Summary of Findings: Design and Testing of Truth in Lending Disclosures for Home Equity Lines of Credit

July 16, 2009

Submitted to:
Board of Governors of the
Federal Reserve System

Submitted by:

ICF MACRO
an ICF International Company

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EXECUTIVE SUMMARY

BACKGROUND AND DESCRIPTION OF PROJECT

In 1968, Congress enacted the Truth in Lending Act (TILA) to protect consumers by requiring lenders to provide key pieces of information to consumers at various points in time. Congress assigned the Federal Reserve Board (the "Board") the responsibility of implementing TILA, and the Board currently does so through Regulation Z.

In 2004, the Board began the process of reviewing Regulation Z to determine whether revisions were necessary. In January 2009, the Board finalized amendments to Regulation Z rules applicable to open-end (not home secured) credit (e.g., general purpose credit cards, merchant-specific credit plans, and overdraft lines of credit).[1] The Board is currently in the process of reviewing disclosures under Regulation Z related to home-secured open-end credit—namely, home equity lines of credit, and closed-end mortgage disclosures. This report is related to the Board's review of disclosures for closed-end mortgage loans. One of the goals of this review is to ensure that the amended regulations lead to improved disclosures that consumers would most likely pay attention to, understand, and be able to use in their decision-making.

This report addresses to the Board's review of disclosures related to HELOCs. One of the goals of this review is to ensure that the regulations lead to disclosures that consumers would most likely pay attention to, understand, and be able to use in their decision-making.

Under Regulation Z, HELOC borrowers must receive the following three types of disclosures, in addition to others:

- **Application Disclosure:** The regulation currently requires that an application disclosure be provided to potential borrowers at the time an application for a HELOC is provided. This disclosure provides details about the lender's HELOC plan, including the length of the draw and repayment periods; how the minimum required payment is calculated; payment examples; and what fees are charged by the lender to open, use, or maintain the plan. Because this disclosure is provided before underwriting takes place, this disclosure does not include information that is dependent upon a borrower's creditworthiness, such as the annual percentage rate ("APR") that the lender will offer.

- **"What You Need to Know About Home Equity Lines of Credit" Brochure:** This booklet (the "HELOC brochure") is produced by the Board and has no transaction- or program-specific information. It provides consumers with general information about HELOCs and how they work, as well as a glossary of relevant terms, and a description of various features that can apply to HELOCs. The Board currently requires lenders to provide this brochure to consumers at the same time as the application disclosure.

[1] As of the writing of this report, the Board is in the process of revising these rules in light of legislation passed by Congress in May 2009.

- **Account-Opening Disclosure:** The regulation currently requires that an account-opening disclosure be provided to potential borrowers before they commit to opening a HELOC. This disclosure includes detailed transaction-specific information, including the APR and fees that will be charged.

In December 2008, the Board contracted with ICF Macro to assist the Board with its review and revision of these disclosure forms. ICF Macro is a research and evaluation company with expertise in the design and cognitive testing of effective consumer communication materials. ICF Macro worked with the Board on its review of credit card disclosures and is currently contributing to its review of Regulation Z rules for closed-end mortgage disclosures.

Since December 2008, ICF Macro has conducted five rounds of one-on-one cognitive interviews with a total of 50 participants. For each round, ICF Macro developed a set of model disclosure forms to be tested. Interview participants were asked to review model forms and provide their reactions, and were then asked a series of questions designed to test their understanding of the content. Data were collected on which elements and features of each form were most successful in providing information clearly and effectively. The findings from each round of interviews were incorporated in revisions to the model forms for the following round of testing.

The findings from the consumer testing informed the Board's proposed revisions to Regulation Z rules for HELOCs, which the Board will publish for public comment in July 2009, together with the model forms.

Summary of Methodology

Five rounds of testing were conducted, each consisting of 10 interviews of approximately 90 minutes in length. In each interview, the participant was shown several mock disclosure documents and asked to review them just as they normally would for their own account. They were asked to "think aloud" while doing so—in other words, to describe what they were thinking as they read, and to indicate if they saw anything that they found interesting, surprising, or confusing. When the participant indicated whether he or she was finished, the interviewer asked a series of follow-up questions to test the participant's understanding of the document.

Participants in each location were recruited by telephone using a structured screening instrument to ensure the selection of a range of participants in terms of gender, age, and ethnicity. Most participants had HELOCs while some considered getting a HELOC but opted instead for a home equity loan. A few participants did not have a home equity loan or HELOC, but had considered a HELOC in the past five years.

SUMMARY OF KEY FINDINGS

The following is a summary of key findings from the cognitive testing and the most significant design decisions that were made based on key findings. Some of the research focused on very specific aspects of the content or format of these forms, but this summary focuses primarily on the larger issues diagnosed and addressed during the testing process.

Findings Related to Application and Account-Opening Disclosures

Timing of Application Disclosure/Creation of "Early" Disclosure

- Several participants in the first two rounds of testing became confused when reviewing the application disclosure because they could not find their interest rate, and were surprised when told that the rate was not on the form. Other participants incorrectly assumed that one of the rates shown in a payment example on the application disclosure was being offered to them, when in fact that rate was used only for illustrative purposes.

- ICF Macro's testing of closed-end mortgage disclosures[2] conducted during the same time period had shown that participants strongly disliked a disclosure form that lacked specific terms and features because such general information was not useful to them. Participants in closed-end testing were shown an initial adjustable-rate mortgage ("ARM") program disclosure which, like the HELOC application disclosure, is provided with the application and does not provide transaction-specific information. Overwhelmingly, participants indicated that because of its lack of specificity, they would not find the initial ARM program disclosure useful and would be unlikely to read it. While participants in HELOC testing were not as vocal in their dislike of the application disclosure, some of the same sentiment was apparent.

- Based on the results from the first two rounds of testing and similar findings from the closed-end testing, Board staff had concerns about the usefulness of the application disclosure for participants. To address this issue, Board staff decided to test a new type of disclosure: an "early" disclosure of transaction-specific information that would be provided not later than three business days after application (similar to an early TILA disclosure for closed-end loans). The content of this new HELOC disclosure would be similar to the application disclosure, except that it would include information specific to the consumer based on initial underwriting—most notably, the specific APR and credit limit. Model forms for the early disclosure were tested for the first time in Round 3 and participants overwhelmingly indicated that they would prefer to receive a transaction-specific disclosure soon after application, even if it meant that they would not receive a disclosure of generic terms before they applied. As a result, the remaining two rounds of testing focused on developing, testing and refining an early transaction-specific disclosure, rather than a generic application disclosure of the type that is currently required.

[2] ICF Macro will submit findings related to its design and testing of closed-end mortgage disclosures to the Board under separate cover; this report will be published with the Board's proposed revisions to Regulation Z in July 2009.

General Structure of Disclosures

- Participants in the first two rounds of testing were shown an application disclosure based on a sample disclosure conforming to the existing application disclosure samples in Regulation Z and currently in use by a financial institution. This form provided required information in a mostly narrative format. Participants found this form difficult to read and understand, and their responses to follow-up questions showed that it was also difficult for them to identify information in the text. When the same information was presented in a tabular format, participants commented that the information was easier to understand and had more success answering comprehension questions. As a result, after Round 2 of testing the decision was made to use a tabular format for all model disclosure forms.

Annual Percentage Rate (APR)

- Most disclosures that were used in early rounds of testing included a statement that the APR on a HELOC does not include costs other than interest, as currently required by Regulation Z. The purpose of this requirement is to make clear to consumers that an APR on a HELOC cannot be directly compared to an APR on a closed-end loan, which includes most fees. However, many participants misunderstood this sentence; for example, some incorrectly thought they would not be charged any fees. Just as important, no participants understood the purpose of this statement, or how they could use the information when applying for a home equity product. Different versions of this statement were tested in several rounds to attempt to improve comprehension, but all versions were unsuccessful in communicating to consumers the statement's intended purpose. As a result, this statement was eventually removed from the disclosures.

- Some disclosures that were tested did not describe exactly how the APR for the line of credit would be determined; for example, one form in Round 4 indicated only that the APR "would vary monthly with the Prime Rate." However, participants consistently indicated that they preferred to be shown more detailed information about how their APR would be determined over time. Therefore, the final model early disclosure forms include the specific margin added to the index to calculate the APR.

Fees

- All of the application and early disclosure forms that participants were shown included a range of the total of one-time fees that the borrower could be charged for opening the account. Some forms also provided a breakdown of account-opening fees into four categories (loan origination, loan discount, underwriting, and appraisal). Participants consistently said that they preferred to have the more detailed breakdown of fees to help them understand what they would be paying. As a result, this level of detail was included in the final model early disclosure form.

- In several rounds of testing, participants were shown versions of a table that itemized account-opening fees, penalty fees and transaction fees. Participants were asked which of these fees were most important for them to know as part of the early disclosure. Most participants indicated that it was most important for them to be provided an itemization of the fees required to open the account in the early disclosure so that they could better understand the costs of opening the HELOC plan. As a result, the total of the account-opening fees and their itemization (as discussed above) were included in the final model early disclosure form, but transaction fees and penalty fees were not included. Several participants indicated that they would also want to know if they would be charged any fees if they were to open an account, not make any advances and close it within a year. Since several participants indicated that they opened up a HELOC as a "safety blanket," with an intent not to borrow any funds unless there was an emergency or a job loss, Board staff felt that for such consumers it would be important to disclose upfront all fees to open, cancel, and maintain an account. As a result, the early disclosure that the Board is proposing also shows fees imposed by the creditor for the availability of the plan (e.g., annual fee), fees for early termination of the plan by the consumer, and fees for required credit insurance or debt cancellation or suspension coverage.

- The final model account-opening disclosure that the Board is proposing includes all fees shown on the early disclosure, as well as a breakdown of penalty and transaction fees. Participants who were shown this disclosure during testing indicated that they found this list sufficient, and could not identify any additional types of fees that they would want disclosed to them.

- Some of the forms that were tested included a statement that other types of fees not listed on the form may apply; other forms did not include this statement. Most participants who saw forms without this reference incorrectly assumed that all fees were listed on the account-opening disclosure and that no other fees would apply. As a result, this statement is included on the final model forms.

Draw and Repayment Periods

- The forms that participants were shown in Round 1 included information about the "draw" and "repayment" periods associated with the line of credit. Most participants in this round indicated that the term "draw period" was unclear to them, so in Round 2 two alternate terms were tested: "borrowing period" and "withdrawal period." Participants in that round strongly preferred the term "borrowing period," so all subsequent model forms used this phrase.

- Forms in Round 2 also referred to the "payoff period" as an alternate term for the "repayment period," which had caused some confusion among participants in Round 1. However, ICF Macro and Board staff were concerned that this phrase might imply to consumers that they would be fully paying off their balance over this period, when in fact a sizable balloon payment could be due at the end of the HELOC term. Since there was no evidence that the phrase "payoff period" was any more understandable than the original term "repayment period," and some consumers indicated that the term "payoff" would imply paying off the balance in full, all subsequent forms referred to the "repayment" period.

- Participants in early rounds had a great deal of difficulty understanding the timing of the draw (or borrowing) and repayment periods. For example, several incorrectly thought that the two periods ran concurrently, or that the repayment period began as soon as money was borrowed. Revised disclosure forms clarified the relationship between these two periods by highlighting the distinctions between them and by including information about the timing of the periods (e.g., "Years 1-10") in sample payment tables. These revisions were effective; participants in later rounds understood that the two periods would run subsequently and that the repayment period would begin at the end of the borrowing period.

Historical Example Table

- In Rounds 1 through 3, many participants misunderstood the information provided in the historical payment example table currently required by Regulation Z to be included in the application disclosure. In reviewing versions of both application disclosures and early disclosures containing the required historical payment example table, a large group of participants did not understand that the information in this table was based on the actual historical behavior of interest rates; they instead assumed that the data shown was a hypothetical example, and dismissed it as not very useful because it did not apply to their HELOC. Even after the meaning of the table was explained to them, many participants indicated that, because these numbers were based on what had happened to the interest rate in the past 15 years, the table did not contain any valuable information that would inform their decision making about the HELOC for which they were applying. More significantly, an even larger group of participants concluded that the rate and payment information shown in the historical example table would apply to their HELOC and erroneously indicated that the table showed their exact monthly payments. When the numbers in the table were explained to them, most of these participants concluded that the information presented in the table was not useful as it led them to believe that those numbers would apply to their HELOC, when in fact they represented just an example of how rates and payments had fluctuated in the past. A few participants indicated that the table did not offer any new information not already described in some form elsewhere in the disclosure, such as the variable rate nature of HELOCs. As a result, the historical example table was removed from the disclosures and a statement about the rate and payment fluctuations was instead tested in subsequent rounds, as discussed below.

- When reviewing the historical example table, some participants indicated that they found it helpful to know how the index had behaved in the past, so that they could know how much it had changed over time. Some participants found the range of the index useful in determining the likelihood of the interest rate reaching its maximum. As a result, a statement was added to the model forms under the heading Historical Changes in Interest Rate to indicate the range of the value of the index over a 15-year historical period. The intent of this change was to provide the most important information from the historical example table in a simple and efficient way.

Description of Payment Plans

- Beginning in Round 3, the early disclosures that were tested included information about two payment plans. Over the following two rounds, multiple formats were tested explaining the distinctions between plans and the relative advantages of each. Some described the plans in narrative form, while others used a more structured tabular format. The final model early disclosure uses a bulleted format to provide information on how payments are determined in both the borrowing and repayment periods under both payment plans, and to allow information about the two plans to be compared easily.

- The final model early disclosure also includes a section labeled "Plan A vs. Plan B" that directly compares the two plans in terms of their overall cost over time and the amount of a balloon payment, if any, because some consumers were unable to determine from the sample payment table (discussed below) which plan would be less costly over time.

Sample Payments

- One aspect of the forms that varied throughout the testing was the hypothetical balance used to calculate sample payments. Current Regulation Z requires that payment examples be based on a $10,000 balance. However, Board staff learned through its outreach efforts and confirmed through consumer testing that it is important for consumers to know what their monthly payments would be under the "worst case scenario," namely if they borrowed the maximum amount under the credit line. The model forms tested in early rounds were based on a $10,000 balance and a balance based on the maximum credit limit drawn. Some consumers were able to multiply the payment amounts in the $10,000 example to determine what their payments would be if they were to borrow $40,000 or $50,000 instead. However, a number of consumers preferred a payment example based on the maximum credit limit, indicating that they would like to know what would be the highest payment they would have to make if they borrowed the entire credit limit.

- Recognizing that consumers often borrow an initial amount when they first open their HELOC and make additional draws during the borrowing period, another hypothetical example was introduced in Round 5 based on the assumption that $10,000 was borrowed on the first day of the borrowing period and an additional $10,000 borrowed on the last day of the borrowing period. However, this confused participants, who indicated that they would prefer a simpler hypothetical scenario. Some participants thought that they would be required to take an additional $10,000 before the borrowing period expired based on this payment example. Several participants were concerned that the payment table was telling them how much they would have to borrow during the borrowing period, and were unsure whether they could borrow more or less over time. As a result, the decision was made to show monthly payments based on either a $10,000 balance or the entire credit limit drawn. Due to concerns that payments based on a $10,000 balance might make the sample payments unrealistically low for most consumers, especially if required minimum payments included only interest; as well as outreach and consumer testing indicating a preference for payment examples based on the full credit line; the final model forms use a hypothetical balance equal to the full credit limit.

- Because minimum required payments could potentially change over time as the principal is paid down, most of the forms in early rounds of testing showed a range of payments. For example, one form in Round 2 indicated that payments during the repayment period would be "$200.00 decreasing to $34.12," while another stated that the payment would be "up to $200.00." Given the two choices, participants strongly preferred the first phrasing, which was used in several subsequent forms, but almost all participants were confused with the range of payments and especially why payments would decrease over time. As a result, prior to

Round 4, Board staff became concerned that providing the range of payments could result in "information overload" for consumers, especially because a number of participants spent a considerable time analyzing the range of payments at the expense of not focusing on other pertinent information on the form. Subsequently, all forms used in Rounds 4 and 5—and the final model forms to be released with the Board's July 2009 proposal—listed only the first payment in each period rather than the entire range. Based upon the assumptions used in calculating the payment examples, the first payment in each period would be the highest payment of each period.

- The final model forms show payment examples for two different interest rates—the current rate and the maximum rate under the plan. Forms used in Round 2 listed payments for four different rates, rather than two. However, the decision was made that the marginal benefit of showing two additional rates was small, compared to the risk of overwhelming consumers with too many dollar figures.

Information about Risks

- The final model forms include a section labeled "Risks," which includes information about the security interest, possible creditor actions such as account termination or suspension, and tax deductibility of interest, as currently required by Regulation Z. Grouping this information in a single section and labeling that section "Risks" made it more noticeable to participants and easier for them to review the information quickly and efficiently.

- Some versions of application and early disclosures that were tested displayed the "Risks" section at the top of the form, and others at the bottom. In Round 1, a model account-opening disclosure was tested with "Risks" on page 1 but at the very bottom of the page. Participants were split regarding whether they preferred that information presented at the top of the form or at the bottom. For some participants, the information was more noticeable if located at the top of the disclosure, where it immediately caught their eye. Others did not pay much attention to that information once they realized that it did not contain any specific terms and rate that would apply to their HELOC. Those participants preferred to see "Risks" at the bottom of the form, which enabled them to get to specific terms and features being offered at the very beginning of the form. Regardless of the placement of the "Risks" section in the table, most participants noticed and understood the disclosure about the risk of loss of the home in case of default and the disclosure about a creditor's right to terminate the plan in certain circumstances. In the Board staff's outreach, neither industry nor consumer group representatives indicated a preference for either placement. Consumer advocates suggested that for most consumers the placement of "Risks" at the bottom of the form would have as much benefit as its placement at the top of the form, and emphasized the importance of highlighting key terms, such as the APR. As a result of the testing and the outreach efforts, the model early disclosure forms and the model account-opening form place "Risks" at the bottom of the form.

Findings Related to the HELOC Brochure and Key Questions Document

- Participants who were shown the HELOC brochure generally indicated that they found the document useful and thought the information it contained was important—particularly for consumers with little experience with home equity products. An almost universal criticism among participants about the HELOC brochure was that it was too long. As a result, several participants indicated they would be unlikely to read it. Several participants indicated that they would be more likely to read a shorter and more concise disclosure.

- Following Round 1, ICF Macro developed a one-page disclosure titled "Key Questions to Ask About Home Equity Lines of Credit." The goal was to summarize the most important information in the HELOC brochure in a shorter, more consumer-friendly format. The Key Questions disclosure tested extremely well with participants; all indicated that they would find it useful, and most found it very clear and easy to read. As a result, the Board is proposing to require lenders to provide the Key Questions document to prospective borrowers instead of the HELOC brochure. While several different questions were tested in different rounds, the questions listed and answered on the final proposed version are:

    - Can my interest rate increase?
    - Can my minimum payment increase?
    - When can I borrow money?
    - How soon do I have to pay off my balance?
    - Will I owe a balloon payment?
    - Do I have to pay any fees?
    - Should I get a home equity loan instead of a line of credit?

CHAPTER I: INTRODUCTION

BACKGROUND

In 1968, Congress enacted the Truth in Lending Act (TILA) to protect consumers by requiring lenders to provide key pieces of information to consumers at various points in time. Congress assigned the Federal Reserve Board (the "Board") the responsibility of implementing TILA, and the Board currently does so through Regulation Z.

In 2004, the Board began the process of reviewing Regulation Z to determine whether revisions were necessary. In January 2009, the Board finalized amendments to Regulation Z rules applicable to open-end (not home secured) credit (e.g., general purpose credit cards, merchant-specific credit plans, and overdraft lines of credit).[3] The Board is currently in the process of reviewing disclosures under Regulation Z related to home-secured open-end credit—namely, home equity lines of credit, and closed-end mortgage disclosures. This report is related to the Board's review of disclosures for closed-end mortgage loans. One of the goals of this review is to ensure that the amended regulations lead to improved disclosures that consumers would most likely pay attention to, understand, and be able to use in their decision-making.

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[3] As of the writing of this report, the Board is in the process of revising these rules in light of legislation passed by Congress in May 2009.

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Since December 2008, ICF Macro has conducted five rounds of one-on-one cognitive interviews with a total of 50 participants. For each round, ICF Macro developed a set of model disclosure forms to be tested. Interview participants were asked to review model forms and provide their reactions, and were then asked a series of questions designed to test their understanding of the content. Data were collected on which elements and features of each form were most successful in providing information clearly and effectively. The findings from each round of interviews were incorporated in revisions to the model forms for the following round of testing.

The findings from the consumer testing informed the Board's proposed revisions to Regulation Z rules for HELOCs, which the Board will publish for public comment in July 2009, together with the model forms.

METHODOLOGY

Testing of the model forms was carried out through five rounds of interviews, as shown in Table 1. Before each round of interviews, ICF Macro developed model disclosures for testing. In most cases, multiple versions of each type of disclosure were developed so that the impact of varying language or format could be studied. The Board staff attended all rounds of testing. After each round, ICF Macro briefed Board staff on key findings, as well as their implications for form design and layout. These results were then used to create revised forms for use in the next round of testing.

Table 1: Timeline of Cognitive Testing

	Location	Dates	Number of Interviews
Round 1	Bethesda, MD	December 17-18, 2008	10
Round 2	Los Angeles, CA	February 11-12, 2009	10
Round 3	Chicago, IL	March 24-25, 2009	10
Round 4	Denver, CO	April 14-15, 2009	10
Round 5	Bethesda, MD	May 5-6, 2009	10

Participants in each of the four locations were recruited by telephone using a structured screening instrument in order to ensure the selection of a range of participants in terms of gender, age, and ethnicity. Most participants had HELOCs, while some considered getting a HELOC but opted instead for a home equity loan. A few participants did not have a home equity loan or HELOC, but had considered a HELOC in the past five years. Participants were screened out if they worked for a bank or other financial institution, or if they worked in the real estate or mortgage industry. The screening criteria that were used were essentially the same in each location, although the recruiting quotas changed slightly in each round to provide for a diverse and representative participant pool. A sample recruitment screening instrument is included as Appendix A, and a summary of participants' background and demographic information can be found in Appendix B.

Interviews in each location were approximately 90 minutes long. While the interview guide varied between rounds, the general structure of these interviews was very similar. Participants were given a disclosure form and asked to "think aloud" while they went through the document, indicating whenever they found something surprising, interesting, or confusing. Following this "think aloud" process, each respondent was asked specific questions about the information on the disclosure to determine how well he or she could find and interpret the content. The participant would then be given another disclosure form—either a new version of the same disclosure type, or a new type altogether—and the interviewer would take them through the same process.

Variations in the interview protocol, as well as a description of the forms that were shown to participants, is provided in the description of each round of findings in Chapter III.

CHAPTER II: GUIDING PRINCIPLES FOR DISCLOSURE DESIGN

Much of ICF Macro's design of revised disclosures was based directly on findings from cognitive testing. This reliance on direct consumer research is an important strategy for ensuring that disclosure forms are useful and understandable to their intended audiences. At the same time, there are a number of general principles to which ICF Macro's designers try to adhere whenever engaged in this or similar projects. These principals include:

- **Use plain language.** Jargon and technical language should be avoided whenever possible, and replaced with words that are more easily understood by consumers. The use of simple language is particularly important in the context of disclosures, because consumers at the greatest risk of being taken advantage of are often those with lower literacy levels. While readability metrics (such as the "grade level" of the writing) can be useful in this respect, the best way to determine whether language is truly understandable is through direct consumer testing.

- **Prioritize information, and structure disclosures so that the most important information for consumers is easiest for them to find.** Consumers frequently do not read disclosures carefully; those who do look at them often skim them quickly to look for a few key pieces of information. If consumers cannot quickly find the information they are looking for, they are likely to become frustrated and give up. Therefore, before any design work can begin there must be some discussion to identify the most important pieces of information on the form. Those should be located most prominently on the disclosure, to increase the likelihood that even consumers who skim the form quickly can find and understand that information.

