



unitybank.com
800.618.BANK

Consumer Loan Application

Application Taken:

In Person
 By Mail
 By Telephone
 Other

IMPORTANT: If more than one person is applying for credit, please check below, provide your initials and complete both the Applicant and Joint Applicant information sections.

We intend to apply for joint credit
 Applicant:
 Joint Applicant:

Type of Loan Requested: (Please print in ink)

Home Equity Line of Credit - Interest Only
 Home Equity Line of Credit - Principal & Interest
 Fixed Rate Home Equity Loan
 Automobile Loan
 Personal Secured Loan (CD/stock)
 Personal Unsecured Loan
 Overdraft Protection

Amount Requested:

 Term:

 Purpose of Loan:

APPLICANT INFORMATION

PLEASE TELL US ABOUT YOURSELF:

NAME (Include Jr., Sr., III, if applicable)			DATE OF BIRTH	SOCIAL SECURITY NUMBER
PRESENT ADDRESS (No. & Street)	CITY	STATE	ZIP	YEARS AT THIS ADDRESS
HOME TELEPHONE # ()	PREVIOUS ADDRESS, (if less than 2 years at current address)			YEARS AT THIS ADDRESS
CELL # ()	LIST ANY OTHER NAMES UNDER WHICH YOU HAVE APPLIED FOR OR BEEN GRANTED CREDIT:	DO NOT MARK SELECTION IF APPLYING FOR AN INDIVIDUAL UNSECURED CREDIT <input type="checkbox"/> MARRIED <input type="checkbox"/> SEPARATED <input type="checkbox"/> UNMARRIED (SINGLE, DIVORCED, WIDOWED)		

WE'D LIKE TO KNOW ABOUT YOUR INCOME:

EMPLOYER'S NAME AND ADDRESS			
LENGTH OF EMPLOYMENT YEARS _____ MONTHS _____	EMPLOYER'S TELEPHONE NO.	OCCUPATION/POSITION	ANNUAL GROSS SALARY
OTHER INCOME: DO NOT REVEAL income from alimony, child support or separate maintenance payments unless you are relying on such income to repay this account.		DESCRIBE SOURCE OF OTHER INCOME	AMOUNT (monthly)
PREVIOUS EMPLOYER NAME AND ADDRESS (if less than 2 years at present employer)			
LENGTH OF EMPLOYMENT YEARS _____ MONTHS _____	PREVIOUS EMPLOYER'S TELEPHONE NO.		

JOINT APPLICANT INFORMATION

PLEASE TELL US ABOUT YOURSELF:

NAME (Include Jr., Sr., III, if applicable)			DATE OF BIRTH	SOCIAL SECURITY NUMBER
PRESENT ADDRESS (No. & Street)	CITY	STATE	ZIP	YEARS AT THIS ADDRESS
HOME TELEPHONE # ()	PREVIOUS ADDRESS, (if less than 2 years at current address)			YEARS AT THIS ADDRESS
CELL # ()	LIST ANY OTHER NAMES UNDER WHICH YOU HAVE APPLIED FOR OR BEEN GRANTED CREDIT:	DO NOT MARK SELECTION IF APPLYING FOR AN INDIVIDUAL UNSECURED CREDIT <input type="checkbox"/> MARRIED <input type="checkbox"/> SEPARATED <input type="checkbox"/> UNMARRIED (SINGLE, DIVORCED, WIDOWED)		

WE'D LIKE TO KNOW ABOUT YOUR INCOME:

EMPLOYER'S NAME AND ADDRESS			
LENGTH OF EMPLOYMENT YEARS _____ MONTHS _____	EMPLOYER'S TELEPHONE NO.	OCCUPATION/POSITION	ANNUAL GROSS SALARY
OTHER INCOME: DO NOT REVEAL income from alimony, child support or separate maintenance payments unless you are relying on such income to repay this account.		DESCRIBE SOURCE OF OTHER INCOME	AMOUNT (monthly)
PREVIOUS EMPLOYER NAME AND ADDRESS (if less than 2 years at present employer)			
LENGTH OF EMPLOYMENT YEARS _____ MONTHS _____	PREVIOUS EMPLOYER'S TELEPHONE NO.		

