

HOME EQUITY PLANNING GUIDE



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Partnering with Third Federal

Founded in 1938, Third Federal is dedicated to serving people with competitive rates and outstanding customer service. Our mission is to help people achieve the dream of home ownership and financial security. We do this by being a leading provider of savings products, home mortgages, home equity loans and lines of credit as well as investments and insurance products.

This planning guide will provide you with information on the types of home equity products available, how to decide which product is right for you and how to choose a lender.

We hope you will find this information helpful and that you will consider Third Federal when you decide to apply for a home equity product. We'll be happy to help you through the process.

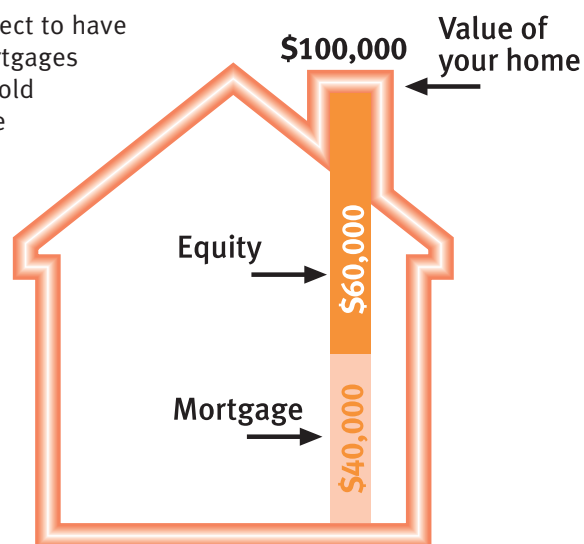
Your home can help finance your dreams.

Want to remodel the kitchen? Sending someone off to college? Using the equity in your home can help you make big purchases without putting a dent in your budget. It's the smart way to finance your family's dreams. Third Federal can show you how with a home equity loan or a great home equity line of credit. These are just two ways Third Federal can help you Bank Smart. Live Better.®

Credit is a useful financial tool to help you achieve many of your family's goals. However, you need to understand the buying realities and how to put them to work to your advantage. Using the equity in your home to make these purchases can be a smart way to gain credit.

What Is Home Equity?

A home's equity is the amount of money you could expect to have after you sold your home and paid any outstanding mortgages on the property. For example, if your house could be sold today for \$100,000, and you had an outstanding mortgage balance of \$40,000, the equity in your home would be \$60,000 (\$100,000 value of your home minus \$40,000 outstanding mortgage balance).



Benefits of Using the Equity in Your Home

Achieve Your Short-Term Goals

Planning a wedding? Need a new car? Home equity allows you to make big purchases without putting a dent in your budget.

Manage Your Debt

Home equity borrowing allows you to significantly reduce your current monthly payments by lowering the interest charged on your borrowed funds, allowing interest-only payments and enabling you to deduct the interest from your taxes (Consult your tax advisor regarding the deductibility of interest).

Pay for Your Child's College Education

Since 1980, the cost of a college education has doubled after adjusting for inflation. Home equity borrowing can make the cost of college affordable, with a low rate and tax-deductible interest. Using home equity is possibly the best way for a family to pay for college.

If you are planning to borrow money, a home equity loan or line of credit may be right for you. Before making the decision, you should carefully weigh the costs of a home equity loan or line against the benefits. **SHOP AND COMPARE THE DIFFERENT OFFERS AVAILABLE THAT WILL MEET YOUR BORROWING NEEDS AND BE CERTAIN TO READ THE FINE PRINT.** Remember, because you would be using your home as collateral, failure to repay the line or loan could mean the loss of your home.

Types of Home Equity Products

There are two types of home equity products available:

- Home equity lines of credit
- Home equity loans

To decide which one is best for you, you should have a clear understanding of the benefits of each product. Both products use the equity you have in your home as collateral.

One of the biggest advantages of home equity borrowing is the rate of interest charged on your account. While many credit card companies charge rates as high as 18%, the rate on a home equity loan or line of credit is most often significantly lower, and the interest paid on the account is generally tax-deductible.

Under the tax law, when using either a home equity line of credit or a home equity loan, you may be able to deduct the interest paid on your account because the debt is secured by your home. Please check with your tax advisor to see how the tax laws could affect you.

You can borrow against the equity that has accumulated in your home to pay for expenses such as college education, vehicle purchase, vacation, medical expenses, business loan, emergency situation, debt consolidation, large purchase, remodeling and home improvement projects. Typically, people don't use their lines of credit or loans for day-to-day expenses.

