ARKANSAS FEDERAL CREDIT UNION

IMPORTANT TERMS of our HOME EQUITY LINES OF CREDIT

THIS DISCLOSURE CONTAINS INFORMATION ABOUT OUR HOME EQUITY LINES OF CREDIT. YOU SHOULD READ IT CAREFULLY AND KEEP THIS COPY FOR YOURSELF. THE TERMS FOR ALL PLANS ARE THE SAME EXCEPT FOR WHERE OTHERWISE INDICATED.

Availability Of Terms
All 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 you paid to us or anyone else in connection with your application.

Security Interest
We will take a Deed of Trust/Mortgage on your home ("Security Property"). You could lose your home if you do not meet certain obligations in your agreement with us.

Possible Actions
Termination
If you fail to meet the terms of repayment, or if you act or fail to act in a way that adversely affects our security interest or other rights in the Security Property, or if you have committed fraud or made a material misrepresentation in connection with the account, we may, subject to the governing law, terminate the plan and require payment in full of the entire outstanding balance in a single payment.

Suspension
Your right to request additional advances may be suspended, or your maximum credit limit reduced, at our option, in the following instances: (1) you fail to make the scheduled payments due to us; (2) you fail to make timely payments to the holders of Deeds of Trust/Mortgages senior to ours; (3) you fail to pay real property taxes prior to delinquency; (4) you fail to maintain the required property insurance; (5) you fail to maintain the Security Property as your principal dwelling; (6) we reasonably believe that your ability to meet your payment obligations is impaired because of a material change in your financial circumstances; (7) governmental action precludes our imposing the annual percentage rate provided for or impairs our security interest such that the value of our interest is less than 120% of your maximum credit limit; (8) the maximum Annual Percentage Rate under the plan is reached; or (9) a regulatory agency has notified us that further advances under this plan constitute an unsafe and unsound practice.

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

Home Equity Plans
We offer three (3) Home Equity Line of Credit Plans. The Plans differ based on the loan-to-value (LTV) ratio for your loan (the sum of the current outstanding debts secured by liens against the property plus the home equity line of credit maximum credit limit established for your loan, divided by the value of the property). The LTV ratio determines the amount of the margin that will be used for variable-rate adjustments, with Plans having the lowest LTV using the lowest margin, and Plans with the highest LTV using the highest margin. Plan 1 is for LTV ratios of 1.00% to 75.00%. Plan 2 is for LTV ratios of 75.01% to 85.00%. Plan 3 is for LTV ratios of 85.01% to 95.00%. Not all applicants may qualify for all Plans.

Minimum Payment Requirements
You can obtain credit advances for 120 months (the draw period). During the draw period, payments will be due on a monthly basis. Your minimum monthly payment will be established at the close of each billing cycle at an amount equal to 1.50% of your then unpaid principal balance, subject to the lesser of $35.00 or your account balance. After the draw period ends, you will no longer be able to obtain credit advances and you must repay the outstanding balance.

After the draw period ends, you will no longer be able to obtain credit advances and you must repay the outstanding balance (the repayment period). During the repayment period, payments will be due on a monthly basis. The length of the repayment period will depend on the date and the amount of your last advance but in no event will exceed 120 months. During the repayment period, your minimum monthly payment will be established on the first day of the repayment period and any subsequent change in interest rate, to the amount necessary to fully amortize your then outstanding account balance by the agreement maturity date, subject to the lesser of $35.00 or your account balance.

Minimum Payment Example
Plan 1 (1.00% - 75.00% LTV)
If you made only the minimum payments and took no other credit advances, it would take 240 months to pay off a credit advance of $10,000.00 at an **ANNUAL PERCENTAGE RATE** of 8.00%. During that period, you would make 120 monthly payments varying between $150.00 and $55.42, followed by 119 monthly payments of $44.45 and a final payment of $45.45.

Plan 2 (75.01% - 85.00% LTV)
If you made only the minimum payments and took no other credit advances, it would take 240 months to pay off a credit advance of $10,000.00 at an **ANNUAL PERCENTAGE RATE** of 8.25%. During that period, you would make 120 monthly payments varying between $150.00 and $56.82, followed by 119 monthly payments of $46.08 and a final payment of $47.08.