If applying for a Home Equity Line of Credit or Fixed-Rate Home Equity Loan, please complete the following on the collateral property:

ESTIMATED PROPERTY VALUE \$	COLLATERAL ADDRESS (if different than home address)	COUNTY
TYPE OF COLLATERAL : <input type="checkbox"/> Single Family <input type="checkbox"/> Condo/Townhouse <input type="checkbox"/> 2-4 Family	PURCHASE DATE	PURCHASE PRICE \$
OCCUPANCY : <input type="checkbox"/> Primary <input type="checkbox"/> Secondary/Vacation <input type="checkbox"/> Investment		
MORTGAGE HOLDER OF COLLATERAL PROPERTY	MORTGAGE ACCOUNT # (if applicable)	MORTGAGE BALANCE \$
SECOND MORTGAGE HOLDER OF COLLATERAL PROPERTY		SECOND MORTGAGE BALANCE \$
NAME OF INSURANCE COMPANY	AGENT'S NAME	AGENT'S PHONE NUMBER ()

If applying for an Automobile Loan, please complete the following:

YEAR	MAKE	MODEL	VEHICLE IDENTIFICATION NUMBER (VIN)	MILEAGE	AUTO PURCHASE PRICE \$
WHERE ARE YOU PURCHASING THE CARE FROM?	NAME OF INSURANCE COMPANY	AGENT'S NAME	AGENT'S PHONE NUMBER ()		

If applying for a loan secured by a savings account or certificate of deposit, please complete the following:

ACCOUNT NUMBER	ALL NAMES ON THAT ACCOUNT
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Please describe the purpose for the loan and note any additional comments:

ASSETS AND LIABILITIES

This Statement and any applicable supporting schedules may be completed jointly by both married and unmarried Co-Borrowers if their assets and liabilities are sufficiently joined so that the Statement can be meaningfully and fairly presented on a combined basis; otherwise separate Statements and Schedules are required. If the Co-Borrower section was completed about a non-applicant spouse or other person, this Statement and supporting schedules must be completed about that spouse or other person also. Completed Jointly Not Jointly

ASSETS		CASH OR MARKET VALUE	Liabilities and Pledged Assets. List the creditor's name, address and account number for all outstanding debts, including automobile loans, revolving charge accounts, real estate loans, alimony, child support, stock pledges, etc. Use continuation sheet, if necessary. Indicate by (*) those liabilities which will be satisfied upon sale of real estate owned or upon refinancing of the subject property.	
Description			LIABILITIES	MONTHLY PAYMENT
				UNPAID BALANCE
CASH DEPOSIT TOWARD PURCHASE HELD BY:	\$			
List checking and savings accounts below			NAME AND ADDRESS OF COMPANY	\$
NAME AND ADDRESS OF BANK, S&L, OR CREDIT UNION			ACCT. NO.	\$
ACCT. NO.	\$		NAME AND ADDRESS OF COMPANY	\$
NAME AND ADDRESS OF BANK, S&L, OR CREDIT UNION			ACCT. NO.	\$
ACCT. NO.	\$		NAME AND ADDRESS OF COMPANY	\$
NAME AND ADDRESS OF BANK, S&L, OR CREDIT UNION			ACCT. NO.	\$
ACCT. NO.	\$		NAME AND ADDRESS OF COMPANY	\$
NAME AND ADDRESS OF BANK, S&L, OR CREDIT UNION			ACCT. NO.	\$
ACCT. NO.	\$		NAME AND ADDRESS OF COMPANY	\$
STOCKS & BONDS (Company name/number & description)	\$		ACCT. NO.	\$

INFORMATION FOR GOVERNMENT MONITORING PURPOSES

DO NOT COMPLETE THIS SECTION UNLESS THE LOAN IS TO BE USED TO PURCHASE, IMPROVE OR REFINANCE RESIDENTIAL PROPERTY OR TO REFINANCE A MANUFACTURED OR MOBILE HOME. DO NOT COMPLETE FOR CREDIT LINES.