- **Provide information in a format that makes it easy to compare terms between disclosures.** One purpose of HELOC disclosures—particularly early disclosures—is to serve as a tool to help consumers compare products from different lenders. Narrative text is often difficult to compare in this way, because consumers cannot always identify the equivalent information between forms. Providing information in more structured formats, such as tables with consistent labels and headings, facilitates this kind of shopping comparison.

- **Keep language and design elements consistent between forms so that information can be tracked over time.** In a disclosure regime like that currently in place for HELOCs, consumers get information about the product for which they are applying at multiple points in time. One goal of these disclosures is to help consumers track the terms of their line of credit at each stage in the process (from application to closing, for example) to make sure nothing changes without their knowledge. To facilitate this, the structure and formatting of disclosure elements, as well as the language that is used to describe various aspects of the product, should be made consistent between disclosures whenever possible.

- **Use headings and titles to make documents more navigable, and to help consumers find the information they are looking for.** When large amounts of text are included, plain language headings should be used to distinguish sections on different topics. In tables, rows and columns should have short, easy-to-read titles that accurately describe the information that is provided. This allows consumers to find information that they are looking for quickly and efficiently, and decreases the likelihood that they will become distracted by unrelated text.

- **Group related concepts and figures.** HELOC disclosures contain a great deal of disparate information about a complex financial product. Consumers are likely to find it easier to absorb and make sense of the information if it is grouped in a logical way so they do not have to constantly shift their mindset as they read. For example, the revised HELOC disclosures groups several pieces of information about potential risks into the same section of the form, whereas in most disclosures that are currently in use these references appear in multiple places.

- **Build off of prior research whenever possible.** While each type of disclosure is different, findings from cognitive testing can often translate between different documents. The applicability of a disclosure format in a new context should always be confirmed through cognitive testing, but it often provides a useful starting point. For example, the tabular structure of revised early and account-opening forms—as well as some of the wording of information related to APRs—was originally developed in a project ICF Macro conducted for the Board related to credit card disclosures.

CHAPTER III: TESTING OF REVISED DISCLOSURE FORMS

INTERVIEWS IN BETHESDA, MARYLAND (DECEMBER 17-18, 2008)

Objectives and Methodology

The first round of 10 cognitive interviews was conducted in Bethesda, Maryland on December 17 and 18, 2008. The primary focus of this round was to test consumer comprehension of two different formats for a home equity line of credit disclosure form—a text-based form similar to those currently in use, and a form using less text and a more structured tabular framework.

Four forms were tested in Bethesda:

- An application disclosure in primarily narrative form, designed to be representative of disclosure documents currently in use;
- A new account-opening disclosure in tabular form, developed by ICF Macro to present more specific information about HELOC terms being offered;
- A page providing information about sample payments, titled “Payment Examples”; and
- The Federal Reserve Board brochure “What You Should Know About Home Equity Lines of Credit” (referred to in this report as the “HELOC brochure”).

The first three forms can be found in Appendix C to this report. The HELOC brochure can be found at http://www.federalreserve.gov/Pubs/equity/homeequity.pdf.

The interview protocol included the following sections:

- Interview participants were asked to review the application disclosure that is very similar to forms currently in use, and a new account-opening disclosure developed by ICF Macro. They were shown these two forms in a rotating order, to minimize learning effects. After reviewing each disclosure, participants were asked a series of questions designed to test their comprehension of the content.
- Next, participants were shown a page containing information about sample payments. The goal of this section of the interview was to understand what participants understood about the page, as well as to gather data on what type of payment information would be most useful to them.
- Finally, participants were presented with the Federal Reserve Board brochure “What You Should Know About Home Equity Lines of Credit” (the “HELOC brochure”) and asked to assess its usefulness and clarity.

Key Interview Findings

Previous Experience with HELOCs

- Nine of the 10 participants had obtained HELOCs in the past, while one had opted for a home equity loan because he found that interest rates were lower on that product.

- Of the 9 who had HELOCs, only 1 participant had considered getting a home equity loan instead. Others indicated that they had not, because they did not know how much money they were going to need when they opened their line of credit. A number of participants, however, were unclear about the difference between a HELOC and home equity loan until the distinction was explained to them. Some of these participants did not fully understand whether they had a home equity loan or a HELOC. Only one participant had ever heard the acronym “HELOC” prior to being recruited for this project.

- Almost all participants said that their HELOCs were originated either by their original mortgage provider, a prior lender, or through a bank with which they had an existing banking relationship. Only one participant indicated that he actively shopped among lenders for a HELOC; he eventually decided against getting a HELOC because the fees were too high.

- Few of the participants indicated that they had conducted research on HELOCs before applying for one. Among those who did, most said that they gathered information by talking to family and friends, or by talking to their primary mortgage lender.

- When participants were asked what advice they would give to a friend or family member who was interested in getting a HELOC, the most common response was to use a lender that was trustworthy. Only one participant mentioned shopping among lenders when asked this question.

Application Disclosure

Initial Reactions

- On Day 1, when the application disclosure form was the first form reviewed, all 5 participants were extremely confused by the form.

- All 10 participants had difficulty reading the application disclosure form, and most did not read all the way to the end.

- On Day 2, when the application disclosure was the second form reviewed, participants were slightly less confused by the form because they had seen the tabular format of the account-opening form first, and therefore had some idea about what type of information the application disclosure form was attempting to convey.

- Despite the fact that participants on Day 2 saw the tabular account-opening form prior to seeing the application disclosure form, all 5 of them still had difficulty understanding the application disclosure.

- Two of the participants said that they would not read such a document if it was given to them, because it was so difficult to read.

- When asked to compare the text-based application disclosure with the tabular account-opening disclosure, 8 of the 10 respondents said that they preferred the tabular format because the tables made it easier to find information. The remaining two participants stated that they prefer the textual format of the application disclosure because it appeared to provide more information.

Information about Interest Rates

- Most of the participants appeared to have a general understanding of what the term "index" meant. Most were also able to identify the Prime Rate as the index for the loan being described in the form.

- Two participants were confused by the statement that the interest rate would be based on the Prime Rate "as published in the Wall Street Journal." One commented that he did not know why this would be relevant to him, while the other mistakenly thought this meant he would have to subscribe to the Wall Street Journal in order to know what his interest rate was.

- Fewer participants understood the term "margin" as it was used in the form. About half generally understood that it was an additional percentage that would be added to the index by the lender.

- Most participants understood that the rate was variable. Most got this information from the text of the disclosure, while one got it from the Historical Example table at the end of the form.

- All but one of the participants correctly identified the maximum rate as 24.99%. However, most of them felt that it was very unlikely the rate would ever get this high.

Fees

- Everyone understood that fees would be charged, and that they would total between $0 and $1,000 (the amounts shown on the form).

Draw and Repayment Periods

- When reading the application form, participants were very confused by the distinction between a "draw period" and a "repayment period." Almost none of them could explain what a "draw period" was; no one had heard of this term before.

- Because they had not been exposed to this concept previously, participants had a great deal of difficulty understanding the timing of the draw and repayment periods. Some assumed that the draw and repayment periods ran concurrently, while others indicated that the repayment period began when one first withdrew money from the account. Even after considerable review and questioning from the interviewer, only a few participants eventually understood that the repayment period began when the draw period ended.

- Several of the participants confused the repayment period with the option to extend the draw period.

Balloon Payment

- After their review of the application disclosure, most participants understood that they could owe a balloon payment. However, three participants could not explain what a balloon payment was, or in what situation they would owe one.

Information about Potential Risks

- All participants understood that they could lose their home if they did not meet their loan obligations. This understanding was based on prior knowledge, however, rather than on the "Security Interest" statement they read on the form. In fact, several skipped the "Security Interest" statement when reading the disclosure.

- One participant suggested that this section of the form be given a clearer title, such as "Risk of Home Loss." This, he felt, would increase the likelihood that potential borrowers would pay attention to it.

Historical Example Table

- Many participants understood that the purpose of the historical payment example was to provide information to the consumer about how interest rates could change over time. However, several did not realize that the information in the table was based upon actual historical rates. These participants instead thought that the table provided a hypothetical example of what could happen in the future—despite the fact that the table referred to the years 1991 to 2005. Some participants concluded that the information in the table represented what their monthly payments would be if they were to open a HELOC account.

- Almost all participants understood that their payment would be lower when the rate was lower. However, based on responses to other questions it is likely that participants understood this fact even before reading the form.

- None of the participants on Day 1 understood that the reason payments were higher during the repayment period than during the draw period was because the payment calculation method changed (i.e., payments during the draw period included interest only whereas payments during the repayment period included principal and interest). Comprehension was higher on Day 2, because of learning effects from the account-opening disclosure that was shown first on Day 2.

Account-Opening Disclosure

Initial Reactions

- Participants on Day 1 felt very positively about this form, since most had struggled to understand the application disclosure. Several commented that they found the account-opening disclosure much easier to read and understand.

- One participant commented that he liked having the credit limit and interest rate information in bold, large print so that it stands out from the rest of the text.

Information about Interest Rates

- All participants were able to identify the initial APR easily. Everyone also understood that the interest rate would change, and that it would change depending on the Prime Rate.

- Almost all participants understood that the maximum rate was 24.99%. One mistakenly thought that 24.99% represented the highest the Prime Rate could go, and assumed that the maximum rate for the HELOC would be 26.99% (i.e., 24.99% plus 2% margin).

- Most participants understood the meaning of the sentence, "The APR on a HELOC does not include costs other than interest." However, a few misinterpreted this information; for example, one participant thought this statement was indicating that he would be charged no fees for opening a line of credit. Even those who did understand what the statement meant could not indicate why this information would be on the form, or how they would use this information. Participants did not understand that the purpose of this statement was to make clear to participants that APRs on these products cannot be directly compared to those of closed-end loans, which do include fees.

Fees

- Almost all participants understood that there would be fees associated with opening a HELOC, and could also identify the amount of the fees.

- One participant suggested that the fees should be called "closing costs" rather than "account opening costs," because that term was more familiar to her.

- All participants understood that if they closed the account before the end of the first three years, an early termination fee would apply.

Draw and Repayment Periods

- As with the application disclosure form, there was considerable confusion about the timing of the draw period and the repayment period. Several individuals mistakenly thought that the two periods occurred concurrently.

- One participant mistakenly thought that no money would need to be repaid during the draw period, and that all payments would take place during the repayment period.

- One participant suggested that information about the draw and repayment periods be provided in a chart, to make it easier to see the differences between them. Another recommended including a timeline on the form to explain the timing of the two periods.

Balloon Payment

- Most participants understood that they would owe a balloon payment, just as they did when looking at the application disclosure. However, participants' comprehension of the concept of a balloon payment seemed to be higher when they were looking at the account-opening disclosure.

Information about Potential Risks

- All participants also understood that the bank had the right to terminate the loan early, but several objected to this and said they would "not be interested" in a loan that carried that condition. Almost none of the participants had noticed this information in the application disclosure.

Minimum Loan Amount

- While most participants understood intuitively that the "minimum draw" referred to the smallest amount that could be taken out at a given time, one woman initially interpreted this to mean that this was the minimum draw per month, rather than per transaction.

Review of Payment Example

Initial Reactions

- Several participants looked immediately at the chart, without first reading the explanatory text at the top. "There is so much written at the top that you feel like you want to jump down to here [tables]," said one man.

- Only a few of the participants realized that the minimum payments during the draw period included interest only and no principal.

- Several participants were confused by the numbers of payments that were provided on the page. For example, about half struggled to understand why the 20-year repayment period was listed as "239 payments" (with the last payment shown as a separate balloon payment), while others were unable to calculate the term of the HELOC from the number of payments.

- One participant commented that the tables were trying to convey too many variables at once (i.e., the impact on payments of varying interest rates, draw vs. repayment period, and size of balance). He suggested that payment examples could be better provided through an interactive website.

Understanding of Payment Information

- All participants understood the difference between the two columns of payments shown—that is, that the payment would vary based on the interest rate.

- Those participants who skipped directly to the table without reading the explanatory text first were completely confused as to why the payments listed for the draw and repayment periods had such different payment amounts. Once they were directed to read the text, many eventually understood that the difference in payments was due to the fact that the payments during the draw period were interest-only, although some understood this only with great difficulty.

- None of the participants understood why a range of payments was listed for the repayment period in the first column. This was intended to show the fact that payments would decrease over time as the principal was paid off, but no participants could ascertain this from the form. Most participants incorrectly assumed that the range of payments reflected a fluctuation in interest rates over that time period. Many participants also commented that the range should be listed from lowest to highest.

- When asked what their minimum monthly payment would be for a $30,000 balance, almost all participants were able to multiply by three the amounts shown for a $10,000 balance, while one divided by two the amounts shown in the $80,000 table and then assumed the payment on $30,000 would be "a little less." At least one participant did not have any idea how to estimate what the payments would be on $30,000 since the table showed payments based on a $10,000 balance and an $80,000 balance.

Balloon Payment

- Participants were much more likely to understand from this form that a balloon payment would be owed at the end of the repayment period than they were after reading the application disclosure. However, this was likely due, at least in part, to learning effects, since all participants saw the application disclosure before the Payment Examples page.

- Several participants expressed surprise that they might owe thousands of dollars at the end of the repayment period, even if they made minimum payments throughout.

Review of HELOC Brochure

- None of the participants remembered having ever seen the HELOC brochure before, even those who had previously opened HELOCs.

- The reaction to the brochure was generally favorable. One participant said that it was a "good first step" to providing the information that consumers needed. Several said that the brochure would be particularly useful for people who were considering opening their first HELOC. One participant, however, called the document "dry and boring."

- Several participants commented that while the content of the HELOC brochure was useful, they probably would not read it if they received it from a lender. The two most common reasons given were that the document was too long and would take too much time to read, and that they felt they already knew whatever they needed about the product. The sentiment about the HELOC brochure being too long was shared even by many participants who otherwise viewed the brochure very favorably.

- Most participants said that the glossary was particularly useful to them—especially the definitions of those terms, like index and margin, which they had struggled to understand on the disclosure forms they were shown. Several participants were specifically looking for definitions of draw and repayment periods, and, when they were unable to find them, commented that the glossary should define these two terms since they are not intuitive.

- The "shopping worksheet" in the brochure received mixed responses. Some said that the worksheet would be useful and that they would definitely use it, while others said they probably would not. Participants' enthusiasm for the worksheet was generally dampened by the fact that few seemed to believe it was important to shop between different lenders.

Subsequent Design Decisions

General Structure of the Application Disclosure

- Participants had a great deal of difficulty comprehending the application disclosure, largely because the document was so text-heavy. Participants also expressed a preference for a tabular format, such as was used in the account-opening disclosure. In addition, the use of a tabular format seemed to improve participants' understanding of several aspects of the forms, such as the balloon payment. For these reasons, the decision was made to develop a tabular application disclosure to be tested in the next round of interviews as an alternative to the current text-based version.

Information about Interest Rates

- All participants were unsure how to use the statement that "The APR on a HELOC does not include costs other than interest." Since this statement is currently required by Regulation Z and the statute, a decision was made to test it with more context in the next round to provide a framework that would increase consumer comprehension.

Draw and Repayment Periods

- Because several participants had difficulty understanding the distinction between the draw and repayment periods, these periods were renamed in forms for the next round. The "repayment period" was renamed the "payoff period" and two new labels for the "draw period" were tested in the next round: "withdrawal period" and "borrowing period."

- When looking at the Payment Examples page, participants had a great deal of trouble distinguishing the draw and repayment periods. One of the primary goals of the forms developed for the next round was to better describe how these two periods are distinct, and the impact of each on the required monthly payments.

- Several participants did not understand from reading the forms that the draw and repayment periods were consecutive, rather than concurrent. Forms for the next round highlighted the start and end dates of these two periods to emphasize the fact that they are distinct and do not overlap.

- Because the word "draw" was not intuitively understood by participants (i.e., as in "Minimum Draw"), this word was replaced with "loan."

Information about Payments

- Because it was not clear that participants needed to be shown payment examples for two different balances, and because almost all participants were able to estimate payments for different balances from sample payments on $10,000, forms for the next round only provided sample payments for a single hypothetical balance of $10,000.

- Almost all participants were confused by the fact that the payment during the repayment period was listed as a range. Two different ways of addressing this issue were tested in the next round. Some forms indicated that the payment was decreasing over time (e.g., "$100.00 decreasing to $30.48"). Other forms simply said that the payment during that period would be "up to $100.00."

- Several participants had difficulty interpreting the numbers of payments provided in the Payment Examples page. For example, they were not able to easily add up the number of payments to calculate the term of the HELOC. Because it was unclear that this information would be useful to consumers, the number of payments was not included on subsequent forms.

- In order to provide participants with more information about how their payment might vary based on changes in their interest rate, the forms used in the next round of testing showed sample payments for four different interest rates (including the minimum and maximum rates under the plan), rather than two.

Information about Potential Risks

- To make it easier to read for consumers, most of the information provided in the "Other Important Information" section of the account-opening disclosure was restructured into a section labeled "Risks." This section was also included in the tabular version of the application disclosure that was tested in the next round.

- Because some participants had difficulty understanding the section of text labeled "Our Right to Terminate or Reduce Your Line of Credit," the information in this section was bulleted in all subsequent forms.

Historical Example Table

- A significant number of participants in this round had difficulty understanding the Historical Example table. For example, several did not even understand that this table was providing historical information about rates. Because of this confusion, some of the forms tested in the next round did not include this table.

HELOC Brochure

- Because several of the participants in this round commented that they might not read the HELOC brochure because of its length, the decision was made to develop a new, shorter early disclosure highlighting important features of HELOCs. This new disclosure was tested in the following round of interviews.

Interviews in Los Angeles, CA (February 11-12, 2009)

Objectives and Methodology

The second round of 10 cognitive interviews was conducted in Los Angeles, California on February 11 and 12, 2009. The primary focus of this round was to test consumer comprehension of an array of home equity line of credit disclosure forms. The goal was to supplement first round findings in regards to basic formatting and to experiment with different approaches to disclosing more complex features of HELOCs, such as payment examples and the difference between draw and repayment periods. This round also included the testing of a new one-page early disclosure form about HELOCs.

Eight forms were tested in Los Angeles, all of which are provided in Appendix C:

- An application disclosure form similar to that used in the first round of testing, designed to be representative of disclosure documents currently in use (AD-1);
- Two application disclosure forms that included similar information to AD-1, but in a new tabular format (AD-2A and AD-2B);[4]
- Two other application disclosure forms similar to Forms 2A and 2B except that several statutorily required requirements were relaxed (AD-3A and AD-3B);
- Account-opening forms in two different formats (AO-A and AO-B); and
- A new disclosure titled "6 Key Questions to Ask About Home Equity Lines of Credit," that was designed to be provided to consumers with an application.

The interview protocol included the following sections:

- Each interview participant was asked to review AD-1 and one of the two AD-2 forms. They were shown these two forms in a rotating order, to minimize learning effects. The goal of this portion of the interview was to assess whether the new tabular format improved participants' comprehension of this information.

[4] The format of the "A" and "B" versions of AD-2 and AD-3 paralleled the two different account-opening forms that were shown to participants.

- Next, participants were shown one of the AD-3 forms. The differences between AD-2 and AD-3 were pointed out to participants, who were asked to compare each aspect of the two forms in terms of their usefulness.

- Participants were then shown both Forms AO-A and AO-B. In addition to answering questions testing their comprehension of the information, participants were also asked to comment on the differences in format between the two forms.

- Finally, participants were presented with a new one-page early disclosure titled “6 Key Questions to Ask About Home Equity Lines of Credit” (the “Key Questions” disclosure). After being shown this new disclosure, participants were asked questions to test their understanding of the content and solicit feedback on the document’s usefulness.

Key Interview Findings

Previous Experience with HELOCs

- During the initial portion of the interview, it was clear that several participants did not understand the difference between a home equity loan and a HELOC. For example, one person initially indicated that she had a home equity loan, but after the difference was explained to her she realized that she actually had a HELOC.

- Of the eight participants who had previously obtained a HELOC, only one had talked to several lenders before opening the line of credit. The rest either used the same lender who had financed their first mortgage, or a lender with whom they had a prior business relationship. The one participant who had shopped for a HELOC chose the lender who offered the lowest interest rate.

- Of the eight participants who had obtained HELOCs, none had considered instead getting a closed-end home equity loan. Most indicated that a closed-end loan would not have been appropriate for them, because they did not know in advance how much money they were going to need to access. Two participants who had used “piggy-back” HELOCs to purchase a house indicated that they had not been given a choice by their lenders whether to instead get a second mortgage.

Application Disclosures (AD-1 and AD-2)

Information about Interest Rates

- Four of the 10 participants incorrectly thought that AD-1 identified a specific interest rate for their line of credit.[5] Two thought that their interest rate would be 24.99%, the maximum rate listed. Two others thought that their rate would be 8.5% because this figure was used in the minimum payment example shown on the form. When reviewing AD-2, however, all

[5] Because AD-1 was an application disclosure that would have been provided before any underwriting had taken place, the disclosure did not indicate what the interest rate would be, consistent with the current Regulation Z requirements.

10 participants were able to correctly identify the range of interest rates they might be offered if they applied.

- Only three of the 10 participants understood after reading AD-1 that their interest rate would be determined based on an index plus a margin. When asked to find this information on the form, most participants were unsure in which section of text to look.
- All but one of the participants understood from AD-2 that the interest rate would be determined by the Prime Rate plus a margin. All but one also understood that the size of the margin would be determined by their creditworthiness.
- Eight of the 10 participants understood that the loan described in AD-1 had a variable interest rate. All 10 participants understood from form AD-2 that the interest rate would be variable.
- Six of the 10 participants were able to find the maximum interest rate on AD-1 without assistance from the interviewer, compared to eight of 10 who were looking at AD-2.
- AD-2 included a statement that the APR "does not include fees other than interest (unlike the APRs for traditional mortgages and home equity loans, which include some closing costs)." Most participants generally understood that this statement meant that the APR represented the costs associated with interest. However, none understood the text in parentheses relating to the APRs for closed-end products. None were also able to articulate why this statement might be on the form or how the information might be useful to them.

Information about Payments

- All participants were able to identify the initial monthly payment for a balance of $10,000 and an interest rate of 6.0%, regardless of whether they were looking at AD-1 or AD-2. All answered the question either by looking at the Historical Example or Minimum Monthly Payment tables.

Fees

- All 10 participants understood that they would have to pay fees to take out a line of credit, and could identify what the amount of the fees might be. Both AD-1 and AD-2 appeared to provide this information equally clearly.
- A few participants commented that they would like a more detailed breakdown of account-opening fees at the application stage, rather than an aggregate amount.

Withdrawal/Borrowing and Payoff Periods

- Of the five participants who saw AD-1 first, only two understood that they would have 10 years to borrow from their line of credit and an additional 10 years to pay it off. One participant knew that each period was 10 years long, but thought that they might run concurrently.

- Of the five participants who saw AD-2 first, again only two understood the exact timing of the withdrawal/borrowing and payoff periods. One did not see any reference to the payoff period, while another mistakenly thought that the line would have to be paid off before the payoff period began.

- When looking at AD-2, several participants had difficulty determining how long the two periods were because they were shown as ranges of years (e.g., 2009-2018) as opposed to a time frame (e.g., 10 years).

- Few participants understood that the minimum payments during the withdrawal/borrowing period would cover only interest and no principal. Only one of five participants who saw AD-1 first understood this fact, as did two of five who saw AD-2 first.

- With both AD-1 and AD-2, seven of the 10 participants understood that they would not be able to withdraw funds during the payoff period. Neither form appeared to be noticeably more effective at communicating this information.

- Only three of the 10 participants understood that a range of minimum payments was shown during the payoff period because the payment would change as the principal was paid off. Most incorrectly thought that the reason a range of payments was provided was that the payment might vary based on changes in interest rates.

Balloon Payment

- Most participants understood what a balloon payment was, and why it would be due at the end of the HELOC term. Participants' comprehension of balloon payment did not seem to depend on whether they were looking at AD-1 or AD-2.

