# Understanding your home equity loan and planning for repayment in the future

## What is a home equity loan and what are my loan options?

A **home equity loan** allows you to borrow against the value of your home by using your home as collateral. Home equity loans are commonly referred to as second mortgages. A home equity loan creates a lien against your house and reduces the equity in your home. Because you are putting your home at risk, many consumers only use home equity loans to finance major expenses such as home repairs, medical bills, or college education and not for day-to-day expenses.

The type of home equity loan that Comerica offers is a home equity line of credit.

A home equity line of credit (HELOC) is a form of revolving credit, which means you can choose when and how often to borrow against the equity in your home. You're approved for a certain credit limit amount and can borrow on a revolving basis up to 10 years. This is also known as the draw period. During the draw period, monthly payments are required and are based on a variable interest rate, however, interest-only payments are allowed during this time period. Some HELOCs require a minimum payment that includes principal. Some HELOCs even offer a fixed-rate option during the draw period, where you can lock in a portion of your outstanding balance at a fixed rate and fixed term, where principal and interest are paid. Once the 10 year draw period expires, you will immediately enter into the Repayment period where amortized monthly payments of both principal and interest are required. Repayment periods can be up to 20 years and there may be either a variable rate or a fixed rate during the Repayment period. The repayment term and the repayment interest rate are dependent on the terms in your credit agreement. Monthly payments during the Repayment period will increase substantially when combining interest and principal if you made interest only payments during the draw period.

## Can I make interest-only payments on my home equity line of credit?

Yes, interest-only monthly payments are allowed on your home equity line of credit during the draw period. However, once the draw period expires and you enter into the Repayment period, monthly payments of both principal and interest are required to pay down your outstanding balance. If you pay interest only during the draw period, once you enter the Repayment period your monthly payment will increase substantially, regardless of whether you have a fixed or variable interest rate. You should consider making more than the minimum interest-only payments during the draw period to reduce the principal balance and avoid payment shock once the draw period ends.

## What is a required minimum payment?

Some credit agreements may require you to pay a monthly minimum payment amount (check with your equity line provider or review your credit agreement for details). This minimum payment can apply to either the draw period, the repayment period, or both. This is the lowest amount you can pay each month to keep your account in good standing. For example, if your calculated draw period interest-only monthly payment amount is $75, you may be billed a minimum payment of $100 per the terms of your credit agreement. The portion of your payment in excess of the monthly interest due on your account will be applied to your outstanding principal balance. In the example given, $25 dollars would be applied to your principal balance.

## What is the Draw period on a home equity line of credit and when does it end?

The Draw period is a fixed period of time — usually 10 years — during which you can access or "draw" money from your home equity line of credit. Once your draw period ends, this is known as the "end of draw", you can no longer access the funds on your home equity line and you are required to begin repaying your outstanding balance with fully amortized monthly payments.

## What does Repayment period mean?

For a standard home equity line of credit, the point at which you must begin making fully amortizing monthly payments that will completely repay the outstanding balance during a certain period of time. If you have been making interest-only payments, the monthly payments will increase substantially during the Repayment period.

## What are fully amortized payments?

Loan payments are considered fully amortized when they include principal and interest and if you have been making payments according to the Repayment schedule, the loan will be paid off by the end of the term. If the loan is a fixed-rate loan, such as a fixed-rate option within a HELOC, each fully amortizing payment within the fixed-rate option will be substantially equal in amount. If the loan is an adjustable-rate loan, the fully amortizing payment may change as the interest rate on the loan changes.

## What are principal plus interest payments?

Variable rate loan payments may amortize by requiring equal principal payments plus interest. In this case, the interest payment is charged only on the remaining principal balance. So, monthly payments will not be equal even when the interest rate does not change. There will also be a change in the amount of the required payment when there is a change in the interest rate index.

## What is my financial risk with a home equity loan?

- **Not paying it back on time:** You must remember that when you obtain a home equity loan you are borrowing against your home. Therefore, if you do not pay or default on your home equity loan, you may lose your home.

- **Forgetting to plan for the future:** It's important to budget and plan for repayment of your home equity line of credit early to avoid payment shock and risk defaulting on your loan during the Repayment period. **Consumers who do not anticipate the increase in their monthly payments with the inclusion of interest and principal during the Repayment period could face financial hardship.** Although, interest-only payments are allowed during the draw period, it is recommended that you make interest and principal payments during this time to help minimize the risk of having a monthly payment that you cannot afford during Repayment.