When you are making payments on an equity line or loan **and** have a first mortgage, you have two active mortgage payments and make two separate payments. The first payment is your original or first mortgage. The second payment is your equity line of credit or equity loan. These loans don't have to be with the same lender.

Home Equity Line of Credit

Home equity line of credit. A home equity line of credit is a variable-rate loan with a 10-year draw period and 10-year repayment period. Our home equity line gives you the flexibility to borrow additional funds up to your credit limit. Use your home equity line for whatever you need, whenever you need it. And if cash flow is important to you, our home equity line typically requires the lowest monthly payment.

Accessing your funds is as easy as writing a check or using your debit card. You only pay interest on the money as it is borrowed. Once the money is paid back, you may use the funds again. A draw period is a time frame (usually 10 to 15 years) in which you may borrow on the line and pay it back as many times as you like. You receive a bill each month for the interest only or for a combination of principal and interest.

When the draw period is over, the full balance may be due or a repayment schedule will be set up. It is best to use a home equity line of credit for your borrowing needs when you are uncertain how much funding you will need, or you anticipate having to borrow again in the future.

Home Equity Loan

Home equity loan. A home equity loan is a fixed-rate and fixed-payment loan. It gives you the comfort of knowing that your interest rate and payment won't increase, no matter the market conditions. It is best to use a home equity loan if you know the full amount of money borrowed, and you do not anticipate having to borrow again in the future. You will receive the entire amount of the loan upfront, and pay interest on that amount. You are typically permitted to fix the term of the loan for any period up to 180 months (15 years). And you make regular, fixed monthly payments until the loan is paid off.

Determining How Much You Can Borrow

Most financial institutions will allow you to borrow up to 80% – 85% of the value of your home, less any remaining mortgage amount on your property. Here’s an example of how to calculate how much you might borrow:

EXAMPLE:			
Appraised Value of Your Home	\$200,000	<input type="text"/>	YOUR ESTIMATED BORROWING POWER ↓ ←
Borrowing Percentage*	x .80	<input type="text"/>	
Percentage of Appraised Value	\$160,000	<input type="text"/>	
Less: Existing Mortgage Debt	\$100,000	<input type="text"/>	
Potential Credit Line	\$60,000	<input type="text"/>	

* Third Federal uses 80% for its home equity lines and loans. The actual percentage may vary depending on the lender and the amount you are borrowing.

Some financial institutions will allow you to borrow up to 100% of the value of your home, less any remaining mortgage amount on your property. However, you most likely will pay a premium (higher rates and/or fees) for this additional borrowing power. There are even a few lenders who will permit you to borrow up to 125% of the appraised value of your home. This type of borrowing will be at an even higher premium, and the interest paid on any balance over 100% of the appraised value IS NOT tax-deductible.

Estimating Your Monthly Payment

Home Equity Line of Credit

To estimate your **interest-only** monthly payment on a home equity line of credit, take the current Annual Percentage Rate on the account, divide by 12 (months in a year) and multiply by the outstanding balance.

EXAMPLE:			
Annual Percentage Rate (APR)	5.49%	<input type="text"/>	YOUR ESTIMATED PAYMENT
Divided by Number of Months	$\div 12$	$\div 12$	
Monthly Interest Rate	.46%	<input type="text"/>	
Outstanding Balance	\$20,000.00	\$ <input type="text"/>	
Multiplied by Monthly Interest Rate	$\times .0046$	\times <input type="text"/>	
Estimated Interest-Only Payment	\$92.00	\$ <input type="text"/>	←

Note: You may also want to calculate your **maximum** possible payment amount since the rate on a home equity line of credit is variable and many banks have a maximum APR of 20+%.

Home Equity Loan

Due to the complexity of manually calculating the time value of money, it is best to use a financial calculator or to contact a financial institution to calculate the payment on a home equity loan.

As a benchmark, a \$20,000 home equity loan at 5.00% interest, to be paid back over 15 years, would cost approximately \$158.16 per month (principal and interest). If you were to pay the loan over 10 years, the monthly payment would be approximately \$212.13. (See chart on next page.)

Home Equity Loan Payment Estimator

How Much Will My Home Equity Loan Payment Be?*

Annual Percentage Rate	Loan Amount				
	\$20,000	\$25,000	\$30,000	\$35,000	\$40,000
5.00%	\$212.13	\$265.16	\$318.20	\$371.23	\$424.26
5.25%	\$214.58	\$268.23	\$321.88	\$375.52	\$429.17
5.50%	\$217.05	\$271.32	\$325.58	\$379.84	\$434.11
5.75%	\$219.54	\$274.42	\$329.31	\$384.19	\$439.08
6.00%	\$222.04	\$277.55	\$333.06	\$388.57	\$444.08
6.25%	\$224.56	\$280.70	\$336.84	\$392.98	\$449.12
6.50%	\$227.10	\$283.87	\$340.64	\$397.42	\$454.19
6.75%	\$229.65	\$287.06	\$344.47	\$401.88	\$459.30
7.00%	\$232.22	\$290.27	\$348.33	\$406.38	\$464.43

* Assumes equal payments of principal and interest over 120 months (10 years).