- Only a few participants realized that the loan described in AD-1 could have a balloon payment at the end. When reading AD-2, however, most understood that there could be a balloon payment.

Information about Potential Risks[6]

- Three of the five participants who were shown AD-1 first understood that they could lose their home if they did not make the minimum payments, compared to four of the five who were shown AD-2 first.

- Seven participants understood from form AD-1 that the bank had the right to terminate the line of credit early. Comprehension of AD-2 appeared to be slightly better; all participants but one could identify this information on this form.

[6] AD-2 and AD-3 provided information about potential risks in a separate section labeled "Risks." In AD-1, this information was provided in various places throughout the text.

- Several participants commented that they would want to know the specific circumstances under which the bank could end their line of credit. One participant suggested that the text be made even clearer; she suggested rephrasing the sentence as, "The bank can call in your loan."

Historical Example Table

- When asked to explain in their own words what the Historical Example Table showed, most participants said that it reiterated to them that the rate could change, and that if the rate changed their payment would change. However, as in the previous round several participants did not understand that the information in the Historical Example table was based on actual historical information; they assumed that the figures shown were hypothetical.

- When reviewing the Historical Example Table, a few participants commented that they found it useful to know how much the Prime Rate varied over time. One reason they felt this information was important was because it helped them assess the likelihood that the interest rate would reach its maximum.

- When asked how they would use the information in the Historical Example Table when evaluating a HELOC, several said they would not. Most others were unable to explain exactly how they would use the information, or why it would be useful to them.

Minimum Loan Amount

- Almost all participants could identify the minimum loan amount for this line of credit, regardless of whether they were shown AD-1 or AD-2.

Comparison of AD-2 and AD-3

- Forms AD-2 and AD-3 used different phrasing to indicate that the payments during the repayment period would vary over time, due to the fact that the principal was being paid off. For example, AD-2 stated that at an interest rate of 6%, minimum payments during the payoff period would be "$200.00 decreasing to $34.12," while AD-3 indicated that the payments would be "up to $200.00." Six of the 10 participants indicated that they preferred the former wording because it was more precise; two went so far as to call the "up to" language "suspicious." One said that she liked the latter wording because she did not understand what "decreasing to" meant, while the other participants did not have a preference. It should be noted, however, that understanding of this range of payments was very low regardless of how it was phrased (see above).

- The first page of the AD-2 forms listed information about risks first, and terms of the line of credit (i.e., credit limit, APR, etc.) below. This order was reversed on the AD-3 forms. Seven of the 10 participants preferred having the risk information at the top; one thought it was "good information to lead with," while another said that it "makes you more cautious." Three participants preferring having information about the credit limit and APR above the risks. One thought this was a more logical order for the information, while another described it as getting "the sweet before the sour."

Comparison of AO-A and AO-B

- AO-A used the term "borrowing period" to describe the initial period of time when money could be borrowed, while AO-B used the phrase "withdrawal period." Participants overwhelmingly preferred the term "borrowing period," because they felt it more accurately described how a line of credit worked.

- Forms AO-A and AO-B described the APR in two different ways. AO-A explained that the rate would be equal to the "Prime Rate + 2%," while AO-B merely said that the interest rate would "vary with the market monthly based on the Prime Rate." Seven of the 10 participants indicated that they preferred the wording used in AO-A, because it was more precise and gave more information. The remaining three participants did not express a preference between the two versions.

- In the section of the account-opening disclosure that described the borrowing and payoff periods and provided sample minimum payments, AO-A provided information about the two periods first, with payment information below. AO-B first provided a table of sample payments, and below the table explained the differences between the two periods. Five of the participants preferred the order of information in AO-A because they felt the description of the two periods helped them interpret the numbers below. Two participants preferred the format of AO-B because it seemed more logical to them to start with the numbers and then provide the explanation. The remaining participants did not have a strong preference between the two formats.

- AO-A included estimated balloon payments in a separate column in the Minimum Monthly Payments table, while AO-B stated only that the balloon payment could be "up to" a certain amount. About half of the participants preferred to see the column of balloon payments (the format used in AO-A), while none preferred the AO-B format. The other half of participants had no preference, in some cases because they did not understand what was meant by a "balloon payment" in either format.

- AO-A provided minimum monthly payment examples for a balance of $10,000, while AO-B provided examples for a balance of $50,000. Participants were split as to which they preferred; four said that they would prefer to receive examples based on a $10,000 balance because it would be easy to use these figures to estimate a payment for a larger balance, while three thought payments on a balance of $50,000 would be more realistic for consumers. One participant suggested that payment examples should be based on an assumption that the full credit limit has been accessed, so that borrowers would see the "worst case scenario."

- While participants were split in terms of their preference, payments based on $10,000 appeared to be more useful for them. All five participants who were asked were able to accurately estimate what their payments would be for a $50,000 balance by multiplying the payments in AO-A by five. However, only two of five were able to divide the payments shown in AO-B by five to estimate what their payments would be on $10,000.

Key Questions Disclosure

- The one-page Key Questions disclosure was rated very highly by all participants. All said that they would find the form useful. Several commented that it was easy-to-read, and that it asked and answered important questions.

- Participants generally understood the content of the disclosure and could explain to the interviewer what each of the questions and answers meant.

- In several cases, the Key Questions disclosure helped clarify concepts with which participants had previously struggled. For example, one participant who had not understood balloon payments on the previous documents said that she found the explanation on this form clear on the Key Questions document. Another participant indicated that the explanation of borrowing and withdrawal periods helped her to understand that concept, which she had found confusing while reading the other documents.

- One participant commented that "everyone knows they will have to pay fees" to borrow money, and therefore recommended that this question be replaced with another that would be more informative to consumers.

Subsequent Design Decisions

Information about Interest Rates

- Participants continued to be confused by the text indicating that, unlike the APRs for traditional mortgages and home equity loans, the APR for a HELOC does not include fees other than interest. Therefore, in forms for the next round this text was separated into its own row labeled "Comparing APRs" to try to indicate to consumers how they could use this information.

Withdrawal/Borrowing and Payoff Periods

- Because most participants strongly preferred the term "borrowing period" to "withdrawal period," this phrase was used in all subsequent forms.

- The use of the term "payoff period" instead of "repayment period" did not have any noticeable effect on participants' understanding of this concept. In addition, following this round Board staff became concerned that the term "payoff period" could imply to consumers that the balance would be paid off over time—when in fact paying off the line of credit might require a sizable balloon payment. Therefore, all subsequent forms used the original term, "repayment period."

- In order to conserve space on the form, the format in which the differences between the two periods were described was significantly revised for the next round. Rather than providing this information in a table on the second page, the distinctions between the borrowing and repayment periods were illustrated in a section on the first page titled "Borrowing and Repayment Terms."

- Participants in this round continued to have difficulty understanding the timing of the two loan periods. To address this problem, forms for the next round indicated a section on the first page labeled “Duration of Line of Credit” that indicated the overall term of the HELOC, as well as the timing of the borrowing (“Years 1 to 10”) and repayment (“Years 11 to 20”) periods.

Information about Payments

- Because of concerns that using a $10,000 hypothetical balance to calculate sample payments may lead to misleadingly low payment amounts, the account-opening disclosure tested in the next round showed payments for both $10,000 and $80,000 balances (based on an $80,000 credit limit).

- Because most participants preferred the phrasing of AD-2 (“$200.00 decreasing to $34.12) to that of AD-3 (“up to $200.00”) as a description of payments during the repayment period, forms for the next round used this wording.

- To emphasize the difference in how payments are calculated in the borrowing and repayment periods (particularly the fact that the borrowing period payments are interest-only), a short description of the calculation methods was added to the title of the columns in the Sample Payments table.

- Because it was unclear that providing sample payments for four different interest rates increased the usefulness of the disclosure, and because of concerns that the number of dollar figures being shown on the form was confusing participants, all subsequent forms showed sample payments for only two rates—the current APR and the maximum APR under the plan.

- Because participants’ awareness of the presence of a balloon payment was greater when this payment was included as a column in the sample payment table (as in AO-A), this format was used in forms for the next round.

Historical Example Table

- As in the previous round, several participants continued to have difficulty understanding the Historical Example Table. Because of this, and because some participants indicated that they would not use the information it provided, this table was removed from forms for the next round of testing, and tested as a separate stand-alone document so that more detailed information could be collected about what participants take away from the table, and how useful they find the information.

- Although participants continued to have difficulty understanding the Historical Example table, one piece of information that some participants did find useful was the extent to which the index had varied over the past 15 years. Therefore, in the next round this information was highlighted on the first page of all disclosures, under the heading “Historical Changes to Prime Rate.” This new section also included an estimate of how much their payment would have varied over that same time period.

Key Questions Disclosure

- Because participants responded so positively to the Key Questions disclosure, this form was revised and tested again in subsequent rounds.

INTERVIEWS IN CHICAGO, ILLINOIS (MARCH 24-25, 2009)

Objectives and Methodology

The third round of 10 cognitive interviews was conducted in Chicago, Illinois on March 24th and 25th, 2009. As in previous rounds, the goal of this round of testing was to assess participants' understanding of revised disclosure forms, and to ask participants to compare different variations and indicate which they found clearer.

Prior to the Chicago round of interviews, Board staff had some concerns about the usefulness of the application disclosures for participants. ICF Macro's testing of closed-end mortgage disclosures[7] conducted during the same time period had shown that participants strongly disliked a disclosure form that lacked specific terms and features because such general information was not useful to them. Participants in closed-end testing were shown an initial adjustable-rate mortgage ("ARM") program disclosure which, like the HELOC application disclosure, is provided with the application and does not provide transaction-specific information. Overwhelmingly, participants indicated that because of its lack of specificity, they would not find the initial ARM program disclosure useful and would be unlikely to read it. While participants in HELOC testing were not as vocal in their dislike of the application disclosure, some of the same sentiment was apparent.

To address this issue, Board staff decided to test a new type of disclosure: an "early disclosure" of transaction-specific information that would be provided no later than three business days after application (similar to an early TILA disclosure for closed-end loans). The content of this disclosure would be similar to the application disclosure, except that it would include information specific to the consumer based on initial underwriting—most notably, the specific APR and credit limit. Model forms for the early disclosure were tested for the first time in this round.

In addition to the shift from an application disclosure to an early disclosure of transaction-specific information, another significant change in the forms for this round was that the early disclosures included information about multiple payment plan options. In the first two rounds, application forms had only provided information about one payment plan.

Five forms were tested in Chicago, all of which are provided in Appendix C:

- Two new early disclosures (ID-1 & ID-2);

- A revised account-opening disclosure (AO-2);

[7] ICF Macro will submit findings related to its design and testing of closed-end mortgage disclosures to the Board under separate cover; this report will be published with the Board's proposed revisions to Regulation Z in July 2009.

- A separate page displaying an Historical Example Table; and
- A revised version of the Key Questions disclosure.

The interview protocol included the following sections:

- Interview participants were first asked to review one of the two early disclosure forms, and were asked a series of questions designed to test their comprehension of the content. They were then shown the other version of the early disclosure, and asked to compare the usefulness and clarity of several aspects of the two forms. Participants were shown these two forms in a rotating order, to minimize learning effects.
- Next, participants were shown the account opening disclosure (form AO-2). Again, after reviewing this page they were asked a series of questions designed to test comprehension.
- Participants were shown the Historical Example Table and were asked a series of questions designed to assess the usefulness and clarity of the information.
- Finally, as in the previous round participants were shown the revised Key Questions document and asked to assess its usefulness and clarity.

Key Interview Findings

Timing of Early Disclosure

- When asked what kind of information they would want from a potential lender, all 10 participants said that they would want to know what their interest rate would be.
- In order to evaluate whether participants would find an application disclosure or an early transaction-specific disclosure given soon after more useful, they were asked whether they would prefer to get more general information about their HELOC before they applied, or more specific information (including interest rate) after application. All 10 participants said that they would prefer to receive a more specific disclosure soon after application even if it meant that they received no official disclosure of terms before they applied. Participants indicated that their decision would be the same even if they had to pay an application fee and submit to a credit check in order to get this more specific disclosure.

Early Disclosures (ID-1 and ID-2)

Information about Interest Rates

- Most participants were able to identify the initial interest rate on their line of credit. Three, however, mistakenly thought that the rate shown (5.25%) did not include the margin.
- All participants were able to identify the maximum APR, as well as how often their rate could change.

- None of the participants understood the meaning of the statement under the heading "Comparing APRs" (i.e., "The APR on a HELOC does not include fees other than interest. However, APR's for traditional mortgages and home equity loans include some fees.") Some people interpreted this statement to mean that they would not be charged any fees, and were therefore confused when they subsequently read the information on the form about fees. None understood after reading the statement how the APRs for closed-end loans and HELOCs differed.

Fees

- All participants were able to identify the amount of fees that they could be charged if they opened a line of credit.

- As in the previous round, several participants commented that they would like a more detailed breakdown of their account-opening fees, rather than an aggregate amount.

- None of the participants noticed the information at the top of the disclosure indicating that they might be entitled to a refund of fees that they had paid if they decided not to open the account. Several were surprised when this text was pointed out to them.

Borrowing and Repayment Periods

- All participants clearly understood that the period of the line of credit was for twenty years, and that the recipient had 10 years in which to borrow the money, and then an additional 10 years to pay it off. This was a clear improvement over previous rounds, when participants had significant difficulty understanding the timing of the borrowing and repayment periods.

- All participants understood that they could only borrow money during the borrowing period, and that they would have to make payments during both the borrowing and repayment periods. Again, this was the first round in which this was consistently understood by participants.

Payment Plans/Plan Comparison

- All participants understood that the purpose of the Payment Plans section was to provide borrowers with a choice about how they would pay off their loans.

- All but one of the participants were able to explain the relative advantages of Plans A and B—that is, that Plan B offered lower payments during the borrowing period, but that Plan A did not require a balloon payment and had a lower total of payments.

- Most participants were also able to explain that the reason that payments during the borrowing period were lower under Plan B was that these payments included only interest and no principal.

- Nine of the 10 participants said that they would choose Plan A over Plan B. In most cases this was because they did not want to owe a balloon payment, although those who were shown ID-1 also considered the information in the “Total of All Payments” column of the sample payments table (information about the total of payments was not shown on ID-2).

- The five participants who saw ID-1 said that the information “Total of All Payments” column was very important to them in choosing Plan A over Plan B.

Balloon Payment

- Almost all participants understood that the balloon payment would be owed at the end of the repayment period. Although all participants saw the reference to balloon payments on the disclosure forms, only half could explain exactly what a balloon payment was. Of the remaining participants, one indicated that it was “a penalty of some kind,” while another that a balloon payment was made up of interest that had not yet been paid. Others said that they did not know what a balloon payment was, although all agreed that they would want to avoid paying one if possible. About half of the participants understood that under Plan B, the balloon payment could be avoided by paying more than the minimum payment earlier in the loan term. Other participants were unsure whether this balloon payment could be avoided.

“Risks” Section

- All participants understood based on their review of the early disclosure that the bank had the right to terminate their line of credit.

Fixed-Rate Loan Option

- All of the participants understood from the form that they had the option to borrow up to \$40,000 at a fixed rate. Several, however, were unsure whether or not this \$40,000 was in addition to their \$80,000 credit limit.

- Two participants were surprised by the fixed-rate option, because they did not know that borrowers could have this option under a line of credit.

Minimum Loan Amount

- All participants were able to identify the minimum loan amount based on their review of the early disclosure form.

Comparison of ID-1 and ID-2

- Most participants indicated that the Risks section should be located at the top of the first page (as in ID-1), rather than the bottom of the page (as in ID-2). Only one said that she wanted the APR and credit line information first because “I have good credit and I want to know what I can get.”

- The comparison of the two payment plans was presented very differently in the two early disclosure forms. ID-1 described the two plans in narrative form, while ID-2 included a table that compared various features of the two plans. When asked which format they found clearer, participants were mixed. Several said that they preferred the tabular format used in

ID-2 because it required less reading. At the same time, other participants commented that they found the narrative format in ID-1 easier to understand. Most participants were in agreement, however, that they liked the fact that ID-1 directly compared the plans in a section labeled "Plan A vs. Plan B."

- The Plan Comparison tables, which provided sample payments, were also organized differently on the two forms. All participants indicated that they preferred the organization of the table in ID-2, in which all sample payments under a given payment plan were grouped together.

- The Plan Comparison table in ID-1 included a column labeled "Total of All Payments," which was not provided on form ID-2. Participants strongly preferred that this column be included in the table, and several participants who saw ID-1 used this information when choosing between the two payment plans.

Account-Opening Disclosure (AO-2)

Initial Reactions

- Participants were generally very comfortable with the account-opening disclosure used in this round. This appeared to be in large part because it was so similar in format and content with the early disclosures that participants were shown first. Several participants even commented that the disclosure looked very similar to the one that was shown to them previously.

Information about Payments

- All participants understood that if their interest rate went up, their payment would also increase.

- All participants understood that their minimum required payment would stay the same during the borrowing period, but would increase at the beginning of the repayment period.

- Unlike in previous rounds, almost all participants understood why the payment during the repayment period would decrease over time. This increase in comprehension was due to the fact that AO-2 explained this decrease in the text above the Sample Payments table.

- Almost all participants were able to estimate what their minimum payments would be on a \$40,000 balance from the information on the form. About half multiplied the payments for \$10,000 by four, while others divided the payments for \$80,000 by two. Only one participant did not know how to estimate what payments would be on a \$40,000 balance.

Fees

- Participants were asked which of the fees shown on the second page of the account-opening disclosure they would consider most important. Most indicated that they would be most interested in the breakdown of the account-opening fees, because these were the largest. Several participants also commented that they would want to understand these fees so that

- When asked whether there were any additional types of fees that were not listed on the form that they would want disclosed to them, participants did not identify any.

Historical Example Table

- Most participants understood that the Historical Example Table showed how their rate could change over time. As in previous rounds, however, only about half understood that the information in the table was based on actual historical data.

- When it was pointed out to them that the Historical Example Table provides historical information, a few participants commented that they felt it might be unreliable to make financial decisions based on what has happened in the past. One specifically pointed to the instability in the current economy as an indicator that financial conditions can change quickly.

- Participants were asked whether the Historical Example Table included any important information that was not in the "Historical Changes to Prime Rate" section of the early and account-opening disclosures. Most participants indicated that the "Historical Changes to Prime Rate" section covered the most important content from the Historical Example Table.

Key Questions Disclosure

- As in the previous round, participants reacted very positively to the Key Questions disclosure. Several participants indicated that it clarified some concepts that they had difficulty understanding from the other disclosure forms—particularly the definition of "balloon payment" and the differences between borrowing and repayment periods.

- Comprehension of the Key Questions document was very strong; participants were able to explain in their own words all of the questions and answers. Participants indicated that they found the language used in this disclosure to be very clear and easy to read.

- One participant suggested that Question 1 ("Can my interest rate increase?") and Question 2 ("Can my minimum monthly payment increase?") could be combined. The same participant suggested defining the terms "APR," "index," "margin," as was done for "balloon payment" in Question 4.

- As in the previous round, one participant indicated that Question 5 ("Do I have to pay any fees to have a line of credit?") was unnecessary, since most people would already know this information.

Subsequent Design Decisions

Timing of Application/Early Disclosure

- Findings from this round validated the Board staff's decision to develop and test an early transaction-specific disclosure that would be given soon after application. Participants overwhelmingly indicated that they would prefer to be given a disclosure after application that provides more transaction-specific information, as opposed to a more general application disclosure. As a result, all subsequent rounds focused on testing this type of early disclosure.

Information about Interest Rates

- Participants continued to be confused by the statement that, unlike APRs for closed-end loans, APRs for HELOCs do not include fees. Therefore, this statement was not included in any subsequent forms.

Fees

- Because participants in previous rounds consistently indicated that they would like a more detailed breakdown of their account-opening fees as early as possible in the process, some versions of the early disclosure tested in subsequent rounds provided this breakdown.

Borrowing and Repayment Periods

- Because participants' understanding of both the distinction between the borrowing and repayment periods and the timing of these periods was significantly better this round than in previous rounds, the Borrowing and Repayment Terms section was retained on all subsequent forms with only small changes in wording.

Payment Plans/Plan Comparison

- Because participants were split as to whether they liked the narrative (ID-1) or tabular (ID-2) comparison between the two payment plans, both formats were tested again in the next round of interviews.

- Participants indicated that they liked the "Plan A vs. Plan B" section of ID-1 that explicitly compared the two payment plans being offered. As a result, all subsequent early disclosures included a section that made this direct comparison.

- Because most participants preferred the format of the Plan Comparison table on ID-2 to that of ID-1, this format was retained in forms for the next round.

- In order to prevent "information overload" for consumers, rather than displaying the total of payments for each payment plan at each interest rate, early disclosures for the next round simply stated that "with Loan A, you will pay less over time" and "with Loan B, you will pay more over time." The goal of this change was to allow participants to continue to use this term to compare plans without overwhelming them with numbers.

Information about Payments

- Because of concerns about "information overload" for consumers, forms for the next round did not show how payments would change over time as the principal was paid off. Instead, these forms only showed the initial payment of the borrowing and repayment periods, which based on the assumptions used to calculate the payment examples would have been the highest payment a consumer would make during those periods. One form simplified the table even further, and provided only a single sample payment for each interest rate—the initial payment of the borrowing period.

- Again because of concerns about "information overload" for consumers, information about balloon payments was removed from the sample payment table. Instead, an explanatory note was added near the table indicating whether or not a balloon payment would be due.

Fixed-Rate Loan Option

- Because some participants mistakenly thought that under the fixed-rate option they would be able to borrow $40,000 in addition to their $80,000 credit line, the wording of this text was clarified in the next round.

Historical Example Table

- Because many participants in all rounds of testing misunderstood the information in the Historical Example Table, and those who did understand it indicated that this information was not important to them, none of the forms for subsequent rounds of testing included this table.

Key Questions Disclosure

- Although understanding of the difference between the borrowing and repayment periods was much stronger than in previous rounds, several participants who currently had HELOCs indicated they had never realized that this distinction existed. For this reason, the decision was made to give this topic per more prominence on the Key Questions disclosure by having separate questions address the borrowing and repayment periods ("When can I borrow money?" and "How soon do I have to pay off my balance?", respectively). The last question, which addressed the lender's right to lower the credit limit, was removed from the form.

Interviews in Denver, Colorado (April 14-15, 2009)

Objectives and Methodology

The fourth round of 10 cognitive interviews was conducted in Denver, Colorado on April 14 and 15, 2009. The primary focus of this round was to test consumer comprehension of two versions of the early disclosure. The primary difference between these two forms was that one provided more detail about sample payments, and that one contained several disclosures that are currently required by statute while the other did not.

Four forms were tested in Denver, all of which are provided in Appendix C:

- Two early disclosure forms (ID-3 & ID-4);
- A revised account-opening form (AO-3); and
- A revised version of the Key Questions disclosure.

The interview protocol included the following sections:

- Interview participants were first asked to review one of the two early disclosure forms, and were asked a series of questions designed to test their comprehension of the content. They were then shown the other version of the early disclosure, and asked to compare the usefulness and clarity of several aspects of the two forms. Participants were shown these two forms in a rotating order, to minimize learning effects.
- Next, participants were shown the account-opening form (AO-3). As in previous rounds, after reviewing this page they were asked a series of questions designed to test comprehension.
- Finally, as in the previous round participants were shown the Key Questions disclosure and asked to assess its usefulness and clarity.

Key Interview Findings

Previous Experience with HELOCs

- As in previous rounds, participants' comments during the opening discussion about their borrowing history showed that a few did not understand the difference between HELOCs and home equity loans.

Early Disclosure Forms (ID-3 and ID-4)

Information about Interest Rates

All but one of the participants were able to identify the initial and maximum APRs without difficulty. All but one also understood that the rate would vary monthly.[8]

About half of participants understood the content of the Historical Changes to Prime Rate row; others were confused as to what this row meant. Some of those that did understand the information indicated that they might use it to better estimate what their future interest rates could be. Others, however, said that they would be unlikely to use the information because they did not think that historical data could necessarily be used to anticipate what would happen to the interest rate in the future.