Plan 3 (85.01% - 95.00% LTV)
If you made only the minimum payments and took no other credit advances, it would take 240 months to pay off a credit advance of $10,000.00 at an **ANNUAL PERCENTAGE RATE** of 8.75%. During that period, you would make 120 monthly payments varying between $150.00 and $59.73, followed by 119 monthly payments of $49.52 and a final payment of $50.52.

Fees And Charges
To open a line of credit, you may have to pay certain fees charged by third parties. These fees generally total from $400.00 to $600.00. If you ask, we will give you both an itemization of the fees that we will pay on your behalf to third parties, and an itemization of fees that you may have to pay to third parties.

Insurance
You must carry insurance on the property that secures this plan.

Tax Deductibility
You should consult a tax advisor regarding the deductibility of interest and charges for the line of credit.

Other Products
If you ask, we will provide you with information on any other home equity products we offer.

Variable Rate Feature
These plans have a Variable Rate feature. The Annual Percentage Rate (corresponding to the periodic rate), the number of your minimum payments during the draw period and the amount of your minimum payments during the repayment period can change as a result. The Annual Percentage Rate includes only interest and no other costs. The Annual Percentage Rate is based on the value of an index. The index is the Prime Rate as published in the Money Rates Section of The Wall Street Journal in effect on the 15th day of each month of each year. To determine the Annual Percentage Rate that will apply to your line of credit, we add a margin to the value of the index. Ask us for the current index value, margin, and Annual Percentage Rate. After you open a line of credit, rate information will be provided in periodic statements that we send you.

Rate Changes
Your Annual Percentage Rate can change monthly. There is no limit on the amount by which the interest rate can change during any one-year period other than the minimum and maximum Annual Percentage Rates that can apply at any time to this account.

The minimum **ANNUAL PERCENTAGE RATE** at any time is 3.50%. The maximum **ANNUAL PERCENTAGE RATE** at any time is 18.00%.

Maximum Rate And Payment Example
If you had an outstanding balance of $10,000.00 during the draw period, the minimum payment at the maximum **ANNUAL PERCENTAGE RATE** of 18.00% would be $150.00. This Annual Percentage Rate could be reached during the 1st month of the draw period.

If you had an outstanding balance of $10,000.00 during the repayment period, the minimum payment at the maximum **ANNUAL PERCENTAGE RATE** of 18.00% would be $180.19. This Annual Percentage Rate could be reached during the 1st month of the repayment period.

Historical Example
The following table shows how the Annual Percentage Rate and the monthly payments for a single $10,000.00 credit advance would have changed based on changes in the index since 2011. The index is from The Wall Street Journal and is calculated on the first day of June of each year. While only one payment amount per year is shown, payments may have varied during the year. The table assumes that no additional credit advances were taken, that only the minimum payments were made, and that the rate remained constant during the year. It does not necessarily indicate how the index or your payments will change in the future.