The following information is requested by the federal government for certain types of loans related to a dwelling in order to monitor the lender's compliance with Equal Credit Opportunity, Fair Housing and Home Mortgage Disclosure laws. You are not required to furnish this information, but are encouraged to do so. **You may select one or more designation for "Race."** The law provides that a Lender may not discriminate on the basis of the information, or on whether you choose to furnish it. **However, if you choose not to furnish the information and you have made this application in person, under federal regulations, the Lender is required to note ethnicity, race and sex on the basis of visual observation or surname.** If you do not wish to furnish the information, please check below.

APPLICANT:		JOINT APPLICANT	
<input type="checkbox"/>	I do not wish to furnish this information	<input type="checkbox"/>	I do not wish to furnish this information
Applicant Ethnicity (Check One)	Applicant Race (Check Box(es))	Applicant Ethnicity (Check One)	Applicant Race (Check Box(es))
<input type="checkbox"/> Hispanic or Latino	<input type="checkbox"/> American Indian or Alaskan Native	<input type="checkbox"/> Hispanic or Latino	<input type="checkbox"/> American Indian or Alaskan Native
<input type="checkbox"/> Not Hispanic or Latino	<input type="checkbox"/> Asian	<input type="checkbox"/> Not Hispanic or Latino	<input type="checkbox"/> Asian
	<input type="checkbox"/> Black or African American		<input type="checkbox"/> Black or African American
	<input type="checkbox"/> Native Hawaiian or Other Pacific Islander		<input type="checkbox"/> Native Hawaiian or Other Pacific Islander
	<input type="checkbox"/> White		<input type="checkbox"/> White
Sex:		Sex:	
<input type="checkbox"/>	Female	<input type="checkbox"/>	Female
<input type="checkbox"/>	Male	<input type="checkbox"/>	Male

U.S. PATRIOT ACT INFORMATION

To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account. What this means for you: when you open an account, we will ask for your name, address, date of birth, and other information that will allow us to identify you. We may also ask to see your driver's license or other identifying documents.

I/We understand that my/our statements made above will be used to induce you to grant me/us the loan and to show my/our ability to repay said loan. I/We further attest and warrant to the accuracy of my/our statements and authorize you to obtain further information you deem necessary. I/We understand it is a federal offense to provide false information to a federally regulated bank. This application and credit statement will remain yours regardless of whether or not the loan is granted. Final approval is contingent on acceptability of collateral and verification of property damage insurance and flood insurance (when required).

APPLICANT SIGNATURE	DATE	JOINT APPLICANT SIGNATURE	DATE
FOR INTERNAL USE ONLY:			
BRANCH #	EMPLOYEE NAME:	DATE RECEIVED:	

IMPORTANT TERMS OF OUR REV. EQUITY ACCESS LINE OF CREDIT (REAL)/HOME EQUITY LINE OF CREDIT (15-Year Draw/15-Year Repayment)

Retention of Information: This disclosure contains important information about our Revolving Equity Access Line of Credit (REAL). You should 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 you paid to us or anyone else in connection with your application.

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

Possible Actions: We can terminate your line and require you to pay us the entire outstanding balance in one payment and charge you certain fees if:

- You engage in fraud or material misrepresentation in connection with the line.
- You do not meet the repayment terms.
- Your action or inaction adversely affects the collateral or our rights in the collateral.

We can refuse to make additional extensions of credit or reduce your credit limit if:

- The value of the dwelling securing the line declines significantly below its appraised value for purposes of the line.
- We reasonably believe you will not be able to meet the repayment requirements due to a material change in your financial circumstances.
- You are in default of a material obligation in the agreement.
- Government action prevents us from imposing the annual percentage rate provided for or impairs our security interest such that the value of the interest is less than 120 percent of the credit line.
- A regulatory agency has notified us that continued advances would constitute an unsafe and unsound practice.
- The maximum annual percentage rate is reached.

