FEDERAL RESERVE BOARD
Docket No. R-1217
70 Fed. Reg. 60235 (October 17, 2005)

SUPPLEMENTAL ADVANCE NOTICE OF PROPOSED RULE-MAKING

Regulation Z, Subpart B: Open-End Credit
Implementation of the Bankruptcy Amendments of 2005

COMMENTS

of the

CENTER FOR RESPONSIBLE LENDING

December 16, 2005

The Center for Responsible Lending is a non-profit organization focused on policy research and advocacy to stop predatory lending practices. We are an affiliate of Self-Help, one of the nation's largest nonprofit community development lenders, whose mission is to create and protect ownership opportunities for low-wealth families through home and small business ownership. Self-Help has provided $3.8 billion in financing to help over 40,000 low-wealth borrowers buy homes, build businesses and strengthen community resources. Additionally, our affiliate Self-Help Credit Union maintains deposit accounts for individuals, nonprofit and religious organizations, and foundations. Our organization was instrumental in helping to pass North Carolina's comprehensive state statute against predatory mortgage lending, the country's first, and has been a leader on legislative and regulatory efforts to address predatory lending issues nationally.

CRL submitted comments to the Board's first ANPRM seeking comment concerning a general review of Truth in Lending's open-end disclosure rules. (March 28, 2005)

A. Minimum Monthly Payment Disclosures

This supplemental ANPRM was prompted by Congressional amendments to the Truth in Lending Act as part of the revision of the bankruptcy code. A part of the debate about those revisions included whether certain practices common in the credit card industry contributed to delinquencies, and ultimately, in some cases, to bankruptcy. Low minimum monthly payments which failed to reduce balances within a reasonable amount of time, sometimes turning revolving debt into long-term debt, were among the practices cited. "Bait and switch" advertising with teaser rates was the subject of scrutiny during the national debate, as well.

A variety of approaches to address the low minimum monthly payment issue were suggested, and the state of California enacted a law during the eight years of Congressional debate over bankruptcy revision. Though this could have set the standard for minimum monthly payment disclosures, it has been preempted as to the majority of credit cards issuers in the country.[1]

CRL's prior comments on the general open-end review included a discussion of this issue which remains relevant to this Supplemental ANPRM. *See* CRL Comments, pp. 21-32, Q.31-32, (March 28, 2005)

A. Summary of the minimum payment information scheme described in the 2005 Bankruptcy Revision

The minimum payment disclosure scheme established in the 2005 amendments, Pub. L. 109-8, Title XIII, § 1301,[2] is as follows:

Step 1: Consumer receives the periodic statement containing three pieces of information.

> Byte #1. Warning notice: "Making only the minimum payment will increase the interest you pay and the time it takes to repay your balance.
>
> Byte # 2. A hypothetical example; content prescribed as follows:
>
>> a. If the plan requires a minimum monthly payment of 4% or less of the balance, an example based on a 2% minimum, a $1000 balance, and a 17% rate (88 months) [NB: *The time horizon prescribed in the statute is erroneous, according to Bankrate.com's calculator – it is actually 207 months*.[3]]
>>
>> b. If the plan requires a minimum monthly payment of more than 4%, an example based on a 5% minimum, a $300 balance, and a 17% rate. (24 months). [NB: *This time is actually 35 months.*] This creditor has the option of making the disclosures in (a) above.
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>> c. Irrespective of the plan's minimum payment formula, if the creditor is one subject to FTC jurisdiction for its TIL compliance, then the 5% minimum, $300 balance, 17 %, 24-month [*should be 35-month*] hypothetical is disclosed.

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1 *American Bankers Assoc. v. Lockyer*, 239 F. Supp. 2d 1000 (E.D. Cal. 2002).

2 P.L. 109-8, § 1301 adds a new subsection to existing rules for the periodic statements given in connection with open-end credit plans, 15 U.S.C. § 1637(b)(11).

3 Calculations for time lines used in these comments were obtained from www.Bankrate.com, "paying the minimum" credit card calculator.

In enacting a mistaken, significantly low-balled time horizon, Congress inadvertently demonstrated how easy it is even for educated consumers to underestimate how long the repayment horizon is with low minimum monthly payments and high interest rates.

d. Any creditor may substitute a higher interest rate than 17%.

e. A creditor that maintains a toll-free number to provide their customers with the actual number of months to repay the customer's own outstanding balance may omit the hypothetical example. (It is unclear whether this option is open to creditors subject to FTC jurisdiction.[4])

f. The FRB may by rule, prescribe a different interest rate and change the consequent repayment period for the hypotheticals.

Byte # 3. Referral to a toll-free phone number for an estimate of the amount of time it would take to pay the consumer's balance, making only the minimum monthly payments.

Step 2: Following up with the phone call for information on the amount of time it would take to pay off the customer's balance at the minimum monthly payment.

* *Actual number of months* -- Creditor option to offer access to a toll-free number to obtain the actual number of months to pay off that customer's balance: Creditors, with the possible exception of those subject to FTC enforcement jurisdiction,[5] may choose to maintain a system that will provide their respective customers with the actual number of months it will take to pay off that outstanding balance at the minimum payment.

* *Estimated number of months* -- The Phone Access Infrastructure to offer the estimated number of months based on standardized tables and formulae.

a. Who sets up and maintains the phone system / Who answers the phone:

> The FTC establishes and maintains a toll-free number for those within its regulatory jurisdiction.

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[4] Section 1301(J) says that creditors providing actual number of months are "not subject to the requirements of [§1301,] subparagraph (A) or (B)." However, the warning notice and hypothetical requirements for creditors for whom TIL enforcement lies with the FTC are contained in §1301(C), and they are not subject to subsections (A) or (B).

The combined effect of (C) and (J) requires that customers of such creditors go to an outside system maintained by the FTC for standardized estimate information, and to close off the option available to other types of creditors to offer an actual number. There is no logical reason to treat this category of customers differently, and limit their access to the actual number of months. We recommend that the Board use its discretionary authority under 15 USC § 1604(a) to assure that customers of this category of creditors have at least as much potential to get actual information as to consumers of depository institutions.

[5] See note 4, above.

> The FRB or a third party establishes a system for use by depository institutions with assets under $250 million for a period of 2 years. (After 18 months, it makes a report to Congress about this program.)

> The creditor (if not an FTC regulated entity[6]) may establish and maintain the system, or contract with a third party for its own or a collective system.

b. What the consumer has to do

The number connects consumers to an automated device which permits them to input information necessary to obtain the time necessary to repay at the minimum monthly payment level.

Consumers whose phones are not equipped to use a touch-tone telephone or similar device are to be given an opportunity to talk to a real person.

