (0 to 75.00 % LTV):

The annual percentage rate can change monthly. Over the life of the account, the ***ANNUAL PERCENTAGE RATE*** cannot increase above 18% ("lifetime cap") nor decrease below 4% ("lifetime floor"). Apart from the lifetime cap and lifetime floor, there are no other limits on the amount by which the rate can change during any one-year period.

Option 2 (75.01 to 85.00 % LTV):

The annual percentage rate can change monthly. Over the life of the account, the ***ANNUAL PERCENTAGE RATE*** cannot increase above 18% ("lifetime cap") nor decrease below 5% ("lifetime floor"). Apart from the lifetime cap and lifetime floor, there are no other limits on the amount by which the rate can change during any one-year period.

10. Minimum Payment Example:

Option 1 (0 to 75.00 % LTV):

If you made only the minimum payments and took no other advances, it would take 24 years and ten months (estimated) to pay off an advance of \$10,000. By way of example, if we assume an ****ANNUAL PERCENTAGE RATE**** of 5.50%, with respect to the Borrowing Period you would be required to make 118 minimum monthly payments of \$46.71 (estimated). Assuming the same Annual Percentage Rate, with respect to the Repayment Period you would be required to make 180 monthly payments varying from \$102.27 to \$55.82 (estimated).

Option 2 (75.01 to 85.00 % LTV):

If you made only the minimum payments and took no other advances, it would take 24 years and ten months (estimated) to pay off an advance of \$10,000. By way of example, if we assume an ****ANNUAL PERCENTAGE RATE**** of 6.50%, with respect to the Borrowing Period you would be required to make 118 minimum monthly payments of \$55.21 (estimated). Assuming the same Annual Percentage Rate, with respect to the Repayment Period you would be required to make 180 monthly payments varying from \$110.77 to \$55.87(estimated).

11. Maximum Rate and Payment Example:

If you had an outstanding balance of \$10,000, the minimum monthly payment at the maximum ****ANNUAL PERCENTAGE RATE**** of 18% would be \$152.88. 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 18.00% would be \$208.44. The

maximum annual percentage rate could be reached as early as the start of the first complete monthly billing cycle.

12. Historical Example: The following table shows how the annual percentage rate and minimum monthly payments for a single \$10,000 advance would have changed over the last 15 years based on changes in the Index. The Index values are from the *Wall Street Journal* published on the first business day of August of each year.

The table assumes that no additional loan advances were taken, that the balance remained exactly at \$10,000 throughout the Borrowing Period, that only the minimum payments were made, 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. The minimum monthly payment does not reflect the membership fee, which is charged once a year during the Borrowing Period. While only one payment amount per year is shown, payments would have varied during each year.

Option 1 (0 to 75.00 % LTV):

YEAR	INDEX (a) (%)	PREMIUM (a) (%)	ANNUAL PERCENTAGE RATE (%)	MINIMUM MONTHLY PAYMENT		
2004	4.25	0.50	4.75	40.34	Borrowing Period	
2005	6.25	0.50	6.75	57.33		
2006	8.25	0.50	8.75	74.32		
2007	8.25	0.50	8.75	74.32		
2008	5.00	0.50	5.50	46.71		
2009	3.25	0.50	4.00 (b)	33.97		
2010	3.25	0.50	4.00 (b)	33.97		
2011	3.25	0.50	4.00 (b)	33.97		
2012	3.25	0.50	4.00 (b)	33.97		
2013	3.25	0.50	4.00 (b)	33.60		
2014	3.25	0.50	4.00 (b)	86.89		Repayment Period
2015	3.25	0.50	4.00 (b)	84.63		
2016	3.50	0.50	4.00	82.36		
2017	4.25	0.50	4.75	84.70		
2018	5.00	0.50	5.50	86.18		

- (a) This is a "Premium" we have used recently.
- (b) This rate reflects the 4% floor.