Draw period and Repayment period: You can obtain advances of credit for 15 years (the "draw period"). After the draw period ends, you will no longer be able to obtain credit advances and must pay the outstanding balance over 15 years (the "repayment period").

Minimum Payment Requirements: Your payments will be due monthly, and your minimum monthly payment will be equal to the greater of (a) \$50.00, or (b) 1/180th of the outstanding balance at the end of the billing cycle plus accrued finance charges and other charges.

Fees and Charges: You will be subject to paying the fees listed below:

Appraisal Fee: You are required to pay this fee (\$350 to \$750) if the loan request is greater than \$500,000 and/or the collateral is valued more than \$1,000,000.

Retirement Fee of \$150: if the account is closed at your request within the first 18 months and you were not required to pay any closing costs.

In addition, if the amount of the line is greater than \$200,000 or if there is no existing first mortgage, title insurance may be required at a cost of approximately \$5 per \$1000 of the approved line of credit. You must carry homeowners insurance (including flood insurance, if applicable) on the property that secures this line.

Special Promotions - For rates, fees, charges and other conditions, please refer to related material.

Minimum Draw Requirement: There is \$100 minimum credit advance requirement.

Accessing Your REAL: You can access your credit line via a REAL Check.

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

Variable Rate Feature: The line 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 no other costs. The annual percentage rate is based on the value of an index. The index is the highest prime rate published in *The Wall Street Journal* (WSJ) "Money Rates" table on the first business day of the month.

To determine the annual percentage rate that will apply to your line, we will add a margin to the value of the index if the loan-to-value ratio is greater than 80%. If the loan-to-value ratio is 80% or less, we may subtract a margin from the value of the index.

Ask us for the current index value, margin and annual percentage rate. After you open a credit line, rate information will be provided on periodic statements that we send you.

Please note that if monthly payments are not made in a timely manner then Negative Amortization may occur. Negative Amortization increases the principal balance and reduces the consumer's equity in the dwelling.

Rate Changes: The annual percentage rate can change monthly. The maximum ANNUAL PERCENTAGE RATE that can apply is 18.0%. The minimum rate that can apply is 4%. Apart from the rate "cap" and "floor" there is no limit on the amount by which the rate can change during any one-year period.

Preferred Rate Reduction: Rate may be lower if monthly payment is deducted from checking account at Unity Bank.

Maximum Rate and Payment Example: If you had an outstanding balance of \$10,000, the minimum monthly payment at the maximum ANNUAL PERCENTAGE RATE of 18.0% would be \$205.56. This annual percentage rate could be reached during the first month following the date of your Revolving Credit Line Agreement and Disclosure Statement.

Minimum Payment Examples.

The following terms apply if the loan amount is between \$10,000 and \$500,000 and the loan-to-value ratio is 80% or less. If you took a single \$10,000 advance and the ANNUAL PERCENTAGE RATE was 3.25%, it would take 19 years & 10 months to pay off the advance if you made only the minimum payments. During that period, you would make 238 monthly payments varying between \$82.64 and \$50.00, with a final payment of \$0.45.

The following terms apply if the loan amount is between \$10,000 and \$500,000 and the loan-to-value ratio is between 81% to 90%. If you took a single \$10,000 advance and the ANNUAL PERCENTAGE RATE was 4.25%, it would take 20 years and 7 months to pay off the advance if you made only the minimum payments. During that period, you would make 247 monthly payments varying between \$90.97 and \$50.00, with a final payment of \$46.49.

Historical Examples: The tables showing historical examples show how the ANNUAL PERCENTAGE RATE and the monthly payments for a single \$10,000 credit advance would have changed based on changes in the Index over the past 15 years.

The Index values are from the first week of April each year.

While only one payment amount per year is shown, payments would have varied during each year. The tables assume that no additional credit advances were taken, that only the minimum payments are made, and that the rate remained constant during each year. They do not necessarily indicate how the Index or your payments will change in the future.