Presumably the system would have a series of prompts to generate the information necessary to make the closest match on the FRB-prepared table (or equivalent formulae) described below. The information required to be built in, or input by the consumer includes all interest rates to be applied, the balance to which each rate applies, the balance calculation method, payment allocation rules in the event of multiple rates, and the minimum payment amount or formula.

This information would be obtained through one of the following methods: a) the periodic statement would have to provide all those fields of information for the customer to provide with each call; b) creditors utilizing that system would have provided information on balance calculation methods, allocation methods, and minimum payment formulae; or c) the systems would incorporate assumptions which may not be relevant to the specific creditor's practices.

c. What information the consumer will be given: estimates from a table prepared by the Board.

The Board is to devise detailed tables illustrating approximate months to repay to present *standardized* information, assuming a lot of different APRs, a lot of different account balances, a lot of different minimum monthly payments, consistent minimum monthly payments and no new advances.

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6 See note 4, above.

The Board is to issue rules giving guidance to those maintaining the phones as to how to use that table in giving the consumer on the phone an estimated answer.

GENERAL RECOMMENDATION

B. The most rational action is for the FRB to fully test this system before issuing any rules, not only for consumer understanding of the information generated by the estimates, but for comparative efficacy and efficiency with alternative approaches outside the new §1301 scheme. Such a study would be authorized under Pub. L 109-8 § 1301(c).

These amendments describe a system that is elaborate, complex, resource-intensive and duplicative to design, implement, and maintain on the part of the Board, the FTC and the creditors. It may be worth it if the result is a system that is accessible and friendly to the end-user, and provides information that the consumers can understand and use in budget planning and deciding upon further usage of the account. (Even so, there are several alternative infrastructure designs that come readily to mind that may well be more economical and efficient.) However, this system looks as though it instead will be cumbersome, time-consuming, and possibly confusing to consumers.

What is not in the statute is a reference to including that account-specific information automatically in the periodic statement information in the first place. Certainly it is easiest to calculate in the card issuer's own system, where all the fields necessary to make that calculation are already built in and operating to prepare that customer's periodic statement. It is our understanding that the Consumer Advisory Council's discussion of these amendments encompassed the possibility of simply disclosing the estimated time to payoff for that account under the creditor's own calculation rules. This was preferred to a morass of disclosures and disclaimers to consumers about assumptions used in the referred phone estimate. (It certainly would add the least to the "information overload" concern, *cf.* **Q. 76**.)

The 2005 amendments authorize – but do not mandate – that the Board study information concerning what information is available, and whether it has succeeded in its purpose of making consumers aware of the implications of certain credit decisions. Pub. L. 109-8, Title XIII, §1301(c).[7] Such a study would dovetail well with the Board's stated intention of using consumer testing as part of the overall review of disclosures. 70 Fed. Reg. 60235, 60237 (October 17, 2005.)[8] The Board should use this opportunity to fully examine both the effectiveness and efficiency of the approach dictated by the 2005 amendments, and to test it against other logical alternatives beyond the 2005 boundaries. Such testing should not only include whether the information provided in the end is

[7] These issues also may intertwine with the study mandated by Title XII, § 1229(b), regarding whether creditor practices encourage consumers to accumulate additional debt.

[8] In our prior comments, we urged the Board to assure that consumer testing be done with the full demographic range, including age and education of consumers. See CRL Comments, p. 10 (March 28, 2005.) In this case, testing must study both disclosures and the phone system.

understandable and useable, but whether the process involved in obtaining it is too cumbersome itself. A number of the Board's specific questions indicate that it, too, may sense greater effectiveness and efficiency in other approaches.

The statutory amendments are fairly specific, and therefore the Board's latitude is bounded, though there is room for discretion. Looking at the system described by the amendments, it is not self-evident that the disclosures contemplated will meet a common sense test of "used and useful." Where simple (the hypothetical sample), the information is so generalized as to be meaningless. For example, the recent survey that DEMOS and CRL conducted of low-and- moderate- income credit card users who carried a balance for more than three months found an average balance of $8650.[9] Nearly 25% of the respondents had paid at least 1 or 2 late charges in the previous year,[10] which means they are likely to be paying penalty rates that can easily be as much as 29%. The time to pay off a hypothetical $300 balance with a 5% minimum payment at 17% is not going to seem relevant to a consumer with an $8650 balance running interest at 29%. In fact, it isn't relevant or even helpful.[11] Yet the scheme as designed for a more relevant estimate seems elaborate to design, and complicated to use.[12]

The amendments require the Board to promulgate model forms and provide guidance on the "clear and conspicuous" disclosure of the new required minimum monthly payment and introductory rate disclosures[13] within six months (P.L 109-8, § 1309), though there is no deadline for rules necessary to implement the system beyond that. The Board's proposal is to meld consideration of the substantive amendments into the ongoing review of the open-end disclosures generally.

Though it may be unusual, we believe that the most rational and efficient action the Board could take is to fully test the system first. If the Board felt that the combined effect of the study authorization and the indefinite deadline were insufficient authority, it could request that Congress pass a technical amendment delaying the impending deadline as to model forms for at least the minimum payment disclosures.[14]

If the system, after testing, appears efficient and effective, rule-making would be more informed and focused. If, on the other hand, testing shows the scheme is neither efficient nor effective, the Board could then recommend to Congress specific evidence-based changes, including scrapping an irrelevant and possibly misleading hypothetical

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[9] *The Plastic Safety Net: The Reality Behind Debt in America*, p. 8 (DEMOS and Center for Responsible Lending, October, 2005), available www.responsiblelending.org. (Hereafter "*The Plastic Safety Net*")

[10] *Id*. at 13.

[11] Though we have not seen research on the efficacy of the hypothetical $10,000 example in the variable rate mortgage context, Reg. Z, §§ 226.5b and 226.19(b), experience with consumers suggests that it is not one of the meaningful disclosures. See also Q. 62, below.

[12] And possibly frustrating, as well.

[13] Pub. L. 109-8, Title XIII, § 1303(a), amending 15 U.S.C. § 1637(c).

[14] Given the mandated content of the minimum payment disclosures that are to be the subject of the model form, it may not be difficult to promulgate a "clear and conspicuous" model. On the other hand, if testing of the contemplated system shows that modification of the system itself would be more effective and efficient, it would have been a wasted exercise.

sample. Title XIII, § 1301 seems to put the cart before the horse. We believe that Congress would respect a recommendation from the Board that might avoid the implementation of a system that may well not be suitable to accomplish its goals and may be expensive to maintain. *See* Pub. L. 109-8 §1301(c)(3).

The remainder of these comments focus on some of the specific questions presented in the supplemental ANPRM.

Q. 59: Are there certain types of transactions or accounts for which the minimum payment disclosures are not appropriate? For example, should the Board consider a complete exemption from the minimum payment disclosures for extensions of credit under an open-end plan if there is a fixed repayment period, such as with certain types of HELOCs?