			Margin			**ANNUAL PERCENTAGE RATE**		Payment Period	Minimum Payment		
Year	Index	(1)	(2)	(3)	(1)	(2)	(3)		(1)	(2)	(3)
2011	3.25	0.50	0.75	1.25	3.75%	4.00%	4.50%	DRAW	$150.00	$150.00	$150.00
2012	3.25	0.50	0.75	1.25	3.75%	4.00%	4.50%	DRAW	$129.97	$130.30	$132.12
2013	3.25	0.50	0.75	1.25	3.75%	4.00%	4.50%	DRAW	$112.61	$113.18	$115.35
2014	3.25	0.50	0.75	1.25	3.75%	4.00%	4.50%	DRAW	$97.57	$98.32	$100.71
2015	3.25	0.50	0.75	1.25	3.75%	4.00%	4.50%	DRAW	$84.54	$85.40	$87.92
2016	3.50	0.50	0.75	1.25	4.00%	4.25%	4.75%	DRAW	$73.25	$74.18	$76.76
2017	4.00	0.50	0.75	1.25	4.50%	4.75%	5.25%	DRAW	$63.63	$64.60	$67.18
2018	4.75	0.50	0.75	1.25	5.25%	5.50%	6.00%	DRAW	$55.55	$56.54	$59.10
2019	5.50	0.50	0.75	1.25	6.00%	6.25%	6.75%	DRAW	$48.87	$49.87	$52.39
2020	3.25	0.50	0.75	1.25	3.75%	4.00%	4.50%	DRAW	$43.32	$44.31	$46.79
2021	3.25	0.50	0.75	1.25	3.75%	4.00%	4.50%	REPAYMENT	$35.00(4)	$35.00(4)	$35.00(4)
2022	4.00	0.50	0.75	1.25	4.50%	4.75%	5.25%	REPAYMENT	$35.00(4)	$35.00(4)	$35.00(4)
2023	8.25	0.50	0.75	1.25	8.75%	9.00%	9.50%	REPAYMENT	$35.00(4)	$35.00(4)	$35.00(4)
2024	8.50	0.50	0.75	1.25	9.00%	9.25%	9.75%	REPAYMENT	$35.00(4)	$35.00(4)	$35.00(4)
2025	7.50	0.50	0.75	1.25	8.00%	8.25%	8.75%	REPAYMENT	$35.00(4)	$35.00(4)	$35.00(4)

(1) This represents a margin we have recently used, annual percentage rate and minimum payment for our Plan 1 plans having a 1.00% - 75.00% LTV.
(2) This represents a margin we have recently used, annual percentage rate and minimum payment for our Plan 2 plans having a 75.01% - 85.00% LTV.
(3) This represents a margin we have recently used, annual percentage rate and minimum payment for our Plan 3 plans having an 85.01% - 95.00% LTV.
(4) This represents the $35.00 minimum payment.

WHAT YOU SHOULD KNOW ABOUT

Home Equity Lines of Credit (HELOC)

Borrowing from the value of your home

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

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

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

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

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

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

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

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

After you finish this booklet:

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

Compare a HELOC to other money sources

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

TIP

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

MONEY SOURCE	HOW MUCH CAN YOU BORROW	VARIABLE OR FIXED RATE	IS YOUR HOME AT RISK?	TYPICAL ADVANTAGES	TYPICAL DISADVANTAGES
HELOC *You borrow against the equity in your home*	Generally a percentage of the appraised value of your home, minus the amount you owe on your mortgage	Variable, typically	Yes	Continue repaying and borrowing for several years without additional approvals or paperwork	Repayment amount varies; repayment is often required when you sell your home
SECOND MORTGAGE OR HOME EQUITY LOAN *You borrow against the equity in your home*	Generally a percentage of the appraised value of your home, minus the amount you owe on your mortgage	Fixed	Yes	Equal payments that pay off the entire loan	If you need more money, you need to apply for a new loan; repayment is often required when you sell your home
CASH-OUT REFINANCE *You replace your existing mortgage with a bigger mortgage and take the difference in cash*	Generally a percentage of the appraised value of your home; the amount of your existing loan plus the amount you want to cash out	Variable or fixed	Yes	Continue to make just one mortgage payment	Closing costs are generally higher; it may take longer to pay off your mortgage; interest rate may be higher than your current mortgage
PERSONAL LINE OF CREDIT *You borrow based on your credit, without using your home as collateral*	Up to your credit limit, as determined by the lender	Variable, typically	No	Continue repaying and borrowing for several years without additional approvals or paperwork	Solid credit is required; you may need to pay the entire amount due once a year; higher interest rate than a loan that uses your home as collateral