Table 1 is an example of an account with a \$10,000 loan amount and a loan-to-value ratio of 80% or less. Table 2 is an example of an account with a \$10,000 loan amount and a loan-to-value ratio of 81% to 90%.

JUNE 2013

TABLE 1: \$10,000 Loan Amount with 80% or Less Loan-to-Value

Year	Index (%)	Margin (%) ¹	Rate (%)	Payment (\$)
1999	7.75	0	7.75	91.95
2000	9.00	0	9.00	93.46
2001	8.00	0	8.00	81.84
2002	4.75	0	4.75	59.58
2003	4.25	0	4.25	53.29
2004	4.00	0	4.00	50.00
2005	5.75	0	5.75	52.68
2006	7.75	0	7.75	57.20
2007	8.25	0	8.25	55.36
2008	5.25	0	5.25	50.00
2009	3.25	0	3.25	50.00
2010	3.25	0	3.25	50.00
2011	3.25	0	3.25	50.00
2012	3.25	0	3.25	50.00
2013	3.25	*0	3.25	50.00

*This is a margin we have used recently.

JUNE 2013

TABLE 1: \$10,000 Loan Amount with 81% - 90% Loan-to-Value

Year	Index (%)	Margin (%) ¹	Rate (%)	Payment (\$)
1999	7.75	1.00	8.75	98.33
2000	9.00	1.00	10.00	99.43
2001	8.00	1.00	9.00	87.42
2002	4.75	1.00	5.75	64.80
2003	4.25	1.00	5.25	58.17
2004	4.00	1.00	5.00	53.27
2005	5.75	1.00	6.75	57.30
2006	7.75	1.00	8.75	61.58
2007	8.25	1.00	9.25	59.47
2008	5.25	1.00	6.25	50.00
2009	3.25	1.00	4.25	50.00
2010	3.25	1.00	4.25	50.00
2011	3.25	1.00	4.25	50.00
2012	3.25	1.00	4.25	50.00
2013	3.25	*1.00	4.25	50.00

*This is a margin we have used recently.



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Corporate Office

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Rev. 6/2013

EQUAL HOUSING LENDER | MEMBER FDIC

**IMPORTANT TERMS OF OUR
REV. EQUITY ACCESS LINE OF CREDIT
(REAL)/HOME EQUITY LINE OF CREDIT
(5-Year Draw/15-Year Repayment)**

Retention of Information: This disclosure contains important information about our Revolving Equity Access Line of Credit (REAL). You should 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 you paid to us or anyone else in connection with your application.

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

Possible Actions: We can terminate your line and require you to pay us the entire outstanding balance in one payment and charge you certain fees if:

- ♦ You engage in fraud or material misrepresentation in connection with the line.
- ♦ You do not meet the repayment terms.
- ♦ Your action or inaction adversely affects the collateral or our rights in the collateral.
- ♦ We can refuse to make additional extensions of credit or reduce your credit limit if:
- ♦ The value of the dwelling securing the line declines significantly below its appraised value for purposes of the line.
- ♦ We reasonably believe you will not be able to meet the repayment requirements due to a material change in your financial circumstances.
- ♦ You are in default of a material obligation in the agreement.
- ♦ Government action prevents us from imposing the annual percentage rate provided for or impairs our security interest such that the value of the interest is less than 120 percent of the credit line.
- ♦ A regulatory agency has notified us that continued advances would constitute an unsafe and unsound practice.
- ♦ The maximum annual percentage rate is reached.

Draw period and Repayment period: You can obtain advances of credit for 5 years (the "draw period"). After the draw period ends, you will no longer be able to obtain credit advances and must pay the outstanding balance over 15 years (the "repayment period").

Minimum Payment Requirements:

During the draw period: Your payments will be due monthly and your minimum monthly payment will be equal to the accrued finance charges on the outstanding balance principal balance at the end of the billing cycle and other charges.