The question presumes that current rules regarding disclosure of repayment terms for HELOCs are meaningful and adequate. A review of the documents in an existing HELOC, however, indicates otherwise. (These are attached as Appendix A, *infra*.)

Early disclosures: The consumer should be given an early disclosure at the time an application is received, though not necessarily in a form the consumer must be able to keep. The only concrete payment information it requires is for a hypothesized $10,000 loan, at what can be an irrelevant rate.

> Reg. Z, § 226.5b(d)(5): Requirements for Home Equity Plans (early HELC disclosures:
>
> (5) Payment terms. The payment terms of the plan, including:
>
> (i) The length of the draw period and any repayment period.
>
> (ii) An explanation of how the minimum periodic payment will be determined and the timing of the payments. If paying only the minimum periodic payments may not repay any of the principal or may repay less than the outstanding balance, a statement of this fact, as well as a statement that a balloon payment may result.
>
> (iii) An example, based on a $10,000 outstanding balance and a recent annual percentage rate, showing the minimum periodic payment, any balloon payment, and the time it would take to repay the $10,000 outstanding balance if the consumer made only those payments and obtained no additional extensions of credit.
>
> If different payment terms may apply to the draw and any repayment period, or if different payment terms may apply within either period, the disclosures shall reflect the different payment terms.

The initial disclosures require nothing more concrete.

226.6(e): Initial Disclosure Statement

e) Home equity plan information. The following disclosures described in §226.5b(d), as applicable:

…. (2) The payment information described in §226.5b(d)(5) (i) and (ii) for both the draw period and any repayment period.

Consequently, there is nothing in current TIL which requires that the consumer be given any practical information which will help them understand the repayment obligation they are taking on. As the documents in Appendix A show, the disclosures about the length of the draw and repayment periods may not actually tell the consumer much about either. The documents are the combined disclosure / agreement from a national bank for its HELOC product. Below we extract the relevant "disclosures" from the agreement, and invite any average consumer who may read this to try to extrapolate the implications for the monthly budget.

Though the loan applied for was a 30-year fixed rate,[15] the loan given was a variable rate HELOC. The initial amount of the line of credit was $146,900. The draw period is 10 years. However, the initial advance was $145,270.00, 98.9% of the maximum line, (Appx. A, pp. 20, 24, *infra*). According to the note, the consumer has the "option" anytime during the Draw Period "to create Fixed Rate Partitions of all or part of [the] Line at a fixed rate and for a fixed payment." (Appx. A, p. 20, *infra*) The rate on the "line advances" is the WSJ prime plus .5%, .459% per month (5.75% APR) at the time of consummation. The fixed rate partition advance index is the daily rate for 3-year Treasury notes with constant maturities, plus 4.25%, .616% per month (7.39%) at the time of consummation.

On the second page of the agreement, (Appx. A, p. 21, *infra*), the payment information is as follows:

…You are required to pay a minimum payment by the Due Date shown on your statement equal to the sum of the Line Minimum payment and the FRP Minimum Payment for each FRP in use.

a) **Line Minimum Payment:** The line minimum payment will equal the period finance charges that accrued on the outstanding Line balance during the preceding billing cycle as shown on each monthly statement. (Interest Only Minimum Payment.)

b) **The FRP Minimum Payment is:** A fixed payment amount that is sufficient to pay off the Partition Advance Fee, the balance and periodic finance charges for each FRP, if one hundred twenty (120) equal payments at the fixed rate applicable to that FRP were made. Any amount still owing after one hundred nineteen (119) billing cycles will be added to the final minimum payment due. Additional payments on any FRP may be made at any time but you will continue to be obligated to make the fixed payment for the FRP as long as any amount is still owing on the FRP…..

c) **Repayment period**: The Minimum payment may not full repay the principal that is outstanding by the end of the Draw Period. If your Draw Period is not renewed for an additional term, during the Repayment Period you may continue to make scheduled payments on any Fixed Rate Partition balances outstanding at the end of the Draw Period until they are paid in full. Additionally, any outstanding line balance and Other Charges will be converted to a Fixed Rate Partition balance without a partition Advance fee on the last business day of your Draw Period and will be subject to finance charges for a Fixed Rate Partition and will be required to be repaid in one hundred twenty (120) equal monthly payments for balances of $5,000 or

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[15] The loan applied for was a closed- end, 30-year fixed, in a different amount. The early disclosure was for the loan applied for, not the one sold. Appx. A, pp. 25-26, *infra*.

more…. Any amount still owing after one hundred nineteen (119) billing cycles … will be added to the final minimum payment due.

A separate single sheet of paper amidst the loan closing package has a space to select how much of an advance is applied as a "regular Line advance," and how much as a "Fixed Rate Partition (FRP)" advance, though neither option is selected. "If neither option is completed, the initial advance will be applied as a regular line advance." (Appx. A, p. 24, *infra*.) In the "sign here, sign here" pile of papers, the selection did not occur. More to the point for the purposes of this ANPRM, neither is there any hint to the borrower of how any such selection would affect the monthly budget, or for how many months that budget would be affected.[16]

By no means could these disclosures – or the contract -- be said to convey **any** useable information to the average consumer about the monthly payment, or the duration of the payment obligation.

Trying to extract from the above what the repayment implications are, it would appear that this $145,270 loan will be payable as interest only ("regular line advance") for up to 10 years,[17] then a higher interest rate would kick in at the time the loan begins to amortize. Thus the estimated repayment schedule – one the consumer did not see any hint of -- would be as follows,[18] assuming no movement in the initial index rate.

The two minimum payment options (apparently) described in the contract for a $145,270 Advance

A: Implied estimated payments due under the Line Minimum Payment Schedule (presumably the default choice for the repayment schedule.)

120 @ $ 695.84
+120 @ $1,716.05

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16 While it is possible that the originator was less than forthcoming, a regulatory regime that relies primarily on disclosure should be cognizant of how easy it is to be misused by the ethically-challenged. The HELOC required disclosures make it easy.

17 This is a good example of a "spurious open-end" HELC, with the initial draw at nearly 99% of the line limit, and interest-only minimum payments which are significant enough that it is unlikely that additional principal reduction payments will re-open the line. See CRL Comments, p. 24-30, (March 28, 2005).

Calling the first 10 years of this loan a "draw" period, when it's $700/month IO payments on a fully funded line makes the concept of a "draw period" itself spurious. It does, however, add 10 years and about $83,500 to the cost of the payback.

18 Or at least that's how we interpret the contract and make the calculations. If that is not what the contract provides, we submit that our error simply highlights the gross inadequacy of current rules in promoting "the informed use of credit," and offering transparency.