Fees

- All participants understood that they would be charged fees for opening a line or credit, and all but one identified the amount of those fees without difficulty.

- ID-3 included a reference that "other fees may apply," while ID-4 did not. This reference appeared to be effective; three of the five participants who saw ID-4 incorrectly assumed that no fees would be charged other than those on shown on the form, compared to only one participant who was shown ID-3. When shown both forms, most participants believed it was important to include the reference to other fees.

- ID-3 provided a breakdown of account opening fees, while ID-4 simply indicated that an itemized list was available upon request. All participants said that preferred to have the breakdown shown on the form.

- All participants except one understood that they could have their fees refunded if they decided within three days of receiving the early disclosure not to open the line of credit. Forms ID-3 and ID-4 provided this information in two different locations. Participants who saw ID-3, which displayed this information at the top of the first page, were able to find it slightly more easily.

- Only a few participants realized that they could have their fees refunded even after three days, if they decided not to open an account because the terms (other than the APR) changed. Variations in the location of this information between the two early disclosure forms had no noticeable impact on understanding.

[8] One of the participants in this round had little understanding of HELOCs in general, and had difficulty answering most of the interview questions.

Borrowing and Repayment Periods

- All participants read and appeared to understand the description of the borrowing and repayment periods that was provided on the forms. For example, all understood that they would only be able to borrow money during the borrowing period, and that they would have to make payments during both periods.

- Most participants had difficulty translating what they had read about the borrowing and repayment periods to their reading of the Plan Comparison table. Several seemed to forget the distinction between the two periods, and as a result were confused by the fact that the payment was different. One participant suggested showing the duration of the two periods (i.e., Years 1 to 10, Years 11 to 20) in the headings of the columns in the Payment Plans and Plan Comparison sections.

Payment Plans/Plan Comparison

- Everyone understood that the purpose of the Payment Plans section was to provide the borrower information about different payment plan options.

- As in the previous round, one of the forms (ID-3) compared the two payment plans in a tabular format, while the other (ID-4) provided narrative descriptions of the two plans. Again, participants' preferences between the two were mixed; about half felt that the tabular format was clearer and easier to read, while the other half preferred the narrative descriptions.

- Nine of the 10 participants said that they would choose Plan A over Plan B because it would allow them to avoid a balloon payment and they would pay less over time. All participants who saw ID-3 also understood that the time it would take to pay off their balance would also be shorter under Plan A.

- All participants understood that Plan B would allow them to make lower payments during the borrowing period. Several participants, however, did not realize that this was because these lower payments did not include any principal. This confusion was sometimes due to the fact that participants did not realize that the payment calculation formula could be different during the borrowing and repayment periods.

- While ID-3 presented the first monthly payment for both the borrowing and repayment periods, ID-4 showed only the first monthly payment for the whole term of the account (i.e., for the borrowing period.) This led to several significant misconceptions on the part of participants, some of whom assumed that if the interest rate did not change, the payment would stay constant throughout the entire term. Others stated that they did not know how or if the payment might change over time. Some realized from the Payment Plans section that the payment calculation method would change from the borrowing to the repayment period, and commented that the impact of this on the payment was not shown. One, for example, called this form "incomplete" because it showed "only half of your program."

Balloon Payment

- Everyone had a basic understanding of the term "balloon payment," and that, if they opted for Plan B, they might owe a balloon payment at the end of the loan term. In fact, most cited this as one of the reasons they would opt for Plan A.

- Most participants understood that paying larger payments up front could help them avoid paying balloon payments. However, two participants were unsure whether they would be allowed to make larger payments if they chose Plan B.

"Risks" Section

- All but one of the participants understood that the bank had the right to terminate their line of credit.

Fixed-Rate Loan Option

- All participants understood that they would have the option of borrowing a sum of money at a fixed rate. Unlike in the previous round, participants generally understood that any money they borrowed at a fixed rate would apply toward the credit limit for their line of credit.

Minimum Loan

- All participants understood that they would have to borrow $10,000 upon opening the account.

Account-Opening Disclosure (AO-3)

Initial Reactions

- As in the previous round, overall reaction to the account-opening form was very positive and comprehension was generally high. Again, it appeared that participants' understanding was helped by the fact that the account-opening form was so similar in format and content to the early disclosures they had read earlier.

Fees

- All participants were able to identify the fee they would be charged for going over their credit limit.

- As in the previous round, most participants indicated that information about the account-opening and penalty fees was more important to them than information about transaction fees. The least important fee to most participants was the foreign transaction fee; most indicated they did not believe this fee would ever apply to them.

- When asked whether there were any additional types of fees that they would want disclosed that were not shown on the form, all participants indicated that there were not.

Information about Payments

- All participants understood that if the interest rate remained the same and no additional money was borrowed, the minimum monthly payment would stay the same during the borrowing period.

- All but one participant understood that the payment would increase from the borrowing to the repayment periods; the remaining participant assumed that his payment would remain constant throughout the term of the loan.

- All participants understood that if their interest rate went up, their monthly payments would go up.

- All participants were able to estimate what their payments would be if they were to borrow $40,000 rather than the $10,000 or $80,000 balances used in the examples. Most estimated by multiplying the payments for $10,000 by four; three participants divided the payments for $80,000 by two.

Importance of Disclosure Statements

- Near the end of the interview, participants were directed to read several statements on the account-opening form. They were then asked to indicate how important the statement was to them, and whether it was necessary to include on the form.

- Eight of the 10 participants indicated that it was important that the form disclose that there is no limit to how much their rate could increase in a year.

- Participants were divided about whether or not the form needed to state that the maximum rate could be reached as early as the first month. While some indicated this information was very important, others felt that the statement was not necessary because it was extremely unlikely that the rate would actually increase that quickly.

- About half of participants indicated that it was important that the form state that "your monthly statement will tell you each time your rate changes." Other participants did not feel this was important, because even in the absence of this statement they would assume that they would be notified of rate changes on their statement.

- Only two participants thought it was important that the form state that the Prime Rate was published in the Wall Street Journal. One thought it made the offer of credit "more credible," while the other thought it was important to know "how the APR is derived."

Key Questions Disclosure

- As in previous rounds, participants were very positive about the Key Questions disclosure. Most commented that the document would be very helpful, particularly for people with no prior experience with HELOCs.

- Participants' comprehension of the information in the Key Questions document was very high; almost all were able to explain all of the questions and answers in their own words.

Subsequent Design Decisions

Fees

- Because most participants did not fully understand the circumstances under which they would be entitled to have their fees refunded, two alternative formats for providing this information on early disclosures were tested in the next round.

Payment Plans/Plan Comparison

- The Duration of Line of Credit section continued to be effective in disclosing to participants the differences between the borrowing and repayment periods. Therefore, a parallel format was used in forms for the next round to illustrate the difference in how minimum payments would be calculated during each of the two periods.

- Because of concerns that a $10,000 hypothetical balance could make sample payments misleadingly low, in the next round sample payments on the account-opening disclosure were based on a balance of $80,000—the credit line listed in the disclosure. On the early disclosures two different methods were used to calculate sample payments; these methods are explained in the next section.

- Because some participants who saw ID-4 mistakenly thought that their payment would not change during the repayment period, the decision was made that the Plan Comparison section should show the first payment for both the borrowing and repayment periods.

- Although participants responded positively to the "Time to Pay Off Balance" information provided for both payment plans, ICF Macro and Board staff were concerned that the length of repayment would not always be an accurate measure of which payment plan was better for consumers. Therefore, this information was not included in subsequent forms.

Other Statements on Form

- Because participants indicated that the reference that the Prime Rate could be found in the Wall Street Journal would not be useful to them, this disclosure was not included in any subsequent forms.

Key Questions Disclosure

- Because of concerns that some consumers in this and previous rounds did not fully understand the difference between a home equity loan and a HELOC until it was explained to them, a question about the differences between these two products was added to the Key Questions document for the final round of testing. A new disclosure was also developed that described these differences in more detail; this document was also tested in the next round.

Interviews in Bethesda, Maryland (May 5-6, 2009)

Objectives and Methodology

The fifth round of 10 cognitive interviews was conducted in Bethesda, Maryland on May 5 and 6, 2009. Because this was the final round of testing before the Board was to release its proposed rules for HELOC disclosures, the goals of this round were to validate previous design decisions that had been made and to gather data on design issues that were still under discussion. Participants in this round were also shown a new disclosure that described the differences between home equity loans and HELOCs.

Five forms were tested in Bethesda, all of which are provided in Appendix C:

- Two early disclosure forms (ID-5 & ID-6);
- A revised account-opening form (AO-4);
- A revised version of the Key Questions disclosure; and
- A new one-page early disclosure titled "Home Equity Loan vs. Line of Credit." Like the Key Questions disclosure, this form would be given to consumers with application.

The interview protocol included the following sections:

- Interview participants were first asked to review one of the two early disclosure forms, and were asked a series of questions designed to test their comprehension of the content. They were then shown the other version of the early disclosure, and asked to compare the usefulness and clarity of several aspects of the two forms. Participants were shown these two forms in a rotating order, to minimize learning effects.
- Next, participants were shown the account-opening form (AO-4). As in previous rounds, after reviewing this page they were asked a series of questions designed to test comprehension.
- Next, participants were shown the Key Questions disclosure and asked to assess its usefulness and clarity.
- Finally, participants were shown the new disclosure comparing HELOCs to home equity loans. The goals of this portion of the interview were to assess participants' understanding of the information, and to evaluate whether this disclosure provided any additional value to participants over the Key Questions document.

Key Interview Findings

Early Disclosures (ID-5 and ID-6)

Information about Interest Rates

- All of the participants were able to easily identify the initial and maximum APRs for the line of credit.
- All five participants who saw ID-5 understood that their rate could change monthly, and that their rate would be the Prime Rate plus 1%. ID-6 did not include either of these pieces of information; it only stated that the APR "will vary with the market based on the Prime Rate."
- Participants strongly preferred the description of how their APR would be calculated used in ID-5 to that used in ID-6. Several commented that ID-6 did not provide enough information, and one went so far as to call it "misleading."
- As in the previous round, about half of the participants who saw a form that included the Historical Changes to Prime Rate row understood the information it provided.[9] Participants who understood the information generally felt it would be useful to them in estimating what their future interest rate might be—although as in the previous round, they cautioned that there was no guarantee that the Prime Rate would behave in the future as it had in the past.

Fees

- All but one of the participants correctly identified the amount of fees that they would have to pay to take out a line of credit.
- ID-5 provided a breakdown of account-opening fees, while ID-6 did not. When shown both forms, all participants indicated that they preferred to have the breakdown shown on the form—although none of the participants who saw ID-6 first specifically asked for this information until they were shown ID-5.
- ID-5 included a reference that "other fees may apply," while ID-6 did not. As in the previous round, this reference appeared to be effective; all five participants who saw ID-6 incorrectly assumed that no fees would be charged other than those on shown on the form. All participants who were shown ID-5 understood that other fees could be charged.
- ID-5 displayed information about the refundability of fees at the top of the first page, while ID-6 showed it in the Fees section, under the heading "Refundability of Fees." There was some evidence that the latter placement was more effective; three of five participants who saw ID-6 first were able to locate this information, compared to none of those who saw ID-5 first.

9 ID-5 included this row, while ID-6 did not.

Borrowing and Payoff Periods

- All but one of the participants understood the timing of the borrowing and repayment periods. They also understood that they could only borrow money during the borrowing period, and that payments would be due during both periods.

Payment Plans/Plan Comparison

- All participants were able to explain the relative advantages of both Plans A and B—that is, that Plan B offered lower monthly payments during the borrowing period and Plan A offered no balloon payment and a lower total cost.

- All participants said that they would choose Plan A over Plan B; as in previous rounds, this decision was based on the fact that no balloon payment would be due under Plan A, and that this plan costs less over the entire term of the loan.

- Despite the fact that the early disclosures stated that other plans might be available in addition to the two being described on the form, seven of the 10 participants incorrectly assumed that no other plans were available.

- Sample payments that were shown in the Plan Comparison section were calculated differently on ID-5 and ID-6. ID-6 payments were based on a balance of $80,000 (the amount of the credit line being offered), borrowed when the account was opened. Payments on ID-5, on the other hand, were based on an assumption that $10,000 was borrowed when the account was opened, and an additional $10,000 was borrowed on the last day of the borrowing period. However, only one of the participants who saw ID-5 understood the scenario on which these payments were based—even after extensive prompting by the interviewer.

- When participants were shown both forms and this difference in payment calculation was explained, all participants indicated that they preferred the approach used in ID-6. Several felt that the assumptions made in ID-5 were too complex, and others liked the fact that ID-6 showed the "worst case scenario" of borrowing the entire credit limit.

- One participant in this round suggested using the heading "An Example of Payments" rather than "Sample Payments" in the Plan Comparison section, to clarify that the numbers provided do not represent actual payment amounts and are provided only as an estimate.

Balloon Payment

- Seven of the 10 participants were able to define what a balloon payment was; the other three indicated that they would want to avoid a balloon payment but were unsure what it was.

"Risks" Section

- Almost all participants understood that they would lose their home if they did not make the required monthly payments.

- Seven of the 10 participants understood from the form that the bank could end their line of credit early.

- Most participants indicated that they preferred to have the Risks section displayed at the top of the first page, because of the importance of the information. A few preferred to have the Risks section at the bottom of the page because they were more interested in the specific terms of their line of credit.

Minimum Loan

- As in the previous round, all participants understood that they would have to borrow $10,000 upon opening the account.

Account Opening Disclosure (AO-4)

Information about Payments

- All participants understood that if the interest rate remained the same and no additional money was borrowed, the minimum monthly payment would stay the same during the borrowing period.

- All but one participant understood that the payment would increase from the borrowing to the repayment periods; the remaining participant assumed that his payment would remain constant throughout the term of the loan.

- All participants understood that if their interest rate went up, their monthly payments would go up.

- While a few participants had difficulty, most were able to estimate what their minimum payment would be if they borrowed $40,000 instead of the $80,000 shown in the table.

Fees

- Unlike in the previous round, a few participants were unable to identify the fee that they would be charged for going over their credit limit. Most, however, were able to find this fee easily.

- As in previous rounds, participants indicated that of the fees listed on the form, they would be most interested in detailed information about the account-opening fees.

Importance of Disclosure Statements

- As in the previous round, participants were again directed to read several statements on the account-opening form. As before, they were asked to indicate how important the statement was to them, and whether it was necessary to include on the form.

- Almost all participants in this round indicated that the statement "Your monthly statement will show your rate changes" could be removed from the form. Participants generally felt that this was not important information, and would not affect their decision-making or behavior in any way.

- About half of the participants felt that it was important to include the statement, “There is no limit on how much the rate can change in one year.”

- Most participants indicated that it was unnecessary to state that the maximum rate could be reached in the first month; while this was theoretically true, they felt it was so unlikely that this statement was not useful.

Key Questions Disclosure

- As in previous rounds, the Key Questions disclosure was received very favorably by all participants. Several commented that it was easy to read, and that it asked and answered important questions about HELOCs.

- Participants in this round were asked to focus specifically on a new seventh Key Question that had been added: “Should I get a home equity loan instead of a line of credit?” This section of the disclosure described the relative advantages and disadvantages of the two products. All participants indicated that the wording of this section was clear, and after reading it most were able to describe in their own words the differences between the two products.

- One participant who had been planning to get a HELOC said that after reading this form he thought a home equity loan might be more appropriate for him. Two others commented that they wished they had received information about home equity loans before taking out their HELOCs.

Home Equity Loan vs. Line of Credit Disclosure

- Participants responded positively to this form, and said that it contained useful information. There were no comprehension issues with the document; participants seemed to understand all of the content.

- Participants were asked to compare this disclosure form to the seventh Key Question, which also provided a comparison of these two products. All of the participants indicated that the content of the two was very similar; none identified any important information that appeared on the new disclosure but not in the Key Questions.

Subsequent Design Decisions

Information about Interest Rates

- Because participants felt strongly that it was important for them to know exactly how their APR was determined, the final form requires disclosure of the margin that will be used, as well as how frequently the rate could change.

- Because participants who were knowledgeable about financial issues said that the Historical Example paragraph gave them valuable information about how much the Prime Rate was likely to fluctuate, the decision was made to include this information on both the early and account-opening disclosures.

Fees

- Because participants in several rounds of interviews indicated that an itemized breakdown of account-opening fees would be useful to have as early in the process as possible, the decision was made to include such a breakdown on both the early and account-opening disclosures.

- Following this round, the decision was made to include a statement of the early disclosure that other fees could also be charged in addition to those shown on the form. This disclosure will be required because in its absence, a large percentage of participants incorrectly assumed that no other fees would be charged.

- Because participants in this round were more likely to notice and understand information about the refundability of fees when it was provided in the "Fees" section of the early disclosure, this location was retained in the final model form. In order to ensure that participants are aware that fees paid may be refundable in some cases, another reference to this information was also added at the end of the form.

Payment Plans/Plan Comparison

- Because participants in this round had a strong understanding of the two payment plans, the format in which these plans were described was retained in the final model early disclosure form.

- Participants strongly preferred to be shown payment examples based on a loan equal to their credit limit (as in ID-6), rather than payments based on a more complex set of assumptions (as in ID-5). Therefore, this method of calculating sample payments was used in the model early disclosure form.

"Risks" Section

- As noted above, participants were divided as to whether the Risks section should be at the top or the bottom of the form. Regardless of the placement of the section, most participants noticed and understood the disclosures about the risk of loss of the home in case of default and the disclosure about a creditor's right to terminate the plan in certain circumstances. In the Board staff's outreach, neither industry nor consumer group representatives indicated a preference for either placement. Consumer group representatives did, however, emphasize the importance of highlighting key terms such as the APR. Therefore, the model early disclosure forms and account-opening form place the Risks section at the bottom of the form.

Other Statements on Form

- Because a large portion of participants in the last two rounds indicated that they did not provide important information, the decision was made to remove from the final model form references to the fact that rate changes will be shown on the monthly statement and that the maximum APR could be reached as early as the first month. However, because several participants indicated that they found the statement “There is no limit on how much the rate can change in one year” to be important, this information was retained on the model form.

Key Questions Disclosure

- Because the new question comparing HELOCs to home equity loans was considered so important by participants in this round, it was retained in the final disclosure.

- Because participants indicated that the new one-page disclosure about HELOCs and home equity loans was largely redundant with the Key Questions disclosure, the decision was made not to require that the stand-alone form be provided to consumers.

CHAPTER IV: SUMMARY

This report summarizes work conducted by ICF Macro from December 2008 through June 2009 in support of the Board's efforts to revise Regulation Z rules pertaining to disclosures for home equity lines of credit. The outcomes of this work include the development of:

- A new "early" disclosure, that provides transaction-specific information no more than three business days after an application for a home equity line of credit is submitted. This disclosure describes:
  - A description of potential risks, including possible termination or suspension of the line of credit by the lender;
  - How the interest rate for the line of credit will be determined;
  - The total amount of account-opening fees that will be charged, as well as a summary breakdown of those fees, and certain other fees such as the annual fee;
  - The credit limit;
  - Minimum transaction and minimum balance requirements;
  - The distinction between the borrowing and repayment periods for the line of credit, as well as the timing of both of the periods;
  - Two payment plans available to borrowers, along with sample payments for each; and
  - Information about the timing and size of any balloon payments that might be owed.
- A revised account-opening disclosure that mirrors the content and tabular format of the early disclosure and provides additional detail about penalty and transaction fees; and
- A new document titled "Key Questions to Ask About Home Equity Lines of Credit," a concise and easy-to read disclosure for potential borrowers that provides guidance on what questions they should ask their lenders.

The results of the interviews described in this report will inform the Board's proposed revisions to Regulation Z, which are scheduled for release in July 2009. The disclosure forms developed through iterative testing will be released with the proposal as model forms. By relying heavily on direct consumer testing in the development of these forms, the Board hopes to ensure that its new regulations will lead to financial disclosures that will be easy for consumers to read and understand, and as a result will help them make well-informed financial decisions.

APPENDIX A:
Sample Recruitment Protocol

Participant Screener for Federal Reserve Board In-Depth Interviews
Bethesda, MD
May 5th and 6th, 2009

General Information and Recruiting Specifications

- Interviews will be held at 9:00 a.m., 11:00 p.m., 1:00 p.m., 3:00 p.m., and 5:00 p.m. each day
- INTERVIEWERS: Ask all participants to bring their reading glasses if necessary, because they will be asked to read several sample mortgage documents as part of the interview or focus group.

Recruiting Script

Hello, I am calling on behalf of the United States Federal Reserve Board. The Federal Reserve Board is sponsoring a series of consumer interviews in your area so that we can learn more about how people make financial decisions. We will use what we learn from these interviews to help make sure that the information that banks provide to consumers about various financial products is useful and easy to understand.

Q1: Do you currently own a home?

- ❑ Yes → Continue
- ❑ No → *Thank respondent politely and end call.*

Q2: Have you ever taken out a loan against equity in your home to pull money out for some purpose, either as a second mortgage at the time you purchased your home, or for home improvements, debt consolidation or to cover other expenses?

- ❑ Yes → Continue
- ❑ No → Skip to Q7

Q3: Was this mortgage related to a property for your own use, or a property you purchased solely as an investment?

- ❑ Own Use → Continue
- ❑ Investment → *Thank respondent politely and end call.*

Q4: There are at least two ways in which a consumer can borrow money against equity in his or her home. One is a traditional mortgage where you borrow a fixed sum of money at once and pay it back over time. The other is a home equity line of credit (also known as a "HELOC") which allows you to draw money when you need it. At any point in the past five years, have you had a home equity line of credit (or "HELOC")?

- ❑ Yes → Participant qualifies in Group A; skip to after Q7 (but ask Q8 & Q8b)
- ❑ No → Continue

Q5: At any point in the past five years have you had a second mortgage on your home, or a mortgage that you obtained after paying off the original mortgage on your home?

Note to Interviewer: Be sure that participant understands that this question is asking about a traditional loan, not a HELOC.

- ❑ Yes → Continue
- ❑ No → Skip to Q7

Q6: At the time you obtained this loan, did you consider instead getting a home equity line of credit?

- ❑ Yes → Participant qualifies in Group B; skip to after Q8
- ❑ No → Continue

Q7: Have you considered obtaining a home equity line of credit at any time in the last five years?

- ❑ Yes → Participant qualifies in Group C; Continue after Q8
- ❑ No → *Thank respondent politely and end call.*

Great. We will be holding interviews in Bethesda on May 5th and 6th. I was wondering if you would be interested in attending.

- ❑ Yes → Continue to screening questions
- ❑ No → *Record reason (not interested, not available on that date, etc.). If unavailable on that date, retain their information because we may do additional rounds of testing in the future. Thank them politely and end call.*

That's great. I just need to ask you a few more questions to see if you qualify for one of our interviews.

Q8: Were you the person in your household who was responsible for making the decision to get this home equity line of credit or home equity loan?

- ❑ Yes → Continue
- ❑ Yes, in cooperation with my [spouse, partner, etc.] → Continue
- ❑ No → *Ask the respondent whether the primary decision maker is available to join the call. If not, thank respondent politely and end call.*

Q9: Do you work, or have you ever worked, fora bank or other financial institution, or in the real estate or mortgage industry?

- ❑ Yes → *Thank respondent politely and end call.*
- ❑ No → Continue

Q10: ARTICULATION QUESTION: In a few sentences, could you explain why you decided to take out a line of credit/home equity loan?