Option 2 (75.01 to 85.00 % LTV):

YEAR	INDEX (a) (%)	PREMIUM (a) (%)	ANNUAL PERCENTAGE RATE (%)	MINIMUM MONTHLY PAYMENT		
2004	4.25	1.50	5.75	48.84	Borrowing Period	
2005	6.25	1.50	7.75	65.82		
2006	8.25	1.50	9.75	82.81		
2007	8.25	1.50	9.75	82.81		
2008	5.00	1.50	6.50	55.21		
2009	3.25	1.50	5.00 (b)	42.47		
2010	3.25	1.50	5.00 (b)	42.47		
2011	3.25	1.50	5.00 (b)	42.47		
2012	3.25	1.50	5.00 (b)	42.47		
2013	3.25	1.50	5.00 (b)	41.99		
2014	3.25	1.50	5.00 (b)	94.72		Repayment Period
2015	3.25	1.50	5.00 (b)	91.89		
2016	3.50	1.50	5.00	89.06		
2017	4.25	1.50	5.75	90.83		
2018	5.00	1.50	6.50	91.75		

- (a) This is a "Premium" we have used recently.
- (b) This rate reflects the 5% floor.

13. Definitions: "We", "us", and "our" refer to The Ion Bank, 251 Church Street, Naugatuck, CT 06770. "You" and "your" refer to each person who signs the "agreement." "Account" means your Home Equity Line of Credit account. The "agreement" is the document that creates the account. The "mortgage deed" is the document, signed by those who own the home, which gives us the mortgage on your home. "Your home" refers to the dwelling securing the account without regard to who owns it or whether or not it is your principal dwelling.

SECTION III: Notice To Home Equity Line Of Credit Applications About Our Appraisal Of Your Property, Your Right To a Lawyer, Our Policy On Interim Financing And the Absence Of a Rate Lock-In agreement

The words "you" and "your" refer to each and all persons who are applying for one of our Home Equity Lines of Credit. The words "we", "us", and "our" refer to Ion Bank, 251 Church Street, Naugatuck, Connecticut 06770.

I. Appraisal Report: You have applied for a loan which generally requires that we take a mortgage on a residence. You have the right to a copy of the document(s), if any, relied upon by us in evaluating the value of that residence (the Appraisal Report¹). Under applicable law, you have a right to a copy of the Appraisal Report, if any, if you write to us at the mailing address set forth above; 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, give us the following information: *your name, *your address, the address of the property on which we have obtained the Appraisal Report, *the approximate date of your application, and *the type of loan for which you applied.

PLEASE DO NOT RELY ON THIS APPRAISAL REPORT FOR ANY PURPOSE OF YOUR OWN WHATSOEVER. It was prepared for our internal purposes only and was not intended for you or anyone other than us to rely on.

II. Legal Representation: The law requires us to give you the following information: You may have legal interests that differ from ours. We may not require you to be represented by the lawyer, if any, who represents us. You have a right to hire your own lawyer to represent you in this transaction. You may waive the right to be represented by a lawyer in this transaction. You may direct any complaints concerning violations of your rights listed in this Part II to the Connecticut Department of Banking.

III. Our Policy On Interim Financing: We are required by law to tell you that we have a policy of only offering what is known as "interim financing" on a case by case basis at our discretion. "Interim financing" means short term loans, the proceeds of which are used to purchase a 1-4 family residence and which is due and payable when you sell your current residence.

Our Home Equity Line of Credit product is not intended for use as interim financing. We generally offer interim financing on a case-by-case basis, and usually only in connection with a separate purchase-money loan transaction undertaken with us. If you need interim financing, please let us know, and we will provide you with more information on what types of interim financing products may be available from us, if any.

IV. Absence Of A "Rate Lock-In" Agreement: A "Mortgage Rate Lock-In" is an agreement where we agree to give you a particular rate, number of points or specified variable rate terms, provided that you close the loan within a specified period. None of the terms are locked-in (or guaranteed) on a Home Equity Line of Credit product until closing. By accepting this disclosure you understand and agree that we are not offering a Mortgage Rate Lock-In Agreement on the product for which you have applied.