B. Implied Estimated Payments Due Under the Fixed Rate Partition Minimum Payment Schedule

120 @ $1716.05

In this case, the repayment term is "fixed," but either at 10 years or 20 years. That horizon would be determined by a default option that the customer is not likely to have understood or even known existed at closing. And the minimum monthly payment is either $695, or two-and-a-half times that amount ($1716). It would appear from these initial loan documents that the periodic statement may the first time the latter information would show up to the consumer, and the former information would be missing entirely. The minimum monthly payment amendments would add that to the periodic statement.

The experience with consumers receiving HELOCs as open-end "piggy-back seconds" in refinancings and debt consolidations also showed the weaknesses of the current disclosure regime for HELOCs.[19]

The Board earlier expressed its intent to make home equity disclosures the subject of a separate ANPRM round. Obviously minimum monthly payment disclosures on the periodic statement are not a cure-all for the gross inadequacies in HELOC disclosures available before a consumer becomes enmeshed. But this example amply demonstrates that the existing rules do not justify exempting HELOCs from otherwise useful minimum monthly payment disclosures. While careful study of existing actual products and how they are disclosed, and consumer testing may suggest that the implementation be different for HELOCs than for credit card programs, exemption is both unwarranted and unwise.[20]

<u>Q60: Should the Board consider an exemption that would permit creditors to omit the minimum payment disclosures from periodic statements for certain accountholders, regardless of the type of account; for example, an exemption for consumers who typically (1) do not revolve balances; or (2) make monthly payments that regularly exceed the minimum?</u>

Consumers would be harmed by such an exemption, and there is little, if any, countervailing benefit for creditors. Setting up systems to screen and constantly monitor the "typical" pattern for each of their customers is likely to be more resource-intensive to the creditors than simply programming the same fields of information for all customers. Hence there is little to be gained for them.

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19 These products were among those at issue in the states' investigation of Household, for example. The piggy-back seconds, which many consumers did not even realize were a separate loan from the first lien. Among the lenders doing the "loan-splitting" on refinances, the piggy-back second may have had a different term than the companion loan, and often was a balloon. In the case of the HELOC piggy-back second, many consumers were unaware of the balloon. These products, too, were commonly fully funded at consummation, making their characterization as open-end suspect.

20 See, e.g discussions of Q. 62-63, below.

In contrast, what's "typical" behavior for a particular customer may quickly change, due either to a temporary change in circumstance (a move, a layoff, a major medical expense), or a permanent change (the death of a spouse or a disability). It is in just such circumstances that having this information in a timely fashion is most important – before an outstanding balance grows unmanageable.

The same factors militate against an exemption for cardholders who regularly exceed the minimum. A consumer trying to pay down a $3000 balance on a 17% card by paying $100 / month instead of a 2% monthly payment still has over a three-year horizon. Having that information is just as useful to that consumer in planning future card use (or restraint), or larger payments as it is to the 2% payer. In the DEMOS/CRL consumer survey, 10% said they planned to pay the minimum payment in the upcoming months, 39% said they would pay the minimum "plus a little extra," and 41% planned to pay two- to- three times the minimum.[21] Hearing an estimated time horizon on the survey's average $8650 balance of 117 months at 13%, for example[22] may be sufficiently jaw-dropping to cause the consumer to cut back on further use of the account, or to turn the "little-bit" extra payer who can afford it into a "lot extra" payer.

Q.61: Some credit unions and retailers offer open-end credit plans that also allow extensions of credit that are structured like closed-end loans with fixed repayment periods and payment amounts, such as loans to finance the purchase of motor vehicles or other "big-ticket items." How should the minimum payment disclosures be implemented for such credit plans?

Whether such purchases are nested within long-term customer relationships, as is often the case with credit unions, or in the more dubious context of the "spurious open-end credit" sale, the issues raised are similar. And it is in these situations that the solution is perhaps the simplest. In our comments of March 28, 2005, we proposed a pre-consummation disclosure for plans opened to finance an initial purchase. (CRL Comments to Open-End ANPRM, pp. 28 – 29, March 28, 2005). That proposal, with the calculation assumptions used there, could easily be adapted to these situations.

Q.62: Should the Board adjust the 17% APR used in the statutory hypothetical example? If so, what criteria should the Board use in making the adjustment?

The question highlights the fundamental weakness inherent in the hypothetical sample approach. For many consumers, it can be irrelevant at best, misleading at worst. Like a great many other aspects of our economy, the average credit card interest rate conceals a wider range of rates than in the past. A recent survey by the Woodstock Institute found the average rate for purchases among bank cards was 12.11% and

[21] *The Plastic Safety Net*, supra note 9, p. 13.
[22] 5% minimum payment at 13%.

approximately 19% for cash advances.[23] However, the penalty rate that an increasing number of cardholders are subject to now has crossed the 30% threshold,[24] with an average of 25.4% in the 2005 Woodstock survey.

If the hypothetical example lowers the rate to the 13% average the Board cites, the disparity between the standard example and what the 30% cardholder faces just becomes that much greater, and more misleading.[25] While the degree of difference between rates applicable to purchases and those attributable to cash advances is not as pronounced, it can still be a 10% range or more. Further, it may be that that the typical rates charged by creditors subject to §1301(C) are higher than those typically charged by other creditors. Thus while a lower sample rate might be suitable under (A) and (B), it may not be appropriate under (C).

It is such disparities between the simplistic hypothetical sample and complex reality that led to our primary recommendation to delay while empirically evaluating the whole scheme prior to implementing it. However, in the absence of that, one possible avenue for the Board is, at a minimum to require a different, and higher hypothesized rate on periodic statements to borrowers who are subject to a penalty rate. We do not believe that a periodic statement should contain both examples. It should not be that difficult operationally to implement a sorting program, as the creditor's system has already done such a sort to impose the higher rate on those accounts in the first place.

Q.63: Should the Board consider revising the account balance, APR, or "typical" minimum monthly payments used in non-credit card open-end accounts, such as HELOCs?

Given the much higher stakes in a home-secured loan, we strongly recommend that maximum relevancy be the goal of the hypothesized example. For those consumers who had (and still have) of over $10,000 - $15,000 (or higher) HELOCs at 20% - 24% from creditors subject to §1301(C), an example of a $300 balance at 17% is utterly meaningless, at best, misleading at worst.[26] The Board should determine what actual experience demonstrates are realistic account balances, interest rates and minimum monthly payments. In doing so, it should take into account major differences in the types of these products offered among various categories of creditors.

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[23] The average margin of the cash advance rate was 6.99% above the banks' purchase rates. Tim Westrich and Malcolm Bush, *Blindfolded Into Debt: A Comparison of Credit Card Costs and Conditions at Banks and Credit Unions*, pp. 9, 15 (Woodstock Institute, July, 2005).