Compare a HELOC to other money sources

MONEY SOURCE	HOW MUCH CAN YOU BORROW	VARIABLE OR FIXED RATE	IS YOUR HOME AT RISK?	TYPICAL ADVANTAGES	TYPICAL DISADVANTAGES
RETIREMENT PLAN LOAN *You borrow from your retirement savings in a 401(k) or similar plan through your current employer*	Generally, up to 50% of your vested balance or $50,000, whichever is less	Fixed	No	Repay through paycheck deductions; paperwork required but no credit check and no impact on your credit score	If you leave or lose your job, repay the whole amount at that time or pay taxes and penalties; spouse may need to consent
HOME EQUITY CONVERSION MORTGAGE (HECM) *You must be age 62 or older, and you borrow against the equity in your home*	Depends on your age, the interest rate on your loan, and the value of your home	Fixed or variable	Yes	You don't make monthly loan payments — instead, you typically repay the loan when you move out, or your survivors repay it after you die	The amount you owe grows over time; you might not have any value left in your home if you want to leave it to your heirs
CREDIT CARD *You borrow money from the credit card company and repay as you go*	Up to the amount of your credit limit, as determined by the credit card company	Fixed or variable	No	No minimum purchase; consumer protections in the case of fraud or lost or stolen card	Higher interest rate than a loan that uses your home as collateral
FRIENDS AND FAMILY *You borrow money from someone you are close to*	Agreed on by the borrower and lender	Variable, fixed or other	No	Reduced waiting time, fees, and paperwork compared to a formal loan	Forgiven loans and unreported or forgiven interest can complicate taxes, especially for large loans; can jeopardize important personal relationships if something goes wrong

How HELOCs work

PREPARE FOR UP-FRONT COSTS

Some lenders waive some or all of the up-front costs for a HELOC. Others may charge fees. For example, you might get charged:

- A fee for a property appraisal, which is a formal estimate of the value of your home
- An application fee, which might not be refunded if you are turned down
- Closing costs, including fees for attorneys, title search, mortgage preparation and filing, property and title insurance, and taxes

PULL MONEY FROM YOUR LINE OF CREDIT

Once approved for a HELOC, you can generally spend up to your credit limit whenever you want. When your line of credit is open for spending, you are in the borrowing period, also called the draw period. Typically, you use special checks or a credit card to draw on your line. Some plans require you to borrow a minimum amount each time (for example, $300) or keep a minimum amount outstanding. Some plans require you to take an initial amount when the credit line is set up.

MAKE REPAYMENTS DURING THE “DRAW PERIOD”

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

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

ENTER THE “REPAYMENT PERIOD”

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

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

RENEW OR CLOSE OUT THE LINE OF CREDIT

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

TIP

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

GET THREE HELOC ESTIMATES

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

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

GET THREE HELOC ESTIMATES *Shopping around lets you compare costs and features, so you can feel confident you're making the best choice for your situation.*		OFFER A	OFFER B	OFFER C
» Up-front charges, including points	$			
» Early termination fee	$			
» Closing costs				
During the draw period				
» Interest and principal payments	$			
» Interest-only payments?	$			
» Fully amortizing payments	$			
» Annual fee (if applicable)	$			
» Transaction fee (if applicable)	$			
» Inactivity fee	$			
» Prepayment and other penalty fees	$			
During the repayment period				
» Penalty for overpayments?				
» Fully amortizing payment amount?				
» Balloon repayment of full balance owed?				
» Renewal available?				
» Refinancing of balance by lender?				
» Conversion to fixed-term loan?				

My best HELOC offer is: ________________

How variable interest rates work

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

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

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

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

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

Rights and responsibilities

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

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

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

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

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

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

TIP

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

If something changes during the course of the loan

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

- **Talk with your lender.** Find out the reason for the freeze or reduction. You might need to check your credit reports for errors that might have caused a downgrade in your credit. Or, you might need to talk with your lender about a new appraisal on your home and make sure the lender agrees to accept a new appraisal as valid.

- **Shop for another line of credit.** If another lender offers you a line of credit, you may be able to use that to pay off your original line of credit. Application fees and other fees may apply for the new loan.

WELL DONE!

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

In this booklet:

? ASK YOURSELF

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

Have I shopped around for HELOC features and fees?

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

ONLINE TOOLS

CFPB website
cfpb.gov

Answers to common questions
cfpb.gov/askcfpb

Tools and resources for home buyers
cfpb.gov/owning-a-home

Talk to a HUD-approved housing counselor
cfpb.gov/find-a-housing-counselor

Submit a complaint
cfpb.gov/complaint