During the repayment period: Your payments will be due monthly and your minimum monthly payment will be equal to the greater of (a) \$50.00, or (b) 1/180th of the outstanding balance at the end of the billing cycle plus accrued finance charges and other charges. The minimum payment will not fully repay the principal that is outstanding on your line. You will then be required to pay the entire balance in a single "balloon" payment.

Fees and Charges: You will be subject to paying the fees listed below:

Appraisal Fee: You are required to pay this fee (\$350 to \$750) if the loan request is greater than \$500,000 and/or the collateral is valued more than \$1,000,000.

Retirement Fee of \$150: if the account is closed at your request within the first 18 months and you were not required to pay any closing costs.

In addition, if the amount of the line is greater than \$200,000 or if there is no existing first mortgage, title insurance may be required at a cost of approximately \$5 per \$1000 of the

approved line of credit. You must carry homeowners insurance (including flood insurance, if applicable) on the property that secures this line.

Special Promotions - For rates, fees, charges and other conditions, please refer to related material.

Minimum Draw Requirement: There is \$100 minimum credit advance requirement.

Accessing Your REAL: You can access your credit line via a REAL Check.

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

Variable Rate Feature: The line 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 no other costs.

The annual percentage rate is based on the value of an index. The index is the highest prime rate published in *The Wall Street Journal* (WSJ) "Money Rates" table on the first business day of the month.

To determine the annual percentage rate that will apply to your line, we will add a margin to the value of the index if the loan-to-value ratio is greater than 80%. If the loan-to-value ratio is 80% or less, we may subtract a margin from the value of the index.

Ask us for the current index value, margin and annual percentage rate. After you open a credit line, rate information will be provided on periodic statements that we send you.

Please note that if monthly payments are not made in a timely manner then Negative Amortization may occur. Negative Amortization increases the principal balance and reduces the consumer's equity in the dwelling.

Rate Changes: The annual percentage rate can change monthly. The maximum ANNUAL PERCENTAGE RATE that can apply is 18.0%. The minimum rate that can apply is 4%. Apart from the rate "cap" and "floor" there is no limit on the amount by which the rate can change during any one-year period.

Preferred Rate Reduction: Rate may be lower if monthly payment is deducted from checking account at Unity Bank.

Maximum Rate and Payment Example: If you had an outstanding balance of \$10,000, the minimum monthly payment at the maximum ANNUAL PERCENTAGE RATE of 18.0% would be \$205.56.

This annual percentage rate could be reached during the first month following the date of your Revolving Credit Line Agreement and Disclosure Statement.

Minimum Payment Examples.

The following terms apply if the loan amount is between \$10,000 and \$500,000 and the loan-to-value ratio is 80% or less. If you took a single \$10,000 advance and the ANNUAL PERCENTAGE RATE was 3.25%, it would take 24 years & 10 months to pay off the advance if you made only the minimum payments. During that period, you would make 298 monthly payments varying between \$50.00 and \$82.64, with a final payment of \$0.45.

Historical Examples: The tables showing historical examples show how the ANNUAL PERCENTAGE RATE and the monthly payments for a single \$10,000 credit advance would have changed based on changes in the Index over the past 15 years.

The Index values are from the first week of April each year.

While only one payment amount per year is shown, payments would have varied during each year. The tables assume that no additional credit advances were taken, that only the minimum payments are made, and that the rate remained constant during each year. They do not necessarily indicate how the Index or your payments will change in the future.

Table I is an example of an account with a \$10,000 loan amount and a loan-to-value ratio of 80% or less.

JUNE 2013

TABLE I: \$10,000 Loan Amount with 80% or Less Loan-to-Value				
Year	Index (%)	Margin (%) ¹	Rate (%)	Payment (\$)
1999	7.75	0	7.75	91.95
2000	9.00	0	9.00	93.46
2001	8.00	0	8.00	81.84
2002	4.75	0	4.75	59.58
2003	4.25	0	4.25	53.29
2004	4.00	0	4.00	50.00
2005	5.75	0	5.75	52.68
2006	7.75	0	7.75	57.20
2007	8.25	0	8.25	55.36
2008	5.25	0	5.25	50.00
2009	3.25	0	3.25	50.00
2010	3.25	0	3.25	50.00
2011	3.25	0	3.25	50.00
2012	3.25	0	3.25	50.00
2013	3.25	*0	3.25	50.00

*This is a margin we have used recently.