[24] See *Plastic Safety Net*, *supra* note 9, at 36, note 8.

[25] It will take 154 months to pay off our survey average $8650 balance at the 25% average default rate, with 5% minimum monthly payments.

It is interesting to note that the Bankrate.com "paying the minimum" calculator does not permit entry of a 30% interest rate; 28% is as high as it currently goes.

[26] In addition to the extremely high interest rates on these accounts, the initial "draw" on the HELOC was typically near (or even over) the line limit, so outstanding balances are typically high.

Q.64: Should the statutory example refer to the minimum payment percentage as "typical," and if not, how should the disclosure convey to consumers that the example does not represent their actual account terms.

This is yet another example of how consumer testing, not lawyerly drafting, should determine disclosure content and format.

Q. 65: What calculation assumptions about balance calculation methods, grace periods, and residual interest should the Board use in developing formulae to generate the estimates available through the referred telephone number.

In the absence of specific information, the only value of hypothesized information about the shelf-life of open-end debt is to open the consumers' eyes about just how long that can be. Consequently, the assumptions should be either a) tailored to the specific creditor's practices, or b) if not tailored by creditor, then based on the "worst-case scenario.

Certainly the formula approach to generating the tables allows creditors maintaining their own system to utilize their own balance calculation method. A system maintained for multiple creditors can permit the input of the appropriate method for the relevant issuer. If it is not possible to tailor the system by creditor in the FRB and FTC-maintained systems, then we suggest that "worst-case scenario" assumptions be used.

Q.66-68:

*** What minimum payment formulae and APR information should the Board select for the estimates, or how should the selection decisions be made?**

*** Should different "typical" formulae be established for each type of account? Are there other approaches the Board should consider?**

*** Should creditors have the option of programming their systems to calculate the estimated repayment period using the creditor's actual formula**

Again, the question highlights doubts about the overall scheme. Testing a variety of assumptions within this scheme, but also against logical alternative approaches to the scheme as a whole, would provide information that would enable the Board to form recommendations for Congress for improvements that would be of considerable benefit to consumers, the industry, and the agencies involved.

We recommend that the creditor-maintained systems should be not only permitted, but *required* to use inputs from their own systems about minimum monthly payment formula, account balance calculation, the portion of the balance subject to each APR, and payment allocation methods. Furthermore, the most sensible thing to do – for all stakeholders -- is to put that individualized information automatically on the periodic statement, as we recommended in our comments of March 28, 2005.[27] Since the

[27] See CRL Comments, p. 24, (March 28, 2005). To avoid "information overload," the overall review of the periodic statement requirements, and a review of a variety of periodic statements actually in use, may suggest a segregation requirement similar to that for closed-end credit, or even a prohibition against

information necessary to make reasonable estimates is already in the creditors' systems, the compliance costs should not be prohibitive. (Also, many businesses periodically reformat and redesign their statements for reasons other than regulation.)

Indeed, one advantage to an FRB study which fully tests the 2005 amendment scheme against alternatives is that it could evaluate whether the automatic written individualized estimate is, over the long haul, actually cheaper than the on-going maintenance of these multiple telephone response systems,[28] while providing consumers with information that is actually relevant to their situation. It is entirely possible that a win-win solution lies outside the parameters of the 2005 amendments. Congress would undoubtedly be receptive to recommendations from the Board to authorize changes that benefit all the stakeholders.

Within the confines of the 2005 amendment scheme, we believe that it does make sense to differentiate among types of products for the agency-maintained telephone response systems. Banking regulators have driven the recent shift in minimum payment calculation practices. Given that, the "worst-case scenario" for the category of creditors subject to those regulatory guidelines may be a "better-case scenario" than for creditors not subject to those banking guidelines. Consequently, here, too, it makes sense to incorporate these differences in the agencies' systems, with each using the "worst-case scenario" assumption most likely for the category of creditors represented in the respective systems.

Q.69. Negative amortization.

If, as we suspect, the recent banking regulatory changes mean that it is primarily non-banking creditors where negative amortization is more likely to occur, then the differentiation discussed above may make this primarily an issue affecting accounts linked to the FTC system.[29] "Never" is the succinct answer to the anticipated horizon of a negatively amortizing account. And it is an important answer. Consumer testing is the only reliable way to determine what the appropriate guidance should be on this question.

Q.76 Disclosure to consumers about assumptions used in developing the estimates.

As with the negative amortization information, the end-users should provide that guidance to the Board. In our March 28, comments, (p. 24) we offered one possible suggestion which might be tested for key assumptions.

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including certain types of information (advertising, for example) on the front of a periodic statement. Compare Reg. Z, § 226.5(a)(1) to § 226.17(a)(1).

[28] It is possible that the creditors' real concern is not about the cost of implementing this system, but about potential liability for doing it wrong. That concern could be assuaged by the same means that exposure for other calculation requirements is bounded, such as guidance on day-counting assumptions for estimates, and tolerances. We also note that the FTC-maintained system is an added burden on its resources unlikely to be matched by an increase in appropriations.

[29] See note 4, above.

We also note that if creditors are required to use the formulae actually in place for all these component-factors, that cuts down on the universe of assumptions that may be important. More critically, it lets disclosures focus on those assumptions that are within the consumer's power to control. The consumer can control whether they add additional charges, or pay late. They can't control whether the creditor uses the two-cycle balance calculation method, or the low-rate-first payment allocation method.

Q. 70 – 75: Relating to multiple APRs, balances subject to multiple APRs, payment allocation methods.

Q. 80-82: Alternative approaches the Board should consider.

Once again, these questions appear to suggest that the approach taken in the 2005 amendments for the estimates is the most complex and least helpful approach. In our General Recommendation and in response to **Q. 66-68**, above, we urge an evaluation of whether a more effective and efficient system is to require automatic disclosure on the periodic statement itself of individualized estimates, derived using the relevant factors actually used by that creditor.

Q. 77 - 79: Standards to use in the option to provide the actual number of months to repay the outstanding balance.

As a practical matter, the "actual" number of months to pay-off at the minimum monthly payment is intrinsically an estimate. In the above discussions, we consistently recommend that assumptions to be used are those of the creditor's own system. This considerably narrows the distinction between "actual" and "estimate" for the creditor-controlled variables. The consumer- controlled variables exist irrespective of whether it is called an "actual" or an "estimated" number.

Using the approach we recommend, "actual" and realistically "estimated" disclosures converge. This is the preferable goal for consumers, and potentially a more efficient approach overall.

In this scenario, the terminology is not that important in terms of the information to be given to the consumer. It may be important, instead, for collateral reasons. As noted above, (see note 28), potential liability, rather than actual implementation costs, may loom larger in industry's calculation of compliance costs. As long as it is not used to undermine the fundamental purpose of providing useful, useable, and meaningful information, we believe that a tolerance for error is appropriate.