Tax Benefits of Using Home Equity to Borrow

You may be able to deduct the interest from your home equity line or loan from your income tax.

- For example, assuming that you are in a 25% tax bracket, the annual after-tax savings** on a \$40,000 home equity line of credit at 5.00% interest would be approximately \$500.00 which makes the effective interest rate on your line or loan only 3.75%.
- For a \$40,000 home equity loan at 5.00% to be paid back over 15 years, the first year interest charges would be \$1,958.27 which equates to an additional after-tax savings** of approximately \$489.57 for someone in a 25% tax bracket.

** Please consult with your tax advisor to see how the laws would affect you.

Why Home Equity Borrowing May Make Sense for You

Make Home Improvements

One of the most popular uses of home equity is to make improvements to your home. The American homeowner spends an average of \$3,796.00 on home improvement projects.* Many home improvement projects can have a positive effect on the value of a home. Sometimes, nearly all of the cost of the home improvement can be recovered if the residence is sold within a year after completion.

The following is a list of home improvements, the cost to do the improvement and an estimate of the monthly expense to pay for the improvements using home equity.

	Average Cost**	Home Equity Line of Credit†	Home Equity Loan**
Kitchen Remodel	\$52,248	\$217.70	\$413.17
Bathroom Addition	\$28,978	\$120.74	\$229.16
Master Suite Addition	\$94,333	\$392.64	\$745.98
Family Room Addition	\$74,890	\$312.04	\$592.23
Siding Replacement	\$ 9,134	\$ 38.06	\$ 72.23

*Source: 2006 American Express Home Improvement Index

** From *Realtor Magazine 2006 Remodeling Cost vs. Value Report*

† Estimated interest-only payment assuming an 5.00% interest rate. Monthly interest-only payments will not reduce the principal on your line of credit.

**Assumes 5.00% interest and a 15-year repayment period, monthly payment of principal and interest.

Pay Off Your Credit Cards

If you have a high balance on your credit cards that you can't seem to pay off, a home equity loan or line of credit may be the answer. You can save money AND pay off your debt sooner. For example, if you have \$12,000 in credit card balances and make a \$300 monthly payment, it would take you five years to repay your debt, and you would pay \$5,834.45 in interest. If you transferred that balance to a home equity loan, you would pay only \$1,588.00 in interest.

	Credit Card Balances*	Home Equity Loan**
Loan Amount	\$12,000	\$12,000
Length of Loan	open-end	5 years
Annual Percentage Rate	17.00%	5.00%
Payment Amount	\$300.00	\$226.45
Total Payments	\$17,834.45	\$13,588.00
Total Interest Paid	\$5,834.45	\$1,588.00
Interest Expense Savings	\$0.00	\$4,246.45
After-Tax Savings	\$0.00	\$849.29
Total Savings from Home Equity	\$0.00	\$5,095.74
Number of Months to Repay Loan	60 months	60 months

* Assumes no additional advances or rate changes.

** Assumes a 25% tax bracket.

Purchase a New or Used Car

If you are considering purchasing a new or used car, it may make sense for you to use your home equity to finance the purchase.

	Standard Auto Loan	Home Equity Loan
Loan Amount	\$25,000	\$25,000
Length of Loan	5 years	5 years
Annual Percentage Rate	6.45%	5.00%
Payment Amount	\$468.00	\$452.00
Total Payments	\$28,071.00	\$26,188.00
Total Interest Paid	\$4,131.00	\$3,167.00
Interest Expense Savings		\$964.00
After-Tax Savings (25% tax bracket)	\$0.00	\$791.75
Total Savings from Home Equity		\$1,755.75

Selecting the Right Lender for You

There are thousands of home equity providers across the country. Most banks, savings and loans, and some mortgage companies can provide you with a home equity loan or line of credit. **It is important to note that you DO NOT have to use the lender from whom you obtained your first mortgage to get a home equity loan or line of credit.** Some organizations specialize in offering credit to customers with an excellent credit record. Others specialize in providing credit to customers with less than perfect credit. The rate and fees charged on the account generally vary with the creditworthiness of the applicant.