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Rev. 6/2012

EQUAL HOUSING LENDER | MEMBER FDIC

WHAT YOU SHOULD KNOW ABOUT HOME EQUITY LINES OF CREDIT

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

What is a home equity line of credit?

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

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

Appraised value of home	\$100,000
Percentage	x 75%
Percentage of appraised value	\$ 75,000
Less mortgage debt	<u>-\$ 40,000</u>
Potential Credit Line	\$ 35,000

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

Many home equity plans set a fixed period during which you can borrow money, such as 10 years. At the end of this "draw period," you may be allowed to renew the credit line. If your plan does not allow renewals, you will not be able to borrow additional money once the period has ended.

Some plans may call for payment in full of any outstanding balance at the end of the period. Others may allow repayment over a fixed period (the "repayment period"), for example, 10 years.

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

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

What should you look for when shopping for a plan?

If you decide to apply for a home equity line of credit, look for the plan that best meets your particular needs. Read the credit agreement carefully, and examine the terms and conditions of various plans, including the annual percentage rate (APR) and the costs of establishing the plan. The APR for a home equity line is based on the interest rate alone and will not reflect the closing costs and other fees and charges, so you'll need to compare these costs, as well as the APRs, among lenders.

Variable interest rates

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

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

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

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

Costs of establishing and maintaining a home equity line

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

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

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

How will you repay your home equity plan?

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

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

Whatever your payment arrangements during the life of the plan--whether you pay some, a little, or none of the principal amount of the loan--when the plan ends, you may have to pay the entire balance owed, all at once. You must be prepared to make this "balloon payment" by refinancing it with the lender, by obtaining a loan from another lender, or by some other means. If you are unable to make the balloon payment, you could lose your home.

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

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

Lines of credit vs. traditional second mortgage loans

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

In deciding which type of loan best suits your needs, consider the costs under the two alternatives. Look at both the APR and other charges. Do not, however, simply compare the APRs, because the APRs on the two types of loans are figured differently:

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

DISCLOSURES FROM LENDERS

The federal Truth in Lending Act requires lenders to disclose the important terms and costs of their home equity plans, including the APR, miscellaneous charges, the payment terms, and information about any variable-rate feature. And in general, neither the lender nor anyone else may charge a fee until after you have received this information. You usually get these disclosures when you receive an application form, and you will get additional disclosures before the plan is opened. If any term (other than a variable-rate feature) changes before the plan is opened, the lender must return all fees if you decide not to enter into the plan because of the change.

When you open a home equity line, the transaction puts your home at risk. If the home involved is your principal dwelling, the Truth in Lending Act gives you 3 days from the day the account was opened to cancel the credit line. This right allows you to change your mind for any reason. You simply inform the lender in writing within the 3-day period. The lender must then cancel its security interest in your home and return all fees—including any application and appraisal fees—paid to open the account.

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

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

Talk with your lender. Find out what caused the lender to freeze or reduce your credit line and what, if anything, you can do to restore it. You may be able to provide additional information to restore your line of credit, such as documentation showing that your house has retained its value or that there has not been a “material change” in your financial circumstances. You may want to get copies of your credit reports (go to the [Federal Trade Commission's](#) website for information about free copies) to make sure all the information in them is correct. If your lender suggests getting a new appraisal, be sure you discuss appraisal firms in advance so that you know they will accept the new appraisal as valid.

Shop around for another line of credit. If your lender does not want to restore your line of credit, shop around to see what other lenders have to offer. You may be able to pay off your original line of credit and take out another one. Keep in mind, however, that you may need to pay some of the same application fees you paid for your original line of credit.