Q 83 – 84: What guidance should the Board provide on the location or format of the minimum monthly payment disclosures? Is a minimum type size requirement appropriate?

B. Introductory Rates:

<u>Q. 85: What model forms or clauses regarding introductory rate disclosures should the Board consider</u>? <u>Is a minimum type size requirement appropriate?</u>

One possible model clause or form for the minimum payment disclosure was submitted as part of CRL's March 28 comments. We also discussed how "clear and conspicuous" were not adjectives that readily come to mind in looking at open-end disclosures currently, and suggested broad guidelines to take into account while engaging in testing to see what would be meaningful, as well as clear and conspicuous to the users of these disclosures. *See generally*, CRL Comments, pp. 9-10 (March 28, 2005).

Most of the questions in the supplemental ANPRM relating to **B. Introductory Rate Disclosures, Q. 85 – 91,** and **C. Internet Based Credit Card solicitations, Q 94-96** also ask for information more properly sought through consumer testing than in the opinion of lawyers and lobbyists. We have earlier recommended that if the Board does not have the time to adequately test suggestions within the six months prescribed in § 1309, it should request a technical amendment delaying that deadline.

<u>Q. 87: What standards should the Board use to identify one APR in particular as the "first mention" to provide guidance on placement of the expiration date and "go-to" APR?</u>

<u>Q.88: Should all documents mentioning the introductory APR contain the required disclosures?</u>

We agree with the analysis offered by the National Consumer Law Center that "clear and conspicuous" requires that there be no room for making the "first" mention obscure, so that the limits to the teaser can also be obscure. The recommendations in NCLC's comments would preclude that circumvention.

For similar reasons, all documents on which the teaser rates appears should also include the disclosures, to assure it is meaningful and conspicuous.

D. Disclosures Related to Payment Deadlines and Late Payment Penalties

<u>Q. 99: Should creditors be required to credit payments as of the date they are received, irrespective of time?</u>

Yes. Furthermore, we agree with the NCLC comments that the system least susceptible to misuse is either to use the postmark date as the credit date, or a trigger date. If the postmark date itself is not used, the rule should require crediting the payment as of the earlier of the actual date received, or the post-mark date plus a specified number of days.[30]

[30] It is likely that the USPS has data on average delivery times. As a general rule, the postal service is as efficient and reliable as any other non-electronic delivery system. Except, of course, where mail has to be

Some attorney generals and regulators have had complaints from consumers that credit card issuers seemed to be purposefully delaying posting. [31] Consumers knew when they put the payment in the mail, but could not prove the date of receipt by the creditor. Creditors, perhaps dilatory, if not deceitful, sometimes try to invoke the popular mythology of a sluggish postal system to shift blame. However, some of those affected consumers noticed that the postal service seemed to get their other bills to their final destination in a timely fashion, as little as 2 – 3 days. To try to deal with the specific credit card problem, some consumers resorted to expensive means to give them proof of the date of receipt, such as certified mail, return receipt requested, or other special delivery methods which offer tracking systems.[32] A rule which limits such perverse opportunities for inefficient, or deceptive creditors is beneficial for consumers without penalizing efficient creditors.

Q. 100: Should the Board consider requiring that any increased rate that would apply to outstanding balances accompany the late payment fee disclosure on periodic statements?

In the absence of substantive reform to preclude application of penalty rates to prior balances, the disclosures should make it clear when it might.

Recently a "no-late fee" program has been advertised to consumers. But the late-payment- triggered penalty rate remains. And the financial hit caused by an on-going penalty rate can be greater than the one-time late payment. Consequently that advertisement of the "no late fee" program is misleading.[33] The form such a disclosure might take should be simply part of overall review for potential revamping of periodic disclosure requirements and consumer testing of language and formatting.

(In our earlier comments, we urged broader reform of penalty pricing generally. See CRL Comments, pp. 15-17 (March 28, 2005).)

E. DISCLOSURES REGARDING TAX CONSEQUENCES OF HIGH LTV LOANS

Q. 102: What guidance should the Board provide in interpreting when an "extension of credit may exceed the fair market value of the dwelling? Should

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routed first to an irradiation center, which we do not understand to be a source of delayed posting for loan payments.

[31] For example, Providian Bank was the subject of many consumer complaints, private actions, and state and federal regulatory action. The consumer response cited above reflects some of the consumer complaints to the Iowa Attorney General's office.

[32] In the mortgage- servicing context, we have heard of situations where that actually exacerbated the problem, because the creditors system routes special mail away from the billing site to other geographic locations, further delaying "receipt."

[33] See, e.g. Caroline E. Mayer, *No late-fee cards come with hidden twists*, Washington Post (November 15, 2005).

<u>disclosures be required if the new extension of credit combined with existing mortgages may exceed the dwellings fair-market value?</u>

<u>Q. 103: In determining whether a debt "may exceed" a dwelling's fair market value, should only the initial amount of the loan or credit line and the current property value be considered? Or should other circumstances, such as the potential for negative amortization be considered.</u>

As to the first question, yes, the disclosures should be required based on the combined LTV. Many debt consolidation mortgages are solicited and sold with a pitch to turn non-deductible credit card debt into tax-deductible home-secured debt. In some regions of the country, particularly outside the high-appreciation locales, a troubling amount of home equity debt is high- LTV. Some subprime lenders have offered 100% or higher LTV refinance and debt consolidation loans using a high-rate first lien and a higher-rate piggy-back second. (Some of the programs used HELOC seconds, at rates as high as 20 – 24%, others used high-rate closed-end seconds The prevalence of these overly high- LTV programs may have declined in the wake of regulatory actions in which they featured.[34])

This is of no small consequence for borrowers or communities. Empirical research is mounting that high-LTV products are inherently dangerous. High LTV is a product that correlates to a heightened risk of foreclosure. One recent study of subprime lending cites a 6.8% probability of default at 100% LTV, and a whopping 25.9% probability of default at 120% LTV. The study also finds that high LTV is more likely to cause a delinquent loan to end in foreclosure, rather than a "distress prepayment."[35]

In addition to looking to the combined LTV for purposes of this disclosure, we recommend that the board consider going beyond the current value, as well. On the one hand, inflated appraisals are increasingly becoming a concern, so that LTVs nominally under 95% may in fact be underwater. Combine that with HELOCs such as the one we've discussed earlier in these comments, where the balance is more likely to rise than decline, and the odds mount for the loan to cross the 100% mark. One option to consider is whether it any loan nominally at 90% LTV or higher at origination be one which "may exceed" a dwelling's fair market value.

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[34] The FTC action against Associates and the state actions against Household both looked, in part, at the operation of these "loan-splitting" programs.