Here are some questions you should ask prospective home equity loan and line of credit lenders:

- What is the actual rate? Beware of introductory and teaser rates. Take the time to determine the total cost (rate + fees charged) before making a final decision.
- What are the closing costs?
- Is there an application fee or loan origination fee?
- Does the lender charge an annual fee?
- Are there penalties for paying off the loan early?
- Does the lender charge points?
- Does the lender require you to open a checking account with them?
- Does the lender require you to carry a minimum balance on the account?
- How will the lender bill me? Monthly statement? Coupon book? Automatic deduction?
- What is the length of my draw period and/or repayment period?
- Does the lender require you to pay Documentary or Intangible tax?

Take the time to compare what various lenders can offer you to make sure you're getting the product that meets your specific needs.

What to Look for When Shopping for a Home Equity Product

The following is a list of items to look for when shopping for an equity product. Lenders should be happy to explain these items in detail and help you understand the agreement that you're about to make.

The Interest Rate Charged on the Outstanding Balance

Banks typically use an internal formula to set home equity loan rates. Compare the rates of several institutions to ensure you are getting the best rate. Home equity line of credit rates generally are calculated by using a base rate or "index", such as "prime" plus or minus an amount known as a "margin." You will see home equity line of credit rates expressed as "index" plus or minus "margin". For example: "Prime" plus "1".

The easiest way to ensure you are getting the best overall deal available is to compare the rates AND fees being charged on your account for the time period during which you will be borrowing the funds. You may find that you are actually paying more to borrow funds at a lower rate when you take into account the fees and penalties that are charged for the account.

Introductory or "Teaser" Rates

Much like credit card companies, home equity providers often give their borrowers a special rate on a home equity line of credit for a short period of time after the account is opened. Many times, the financial institution offering the special rate will charge higher fees or a higher long-term rate to help offset the initial discount. Take the time to determine the actual rate with all costs including fees before making a final decision. Don't take the rate at face value.

Closing Costs

The following are closing costs associated with a home equity account. Most financial institutions pay these costs for their clients. Third Federal pays all of these costs for their customers.

- **The Credit Bureau Report:**

In determining whether or not to lend you money, the lender will consider your ability to repay the loan by looking at your income, your debts and your credit history. Most major lenders report your payment history on your debts to credit bureaus. The credit bureaus store this information for lenders to access when making a decision to lend a customer money. There is a charge for accessing this information, which is typically paid by the lender, but this charge may be offset by the lender in the form of other fees such as application fees or loan origination fees.

- **The Appraisal:**

The cost to have your property appraised (estimate value) either in person, by driving past the property or through an automated appraisal system.

- **The Title Work:**

The cost to review the title to your property to identify what liens, if any, have been filed against your property.

- **Flood Evaluation:**

The cost to review the location of your home to determine whether it is in a flood zone. Homes that are located in a flood zone are required by law to carry flood hazard insurance so that in the event of a catastrophic flood, the home can be repaired or replaced.

- **The Mortgage Filing:**

Since you are using your home as collateral for a loan, it is necessary for the lender to file a mortgage against your property, and there is a charge by the local government for filing the mortgage.

- **Mortgage and Other Miscellaneous Taxes:**

Some state and local governments charge taxes on any transactions involving real estate. Lender will often pass these taxes along to the borrower. Third Federal pays these taxes for the borrower.

Other Fees

Application Fees and Loan Origination Fees

Some financial institutions will charge customers a fee to help recover the costs of originating a home equity account. If these fees are charged on a home equity loan, they will be blended into the Annual Percentage Rate charged on the account.

Annual Fees

Many financial institutions will charge an annual fee (ranging from \$25 to \$100) on a home equity line of credit in order to help offset the cost of holding and maintaining your account.

Prepayment Penalties

Due to the costs associated with setting up a home equity loan or line of credit, many financial institutions will charge customers a fee (ranging from \$150 to \$350) for closing the account during the first two to five years after the account is opened.

Final Thoughts

Hopefully this book has been useful to you as you decide whether a home equity product fits your needs. Using your home's equity can help you manage your debt and cash flow, achieve your short-term goals or any other financial need.

At Third Federal, we recommend you research your options, determine which home equity product would be best for you and compare what other lenders are offering. Remember that you do not have to use the lender from whom you obtained your first mortgage to get a home equity loan or line of credit.

Bank Smart. Live Better.®

At Third Federal, we believe our customers should invest in their lives, not in their loans. That's why we charge less for home loans, home equity loans and lines of credit. And why we pay higher interest on savings and CDs. So the money you save can be spent on you and your family.

We also believe simpler is better—in your life and your banking. So we keep your banking fast and easy, with outstanding service.