## How do I prepare for repaying my home equity line of credit?

- Start reviewing your budget and developing a final payment plan **at least two years before** reaching the end of your draw period.

- Your required monthly payments will likely increase when the Repayment period begins, which may have a substantial financial impact. If you would like to obtain the estimated amortized payments on the outstanding balance of your home equity line of credit before entering the Repayment period, please call **855.451.9201,** Monday – Friday 8:00 a.m. to 8:00 p.m. ET. *(Please note that any estimated payment amount is based on your current outstanding balance and current rates. Rates and outstanding balance may fluctuate and your payment amount may change once you enter Repayment.)*

## What will happen if I stop making my monthly payments?

If you don't make your monthly payments on your home equity loan, you'll be in default, which could negatively affect your credit rating and you may be at risk of losing your home. If you are having problems making your monthly loan payments or experiencing a financial hardship, please contact a Comerica loan repayment representative immediately at **855.451.9201,** 8:00 a.m. to 8:00 p.m. ET, Monday – Friday.

## Can I get an extension on my current contract or maturity date?

No. We don't offer extensions on any home equity loans or home equity lines of credit at this time. If you are experiencing a financial hardship, however, we may have options available. Talk with a Comerica loan servicing representative by calling **855.451.9201,** Monday – Friday, 8:00 a.m. to 8:00 p.m. ET.

## What can I do if I can't afford my monthly payments after entering into Repayment?

Be aware that your monthly payments may increase when the Repayment period begins, which may have a substantial financial impact. If you are having problems making your monthly loan payments or experiencing a financial hardship, you may qualify for a modification with new terms and a possible interest rate reduction. Please contact a Comerica loan servicing representative immediately at **855.451.9201,** Monday – Friday, 8:00 a.m. to 8:00 p.m. ET.

## Can I payoff my equity line of credit before the Repayment period ends?

Yes, you can payoff your home equity line of credit at any time during your draw period or repayment period. To obtain a payoff quote, visit your local Comerica banking center or call **855.451.9201,** Monday – Friday, 8:00 a.m. to 8:00 p.m. ET. However, please keep in mind that an early termination fee may apply. Please refer to your Comerica Home Equity Credit Agreement.

## Can I refinance my home equity loan?

Yes, it is possible to refinance your current home equity line of credit. If your current home equity line of credit is nearing the end of the draw period and you would like to complete a new application to apply for a new home equity loan, visit your local Comerica banking center or call **800.589.1400,** to speak with a Comerica loan specialist.

**At Comerica, the financial success of our customers is very important to us. We are pleased that you have selected us as your loan provider and look forward to continuing that relationship. If you have any questions or concerns, refer to your Comerica Home Equity Credit Agreement or contact a Comerica loan repayment representative at 855.451.9201, 8:00 a.m. to 8:00 p.m. ET, Monday – Friday.**

## Important Terms & Definitions

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

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

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

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

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

**CAP (Interest Rate)** A limit on the amount that your interest rate can increase. Two types of interest rate caps exist:

1. Periodic adjustment caps limit the interest rate increase from one adjustment period to the next.
2. 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.

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

**Draw Period** The fixed period of time – usually 10 to 15 years- during which a borrower may access or "draw" money from a home equity line of credit.

**End of Draw** The point at which the draw period of a home equity line of credit ends and the borrower can no longer access the funds. Most lines of credit have a 10- or 15-year draw period. Depending on the original contract, the borrower may be required to repay the outstanding balance with fully amortized monthly payments that include principal and interest or a single balloon payment.

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

**Index** The economic indicator used to calculate interest-rate adjustments for adjustable-rate mortgages or other adjustable-rate loans. The index rate can increase or decrease at any time. See also selected index rates for ARMs over an 11-year period' (consumerfinance.gov/f/201204_CFPB_ARMs-brochure.pdf) for examples of common indexes that have changed in the past.

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

**Lien** is a form of security interest granted over an item of property to secure the payment of a debt or performance of some other obligation.

**Margin** The number of percentage points the lender adds to the index rate to calculate the adjustable-rate-mortgage 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.

**Repayment Period** The point at which a borrower no longer has draw privileges and must begin to make fully amortizing monthly payments, or principal and interest payments that will completely repay the outstanding balance during a certain period of time. If a borrower had been making interest-only payments, the monthly payments could increase substantially during the repayment period.

**Revolving Credit** is a type of credit that does not have a fixed number of payments. It's an arrangement which allows for the loan amount to be withdrawn, repaid, and redrawn again in any manner and any number of times, until the arrangement expires.

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

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

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

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