[35] Michelle A. Danis and Anthony Pennington-Cross, *A Dynamic Look at Subprime Loan Performanc*e, pp. 3, 10 – 11, Federal Reserve Bank of St. Louis, Working Paper 2005-029 (May, 2005). (The paper talks in neoclassic terms of "ruthless default" theory of borrower behaviour. That seems a harshly judgmental term to use for a person who is in a "no way out" situation. The very fact of the high LTV loan closes off the escape options of refinance or sale most commonly used to get out from under an unsustainable debt.) For more general information on high LTV as a risk-factor for default, *see, e.g.* . Peter J. Elmer and Steven A. Seelig, *The Rising Long-Term Trend of Single-Family Mortgage Foreclosure Rates*, FDIC-Working Paper 98-2.

Given the inherent risk in high LTV mortgage debt, and a serious foreclosure problem in the subprime market, the tax warning is a very minimal response. However, it might at least marginally curb one of the deceptive hooks used in marketing the product.

Respectfully submitted,

CENTER FOR RESPONSIBLE LENDING
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Appendix A, follows: [See Q. 59]

Appendix A

National City.

EQUITY RESERVE℠ AGREEMENT – .. TIONAL HOME EQUITY
(Not to be Used for Lines Secured by a Texas Homestead)

Date: 1/03/2005 **Account No.:** [redacted]

You, the undersigned, are opening an Equity Reserve Line of Credit (Line) with National City Bank (Bank) and agree that the following terms and conditions will apply to your Line.

Line of Credit. Your Line is an open-end line of credit which you may use to obtain cash advances (Advances) from time to time for a period of 10 years (Draw Period). If you continue to meet Bank's then current credit and collateral value criteria, at Bank's discretion, Bank will either extend the Draw Period for one or more additional Draw Periods or Bank may refinance your Line on the terms then being offered by Bank for Equity Reserve Lines of Credit. If your Draw Period is not renewed or the Line refinanced, you may repay any outstanding balances during the Repayment Period as provided in the Payment section below.
The initial amount of your Line is $ 146,900.00 (Credit Line). You have the option anytime during the Draw Period of this Agreement to create Fixed Rate Partitions of all or part of your Line at a fixed rate and for a fixed payment. The Fixed Rate Partition (FRP) balance includes the partition advance fee. Any amount you repay on the Line and/or on an FRP will be again available to you on the Line until the end of the Draw Period. Bank may reduce the amount of your Credit Line under certain conditions described in this Agreement.

Advances. You may obtain Advances under your Line by issuing Equity Reserve checks and special FRP checks (Checks) supplied by Bank, or by way of any other Bank approved plan. Bank will charge your Checks directly against your Line. You may make arrangements for an Advance on your Line to pay off any FRP at any time by contacting Customer Service at the address or phone number on your statement. You should notify Bank when you need more Checks. The minimum FRP Advance that you can receive using an FRP Check is $5,000. FRP checks for less than $5,000 will be charged against your Line. You should also notify Bank immediately if your Checks are lost or stolen. (Please see the "Stop Payment Orders" section of this Agreement). Your statement will list Checks that have been paid, but the actual paid Checks will not be returned to you. You may request copies of paid Checks from the Bank, and a copying fee may be charged.
Bank may issue you a Card or Cards for use with the Line. Credit card access is not offered in Connecticut, New York and Texas and may not be offered in other states. The word Card can mean one or more credit cards or Automated Teller Machine (ATM) cards. You authorize Bank to issue you a Card for use with the Line. You may purchase goods or services from merchants who honor the Card. You may obtain Advances from Bank or any other financial institution that honors the Card. You may also obtain Advances by using a Personal Identification Number (PIN) for telephone banking or on-line banking Advances. Bank will charge all Advances to your Line. If you allow someone else to use your Card or PIN and you want to stop such use, you must let Bank know in writing. If he or she has a Card or PIN, you must return the Card with your written notice and/or request a new PIN. You must notify Bank immediately if your Cards or PIN are lost or stolen, or you believe that some person may be using your Card(s) or PIN without permission. You will not use your Line after notifying Bank of loss, theft or unauthorized use of your Card(s) or PIN. You will not be held liable for any unauthorized use of the Card or PIN after you have notified Bank of the loss or theft by phone at 1-800-533-6596 or in writing at National City Card Services, P.O. Box 4092, Kalamazoo, Michigan 49003. (Otherwise you may be liable, but not for more than $50.) Bank may terminate the use of your Card or PIN if you lose your Card or PIN two times or more in a twelve month period. Bank may also terminate the use of your Card or PIN if your new balance exceeds your Credit Line by 2% or if you are over limit for more than one billing cycle.

Bank will have no obligation to honor any Advance by any means if the resulting new balance of your Line would exceed your Credit Line; or after the Draw Period ends; or in the event of termination or suspension of your Credit Line under the conditions described in this Agreement, and upon Bank's request you will return Checks and/or Cards. Your Line may not be used for Internet lottery, betting or gambling transactions or for any illegal transactions.
Charges from foreign merchants and financial institutions may be made in a foreign currency. We will bill you in U.S. Dollars based on the exchange rate on the day we settle the transaction, plus any special currency exchange charges. In the case of VISA Accounts: The exchange rate applied to each such transaction is a (A) wholesale market rate or (B) government-mandated rate, in effect one day prior to the processing date, increased by one percent. Because of the special charges and possible differences in exchange rates between the time we settle and the time you initiated the transaction, the total charge for a foreign transaction may be greater than the cash advance or purchase at the time it was made.

Finance Charge for Line and Fixed Rate Partition Advances and During the Repayment Period.

a) Line Advances: Bank figures the finance charge on your Line by applying the periodic rate to the "average daily balance" of your Line. To get the "average daily balance", Bank takes the beginning balance of the Line each day, adds any new Advances including if applicable, the broker and processing fees, and other debits, and subtracts any payments or credits and unpaid periodic finance charges. This gives the daily balance. Then, Bank adds up all the daily balances for the billing cycle and divides the total by the number of days in the billing cycle. This gives the "average daily balance".
Advances are subject to finance charges from the date of transaction to the date payment is posted to the Line. The periodic rate of finance charge and the annual percentage rate are subject to change, based on the value of an index. The index in effect for each billing cycle shall be the "Prime Rate" of interest appearing in the Money Rates Table of The Wall Street Journal published on the first day of your Billing Cycle (or, if not published on that date, the last edition published prior to that date), rounded upward, if necessary, to the nearest .01% (Line Index).