- ❑ If respondent gives a thoughtful, articulate answer → Continue
- ❑ If respondent does not give a thoughtful, articulate answer → *Thank respondent politely and end call.*

Recruiting Quotas	Screening Criteria
	• At least seven participants must be in Group A. • At least three participants must be in Group B. • Group C is a back-up in case not enough participants are recruited for groups A and B.
Q11a: Have you experienced any of the following financial hardships in the past 7 years: bankruptcy, foreclosure, repossession, or a tax lien? a) Yes b) No Q11b: How would you rate your credit? a) Excellent b) Good c) Fair d) Poor	At least three (but no more than five) recruits must answer: • "a" to Q11a; ***or*** • "c" or "d" to Q11b.
Q12: Do you currently have an outstanding balance on your HELOC? ❑ Yes ❑ No Q12b: What is the current outstanding balance on your HELOC? ❑ $70,000+ ❑ $30,000 - $70,000 ❑ $10,000 - $30,000 ❑ Less than $10,000	At least three (but no more than six) recruits should answer "Yes" to Q12

Recruiting Quotas	Screening Criteria
Q13: What is your age? a) 18 to 35 b) 36 or above	At least 2 recruits should respond “a”
Q14: Which of the following categories best reflects your race or ethnicity? You can choose more than one category. [*Respondents who wish to choose more than one category should be counted as minorities, even if one race mentioned is White.*] a) White b) Black or African-American c) Hispanic or Latino d) Asian or Pacific Islander e) Native American or Alaska Native	At least 4 recruits should respond “c”, “d”, “b” or “e”
Q15: What is the highest level that you reached in school? a) High school degree or less b) Some college work c) College graduate	• At least 2 recruits should respond “a” • At least 3 recruits should respond “b”
Q16: *Gender*	At least 3 recruits of each gender

If participant qualifies: Based on your responses, we would like to invite you to participate in an interview, which will be held at Shugoll Research in Bethesda, MD. The interview will last about 90 minutes. We will be showing you some sample financial documents for you to refer to, so if you use reading glasses please be sure that you bring them.

APPENDIX B:
Participant Demographic and Background Information

	Bethesda, MD (Dec. ’08 Interviews)	Los Angeles, CA (Feb. ’09 Interviews)	Chicago, IL (March ’09 Interviews)	Denver, CO (April ’09 Interviews)	Bethesda, MD (May ’09 Interviews)	Total
Gender						
Male	5	4	2	5	4	**20 (40%)**
Female	5	6	8	5	6	**30 (60%)**
Age						
18-35	4	3	2	0	1	**10 (20%)**
36+	6	7	8	10	9	**40 (80%)**
Race						
Caucasian	6	4	7	3	3	**23 (46%)**
African-American	2	2	1	2	6	**13 (26%)**
Hispanic	0	3	1	5	1	**10 (20%)**
Asian	2	1	1	0	0	**4 (8%)**
Education Level						
High school or less	1	2	0	1	3	**7 (14%)**
Some college	0	4	3	5	3	**15 (30%)**
College graduate	9	4	7	4	4	**28 (56%)**

	Bethesda, MD (Dec. ’08 Interviews)	Los Angeles, CA (Feb. ’09 Interviews)	Chicago, IL (March ’09 Interviews)	Denver, CO (April ’09 Interviews)	Bethesda, MD (May ’09 Interviews)	Total
Financial Hardship (e.g., bankruptcy, foreclosure) in Past 7 Years?						
Yes	2	2	2	2	2	**10 (20%)**
No	8	8	8	8	8	**40 (80%)**
Self-Reported Credit Rating?						
Excellent	8	4	5	4	2	**23 (46%)**
Good	1	3	2	3	5	**14 (28%)**
Fair	1	3	2	2	2	**10 (20%)**
Poor	0	0	1	1	1	**3 (6%)**
Previous Experience with HELOCs						
Had a HELOC in past 5 years?	8	5	7	9	8	**37 (74%)**
Had home equity loan in past 5 years; considered HELOC as an alternative?	2	3	2	1	1	**9 (18%)**
No HELOC or home equity loan in past 5 years; but considered HELOC?	0	2	1	0	1	**4 (8%)**

	Bethesda, MD (Dec. ’08 Interviews)	Los Angeles, CA (Feb. ’09 Interviews)	Chicago, IL (March ’09 Interviews)	Denver, CO (April ’09 Interviews)	Bethesda, MD (May ’09 Interviews)	Total
Outstanding Balance on HELOC?[1]						
Yes	N/A	N/A	N/A	4	6	**10 (50%)**
No	N/A	N/A	N/A	5	2	**7 (35%)**
Not Applicable	N/A	N/A	N/A	1	2	**3 (15%)**

[1] This question was not added to the screener until the Denver round of testing.

APPENDIX C:
Disclosure Forms Used in Testing

Round 1:
Bethesda, MD
December 17-18, 2008

- Current Application Disclosure
- New Account-Opening Disclosure
- Payment Example Form

**THINGS YOU SHOULD KNOW BEFORE APPLYING FOR
A HOME EQUITY LINE OF CREDIT (HELOC)**

Home Equity Line of Credit Program Disclosure

This disclosure contains important information about our Home Equity Line of Credit (HELOC). Please read it carefully and keep a copy for your records.

Availability of Terms

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

Security Interest

ABC Bank will take a mortgage on your home, so you could lose your home if you do not meet the obligations in your agreement with us.

Possible Actions

Under certain circumstances, ABC Bank can terminate your line, require you to pay the outstanding balance in one payment, and charge you fees upon termination; refuse to make additional extensions of credit; reduce the credit limit; and, as specified in the credit agreement, make certain changes in the plan. If you ask, we will give you specific information concerning when we can take these actions.

Requesting an Advance

You may request an advance by writing HELOC checks that ABC Bank has given to you for this purpose, by transferring funds via telephone or internet, or authorizing ABC Bank to move funds into your transaction account. The minimum advance amount is $250.

Minimum Payment Requirements

You can obtain credit advances for 10 years (the "draw period"). At the end of 10 years, you may have the option to renew the "draw period," subject to our consent. During the draw period, payments will be due monthly. Your minimum monthly payment will equal the amount of earned fees and charges and the amount of accrued interest on the last day of the billing cycle. The minimum monthly payments during the draw period will not reduce the principal that is outstanding on your line. After the draw period ends, you will no longer be able to obtain credit advances and must pay the outstanding balance on your account (the "repayment period").

The length of the repayment period is 10 years. During the repayment period, payments will be due monthly. Your minimum monthly payment will equal the amount of earned fees and charges, the amount of accrued interest on the last day of the billing cycle plus 1.500% of the loan account balance, which is principal plus accrued interest. There is no minimum finance charge. The minimum monthly payments may not be sufficient to fully repay the principal on your line by the end of the draw and repayment periods. If they are not, you will then be required to pay the entire balance in a single payment at maturity.

Minimum Payment Example

If you made only the minimum monthly payment and took no other credit advances, it would take 20 year(s) to pay off a credit advance of $10,000 at an ANNUAL PERCENTAGE RATE of 8.5%. During that period, you would make 120 payment(s) of $70.83 followed by 120 payment(s) varying between $221.90 and $36.82, with a final payment of $1609.63.

Fees and Charges

You must pay certain fees to third parties to open the plan. These fees generally total between $0.00 and $1,000.00. If you ask, we will give you an itemization of the fees you will have to pay to third parties. There is no annual fee for the first year of the program, provided your account remains open through the first year. If you close your account within the first year, there will be an early termination fee of $250. There is an annual $50 fee in subsequent years.

Tax Deductibility

You should consult a tax advisor regarding the deductibility of interest and charges for the plan.

Variable Rate Features

This plan has a variable rate feature and the annual percentage rate (corresponding to the periodic rate) and the minimum monthly payment can change as a result. The annual percentage rate includes only interest and not other costs. The annual percentage rate is based on the value of an index. The index is The Wall Street Journal Prime Rate as published in The Wall Street Journal. To determine the annual percentage rate that will apply to your account, ABC Bank adds a margin to the value of the index. The initial annual percentage rate may be determined by ABC Bank and may not necessarily be based on the index and margin used to make later rate adjustments. This discounted initial rate will be in effect for the first year your plan is open. Ask us for the current index value, margin, discount, and annual percentage rate.

Rate Changes

The annual percentage rate can change daily. There is no limit on the amount by which the rate can change in a one-year period. The maximum annual percentage rate that can apply during the plan is 24.990%, or the maximum annual percentage rate allowed by applicable law, whichever is less. Rate change information will be included in your monthly statement.

Maximum Rate and Payment Examples

If you had an outstanding balance of $10,000 at the beginning of the draw period, the minimum monthly payment at the maximum ANNUAL PERCENTAGE RATE of 24.990% would be $208.25. The maximum annual percentage rate during the draw period could be reached in the first month. 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 24.990% would be $361.37. The maximum annual percentage rate during the repayment period could be reached in the first month.

Historical Example

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

Historical Example Assuming a $10,000 Balance

	Index	Margin	Annual Percentage Rate (APR)	Minimum Monthly Payment
Draw Period				
1991	10.000 %	0.000 %	**10.000 %**	$ 83.33
1992	6.500 %	0.000 %	**6.500 %**	$ 54.17
1993	6.000 %	0.000 %	**6.000 %**	$ 50.00
1994	6.000 %	0.000 %	**6.000 %**	$ 50.00
1995	8.500 %	0.000 %	**8.500 %**	$ 70.83
1996	8.500 %	0.000 %	**8.500 %**	$ 70.83
1997	8.250 %	0.000 %	**8.250 %**	$ 68.75
1998	8.500 %	0.000 %	**8.500 %**	$ 70.83
1999	7.750 %	0.000 %	**7.750 %**	$ 64.58
2000	8.500 %	0.000 %	**8.500 %**	$ 70.83
Repayment Period				
2001	9.000 %	0.000 %	**9.000 %**	$ 226.13
2002	4.750 %	0.000 %	**4.350 %**	$ 158.42
2003	4.250 %	0.000 %	**4.250 %**	$ 129.11
2004	5.250 %	0.000 %	**5.250 %**	$ 112.52
2005	5.250 %	0.000 %	**5.250 %**	$ 93.72

HOME EQUITY LINE OF CREDIT (HELOC) STATEMENT of TERMS

BORROWER:	Joe Smith & Jane Doe	DATE:	September 23, 2008
COLLATERAL:	1234 Main Street Anytown, ST 12345	LENDER:	ABC Bank
		LOAN NUMBER:	123-12-1234-556

You have no obligation to accept this line of credit. Compare these credit terms to other credit offers. Confirm that these are the credit terms for which you applied. Know your rights as a borrower; visit www.frb.gov/consumers/HELOC.htm.

Credit Limit & Annual Percentage Rate

Credit Limit	**$80,000**
Annual Percentage Rate (APR)	**4.00%** introductory APR for the first six months. After that, your APR will be the **Prime Rate + 2.00%.** The Prime Rate, which is published daily in the Wall Street Journal, is currently 4.00%. The APR on a HELOC does not include costs other than interest.
Maximum APR	**24.99%**

Credit Advances and Payments

Minimum Draw	**$ 300.00**
Draw Period	**10 years.** A minimum monthly payment will be required during this time.
Repayment Period	**20 years,** starting when the draw period ends. You will not be able to draw funds during the repayment period.
Balloon Payment	At the end of the repayment period, you may be required to pay any remaining balance in a lump sum.

Fees (see page 2 for more details)

Annual Fee	**$50**
Total Account Opening Fees	**$1,740**

Other Important Information

Risk of Foreclosure	Your line of credit is secured by your home, which means that you could lose your home if you are unable to repay the money you borrowed.
Our Right to Terminate or Reduce Your Line of Credit	Under certain circumstances, we can terminate your line, require you to pay the outstanding balance in one payment, and charge you fees upon termination; refuse to make additional extensions of credit; reduce the credit limit; and, as specified in your account agreement, make certain changes in the plan. For more information, please ask us or see your account agreement.
Billing Rights	Information on your rights to dispute transactions and how to exercise those rights is provided in your account agreement.
Tax Deductibility	Consult a tax advisor regarding deductibility of interest under this plan.

Account Opening Fees

Loan Origination Fee	**$ 350**
Loan Discount Fee	**$ 800**
Underwriting Fee	**$ 295**
Appraisal	**$ 295**
TOTAL Account Opening Fees	**$ 1,740**

Penalty Fees

Late Payment	Either **$15** or **5%** of the minimum payment, whichever is greater. This fee is imposed 15 days after the payment due date.
Over-the-Credit Limit	**$20** for each advance from the Credit Line that causes you to exceed your credit limit.
Returned Payment	**$30**
Early Termination	**.125%** of the credit limit **or $500**, whichever is greater, if you close the line of credit within three years.

Transaction Fees

Cash Advance	Either **$2** or **2%** of the amount of each advance, whichever is greater.
Wire Transfer	**$20**
Courier Service	**$30** per transmittal of documents that you request we send by a delivery service.
Stop Payment	**$20** when you request a stop payment on a check written from this account.
Other transaction fees may also apply.	

PAYMENT EXAMPLES

Minimum Monthly Payment
Your minimum monthly payment can vary each month, depending on a number of factors such as your balance and annual percentage rate (APR), or whether you pay both interest and principal or only the interest each month. The maximum APR that could apply to your loan is **24.99%**, and this APR can be reached as soon as the first month after you open your account.

Payments During Draw Period
During the draw period, your minimum monthly payments cover only the interest that you owe on the outstanding balance. If you make only the minimum payments during this period, you will not pay off any of your loan principal. Your draw period lasts 10 years.

Payments During Repayment Period
During the repayment period, your minimum monthly payments cover the greater of 1% of the outstanding balance, or the interest you owe on the outstanding balance. The repayment period starts at the end of the draw period and lasts 20 years.

Balloon Payment
If you make only the minimum payments, you may not pay off all, or possibly any, of the amount you actually borrowed by the end of the loan term and may have to pay the outstanding balance in a single large payment. This is known as a **balloon payment**. **You should ask your lender under what circumstances you may owe a balloon payment**.

The tables below show examples of the minimum monthly and balloon payments you would have to make given different balances and different Annual Percentage Rates.

Sample Payments If You Borrowed $10,000

	Current APR 6.00%	Maximum APR 24.99%
Draw Period Minimum Payment *120 payments*	**$50.00**	**$208.25**
Repayment Period Minimum Payment *239 payments*	**$100.00** to **$30.48**	**$208.25**
Balloon Payment Final payment due *1 payment*	**$3,048.32**	**$10,208.25**

Sample Payments If You Borrowed $80,000

	Current APR 6.00%	Maximum APR 24.99%
Draw Period Minimum Payment *120 payments*	**$400.00**	**$1,666.00**
Repayment Period Minimum Payment *239 payments*	**$800.00** to **$243.84**	**$1,666.00**
Balloon Payment Final payment due *1 payment*	**$24,386.56**	**$81,666.00**

Round 2:
Los Angeles, CA
February 11-12, 2009

- Current Application Disclosure (AD-1)
- Revised Application Disclosure (AD-2A)
- Revised Application Disclosure (AD-2B)
- Revised Application Disclosure (AD-3A)
- Revised Application Disclosure (AD-3B)
- Account-Opening Disclosure (AO-A)
- Account-Opening Disclosure (AO-B)
- Key Questions Disclosure

**THINGS YOU SHOULD KNOW BEFORE APPLYING FOR
A HOME EQUITY LINE OF CREDIT (HELOC)**

Home Equity Line of Credit Program Disclosure

This disclosure contains important information about our Home Equity Line of Credit (HELOC). Please read it carefully and keep a copy for your records.

Availability of Terms

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

Security Interest

ABC Bank will take a mortgage on your home, so you could lose your home if you do not meet the obligations in your agreement with us.

Possible Actions

Under certain circumstances, ABC Bank can terminate your line, require you to pay the outstanding balance in one payment, and charge you fees upon termination; refuse to make additional extensions of credit; reduce the credit limit; and, as specified in the credit agreement, make certain changes in the plan. If you ask, we will give you specific information concerning when we can take these actions.

Requesting an Advance

You may request an advance by writing HELOC checks that ABC Bank has given to you for this purpose, by transferring funds via telephone or internet, or authorizing ABC Bank to move funds into your transaction account. The minimum advance amount is $250.

Minimum Payment Requirements

You can obtain credit advances for 10 years (the "borrowing period"). At the end of 10 years, you may have the option to renew the "borrowing period," subject to our consent. During the borrowing period, payments will be due monthly. Your minimum monthly payment will equal the amount of earned fees and charges and the amount of accrued interest on the last day of the billing cycle. The minimum monthly payments during the borrowing period will not reduce the principal that is outstanding on your line. After the borrowing period ends, you will no longer be able to obtain credit advances and must pay the outstanding balance on your account (the "payoff period").

The length of the payoff period is 10 years. During the payoff period, payments will be due monthly. Your minimum monthly payment will equal the amount of earned fees and charges, the amount of accrued interest on the last day of the billing cycle plus 1.500% of the loan account balance. There is no minimum finance charge. The minimum monthly payments may not be sufficient to fully repay the principal on your line by the end of the borrowing and payoff periods. If they are not, you will then be required to pay the entire balance in a single payment at maturity.

Minimum Payment Example

If you made only the minimum monthly payment and took no other credit advances, it would take 20 year(s) to pay off a credit advance of $10,000 at an ANNUAL PERCENTAGE RATE of 8.5%. During that period, you would make 120 payment(s) of $70.83 followed by 120 payment(s) varying between $221.90 and $36.82, with a final payment of $1,609.63.

Fees and Charges

You must pay certain fees to third parties to open the plan. These fees generally total between $0.00 and $1,000.00. If you ask, we will give you an itemization of the fees you will have to pay to third parties. There is no annual fee for the first year of the program, provided your account remains open through the first year. If you close your account within the first year, there will be an early termination fee of $250. There is an annual $60 fee in subsequent years.

Tax Deductibility

If you borrow more than your home is worth, the interest on the excess amount is not deductible for federal income tax purposes. You should consult a tax advisor regarding the deductibility of interest and charges for the plan.

Variable Rate Features

This plan has a variable rate feature and the annual percentage rate (corresponding to the periodic rate) and the minimum monthly payment can change as a result. The annual percentage rate includes only interest and not other costs. The annual percentage rate is based on the value of an index. The index is The Wall Street Journal Prime Rate as published in The Wall Street Journal. To determine the annual percentage rate that will apply to your account, ABC Bank adds a margin to the value of the index. The initial annual percentage rate may be determined by ABC Bank and may not necessarily be based on the index and margin used to make later rate adjustments. This discounted initial rate will be in effect for the first year your plan is open. Ask us for the current index value, margin, discount, and annual percentage rate.

Rate Changes

The annual percentage rate can change monthly. There is no limit on the amount by which the rate can change in a one-year period. The maximum annual percentage rate that can apply during the plan is 24.990%, or the maximum annual percentage rate allowed by applicable law, whichever is less. Rate change information will be included in your monthly statement.

Maximum Rate and Payment Examples

If you had an outstanding balance of $10,000 at the beginning of the borrowing period, the minimum monthly payment at the maximum ANNUAL PERCENTAGE RATE of 24.990% would be $208.25. The maximum annual percentage rate during the borrowing period could be reached in the first month. If you had an outstanding balance of $10,000 at the beginning of the payoff period, the minimum monthly payment at the maximum ANNUAL PERCENTAGE RATE of 24.990% would be $361.37. The maximum annual percentage rate during the payoff period could be reached in the first month.

Historical Example

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

Historical Example Assuming a $10,000 Balance

	Index	Margin	Annual Percentage Rate (APR)	Minimum Monthly Payment
Borrowing Period				
1991	10.000 %	0.000 %	**10.000 %**	$ 83.33
1992	6.500 %	0.000 %	**6.500 %**	$ 54.17
1993	6.000 %	0.000 %	**6.000 %**	$ 50.00
1994	6.000 %	0.000 %	**6.000 %**	$ 50.00
1995	8.500 %	0.000 %	**8.500 %**	$ 70.83
1996	8.500 %	0.000 %	**8.500 %**	$ 70.83
1997	8.250 %	0.000 %	**8.250 %**	$ 68.75
1998	8.500 %	0.000 %	**8.500 %**	$ 70.83
1999	7.750 %	0.000 %	**7.750 %**	$ 64.58
2000	8.500 %	0.000 %	**8.500 %**	$ 70.83
Payoff Period				
2001	9.000 %	0.000 %	**9.000 %**	$ 226.13
2002	4.750 %	0.000 %	**4.750 %**	$ 158.42
2003	4.250 %	0.000 %	**4.250 %**	$ 129.11
2004	5.250 %	0.000 %	**5.250 %**	$ 112.52
2005	5.250 %	0.000 %	**5.250 %**	$ 93.72

THINGS YOU SHOULD KNOW BEFORE APPLYING FOR A HOME EQUITY LINE OF CREDIT (HELOC)

This disclosure contains important information about our Home Equity Line of Credit (HELOC). Please read it carefully and keep a copy for your records.

Risks	
These terms can change	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 paid to us or anyone else in connection with your application.
You could lose your home	Your line of credit will be secured by your home, which means that you could lose your home if you are unable to repay the money you borrowed.
You may not be able to draw on your line of credit	Under certain circumstances, we can: • Terminate your line, require you to pay the outstanding balance in one payment, and charge you fees upon termination; • Refuse to make additional extensions of credit; • Reduce the credit limit; and • Make certain changes in the plan. If you ask, we will give you specific information about when we can take these actions.
The interest you pay may not be tax deductible	If you borrow more than your home is worth, the interest on the excess amount is not deductible for federal income tax purposes. Consult a tax advisor regarding the deductibility of interest under this plan.

Credit Line	
Credit Limit	Your credit limit will be based on your creditworthiness and other factors.
Minimum Balance	You must keep a minimum balance of at least **$500** at all times.
Minimum Loan	The minimum amount that you can borrow at any time is **$300**.
Minimum Initial Loan	You must borrow at least **$10,000** when you open the account.

Annual Percentage Rate	
Annual Percentage Rate (APR)	**4.00%** to **9.00%** when you open your line of credit, based on your creditworthiness. Your APR will be based on the Prime Rate plus a margin between 0.00% and 5.00%, and will vary monthly with the market. There is no limit on the amount by which the APR can change in a one-year period. Rate change information will be included in your monthly statement. This APR does not include fees other than interest (unlike the APRs for traditional mortgages and home equity loans, which include some closing costs).
Maximum APR	**24.99%.** The maximum APR could be reached as soon as the first month that your line of credit is open.

Fees	
Annual Fee	**$50**
Total Account Opening Fees	**Up to $1,700**
Early Termination Fee	**.125% of the credit limit or $500**, whichever is greater, if you close the line of credit within three years.

Borrowing and Payoff Periods

	Borrowing Period **2009 – 2018**	Payoff Period **2019 - 2028**
Can I borrow money during this period?	Yes	No
Is a monthly payment due during this period?	Yes	Yes
Does my minimum monthly payment during this period cover any principal?	No, the minimum payment covers only the interest owed and your loan balance will not decrease.	Yes, the minimum payment covers interest and 1.5% of your principal balance, but you will not pay off the entire balance and will owe a “balloon payment” at the end of the loan term (see example below).

Minimum Monthly Payment Example for a $10,000 Balance

Interest Rate	Minimum Payment during Borrowing Period	Minimum Payment during Payoff Period	Final Balloon Payment
4.00% (minimum under plan)	$33.33	$183.33 decreasing to $31.28	$1,686.24
6.00%	$50.00	$200.00 decreasing to $34.12	$1,689.05
12.00%	$100.00	$250.00 decreasing to $42.66	$1,697.45
24.99% (maximum under plan)	$208.25	$358.25 decreasing to $61.13	$1,715.64

Historical Example Assuming a $10,000 Balance

The following figures show how the annual percentage rate and the minimum payments for a single $10,000 credit advance would have changed based on changes in the index over the last 15 years. The index values are from the first business day of January. While only one payment amount per year is shown, payments would have varied during each year. The table assumes that no additional credit advances were taken, that only the minimum payment was made, and that the rate remained constant during each year. It does not necessarily indicate how the index or your payments would change in the future.