GLOSSARY

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

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

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

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

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

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

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

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

Index: The economic indicator used to calculate interest-rate adjustments for adjustable-rate mortgages or other adjustable-rate loans. The index rate can increase or decrease at any time. See also Selected Index Rates for ARMs over an 11-year Period (www.federalreserve.gov/pubs/arms/arms_english.htm) for examples of common indexes that have changed in the past.

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

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

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

Points (also called discount points): one point is equal to 1 percent of the principal amount of a mortgage loan. For example, if a mortgage is \$200,000, one point equals \$2,000. Lenders frequently charge points in both fixed-rate and adjustable-rate mortgages to cover loan origination costs or to provide additional compensation to the lender or broker. These points usually are paid at closing and may be paid by the borrower or the home seller, or may be split between them. In some cases, the money needed to pay points can be borrowed (incorporated in the loan amount), but doing so will increase the loan amount and the total costs. Discount points (also called discount fees) are points that you voluntarily choose to pay in return for a lower interest rate.

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

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

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

WHERE TO GO FOR HELP

For additional information or to file a complaint about a bank, savings and loan, credit union, or other financial institution, contact one of the following federal agencies, depending on the type of institution.

<p>State-chartered bank members of the Federal Reserve System Federal Reserve Consumer Help PO Box 1200, Minneapolis, MN 55480 888-851-1920 (toll free) 877-766-8533 (TTY) (toll free) 877-888-2520 (fax) (toll free) e-mail: ConsumerHelp@FederalReserve.gov www.FederalReserveConsumerHelp.gov</p>
<p>National banks and national-bank-owned mortgage companies Office of the Comptroller of the Currency (OCC) Customer Assistance Group 1301 McKinney Street, Suite 3450, Houston, TX 77010 800-613-6743 (toll free) 713-336-4301 (fax) e-mail: customer.assistance@occ.treas.gov www.occ.treas.gov, www.helpwithmybank.gov</p>
<p>Federally chartered credit unions National Credit Union Administration (NCUA) Office of Public and Congressional Affairs 1775 Duke Street, Alexandria, VA 22314 800-755-1030 (toll free) 703-518-6409 (fax) e-mail: consumerassistance@ncua.gov www.ncua.gov/ConsumerInformation/index.htm</p>
<p>Federally insured state-chartered banks that are not members of the Federal Reserve System Federal Deposit Insurance Corporation (FDIC) Consumer Response Center 1100 Walnut Street, Box #1, Kansas City, MO 64106 877-ASK-FDIC (877-275-3342) (toll free) e-mail: consumeralerts@fdic.gov www.fdic.gov/consumers/consumer/ccr/index.html</p>
<p>Savings and loan associations Office of Thrift Supervision (OTS) Consumer Affairs 1700 G Street, NW, Washington, DC 20552 800-842-6929 (toll free) 800-877-8339 (TTY) (toll free) www.ots.treas.gov</p>
<p>Mortgage companies and other lenders Federal Trade Commission (FTC) Consumer Response Center 600 Pennsylvania Avenue, NW, Washington, DC 20580 202-326-3758 (877) FTC-HELP 866-FTC-HELP (877-382-4357) (toll free) www.ftc.gov</p>

HOME EQUITY PLAN CHECKLIST

Ask your lender to help fill out this checklist.

BASIC FEATURES	PLAN A	PLAN B
Fixed annual percentage rate	%	%
Variable annual percentage rate	%	%
Index used and current value	%	%
Amount of margin		
Frequency of rate adjustments		
Amount/length of discount (if any)		
Interest rate cap and floor		
Length of Plan		
Draw period		
Repayment period		
Initial Fees		
Appraisal fee		
Application fee		
Up-front charges, including points		
Closing costs		

REPAYMENT TERMS		
During the Draw Period		
Interest and principal payments		
Interest-only payments		
Fully-amortizing payments		
When the Draw Period Ends		
Balloon payment?		
Renewal available?		
Refinancing of balance by lender?		

Rev. 6/2012