That's the way we've done business since Ben and Gerome Stefanski founded Third Federal in 1938. It's banking that's about people. To help you and your family live a little better.

Frequently Asked Questions

Do I have to get my home equity account from the bank that holds my mortgage?

No. You can borrow using the equity in your home from any financial institution that offers home equity products.

Do I need an account with the bank to be able to open a home equity line of credit or home equity loan?

No. All that is required is that you are a homeowner. Some banks may require you to open a checking account with their bank so that payments may be automatically deducted.

If I already have a home equity account, can I apply for a home equity account at another bank prior to closing the original account?

You can apply with another bank, but they will most likely require that you close the original account as a condition of approving you for the new account.

How long does it take to open a home equity account?

Typically, it will take about two weeks to open a home equity account. If your credit is good, your house appraises quickly, and you do not have other liens filed against your property, you may be able to have access to funds within a shorter time period.

What if I sell my house or refinance my first mortgage?

If you sell your house, both your first mortgage and your home equity account must be closed. Many financial institutions will charge you a penalty fee if you close your account within the first 2–5 years after the home equity account is opened.

If you refinance your mortgage, you can either combine your home equity debt with your first mortgage (for example: \$40,000 first mortgage plus \$25,000 home equity loan = \$65,000 new first mortgage), or you can subordinate (file a second lien) your home equity line or loan behind the new mortgage. Some financial institutions will charge a fee for subordinating the home equity debt.

If I use my home equity account to pay off all of my credit cards, do I have to close the credit card accounts?

This may depend on your financial situation and your credit history. Some banks may require that you close your credit card accounts as a condition of approval.

What if I determine that I need additional home equity funds next year?

If you have a home equity line of credit, you can ask for a line increase. If you have a home equity loan, you will have to close your home equity loan and open a new one. In both cases, the financial institution will most likely treat your request as a new request for credit and will review your credit history, evaluate your property, perform a title search, etc.

Glossary of Key Terms

Amortization:

The reduction of a debt, according to a set schedule spelled out in the mortgage note, to a zero balance over a certain number of years.

Annual membership or participation fee:

An amount that is charged annually for having the line of credit available. It is charged regardless of whether or not you use the line.

Annual percentage rate (APR):

The cost of credit on a yearly basis expressed as a percentage.

Application fee:

Fees that are paid upon application. An application fee may include charges for a property appraisal and a credit report.

Balloon payment:

A lump-sum payment that you may be required to make under a plan when the plan ends.

Cap:

A limit on how much the variable interest rate can increase during the life of the home equity plan.

Closing costs:

Fees paid at closing, including attorneys' fees, fees for preparing and filing a mortgage, for taxes, title search and insurance.

Collateral:

Real property and/or other security pledged to a lender as an inducement for granting a loan. If the borrower defaults, the lender has the legal right to seize and sell the collateral in order to collect repayment of the debt.

Credit limit:

The maximum amount that you can borrow under the home equity plan.

Equity:

The difference between the current value of the real property and the outstanding balances on any mortgages attached to the property.

Index:

The base for rate changes that the lender uses to decide how much the annual percentage rate will change over time.

Interest rate:

The periodic charge, expressed as a percentage, for use of credit.

Loan-to-value ratio:

A percentage representing the mortgage amount divided by the appraised property value or sale price of the property (whichever is less). For example, if the market value of the house is \$100,000, and the amount of the loan is \$80,000, the LTV is 80%.

Lien:

A security claim on property until a debt is satisfied. A mortgage lien is evidenced by an executed mortgage which the lender files with the county recorder. A tax lien is a lien by a tax agency for non-payment of taxes. A mechanic's lien is a lien filed by a contractor, laborer or material supplier for non-payment for work that has been performed or for materials supplied.

Margin:

The number of percentage points the lender adds to, or subtracts from, the index rate to determine the annual percentage rate to be charged.

Minimum payment:

The minimum amount that you must pay (usually monthly) on your account. In some plans, the minimum payment may be "interest-only." In other plans, the minimum payment may include principal and interest.

Points:

A point is equal to one percent of the amount of your home equity line or loan. Points usually are collected at closing and are in addition to monthly interest.

Prime rate:

The interest rate charged by commercial banks to their best, most secure corporate customers. It is regarded as a yardstick for general trends in interest rates.

Right of rescission:

Three-day period after the signing of the loan documents during which a customer may elect to cancel the transaction.

Security interest:

An interest that a lender takes in the borrower's property to assure repayment of a debt.

Transaction fee:

A fee charged each time you draw on your home equity line or loan.

Variable rate:

An interest rate that changes periodically in relation to an index. Payments may increase or decrease accordingly.

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