	Index	Margin	Annual Percentage Rate (APR)	Minimum Monthly Payment
Borrowing Period				
1991	10.000 %	0.000 %	**10.000 %**	$ 83.33
1992	6.500 %	0.000 %	**6.500 %**	$ 54.17
1993	6.000 %	0.000 %	**6.000 %**	$ 50.00
1994	6.000 %	0.000 %	**6.000 %**	$ 50.00
1995	8.500 %	0.000 %	**8.500 %**	$ 70.83
1996	8.500 %	0.000 %	**8.500 %**	$ 70.83
1997	8.250 %	0.000 %	**8.250 %**	$ 68.75
1998	8.500 %	0.000 %	**8.500 %**	$ 70.83
1999	7.750 %	0.000 %	**7.750 %**	$ 64.58
2000	8.500 %	0.000 %	**8.500 %**	$ 70.83
Payoff Period				
2001	9.000 %	0.000 %	**9.000 %**	$ 226.13
2002	4.750 %	0.000 %	**4.750 %**	$ 158.42
2003	4.250 %	0.000 %	**4.250 %**	$ 129.11
2004	5.250 %	0.000 %	**5.250 %**	$ 112.52
2005	5.250 %	0.000 %	**5.250 %**	$ 93.72

THINGS YOU SHOULD KNOW BEFORE APPLYING FOR A HOME EQUITY LINE OF CREDIT (HELOC)

This disclosure contains important information about our Home Equity Line of Credit (HELOC). Please read it carefully and keep a copy for your records.

Risks	
These terms can change	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 paid to us or anyone else in connection with your application.
Your could lose your home	Your line of credit will be secured by your home, which means that you could lose your home if you are unable to repay the money you borrowed.
You may not be able to draw on your line of credit	Under certain circumstances, we can: • Terminate your line, require you to pay the outstanding balance in one payment, and charge you fees upon termination; • Refuse to make additional extensions of credit; • Reduce the credit limit; and • Make certain changes in the plan. If you ask, we will give you specific information about when we can take these actions.
The interest you pay may not be tax deductible	If you borrow more than your home is worth, the interest on the excess amount is not deductible for federal income tax purposes. Consult a tax advisor regarding the deductibility of interest under this plan.

Credit Line	
Credit Limit	Your credit limit will be based on your creditworthiness and other factors.
Minimum Balance	You must keep a minimum balance of at least **$500** at all times.
Minimum Withdrawal	The minimum amount that you can borrow at any time is **$300**.
Minimum Initial Withdrawal	You must borrow at least **$10,000** when you open the account.

Annual Percentage Rate	
Annual Percentage Rate (APR)	**4.00%** to **9.00%** when you open your line of credit, based on your creditworthiness. After that, your APR will vary monthly with the market based on the Prime Rate. There is no limit on the amount by which the APR can change in a one-year period. Rate change information will be included in your monthly statement. This APR does not include fees other than interest (unlike the APRs for traditional mortgages and home equity loans, which include some closing costs).
Maximum APR	**24.99%.** The maximum APR could be reached as soon as the first month that your line of credit is open.

Fees	
Annual Fee	**$50**
Total Account Opening Fees	**Up to $1,700**
Early Termination Fee	**.125% of the credit limit or $500**, whichever is greater, if you close the line of credit within three years.

Minimum Monthly Payment Amounts for a $10,000 balance		
	Withdrawal Period **2009 – 2018**	Payoff Period **2019 - 2028**
Interest Rate	**Minimum Monthly Payment**	**Minimum Monthly Payment**
4.00% (minimum under plan)	$33.33	$183.33 decreasing to $31.28
6.00%	$50.00	$200.00 decreasing to $34.12
12.00%	$100.00	$250.00 decreasing to $42.66
24.99% (maximum under plan)	$208.25	$358.25 decreasing to $61.13
Product Features		
Are withdrawals allowed during this period?	Yes	No
Is a monthly payment due during this period?	Yes	Yes
Does my minimum monthly payment during this period cover any principal?	No, this minimum payment covers only the interest owed and will not decrease your loan balance.	Yes, the minimum payment covers interest and 1.5% of your principal balance.
Will I owe a balloon payment?	If you make only the minimum payments each month you will not pay off the entire balance and will have to make a “balloon payment”. For example, if you borrowed $10,000 and made only minimum payments each month, at the end of the loan you would owe a balloon payment of up to **$1,715**.	

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Historical Example Assuming a $10,000 Balance

The following figures show how the annual percentage rate and the minimum payments for a single $10,000 credit advance would have changed based on changes in the index over the last 15 years. The index values are from the first business day of January. While only one payment amount per year is shown, payments would have varied during each year. The table assumes that no additional credit advances were taken, that only the minimum payment was made, and that the rate remained constant during each year. It does not necessarily indicate how the index or your payments would change in the future.

	Index	Margin	Annual Percentage Rate (APR)	Minimum Monthly Payment
Borrowing Period				
1991	10.000 %	0.000 %	**10.000 %**	$ 83.33
1992	6.500 %	0.000 %	**6.500 %**	$ 54.17
1993	6.000 %	0.000 %	**6.000 %**	$ 50.00
1994	6.000 %	0.000 %	**6.000 %**	$ 50.00
1995	8.500 %	0.000 %	**8.500 %**	$ 70.83
1996	8.500 %	0.000 %	**8.500 %**	$ 70.83
1997	8.250 %	0.000 %	**8.250 %**	$ 68.75
1998	8.500 %	0.000 %	**8.500 %**	$ 70.83
1999	7.750 %	0.000 %	**7.750 %**	$ 64.58
2000	8.500 %	0.000 %	**8.500 %**	$ 70.83
Payoff Period				
2001	9.000 %	0.000 %	**9.000 %**	$ 226.13
2002	4.750 %	0.000 %	**4.750 %**	$ 158.42
2003	4.250 %	0.000 %	**4.250 %**	$ 129.11
2004	5.250 %	0.000 %	**5.250 %**	$ 112.52
2005	5.250 %	0.000 %	**5.250 %**	$ 93.72

THINGS YOU SHOULD KNOW BEFORE APPLYING FOR A HOME EQUITY LINE OF CREDIT (HELOC)

These are the credit terms we offer on our home equity line of credit (HELOC). Compare these credit terms to other credit offers. Know your rights as a borrower; visit www.frb.gov/consumers/HELOC.htm.

Credit Line	
Credit Limit	Your credit limit will be based on your creditworthiness and other factors.
Minimum Balance	You must keep a minimum balance of at least **$500** at all times.
Minimum Loan	The minimum amount that you can borrow at any time is **$300**.
Minimum Initial Loan	You must borrow at least **$10,000** when you open the account.
APR	
Annual Percentage Rate (APR)	**4.00%** to **9.00%** when you open your line of credit, based on your creditworthiness. Your APR will be based on the Prime Rate plus a margin between 0.00% and 5.00%, and will vary monthly with the market. This APR does not include fees other than interest (unlike the APRs for traditional mortgages and home equity loans, which include some closing costs).
Maximum APR	**24.99%**
Fees (see next page for more fees)	
Annual Fee	**$50**
Total Account Opening Fees	**Up to $1,700**
Early Termination Fee	**.125% of the credit limit or $500**, whichever is greater, if you close the line of credit within three years.
Risks	
These terms can change	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 paid to us or anyone else in connection with your application.
You could lose your home	Your line of credit will be secured by your home, which means that you could lose your home if you are unable to repay the money you borrowed.
You may not be able to borrow money	Under certain circumstances, we can: • Terminate your line, require you to pay the outstanding balance in one payment, and charge you fees upon termination; • Refuse to make additional extensions of credit; • Reduce the credit limit; and • Make certain changes in the plan. If you ask, we will give you specific information about when we can take these actions.
The interest you pay may not be tax deductible	If you borrow more than your home is worth, the interest on the excess amount is not deductible for federal income tax purposes. Consult a tax advisor regarding the deductibility of interest under this plan.

Borrowing and Payoff Periods

	Borrowing Period **2009 – 2018**	Payoff Period **2019 - 2028**
Can I borrow money during this period?	Yes	No
Is a monthly payment due during this period?	Yes	Yes
Does my minimum monthly payment during this period cover any principal?	No, the minimum payment covers only the interest owed and will not decrease your loan balance.	Yes, the minimum payment covers interest and some principal, but you will not pay off the entire balance and will owe a "balloon payment" at the end of the loan term (see example below).

Minimum Monthly Payment Example for a $10,000 Balance

Interest Rate	Minimum Payment during Borrowing Period	Minimum Payment during Payoff Period	Final Balloon Payment
4.00% (minimum under plan)	$33.33	Up to $233.33	$924.96
6.00%	$50.00	Up to $250.00	$926.49
12.00%	$100.00	Up to $300.00	$931.10
24.99% (maximum under plan)	$208.25	Up to $408.25	$941.05

More Information about Fees

Penalty Fees	
Late Payment	Either **$15** or **5%** of the minimum payment, whichever is greater. This fee is imposed 15 days after the payment due date.
Over-the-Credit Limit	**$20** for each advance from the credit line that causes you to exceed your credit limit.
Returned Payment	**$30**
Transaction Fees	
Wire Transfer	**$20**
Courier Service	**$30** per transmittal of documents that you request by a delivery service.
Stop Payment	**$20** when you request a stop payment on a check written from this account.
Other transaction fees may also apply.	

THINGS YOU SHOULD KNOW BEFORE APPLYING FOR A HOME EQUITY LINE OF CREDIT (HELOC)

These are the credit terms we offer on our home equity line of credit (HELOC). Compare these credit terms to other credit offers. Know your rights as a borrower; visit www.frb.gov/consumers/HELOC.htm.

Credit Line	
Credit Limit	Your credit limit will be based on your creditworthiness and other factors.
Minimum Balance	You must keep a minimum balance of at least **$500** at all times.
Minimum Loan	The minimum amount that you can borrow at any time is **$300**.
Minimum Initial Loan	You must borrow at least **$10,000** when you open the account.
APR	
Annual Percentage Rate (APR)	**4.00%** to **9.00%** when you open your line of credit, based on your creditworthiness. Your APR will be based on the Prime Rate plus a margin between 0.00% and 5.00%, and will vary monthly with the market. This APR does not include fees other than interest (unlike the APRs for traditional mortgages and home equity loans, which include some closing costs).
Maximum APR	**24.99%**
Fees (see next page for more fees)	
Annual Fee	**$50**
Total Account Opening Fees	**Up to $1,700**
Early Termination Fee	**.125% of the credit limit or $500**, whichever is greater, if you close the line of credit within three years.
Risks	
These terms can change	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 paid to us or anyone else in connection with your application.
You could lose your home	Your line of credit will be secured by your home, which means that you could lose your home if you are unable to repay the money you borrowed.
You may not be able to borrow money	Under certain circumstances, we can: • Terminate your line, require you to pay the outstanding balance in one payment, and charge you fees upon termination; • Refuse to make additional extensions of credit; • Reduce the credit limit; and • Make certain changes in the plan. If you ask, we will give you specific information about when we can take these actions.
The interest you pay may not be tax deductible	If you borrow more than your home is worth, the interest on the excess amount is not deductible for federal income tax purposes. Consult a tax advisor regarding the deductibility of interest under this plan.

Minimum Monthly Payment Amounts for a $50,000 balance		
	Withdrawal Period **2009 – 2018**	Payoff Period **2019 - 2028**
Interest Rate	**Minimum Monthly Payment**	**Minimum Monthly Payment**
4.00% (minimum under plan)	$166.67	Up to $1,166.67
6.00%	$250.00	Up to $1,250.00
12.00%	$500.00	Up to $1,500.00
24.99% (maximum under plan)	$1,041.25	Up to $2,041.25
Product Features		
Are withdrawals allowed during this period?	Yes	No
Is a monthly payment due during this period?	Yes	Yes
Does my minimum monthly payment during this period cover any principal?	No, this minimum payment covers only the interest owed and will not decrease your loan balance.	Yes, the minimum payment covers interest and some principal.
Will I owe a balloon payment?	If you make only the minimum payments each month you will not pay off the entire balance and will have to make a “balloon payment”. For example, if you borrowed $50,000 and made only minimum payments each month, at the end of the loan you would owe a balloon payment of up to **$4,705**.	

More Information about Fees	
Penalty Fees	
Late Payment	Either **$15** or **5%** of the minimum payment, whichever is greater. This fee is imposed 15 days after the payment due date.
Over-the-Credit Limit	**$20** for each advance from the credit line that causes you to exceed your credit limit.
Returned Payment	**$30**
Transaction Fees	
Wire Transfer	**$20**
Courier Service	**$30** per transmittal of documents that you request by a delivery service.
Stop Payment	**$20** when you request a stop payment on a check written from this account.
Other transaction fees may also apply.	

HOME EQUITY LINE OF CREDIT (HELOC) STATEMENT OF TERMS

BORROWER:	Joe Smith & Jane Doe	DATE:	February 7, 2009
COLLATERAL:	1234 Main Street Anytown, ST 12345	LENDER:	ABC Bank
		LOAN NUMBER:	123-12-1234-556

Credit Line	
Credit Limit	**$80,000**
Minimum Balance	You must keep a minimum balance of at least **$500** at all times.
Minimum Loan	The minimum amount that you can borrow at any time is **$300**.
Minimum Initial Loan	You must borrow at least **$10,000** when you open the account.
APR	
Annual Percentage Rate (APR)	**4.00%** introductory APR for the first six months. After that, your APR will vary monthly with the market based on the Prime Rate + 2.00%. Under this formula, your APR without any discounts would currently be **6.00%** based on today's Prime Rate. This APR does not include fees other than interest (unlike the APRs for traditional mortgages and home equity loans, which include some closing costs).
Maximum APR	**24.99%**
Fees (see next page for more fees)	
Annual Fee	**$50**
Total Account Opening Fees	**$1,740** (itemized on next page)
Early Termination Fee	**.125% of the credit limit or $500**, whichever is greater, if you close the line of credit within three years.
Risks	
You could lose your home	Your line of credit is secured by your home, which means that you could lose your home if you are unable to repay the money you borrowed.
You may not be able to draw on your line of credit	Under the circumstances described in your account agreement, we can: • Terminate your line, require you to pay the outstanding balance in one payment, and charge you fees upon termination; • Refuse to make additional extensions of credit; • Reduce the credit limit; and • Make certain changes in the plan.
The interest you pay may not be tax deductible	If you borrow more than your home is worth, the interest on the excess amount is not deductible for federal income tax purposes. Consult a tax advisor regarding the deductibility of interest under this plan.
Rights	
You do not have to accept this line of credit	You are under no obligation to accept this line of credit or its terms. Know your rights before you sign this statement; visit www.frb.gov/consumers/HELOC.htm.
You can dispute transactions	Your right to dispute transactions is specified in your account agreement.

Borrowing and Payoff Periods

	Borrowing Period **2009 – 2018**	Payoff Period **2019 - 2028**
Can I borrow money during this period?	Yes	No
Is a monthly payment due during this period?	Yes	Yes
Does my minimum monthly payment during this period cover any principal?	No, the minimum payment covers only the interest owed and will not decrease your loan balance.	Yes, the minimum payment covers interest and some principal, but you will not pay off the entire balance and will owe a "balloon payment" at the end of the loan term (see example below).

Minimum Monthly Payment Example for a $10,000 Balance

Interest Rate	Minimum Payment during Borrowing Period	Minimum Payment during Payoff Period	Final Balloon Payment
4.00% (minimum under plan)	$33.33	Up to $233.33	$924.96
6.00%	$50.00	Up to $250.00	$926.49
12.00%	$100.00	Up to $300.00	$931.10
24.99% (maximum under plan)	$208.25	Up to $408.25	$941.05

More Information about Fees

Itemized Account Opening Fees	
Loan Origination	$350
Loan Discount	$800
Underwriting	$295
Appraisal	$295
Penalty Fees	
Late Payment	Either **$15** or **5%** of the minimum payment, whichever is greater. This fee is imposed 15 days after the payment due date.
Over-the-Credit Limit	**$20** for each advance from the credit line that causes you to exceed your credit limit.
Returned Payment	**$30**
Transaction Fees	
Wire Transfer	**$20**
Courier Service	**$30** per transmittal of documents that you request by a delivery service.
Stop Payment	**$20** when you request a stop payment on a check written from this account.
Other transaction fees may also apply.	

HOME EQUITY LINE OF CREDIT (HELOC) STATEMENT OF TERMS

BORROWER:	Joe Smith & Jane Doe	DATE:	September 23, 2008
COLLATERAL:	1234 Main Street Anytown, ST 12345	LENDER:	ABC Bank
		LOAN NUMBER:	123-12-1234-556

Credit Line	
Credit Limit	**$80,000**
Minimum Balance	You must keep a minimum balance of at least **$500** at all times.
Minimum Withdrawal	The minimum amount that you can borrow at any time is **$300**.
Minimum Initial Withdrawal	You must borrow at least **$10,000** when you open the account.
APR	
Annual Percentage Rate (APR)	**4.00%** introductory APR for the first six months. After that, your APR will be **6.00%**. This APR will vary monthly with the market based on the Prime Rate. This APR does not include fees other than interest (unlike the APRs for traditional mortgages and home equity loans, which include some closing costs).
Maximum APR	**24.99%**
Fees (see next page for more fees)	
Annual Fee	**$50**
Total Account Opening Fees	**$1,740** (itemized on next page)
Early Termination Fee	**.125% of the credit limit or $500**, whichever is greater, if you close the line of credit within three years.
Risks	
You could lose your home	Your line of credit is secured by your home, which means that you could lose your home if you are unable to repay the money you borrowed.
You may not be able to draw on your line of credit	Under the circumstances described in your account agreement, we can: • Terminate your line, require you to pay the outstanding balance in one payment, and charge you fees upon termination; • Refuse to make additional extensions of credit; • Reduce the credit limit; and • Make certain changes in the plan.
The interest you pay may not be tax deductible	If you borrow more than your home is worth, the interest on the excess amount is not deductible for federal income tax purposes. Consult a tax advisor regarding the deductibility of interest under this plan.
Rights	
You do not have to accept this line of credit	You are under no obligation to accept this line of credit or its terms. Know your rights before you sign this statement; visit www.frb.gov/consumers/HELOC.htm.
You can dispute transactions	Your right to dispute transactions is specified in your account agreement.

Minimum Monthly Payment Amounts for a $50,000 balance		
	Withdrawal Period **2009 – 2018**	Payoff Period **2019 - 2028**
Interest Rate	**Minimum Monthly Payment**	**Minimum Monthly Payment**
4.00% (minimum under plan)	$166.67	Up to $1,166.67
6.00%	$250.00	Up to $1,250.00
12.00%	$500.00	Up to $1,500.00
24.99% (maximum under plan)	$1,041.25	Up to $2,041.25
Product Features		
Are withdrawals allowed during this period?	Yes	No
Is a monthly payment due during this period?	Yes	Yes
Does my minimum monthly payment during this period cover any principal?	No, this minimum payment covers only the interest owed and will not decrease your loan balance.	Yes, the minimum payment covers interest and some principal.
Will I owe a balloon payment?	If you make only the minimum payments each month you will not pay off the entire balance and will have to make a "balloon payment". For example, if you borrowed $50,000 and made only minimum payments each month, at the end of the loan you would owe a balloon payment of up to **$4,705**.	

More Information about Fees	
Itemized Account Opening Fees	
Loan Origination	$350
Loan Discount	$800
Underwriting	$295
Appraisal	$295
Penalty Fees	
Late Payment	Either **$15** or **5%** of the minimum payment, whichever is greater. This fee is imposed 15 days after the payment due date.
Over-the-Credit Limit	**$20** for each advance from the credit line that causes you to exceed your credit limit.
Returned Payment	**$30**
Transaction Fees	
Wire Transfer	**$20**
Courier Service	**$30** per transmittal of documents that you request by a delivery service.
Stop Payment	**$20** when you request a stop payment on a check written from this account.
Other transaction fees may also apply.	

6 Key Questions to Ask About Home Equity Lines of Credit

When you are shopping for a home equity line of credit, you should consider the six questions below. Lines of credit have risky features that could make it difficult for you to repay your balance. As a result, you could lose your home. If you are not comfortable with the risks associated with a line of credit, ask your lender about other loan products, such as a traditional home equity loan. For more information, go to *federalreserve.gov/shopwisely.*
For a list of counselors in your area, go to *www.HELP.gov*.

1 Can my interest rate increase?

Lines of credit usually have an adjustable interest rate, which means that the rate can increase or decrease each month. Some lenders offer a discounted interest rate that is fixed for an introductory period. However, after this introductory period the rate will usually increase.

2 Can my minimum monthly payment increase?

Yes, your minimum monthly payment can increase. This increase can be based on a number of factors, such as when your adjustable interest rate increases or you borrow more money.

3 What is the difference between the "borrowing" and "payoff" periods?

The borrowing period starts when you open your line of credit and lasts for a limited time. During the borrowing period, you can take out loans from your line of credit, and you may be required to make a minimum monthly payment. After the borrowing period ends, the payoff period begins. During the payoff period, you cannot borrow any more money from your line of credit, and you must make larger minimum payments than during the withdrawal period.

4 Will I owe a balloon payment?

If you make only the minimum payments each month, you may not pay off your entire balance by the end of the loan term. At that point, you may be asked to pay the entire remaining balance as a single lump sum, or "balloon payment." If you cannot refinance the outstanding balance or pay it off using your savings, you could lose your home.

5 Do I have to pay any fees to have a line of credit?

You may have to pay fees to open your line of credit. You may also be charged an annual fee. In addition, you may have to pay penalty fees for late or missed payments or if you do not carry a required minimum balance. You may also be charged an early termination fee if you decide to pay off or refinance your balance early.

6 Once I open a line of credit, can my lender change the amount of money that I can borrow?

If the value of your home declines or if your financial situation changes, your lender can lower your credit limit or prevent you from borrowing any more money. Keep this in mind as you make financial plans for the future.

Round 3:
Chicago, IL
March 24-25, 2009

- Early Disclosure (ID-1)
- Early Disclosure (ID-2)
- Account-Opening Disclosure (AO-2)
- Historical Example Table
- Key Questions Disclosure

HOME EQUITY LINE OF CREDIT (HELOC) STATEMENT of TERMS

BORROWER:	Joe Smith & Jane Doe	DATE:	March 17, 2009
COLLATERAL:	1234 Main Street Anytown, ST 12345	LENDER:	ABC Bank
		LOAN NUMBER:	123-12-1234-556

The terms described below could change at any time before you open a line of credit with us. If terms other than the Annual Percentage Rate (APR) change and you decide not to open the account, you are entitled to a refund of any fees that you paid to us or anyone else in connection with your application.

Risks	
You Could Lose Your Home	Your line of credit will be secured by your home, which means that you could lose your home if you are unable to repay the money you borrowed.
You May Not Be Able To Borrow From Your Line Of Credit	Under certain circumstances, we can: • Terminate your line, require you to pay the outstanding balance in one payment, and charge you fees upon termination; • Refuse to make additional extensions of credit; • Reduce the credit limit; and • Make certain changes in the plan. If you ask, we will give you specific information about when we can take these actions.
The Interest You Pay May Not Be Tax-Deductible	If you borrow more than your home is worth, the interest on the excess amount is not deductible for federal income tax purposes. Consult a tax advisor regarding the deductibility of interest paid.

Annual Percentage Rate	
Annual Percentage Rate (APR)	**5.25%** currently. Your APR will vary monthly based on the Prime Rate plus a margin of 1.00%. Your monthly statement will tell you each time your APR changes. There is no limit on how much the APR can change in one year.
Maximum APR	**24.99%.** The maximum APR could be reached as soon as the first month that your line of credit is open.
Historical Changes to Prime Rate	Over the past 15 years, the Prime Rate has varied between 4.25% and 10.00%. If you borrowed $10,000 on this line of credit 15 years ago, your minimum monthly payment could have varied by $200 a month during that time.
Comparing APRs	The APR on a HELOC does not include fees other than interest. However, APRs for traditional mortgages and home equity loans include some fees.

Fees	
Annual Fee	**$50**
Total Account Opening Fees	**Up to $1,700** (If you ask, we will give you an itemized list)
Early Termination Fee	**.125% of the credit limit or $500**, whichever is greater, if you close the line of credit within three years.

Credit Line	
Credit Limit	**$80,000**
Minimum Initial Loan	You must borrow at least **$10,000** when you open the account.
Minimum Loan	The minimum amount that you can borrow at any time is **$300**.
Minimum Balance	You must keep a minimum balance of at least **$500** at all times.

Borrowing and Repayment Terms

Duration of Line of Credit	20 years consisting of: • **Borrowing Period (Years 1-10):** During this time you **can** borrow money. • **Repayment Period (Years 11-20):** During this time you **cannot** borrow money. You must make a minimum monthly payment during both periods.
Balloon Payment	If you make only the minimum monthly payment, you may owe a balloon payment at the end of the loan. See Payment Plans below for more details.

Payment Plans

Before you open this account you will choose a payment plan. Two choices are described below. Other payment choices may be available to you; ask us for details.

Plan A	During the borrowing period each month you would pay the interest plus 1.5% of the principal balance. During the repayment period each month you would pay enough principal to pay off your entire balance by the end of the loan.
Plan B	During the borrowing period, each month you would pay only interest and your balance would remain the same. During the repayment period each month you would pay interest plus 1% of the principal balance, but would owe a balloon payment at the end of the loan.
Plan A vs. Plan B	With Plan B, you would have lower monthly payments during the borrowing period, but would owe a balloon payment at the end of the loan. With Plan A, you would have higher monthly payments than with Plan B, but would not owe any money at the end of the loan.

Plan Comparison: Sample Payments on a $10,000 Balance

This table shows the payments you would make under each plan if you borrowed $10,000. Because principal balance and interest owed each month decrease as your principal balance is paid down, some plans show a payment "decreasing to" a lower payment over time.

	Minimum monthly payment during Borrowing Period	Minimum monthly payment during Repayment Period	Final Balloon Payment	Total of All Payments
At the current APR of 5.25%:				
Plan A	$193.75 decreasing to $32.07	$20.72 decreasing to $13.65	$0	$11,963.09
Plan B	$43.75	$143.75 decreasing to $43.47	$2,993.80	$15,321.41
At the maximum APR of 24.99%:				
Plan A	$358.25 decreasing to $59.31	$47.55 decreasing to $13.87	$0	$21,983.00
Plan B	$208.25	$308.25 decreasing to $93.22	$2,993.80	$46,586.60

Fixed-Rate Loan Option

You may have an option to borrow up to $40,000 at a fixed interest rate equal to the Prime Rate plus a margin between 3.00% and 7.00%. Ask us for more details.

HOME EQUITY LINE OF CREDIT (HELOC) STATEMENT of TERMS

BORROWER:	Joe Smith & Jane Doe	DATE:	March 17, 2009
COLLATERAL:	1234 Main Street Anytown, ST 12345	LENDER:	ABC Bank
		LOAN NUMBER:	123-12-1234-556

The terms described below could change at any time before you open a line of credit with us. If terms other than the Annual Percentage Rate (APR) change and you decide not to open the account, you are entitled to a refund of any fees that you paid to us or anyone else in connection with your application.

Annual Percentage Rate	
Annual Percentage Rate (APR)	**5.25%** currently. Your APR will vary monthly based on the Prime Rate plus a margin of 1.00%. Your monthly statement will tell you each time your APR changes. There is no limit on how much the APR can change in one year.
Maximum APR	**24.99%.** The maximum APR could be reached as soon as the first month that your line of credit is open.
Historical Changes to Prime Rate	Over the past 15 years, the Prime Rate has varied between 4.25% and 10.00%. If you borrowed $10,000 on this line of credit 15 years ago, your minimum monthly payment could have varied by $200 a month during that time.
Comparing APRs	The APR on a HELOC does not include fees other than interest. However, APRs for traditional mortgages and home equity loans include some fees.

Fees	
Annual Fee	**$50**
Total Account Opening Fees	**Up to $1,700** (If you ask, we will give you an itemized list)
Early Termination Fee	**.125% of the credit limit or $500**, whichever is greater, if you close the line of credit within three years.

Credit Line	
Credit Limit	**$80,000**
Minimum Initial Loan	You must borrow at least **$10,000** when you open the account.
Minimum Loan	The minimum amount that you can borrow at any time is **$300**.
Minimum Balance	You must keep a minimum balance of at least **$500** at all times.

Risks	
You Could Lose Your Home	Your line of credit will be secured by your home, which means that you could lose your home if you are unable to repay the money you borrowed.
You May Not Be Able To Borrow From Your Line Of Credit	Under certain circumstances, we can: • Terminate your line, require you to pay the outstanding balance in one payment, and charge you fees upon termination; • Refuse to make additional extensions of credit; • Reduce the credit limit; and • Make certain changes in the plan. If you ask, we will give you specific information about when we can take these actions.
The Interest You Pay May Not Be Tax-Deductible	If you borrow more than your home is worth, the interest on the excess amount is not deductible for federal income tax purposes. Consult a tax advisor regarding the deductibility of interest paid.

Borrowing and Repayment Terms

Duration of Line of Credit	20 years consisting of: • **Borrowing Period (Years 1-10):** During this time you **can** borrow money. • **Repayment Period (Years 11-20):** During this time you **cannot** borrow money. You must make a minimum monthly payment during both periods.
Balloon Payment	If you make only the minimum monthly payment, you may owe a balloon payment at the end of the loan. See Payment Plans below for more details.

Payment Plans

Before you open this account you will choose a payment plan. The plans use different formulas for calculating your minimum payments. Plans with lower monthly payments generally have higher balloon payments due at loan end. This table shows the formulas for calculating minimum payments for two plans that we offer. Other payment choices may be available to you; ask us for details.

	Minimum Payment Formula for Borrowing Period	**Minimum Payment Formula for Repayment Period**	**Has a Balloon Payment?**
Plan A	Interest + 1.5% of principal	Interest + all principal	No
Plan B	Interest only	Interest + 1% of principal	Yes

Plan Comparison: Sample Payments on a $10,000 Balance

This table shows the payments you would make under each plan if you borrowed $10,000. Because principal balance and interest owed each month decrease as your principal balance is paid down, some plan periods show a payment “decreasing to” a lower payment over time.

Plan A

APR	**Minimum monthly payment during Borrowing Period**	**Minimum monthly payment during Repayment Period**	**Final Balloon Payment**
5.25% (current)	$193.75 decreasing to $32.07	$20.72 decreasing to $13.65	$0
24.99% (max.)	$358.25 decreasing to $59.31	$47.55 decreasing to $13.87	$0

Plan B

APR	**Minimum monthly payment during Borrowing Period**	**Minimum monthly payment during Repayment Period**	**Final Balloon Payment**
5.25% (current)	$43.75	$143.75 decreasing to $43.47	$2,993.80
24.99% (max.)	$208.25	$308.25 decreasing to $93.22	$2,993.80

Fixed-Rate Loan Option

You may have an option to borrow up to $40,000 at a fixed interest rate equal to the Prime Rate plus a margin between 3.00% and 7.00%. Ask us for more details.

HOME EQUITY LINE OF CREDIT (HELOC) ACCOUNT-OPENING DISCLOSURE

BORROWER:	Joe Smith & Jane Doe	DATE:	March 17, 2009
COLLATERAL:	1234 Main Street Anytown, ST 12345	LENDER:	ABC Bank
		LOAN NUMBER:	123-12-1234-556

Annual Percentage Rate

Annual Percentage Rate (APR)	**5.25%** currently. Your APR will vary monthly based on the Prime Rate plus a margin of 1.00%. Your monthly statement will tell you each time your APR changes. There is no limit on how much the APR can change in one year.
Maximum APR	**24.99%.** The maximum APR could be reached as soon as the first month that your line of credit is open.
Historical Changes to Prime Rate	Over the past 15 years, the Prime Rate has varied between 4.25% and 10.00%. If you borrowed $10,000 on this line of credit 15 years ago, your minimum monthly payment could have varied by $200 a month during that time.
Comparing APRs	The APR on a HELOC does not include fees other than interest. However, APRs for traditional mortgages and home equity loans include some fees.
Paying Interest	We will begin charging interest on each loan transaction on the date the transaction is posted to your account.

Fees (see below for more fees)

Annual Fee	**$50**
Total Account Opening Fees	**$1,700** (itemized below)
Early Termination Fee	**.125% of the credit limit or $500**, whichever is greater, if you close the line of credit within three years.

Credit Line

Credit Limit	**$80,000**
Minimum Initial Loan	You must borrow at least **$10,000** when you open the account.
Minimum Loan	The minimum amount that you can borrow at any time is **$300**.
Minimum Balance	You must keep a minimum balance of at least **$500** at all times.

Borrowing and Repayment Terms

Duration of Line of Credit	20 years consisting of: • **Borrowing Period (Years 1-10):** During this time you **can** borrow money. • **Repayment Period (Years 11-20):** During this time you **cannot** borrow money. You must make a minimum payment during both periods.
Balloon Payment	If you make only the minimum monthly payment, you will owe a balloon payment at the end of the loan. See Sample Payments section for more details.

How Your Minimum Payments Will Be Determined

During the borrowing period your minimum monthly payment will cover only interest. If you make only the minimum monthly payment your balance will remain the same. During the repayment period your minimum payment will cover interest plus 1% of the principal balance.

Sample Payments

This table shows the payments you would make if you borrowed $10,000 or $80,000 at two sample APRs. During the repayment period, your minimum monthly payment will decrease over time as your principal balance is paid down.

APR	Minimum payment during **Borrowing Period** *(Interest-Only)*	Minimum payment during **Repayment Period** *(Interest + 1% of Principal)*	**Final Balloon Payment**
If you borrow $10,000:			
5.25% (current)	$43.75	$143.75 decreasing to $43.47	$2,993.80
24.99% (max.)	$208.25	$308.25 decreasing to $93.22	$2,993.80
If you borrow $80,000:			
5.25% (current)	$350.00	$1,150.00 decreasing to $347.76	$23,950.40
24.99% (max.)	$1,666.00	$2,466.00 decreasing to $745.76	$23,950.40

Fixed-Rate Loan Option
You may have an option to borrow up to $40,000 at a fixed interest rate equal to the Prime Rate plus a margin between 3.00% and 7.00%. Ask us for more details.

More Information about Fees	
Itemized Account Opening Fees	
Loan Origination	**$350**
Loan Discount	**$800**
Underwriting	**$295**
Appraisal	**$295**
Penalty Fees	
Late Payment	Either **$15** or **5%** of the minimum payment, whichever is greater. This fee is imposed 15 days after the payment due date.
Over-the-Credit Limit	**$20** for each loan that causes you to exceed your credit limit.
Balance Below $500	**$25** if your balance falls below $500.
Returned Payment	**$30**
Transaction Fees	
Wire Transfer	**$20** for each loan transaction that you initiate by wire transfer.
Transaction less than $300	**4%** of each loan transaction that is less than **$300**. This fee does not apply to credit card transactions.
Cash advance using a credit card	Either **$2** or **2%** of the amount of each cash advance, whichever is greater.
Foreign transaction using a credit card	**1%** of each transaction in U.S. dollars.
Other fees may also apply; see your account agreement for details.	

Risks	
You Could Lose Your Home	Your line of credit will be secured by your home, which means that you could lose your home if you are unable to repay the money you borrowed.
You May Not Be Able To Borrow From Your Line Of Credit	Under certain circumstances, we can: • Terminate your line, require you to pay the outstanding balance in one payment, and charge you fees upon termination; • Refuse to make additional extensions of credit; • Reduce the credit limit; and • Make certain changes in the plan. See your account agreement for details.
The Interest You Pay May Not Be Tax-Deductible	If you borrow more than your home is worth, the interest on the excess amount is not deductible for federal income tax purposes. Consult a tax advisor regarding the deductibility of interest paid.

How We Will Calculate Your Balance: We use a method called "average daily balance (including new purchases)." See your account agreement for more details.

Billing Rights: Information on your rights to dispute transactions and how to exercise those rights is provided in your account agreement.

Historical Example

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

Historical Example Assuming a $10,000 Balance

	Index	Margin	Annual Percentage Rate (APR)	Minimum Monthly Payment
Borrowing Period				
1991	10.000 %	0.000 %	**10.000 %**	$ 83.33
1992	6.500 %	0.000 %	**6.500 %**	$ 54.17
1993	6.000 %	0.000 %	**6.000 %**	$ 50.00
1994	6.000 %	0.000 %	**6.000 %**	$ 50.00
1995	8.500 %	0.000 %	**8.500 %**	$ 70.83
1996	8.500 %	0.000 %	**8.500 %**	$ 70.83
1997	8.250 %	0.000 %	**8.250 %**	$ 68.75
1998	8.500 %	0.000 %	**8.500 %**	$ 70.83
1999	7.750 %	0.000 %	**7.750 %**	$ 64.58
2000	8.500 %	0.000 %	**8.500 %**	$ 70.83
Repayment Period				
2001	9.000 %	0.000 %	**9.000 %**	$ 226.13
2002	4.750 %	0.000 %	**4.750 %**	$ 158.42
2003	4.250 %	0.000 %	**4.250 %**	$ 129.11
2004	5.250 %	0.000 %	**5.250 %**	$ 112.52
2005	5.250 %	0.000 %	**5.250 %**	$ 93.72

Key Questions to Ask About Home Equity Lines of Credit

When you are shopping for a home equity line of credit, consider the questions below. Lines of credit have risky features that could make it difficult for you to repay your balance. As a result, you could lose your home. Ask your lender about availability and terms of other loan products, such as a traditional home equity loan. For more information, go to *federalreserve.gov/shopwisely*. For a list of counselors in your area, go to *www.HELP.gov*.

1 Can my interest rate increase?

Lines of credit usually have a variable interest rate, which means that the rate can increase or decrease from time to time. A lender may offer you a discounted interest rate that is fixed for an introductory period. However, after this introductory period the rate will usually increase.

2 Can my minimum monthly payment increase?

Yes, your minimum monthly payment can increase based on a number of factors, such as if your adjustable interest rate increases or you borrow more money.

3 What is the difference between "borrowing" and "repayment" periods?

The borrowing period starts when you open your line of credit and lasts for a limited time. During the borrowing period, you can borrow money and may be required to make a minimum monthly payment. After the borrowing period ends, the repayment period begins. During the repayment period, you cannot borrow any more money and you must make larger minimum payments than during the withdrawal period.

4 Will I owe a balloon payment?

If you make only the minimum monthly payments you may not pay off your entire balance by the end of the loan term. At that point, you may have to pay the remaining balance as a single lump sum, known as a "balloon payment." If you cannot refinance the outstanding balance or pay it off using your savings, you could lose your home.

5 Do I have to pay any fees to have a line of credit?

You may have to pay fees to open your line of credit. You may also be charged an annual or maintenance fee. In addition, you may have to pay penalty fees for late or missed payments or if you carry less than the required minimum balance. You may also be charged an early termination fee if you decide to pay off or refinance your balance early.

6 Once I open a line of credit, can my lender change the amount of money that I can borrow?

If the value of your home declines or if your financial situation changes, your lender can lower your credit limit or prevent you from borrowing more money. Keep this in mind as you make financial plans for the future.

Round 4:
Denver, CO
April 14-15, 2009

- Early Disclosure (ID-3)
- Early Disclosure (ID-4)
- Account-Opening Disclosure (AO-3)
- Key Questions Disclosure

HOME EQUITY LINE OF CREDIT (HELOC) TERMS

BORROWER:	Joe Smith & Jane Doe	DATE:	March 17, 2009
COLLATERAL:	1234 Main Street Anytown, ST 12345	LENDER:	ABC Bank
		LOAN NUMBER:	123-12-1234-556

You are under no obligation to accept these terms. If you let us know within three (3) business days after you receive these terms that you decided not to open the account, we will refund all fees you paid.

These terms could change before we open your account. If terms other than the Annual Percentage Rate (APR) change and you decide not to open the account, let us know and we will refund all fees you paid.

Risks	
You Could Lose Your Home	Your line of credit will be secured by your home, which means that you could lose your home if you are unable to repay the money you borrow.
You May Not Be Able to Borrow From Your Line of Credit	Under certain circumstances, we can: • Terminate your line, require you to pay the outstanding balance in one payment, and charge you fees upon termination; • Not allow you to borrow any additional money even if it is available under your credit limit; • Reduce the credit limit; and • Make certain changes in the plan. Information about when we can take these actions will be specified in your account agreement. You can also ask us for this information.
The Interest You Pay May Not Be Tax-Deductible	If you borrow more than your home is worth, the interest on the extra amount may not be deductible for federal income tax purposes. Consult a tax advisor regarding the deductibility of interest paid.

Annual Percentage Rate	
Annual Percentage Rate (APR)	**5.25%.** This is a variable rate and will vary monthly based on the Prime Rate (as published in the Wall Street Journal) plus 1.00%. Your monthly statement will tell you each time your rate changes. There is no limit on how much the rate can change in one year.
Maximum APR	**24.99%**. The maximum rate could be reached as soon as the first month that your account is open.
Historical Changes to Prime Rate	Over the past 15 years, the Prime Rate has varied between 4.25% and 10.00%. If you borrowed $10,000 on this line of credit 15 years ago, your minimum monthly payment would have been as low as $50 and as high as $250.

Fees	
Annual Fee	**$50**
Total Account Opening Fees	**Up to $1,740**, for the following: • $350 for loan origination • $800 for loan discount • $295 for underwriting • $200 - $295 for appraisal
Early Termination Fee	**.125% of the credit limit or $500**, whichever is greater, if you close your account within three (3) years.
Other Fees	Other fees will apply, such as fees to make transactions on the account, and penalty fees. Ask us for a complete list of fees.

Credit Line	
Credit Limit	**$80,000**
Minimum Initial Transaction	You must borrow at least **$10,000** when you open the account.
Minimum Transaction	After the initial transaction, each transaction you make must be at least $300
Minimum Balance	You must keep a minimum balance of at least **$500**.

Borrowing and Repayment Terms

Duration of Line of Credit	20 years consisting of: • **Borrowing Period (Years 1-10):** During this time you **can** borrow money. • **Repayment Period (Years 11-20):** During this time you **cannot** borrow money. You must make a minimum monthly payment during both periods.
Balloon Payment	Depending on the payment plan you choose, if you make only the minimum payment each month you may not pay off your entire balance by the end of the term. If this happens, you will be required to pay the remaining balance in a single payment, known as a "balloon payment."

Payment Plans

This table shows how we determine minimum monthly payments for two plans that we offer. Other payment choices may be available; ask us for details.

	Borrowing Period Minimum Payment	Repayment Period Minimum Payment	Has A Final Balloon Payment?
Plan A	Interest + 1.5% of principal (but not less than $50)	Interest + principal (but not less than $50)	No
Plan B	Interest only	Interest + 1% of principal	Yes

Plan Comparison: Sample Payments on a $10,000 Balance

Your monthly payments will vary each month based on the interest rate and your balance. This table shows the first monthly payment you will have to make under each plan if you borrow $10,000 when you open your account and do not borrow any additional money.

Plan A

APR	Borrowing Period First Payment	Repayment Period First Payment	Time to pay off balance
5.25% (current)	$193.75	$50.00	15 years
24.99% (max.)	$358.25	$50.00	15 years

Plan B

APR	Borrowing Period First Payment	Repayment Period First Payment	Time to pay off balance
5.25% (current)	$43.75	$143.75	20 years
24.99% (max.)	$208.25	$308.25	20 years

Plan A versus Plan B

With Plan A, you will **pay less** over time and **will not owe a balloon payment** at the end of the term.
With Plan B, you will **pay more** over time and **will owe a balloon payment of $2,993.80** at the end of the term.

Fixed-Rate Loan Option

Regardless of which payment plan you choose, you have the option to have a fixed interest rate on a balance of up to $40,000 (of your $80,000 credit line). Ask us for details.

HOME EQUITY LINE OF CREDIT (HELOC) TERMS

BORROWER:	Joe Smith & Jane Doe	DATE:	March 17, 2009
COLLATERAL:	1234 Main Street Anytown, ST 12345	LENDER:	ABC Bank
		LOAN NUMBER:	123-12-1234-556

Risks	
You Could Lose Your Home	Your line of credit will be secured by your home, which means that you could lose your home if you are unable to repay the money you borrow.
You May Not Be Able to Borrow From Your Line of Credit	Under certain circumstances, we can: • Terminate your line, require you to pay the outstanding balance in one payment, and charge you fees upon termination; • Not allow you to borrow any additional money even if it is available under your credit limit; • Reduce the credit limit; and • Make certain changes in the plan. Information about when we can take these actions will be specified in your account agreement. You can also ask us for this information.
The Interest You Pay May Not Be Tax-Deductible	If you borrow more than your home is worth, the interest on the extra amount may not be deductible for federal income tax purposes. Consult a tax advisor regarding the deductibility of interest paid.
Terms May Change	These terms could change before we open your account. If terms other than the Annual Percentage Rate (APR) change and you decide not to open the account, let us know and we will refund all fees you paid.

Annual Percentage Rate	
Annual Percentage Rate (APR)	**5.25%.** This is a variable rate and will vary monthly based on the Prime Rate.
Maximum APR	**24.99%**
Historical Changes to Prime Rate	Over the past 15 years, the Prime Rate has varied between 4.25% and 10.00%. If you borrowed $10,000 on this line of credit 15 years ago, your minimum monthly payment would have been as low as $50 and as high as $250.

Fees	
Refundability of Fees	If you let us know within three (3) business days after you receive these terms that you do not want to open the account, we will refund all fees you paid.
Annual Fee	**$50**
Total Account Opening Fees	**Up to $1,740** (If you ask, we will give you an itemized list)
Early Termination Fee	**.125% of the credit limit or $500**, whichever is greater, if you close your account within three (3) years.

Credit Line	
Credit Limit	**$80,000**
Minimum Initial Transaction	You must borrow at least **$10,000** when you open the account.
Minimum Transaction	After the initial transaction, each transaction you make must be at least **$300**
Minimum Balance	You must keep a minimum balance of at least **$500**.

Borrowing and Repayment Terms	
Duration of Line of Credit	20 years consisting of: • **Borrowing Period (Years 1-10):** During this time you **can** borrow money. • **Repayment Period (Years 11-20):** During this time you **cannot** borrow money. You must make a minimum monthly payment during both periods.
Balloon Payment	Depending on the payment plan you choose, if you make only the minimum payment each month you may not pay off your entire balance by the end of the term. If this happens, you will be required to pay the remaining balance in a single payment, known as a "balloon payment."

Payment Plans	
This table shows how we determine minimum monthly payments for two plans that we offer. Other payment choices may be available; ask us for details.	
Plan A	During the borrowing period, your minimum monthly payment covers interest plus 1.5% of the principal balance. During the repayment period, your minimum monthly payment covers interest plus enough principal to pay off your entire balance by the end of the term and you **would not owe a balloon payment**. Your payments will never be less than $50.
Plan B	During the borrowing period, your minimum monthly payment covers only interest and you would not pay down your balance. During the repayment period, your minimum monthly payment covers interest plus 1% of the principal balance and you **would owe a balloon payment at the end of the term**.

Plan Comparison: Sample Payments on a $10,000 Balance	
Your monthly payments will vary each month based on the interest rate and your balance. This table shows the first monthly payment you will have to make under each plan if you borrow $10,000 at the current and maximum APRs.	
Plan A	
APR	**First Monthly Payment**
5.25% (current)	$193.75
24.99% (max.)	$358.25
Plan B	
APR	**First Monthly Payment**
5.25% (current)	$43.75
24.99% (max.)	$208.25
Plan A versus Plan B	
With Plan A, you will **pay less** over time and **will not owe a balloon payment** at the end of the term. With Plan B, you will **pay more** over time and **will owe a balloon payment of $2,993.80** at the end of the term.	

Fixed-Rate Loan Option
Regardless of which payment plan you choose, you have the option to have a fixed interest rate on an amount up to your available credit. Ask us for details.

HOME EQUITY LINE OF CREDIT (HELOC) TERMS

BORROWER:	Joe Smith & Jane Doe	DATE:	March 27, 2009
COLLATERAL:	1234 Main Street Anytown, ST 12345	LENDER:	ABC Bank
		LOAN NUMBER:	123-12-1234-556

You are entitled to a refund of any fees that you paid to open this account, if you tell us in writing that you want to cancel this account for any reason within three (3) business days after you receive these terms.

Annual Percentage Rate

Annual Percentage Rate (APR)	**5.25%.** This is a variable rate and will vary monthly based on the Prime Rate (as published in the Wall Street Journal) plus 1.00%. Your monthly statement will tell you each time your rate changes. There is no limit on how much the rate can change in one year.
Maximum APR	**24.99%.** The maximum rate could be reached as soon as the first month that your account is open.
Historical Changes to Prime Rate	Over the past 15 years, the Prime Rate has varied between 4.25% and 10.00%. If you borrowed $10,000 on this line of credit 15 years ago, your minimum monthly payment would have been as low as $50 and as high as $250.
Paying Interest	We will begin charging interest on each transaction on the date the transaction is posted to your account.

Fees (see below for more fees)

Total Account Opening Fees	**$1,740** (itemized below)
Annual Fee	**$50**
Early Termination Fee	**.125% of the credit limit or $500**, whichever is greater, if you close your account within three (3) years.

Credit Line

Credit Limit	**$80,000**
Minimum Initial Transaction	You must borrow at least **$10,000** when you open the account.
Minimum Transaction	After the initial transaction, each transaction you make must be at least $300.
Minimum Balance	You must keep a minimum balance of at least **$500**.

Borrowing and Repayment Terms

Duration of Line of Credit	20 years consisting of: • **Borrowing Period (Years 1-10):** During this time you **can** borrow money. • **Repayment Period (Years 11-20):** During this time you **cannot** borrow money. You must make a minimum monthly payment during both periods.
Balloon Payment	If you make only the minimum monthly payment you will not pay off your entire balance by the end of the term and will have to pay the remaining balance in a single payment, known as a “balloon payment.” See “Sample Payments” on next page for details.

How Your Minimum Monthly Payments Will Be Determined

During the borrowing period, your minimum monthly payment covers only interest and will not pay down your balance. During the repayment period, your minimum monthly payment covers interest plus 1% of the principal balance.

Fixed-Rate Option

You have the option to have a fixed interest rate on a balance of up to $40,000 (of your $80,000 credit line). Ask us for details.

Sample Payments

Your monthly payments will vary each month based on the interest rate and your balance. This table shows the first monthly payment you will have to make if you borrow $10,000 or $80,000 at the current and maximum APRs. **You will owe a balloon payment at the end of the term.**

APR	Borrowing Period First Monthly Payment *(Interest-Only)*	Repayment Period First Monthly Payment *(Interest + 1% of Principal)*
If you borrow $10,000:		
5.25% (current)	$43.75	$143.75
24.99% (max.)	$208.25	$308.25
If you borrow $80,000:		
5.25% (current)	$350.00	$1,150.00
24.99% (max.)	$1,666.00	$2,466.00

More Information about Fees

Itemized Account Opening Fees	
Loan Origination	**$350**
Loan Discount	**$800**
Underwriting	**$295**
Appraisal	**$295**
Penalty Fees	
Late Payment	Either **$15** or **5%** of the minimum monthly payment, whichever is greater. This fee is charged if your payment is received 15 days after the due date.
Over-the-Credit Limit	**$20**
Balance below $500	**$25** if your balance falls below $500.
Returned Payment	**$30**
Transaction Fees	
Transaction less than $300	**4%** of each transaction that is less than **$300**. This fee **does not** apply to credit card transactions.
Cash Advance Using a Credit Card	Either **$2** or **2%** of the amount of each cash advance, whichever is greater.
Foreign Transaction Using a Credit Card	**1%** of each transaction in U.S. dollars.
Other fees may also apply; see your account agreement for details.	

Risks

You Could Lose Your Home	Your line of credit will be secured by your home, which means that you could lose your home if you are unable to repay the money you borrow.
You May Not Be Able to Borrow From Your Line of Credit	Under certain circumstances, we can: • Terminate your line, require you to pay the outstanding balance in one payment, and charge you fees upon termination; • Not allow you to borrow additional money even if it is available under your credit limit; • Reduce the credit limit; and • Make certain changes in the plan. See your account agreement for details.
The Interest You Pay May Not Be Tax-Deductible	If you borrow more than your home is worth, the interest on the extra amount may not be deductible for federal income tax purposes. Consult a tax advisor regarding the deductibility of interest paid.

How We Will Calculate Your Balance: We use a method called "average daily balance (including new purchases)." See your account agreement for more details.

Billing Rights: Information on your rights to dispute transactions and how to exercise those rights is provided in your account agreement.

FEDERAL RESERVE BOARD

Key Questions to Ask About Home Equity Lines of Credit

When you are shopping for a home equity line of credit, consider the questions below. Lines of credit can have risky features that could make it difficult for you to repay your balance. As a result, you could lose your home. Ask your lender about other loan products, such as a traditional home equity loan. For more information, go to *www.federalreserve.gov/shopwisely*.

1 Can my interest rate increase?

Lines of credit usually have a variable interest rate, which means that the rate can increase or decrease from time to time. A lender may offer you a lower initial interest rate for a short time. However, after this period ends the rate will usually increase.

2 Can my minimum payment increase?

Yes, your minimum payment can increase based on several factors, such as when your variable interest rate increases or you borrow more money.

3 When can I borrow money?

You can borrow money only for a specified time, starting when you open your account. During this time, known as the "borrowing period," you can borrow money and you must make minimum payments. When the borrowing period ends, you will no longer be able to borrow money from your line of credit.

4 How soon do I have to pay off my balance?

After the borrowing period ends, under some plans you may be required to pay off your balance immediately in one payment. Under other plans you will have a certain amount of time to pay down your balance. During this time, known as the "repayment period," you will not be able to borrow additional amounts and will have to make larger minimum payments than during the borrowing period.

5 Will I owe a balloon payment?

Under some plans, if you make only the minimum payments you will not pay off your entire balance by the end of the term. At that point, you will have to pay the remaining balance as a single lump-sum, known as a "balloon payment." If you cannot get another loan to repay this amount, or pay it off using your savings, you could lose your home.

6 Do I have to pay any fees?

In addition to an application fee, you may be required to pay four (4) types of fees for your line of credit: (i) fees to open your account, such as loan origination or property appraisal fees; (ii) fees to maintain your account, such as an annual fee; (iii) fees to use your account, such as a cash advance fee; and (iv) penalty fees, such as late payment or over-the-credit limit fees.

Round 5:
Bethesda, MD
May 5-6, 2009

- Early Disclosure (ID-5)
- Early Disclosure (ID-6)
- Account-Opening Disclosure (AO-4)
- Key Questions Disclosure
- “Home Equity Loan vs. Line of Credit” Disclosure

TRUTH IN LENDING STATEMENT

Joe Smith & Jane Doe
1234 Main Street,
Anytown, ST 12345

February 26, 2009
ABC Bank
Loan Officer: 12345 1234
Loan Number: 123-12-1234-556

You have applied for a home equity line of credit. You should have received with your application “Key Questions to Ask About Home Equity Lines of Credit,” a disclosure that explains home equity lines of credit. If you did not, ask us for a copy.

You do not have to accept these terms. These terms could change before we open your account. We will refund all fees you paid if you tell us that you do not want to open an account:

- for any reason within three business days after you receive this statement; or
- any time before your account is opened if any of these terms (other than the APR) changes.

Risks	
You Could Lose Your Home	Your line of credit will be secured by your home. This means you could lose your home if you cannot repay the money you borrow.
You May Not Be Able to Borrow From Your Line of Credit	Under certain circumstances, we can: • Terminate your line of credit and make you pay the outstanding balance in one payment; • Not allow you to borrow any more money, even if it is available under your credit limit; • Lower your credit limit; and • Make other changes to the plan. Ask us for more specific information about when we can take these actions.
The Interest You Pay May Not Be Tax-Deductible	If you borrow more than your home is worth, the interest on the extra amount may not be deductible for federal income tax purposes. Consult a tax advisor to find out whether the interest you pay is deductible.

Credit Line	
Credit Limit	**$80,000**
Minimum Initial Transaction	You must borrow at least **$10,000** when you open the account.
Minimum Transaction	After the initial transaction, each transaction you make must be at least **$300**.
Minimum Balance	You must keep a minimum balance of at least **$500**.

Annual Percentage Rate	
Annual Percentage Rate (APR)	**5.25%.** This is a variable rate that will change monthly based on the Prime Rate plus 1.00%. Your monthly statement will show your rate changes. There is no limit on how much the rate can change in one year.
Maximum APR	**24.99%**. The maximum rate could be reached as soon as the first month that your account is open.
Historical Changes to Prime Rate	Over the past 15 years, the Prime Rate has varied between 4.25% and 10.00%. If you borrowed $10,000 from this line of credit 15 years ago, your minimum monthly payment would have been as low as $50 and as high as $250.

Fees	
Total Account Opening Fees	**Up to $1,740**, for the following: • $350 for loan origination • $800 for loan discount • $295 for underwriting • $200 - $295 for appraisal
Annual Fee	**$50**
Early Termination Fee	**$500 or .125% of the credit limit**, whichever is greater, if you close your account within three years.
Other Fees	Other fees will apply, such as penalty fees and fees to make transactions on the account. Ask us for a complete list of fees.

Borrowing and Repayment Terms	
Duration of Line of Credit	20 years, divided into two periods: • **Borrowing Period (Years 1-10):** During this time you **can** borrow money. • **Repayment Period (Years 11-20):** During this time you **cannot** borrow money. You must make a minimum monthly payment during both periods.
Balloon Payment	Depending on the terms of your payment plan, if you make only the minimum monthly payment you may not pay off your entire balance by the end of the repayment period. If this happens, you will have to pay the remaining balance in a single payment, known as a "balloon payment."

Payment Plans	
This table shows how we determine minimum monthly payments for two plans that we offer. Other payment plans may be available. Ask us for details.	
Plan A	• **Borrowing Period (Years 1-10):** Your minimum monthly payment would cover interest plus 1.5% of the principal balance. • **Repayment Period (Years 11-20):** Your minimum monthly payment would cover interest plus enough principal to pay off your entire balance by the end of the repayment period. You **would not owe** a balloon payment.
Plan B	• **Borrowing Period (Years 1-10):** Your minimum monthly payment would cover only interest and you would not pay down your principal balance. • **Repayment Period (Years 11-20):** Your minimum monthly payment would cover interest plus 1% of the principal balance. You **would owe** a balloon payment.

Plan Comparison: Sample Payments

The table below shows sample first monthly payments under each plan. These payments are based on the current and maximum APRs if you borrow **$10,000** when you open your account and an **additional $10,000** at the end of the borrowing period.

These are not your actual payments. Your actual payment each month will depend on the amount that you have borrowed and the interest rate that month.

Sample Payments under Plan A

APR	Borrowing Period (Years 1-10) First Payment	Repayment Period (Years 11-20) First Payment
5.25% (current)	$193.75	$121.52
24.99% (max.)	$358.25	$264.51

Sample Payments under Plan B

APR	Borrowing Period (Years 1-10) First Payment	Repayment Period (Years 11-20) First Payment
5.25% (current)	$43.75	$287.50
24.99% (max.)	$208.25	$616.50

Plan A vs. Plan B

- Under Plan A, you would pay **less** over time and **would not** owe a balloon payment.
- Under Plan B, you would pay **more** over time and **would** owe a balloon payment if you make only the minimum monthly payments. In the example above, the balloon payment would be $5,987.61.

Fixed-Rate Loan Option

During the borrowing period under either payment plan, you have the option to borrow at a fixed interest rate an amount up to your available credit limit. Ask us for details.

TRUTH IN LENDING STATEMENT

Joe Smith & Jane Doe
1234 Main Street,
Anytown, ST 12345

February 26, 2009
ABC Bank
Loan Officer: 12345 1234
Loan Number: 123-12-1234-556

You have applied for a home equity line of credit. You should have received with your application "Key Questions to Ask About Home Equity Lines of Credit," a disclosure that explains home equity lines of credit. If you did not, ask us for a copy.

You do not have to accept these terms. These terms could change before we open your account. You may be entitled to a refund of all fees you paid if you decide not to open an account. See "Fees" section below for more details.

Credit Line	
Credit Limit	**$80,000**
Minimum Initial Transaction	You must borrow at least **$10,000** when you open the account.
Minimum Transaction	After the initial transaction, each transaction you make must be at least **$300**.
Minimum Balance	You must keep a minimum balance of at least **$500**.

Annual Percentage Rate	
Annual Percentage Rate (APR)	**5.25%.** This APR will vary with the market based on the Prime Rate.
Maximum APR	**24.99%**.

Fees	
Refundability of Fees	We will refund all fees you paid if you tell us that you do not want to open an account: • for any reason within three business days after you receive this statement; or • any time before your account is opened if any of these terms (other than the APR) changes.
Total Account Opening Fees	**Up to $1,740** (if you ask, we will give you an itemized list)
Annual Fee	**$50**
Early Termination Fee	**$500 or .125% of the credit limit**, whichever is greater, if you close your account within three years.

Borrowing and Repayment Terms	
Duration of Line of Credit	20 years, divided into two periods: • **Borrowing Period (Years 1-10):** During this time you **can** borrow money. • **Repayment Period (Years 11-20**): During this time you **cannot** borrow money. You must make a minimum monthly payment during both periods.
Balloon Payment	Depending on your payment plan, if you make only the minimum monthly payment you may not pay off your entire balance by the end of the repayment period. If this happens, you will have to pay the remaining balance in a single payment, known as a "balloon payment."

Fixed-Rate Loan Option
During the borrowing period under either payment plan, you have the option to borrow at a fixed interest rate an amount up to your available credit limit. Ask us for details.

Payment Plans	
This table shows how we determine minimum monthly payments for two plans that we offer. Other payment plans may be available. Ask us for details.	
Plan A	• **Borrowing Period (Years 1-10):** Your minimum monthly payment would cover interest plus 1.5% of the principal balance. • **Repayment Period (Years 11-20):** Your minimum monthly payment would cover interest plus enough principal to pay off your entire balance by the end of the repayment period. You **would not owe** a balloon payment.
Plan B	• **Borrowing Period (Years 1-10):** Your minimum monthly payment would cover only interest and you would not pay down your principal balance. • **Repayment Period (Years 11-20):** Your minimum monthly payment would cover interest plus 1% of the principal balance. You **would owe** a balloon payment.

Plan Comparison: Sample Payments on an $80,000 Balance

The table below shows sample first monthly payments under each plan. These payments are based on the current and maximum APRs if you borrow **$80,000** when you open your account and do not borrow any more money.

These are not your actual payments. Your actual payment each month will depend on the amount that you have borrowed and the interest rate that month.

Sample Payments under Plan A

APR	Borrowing Period (Years 1-10) First Payment	Repayment Period (Years 11-20) First Payment
5.25% (current)	$1,550.00	$139.96
24.99% (max.)	$2,866.00	$296.67

Sample Payments under Plan B

APR	Borrowing Period (Years 1-10) First Payment	Repayment Period (Years 11-20) First Payment
5.25% (current)	$350.00	$1,150.00
24.99% (max.)	$1,666.00	$2,466.00

Plan A vs. Plan B

- Under Plan A, you would pay **less** over time and **would not** owe a balloon payment.
- Under Plan B, you would pay **more** over time and **would** owe a balloon payment if you make only the minimum monthly payments. In the example above, the balloon payment would be $23,950.43.

Risks	
You Could Lose Your Home	Your line of credit will be secured by your home. This means you could lose your home if you cannot repay the money you borrow.
You May Not Be Able to Borrow From Your Line of Credit	Under certain circumstances, we can: • Terminate your line of credit and make you pay the outstanding balance in one payment; • Not allow you to borrow any more money, even if it is available under your credit limit; • Lower your credit limit; and • Make other changes to the plan. Ask us for more specific information about when we can take these actions.
The Interest You Pay May Not Be Tax-Deductible	If you borrow more than your home is worth, the interest on the extra amount may not be deductible for federal income tax purposes. Consult a tax advisor to find out whether the interest you pay is deductible.

TRUTH IN LENDING STATEMENT

Joe Smith & Jane Doe
1234 Main Street,
Anytown, ST 12345

February 26, 2009
ABC Bank
Loan Officer: 12345 1234
Loan Number: 123-12-1234-556

Credit Line	
Credit Limit	**$80,000**
Minimum Initial Transaction	You must borrow at least **$10,000** when you open the account.
Minimum Transaction	After the initial transaction, each transaction you make must be at least **$300**.
Minimum Balance	You must keep a minimum balance of at least **$500**.

Annual Percentage Rate	
Annual Percentage Rate (APR)	**5.25%.** This is a variable rate that will change monthly based on the Prime Rate plus 1.00%. Your monthly statement will show your rate changes. There is no limit on how much the rate can change in one year.
Maximum APR	**24.99%.** The maximum rate could be reached as soon as the first month that your account is open.

Fees	
Total Account Opening Fees	**$1,740** (itemized below)
Annual Fee	**$50**
Early Termination Fee	**$500 or .125% of the credit limit**, whichever is greater, if you close your account within three years.
Other Fees	See below.

Borrowing and Repayment Terms	
Duration of Line of Credit	20 years, divided into two periods: • **Borrowing Period (Years 1-10):** During this time you **can** borrow money. • **Repayment Period (Years 11-20):** During this time you **cannot** borrow money. You must make a minimum monthly payment during both periods.
Balloon Payment	If you make only the minimum payment each month you will not pay off your entire balance by the end of the repayment period. In this case, you will have to pay the remaining balance in a single payment, known as a “balloon payment.” See “Sample Payments” below for details.

How Your Minimum Monthly Payments Will Be Determined

- **Borrowing Period (Years 1-10):** Your minimum monthly payment covers only interest and **will not pay down your principal balance**.
- **Repayment Period (Years 11-20):** Your minimum monthly payment covers interest plus 1% of the principal balance.

Sample Payments

The table below shows sample first monthly payments. These sample payments are based on the current and maximum APRs if you borrow **$80,000** when you open your account and do not borrow any more money over time. **You will owe a balloon payment of $23,950.43 if you make only minimum monthly payments.**

These are not your actual payments. Your actual payment each month will depend on the amount that you have borrowed and the interest rate that month.

APR	Borrowing Period (Years 1-10) First Payment	Repayment Period (Years 11-20) First Payment
5.25% (current)	$350.00	$1,150.00
24.99% (max.)	$1,666.00	$2,466.00

More Information about Fees	
Itemized Account Opening Fees	
• Loan Origination	**$350**
• Loan Discount	**$800**
• Underwriting	**$295**
• Appraisal	**$295**
Penalty Fees	
• Late Payment	Either **$15** or **5%** of the minimum monthly payment, whichever is greater. This fee is charged if your payment is received 15 days after the due date.
• Over-the-Credit Limit	**$20**
• Balance below $500	**$25** if your balance falls below $500.
• Returned Payment	**$30**
Transaction Fees	
• Transaction less than $300	**4%** of each transaction that is less than **$300**. This fee **does not** apply to credit card transactions.
• Cash Advance Using a Credit Card	Either **$2** or **2%** of the amount of each cash advance, whichever is greater.
• Foreign Transaction Using a Credit Card	**1%** of each transaction in U.S. dollars.
Other fees may also apply; see your account agreement for details.	

Risks	
You Could Lose Your Home	Your line of credit will be secured by your home. This means you could lose your home if you cannot repay the money you borrow.
You May Not Be Able to Borrow From Your Line of Credit	Under certain circumstances, we can: • Terminate your line of credit and make you pay the outstanding balance in one payment; • Not allow you to borrow any more money, even if it is available under your credit limit; • Lower your credit limit; and • Make other changes to the plan. See your account agreement for details.
The Interest You Pay May Not Be Tax-Deductible	If you borrow more than your home is worth, the interest on the extra amount may not be deductible for federal income tax purposes. Consult a tax advisor to find out whether the interest you pay is deductible.

Fixed-Rate Option
During the borrowing period, you have the option to borrow at a fixed interest rate an amount up to your available credit limit. Ask us for details.

How We Will Calculate Your Balance: We use a method called "average daily balance (including new purchases)." See your account agreement for more details.

Paying Interest: We will begin charging interest on each transaction on the date the transaction is posted to your account.

Billing Rights: Information on your rights to dispute transactions and how to exercise those rights is provided in your account agreement.

FEDERAL RESERVE BOARD

Key Questions to Ask About Home Equity Lines of Credit

When you are shopping for a home equity line of credit, consider the questions below. Lines of credit can have risky features that could make it difficult for you to repay your balance. As a result, you could lose your home. Ask your lender about other loan products, such as a traditional home equity loan. For more information, go to *www.federalreserve.gov/shopwisely.*

1 Can my interest rate increase?

Lines of credit usually have a variable interest rate, which means that the rate can increase or decrease from time to time. A lender may offer you a lower initial interest rate for a short time. However, after this period ends the rate will usually increase.

2 Can my minimum payment increase?

Yes, your minimum payment can increase based on several factors, such as when your variable interest rate increases or you borrow more money.

3 When can I borrow money?

You can borrow money only for a specified time, starting when you open your account. During this time, known as the "borrowing period," you can borrow money and you must make minimum payments. When the borrowing period ends, you will no longer be able to borrow money from your line of credit.

4 How soon do I have to pay off my balance?

After the borrowing period ends, under some plans you may be required to pay off your balance immediately in one payment. Under other plans you will have a certain amount of time to pay down your balance. During this time, known as the "repayment period," you will not be able to borrow additional amounts and will have to make larger minimum payments than during the borrowing period.

5 Will I owe a balloon payment?

Under some plans, if you make only the minimum payments you will not pay off your entire balance by the end of the term. At that point, you will have to pay the remaining balance as a single lump-sum, known as a "balloon payment." If you cannot get another loan to repay this amount, or pay it off using your savings, you could lose your home.

6 Do I have to pay any fees?

In addition to an application fee, you may be required to pay four (4) types of fees for your line of credit: (i) fees to open your account, such as loan origination or property appraisal fees; (ii) fees to maintain your account, such as an annual fee; (iii) fees to use your account, such as a cash advance fee; and (iv) penalty fees, such as late payment or over-the-credit limit fees.

7 Should I get a home equity loan instead of a line of credit?

With a home equity loan, you can borrow a fixed amount of money at a fixed interest rate. This means that your interest rate and minimum payment will stay the same over time. Consider a home equity loan if you plan to borrow a fixed amount of money at one time and want to know the exact amount of your minimum payment. Consider a home equity line of credit if you plan to borrow different amounts of money over time and can afford higher payments, even if the interest rate on your line of credit reaches its maximum.

Home Equity Loan vs. Line of Credit

Which Home Equity Product is Right for You?

If you are looking for a loan and have equity in your home, there are at least two types of credit that may be available to you: a home equity **loan** and a home equity **line of credit**. If you are considering either of these products, be sure you understand the differences between them.

Home Equity Loan	Home Equity Line of Credit
How it works: You borrow a fixed amount of money and pay it back over time. Home equity loans usually have a fixed interest rate. This means that your interest rate and monthly payment stay the same over time.	**How it works:** You can borrow different amounts of money over time up to your available credit limit. Home equity lines of credit usually have a variable interest rate, which means that your interest rate and monthly payment can change even if you don't borrow more money.
Consider a home equity loan if: • You plan to borrow a fixed amount of money and no additional money later; and • You like paying the same amount each month or might have trouble affording monthly payments that increase.	**Consider a home equity line of credit if:** • You like to be able to borrow different amounts of money when you need it (up to your available credit limit); and • You can afford higher monthly payments, even if the interest rate goes up to its maximum.

If you are considering a variable-rate home equity line of credit, remember that you may not be able to refinance into a fixed-rate home equity loan before your interest rate and monthly payment increase. You might not qualify for refinancing if the market value of your home goes down or your financial situation changes.

Where to Find Help

For more information about choosing between a home equity loan and a home equity line of credit, or for a list of licensed housing counselors in your area who can help you decide, visit www.frb.gov.

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