The **ANNUAL PERCENTAGE RATE** is the Line Index plus 0.500 %. The **FINANCE CHARGE** for each billing cycle shall be computed at the annual percentage rate divided by 12. The current periodic rate of **FINANCE CHARGE** is 0.479 % per month, which corresponds to an **ANNUAL PERCENTAGE RATE** of 5.750 %.
The annual percentage rate and the periodic rate of finance charge may increase if the Line Index increases. In the event of an increase, the finance charge will increase and the minimum payment amount may increase. An increase or decrease in the annual percentage rate will result in a corresponding increase or decrease in the minimum payment amount.

b) Fixed Rate Partition Advances: Bank figures the finance charge on each FRP by applying the periodic rate to the "average daily balance" of the FRP. To get the "average daily balance", Bank takes the beginning balance of the FRP each day and subtracts any payments or credits and unpaid periodic finance charges. This gives the daily balance. Then, Bank adds up all the daily balances for the billing cycle and divides the total by the number of days in the billing cycle. This gives the "average daily balance"
Each FRP is subject to finance charges from the date of the transaction until paid in full. The periodic rate of finance charge and the annual percentage rate are determined and fixed on the business day the transaction posts to your Line. The index shall be the daily rate for 3 year Treasury notes with constant maturities for the 10th business day prior to the last business day of the calendar month preceding the month in which the transaction posts to your Line, rounded upward, if necessary, to the nearest .01% (FRP Index). The FRP Index can be found in the Federal Reserve Statistical Release H. 15 at www.federalreserve.gov/releases/h15.
The **ANNUAL PERCENTAGE RATE** is the FRP Index plus 4.250 %. The **FINANCE CHARGE** for each billing cycle shall be computed at the annual percentage rate divided by 12. The current periodic rate of **FINANCE CHARGE** is 0.616 % per month, which corresponds to an **ANNUAL PERCENTAGE RATE** of 7.390 %.

c) Both Line and Fixed Rate Partition Advances: In no event shall the periodic rate of **FINANCE CHARGE** be more than 1.50% per month or less than 0.25% per month and in no event shall the **ANNUAL PERCENTAGE RATE** be more than 18.0% or less than 3.0%. The annual percentage rate includes only interest and not other costs. Your monthly statement will disclose the applicable annual percentage rate for the billing cycle.

d) Repayment Period: Any outstanding Line balance and Other Charges will be converted to a Fixed Rate Partition balance on the last business day of your Draw Period and will be subject to finance charges for a Fixed Rate Partition as stated in subsections (b) and (c) above. The index value is the FRP Index on the 10th business day prior to the last business day of the calendar month preceding the month in which the Draw Period ends rounded as provided in subsection (b) above.

☆

Other Finance Charges. A broker fee **FINANCE CHARGE** of $ 500.00
A processing fee **FINANCE CHARGE** of $ 0.00
A Partition Advance fee **FINANCE CHARGE** of $50 for each Fixed Rate Partition used.

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☆ Actual amount obscured: #4,500 [redacted]

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Other Charges. In addition to finance charges. towing other charges will apply:

- An annual fee of $50 reflected on the monthly statement for the first billing cycle of each year of your Draw Period beginning with the 13th billing cycle, whether or not you obtain Advances under your Line. This fee is not refundable.
- A late payment fee of the greater of 10% of the unpaid minimum payment or $40, if Bank does not receive your minimum payment at the address shown on your statement within 10 days of the Due Date. Bank may charge an additional late payment fee for each billing cycle that your Line is past due.
- An over limit fee of $25 whenever you go over your Credit Line. Bank may charge an additional $25 for each billing cycle that you remain over your Credit Line.
- A returned payment fee of $25 if you make a payment on your Line which is returned to Bank unpaid because of insufficient funds, a closed account, stop payment, or any other reason.
- A returned check fee of $25 if you write a Check that Bank dishonors under the "Advances" section of this Agreement.
- A stop payment fee of $25 for the service of stopping payment on a Check and a $25 service fee for renewal of each stop payment order.
- An early termination fee of $ 350.00 if you close your Line within the first 36 months.
- A document request fee of $6 per copy for service of providing copies. Bank will not charge you for documents Bank is required to give you by law.
- Any real estate related closing fees due at the closing of your Line are reflected on the HUD1 settlement statement provided to you by the closing agent and which is hereby incorporated and made part of this Agreement by this reference.

Bank does not lose any of its other rights under this Agreement whether or not it charges late payment or over limit fees. The application of any fee shall not cure the default which initiated the fee.

Security Interests. Your Line will be secured by a mortgage (Mortgage) on your dwelling (Dwelling). If the Dwelling is your primary or secondary residence, you represent and warrant to Bank that at all times during the term of this Agreement your Dwelling, or a minimum of one unit of your multi-unit Dwelling, shall be occupied by you and shall not be used as rental property. Bank agrees to waive any security interest in the Dwelling to the extent it secures Advances which may be in excess of your Credit Line. You name Bank as loss payee and beneficiary of the proceeds of, and assign to Bank any unearned premiums of, all insurance connected with your Line. You must not adversely affect Bank's interest in the Dwelling by any action or inaction. You must keep the Dwelling in good condition, promptly pay all mortgages and other liens against the Dwelling, and promptly pay all taxes and assessments on the Dwelling. You must not sell or transfer title to the Dwelling without Bank's permission, or use the Dwelling for any illegal purpose.

Property Insurance. You must keep the Dwelling fully insured against loss or damage on terms which are acceptable to Bank to the extent permitted by law. You must carry flood insurance if required by federal law. **You may obtain property insurance or furnish existing property insurance from anyone that is acceptable to Bank provided the insurer is authorized to do business in the state or jurisdiction where the Dwelling is located or is an eligible surplus lines carrier.** You agree to furnish Bank with written evidence of such insurance, with Bank named as loss payee and proof of payment of insurance premiums. If you fail to do so, Bank may buy insurance to protect Bank's interest and add the premium cost to the unpaid balance of your Line, subject to the same finance charges as Advances against your Line. You assign to Bank the proceeds from any such insurance policies up to the unpaid balance of your Line. Bank may apply such proceeds, including any return of unearned premiums and payments for claims under such policies, to reduce the unpaid balance of your Line. You irrevocably authorize Bank as your agent and on your behalf to negotiate, settle and release any claim under your insurance and to submit insurance claims for you and to receive and sign your name to any checks or drafts or related papers obtained from insurance companies.

Tax Deductibility. You should consult a tax advisor regarding the deductibility of interest and charges on your Line.

Statements. Bank agrees to mail or deliver to you a monthly statement for each billing cycle at the end of which there is a balance which is a debit or credit balance of more than $1 or on which a finance charge has been imposed. The balance is the sum of all outstanding Advance(s), fees, payments, other credits, other charges and debits, and finance charge(s).

Payments. Your payments will be due monthly. You may pay the entire unpaid balance of your Line and/or your FRP(s) at any time. You are required to pay a minimum payment by the Due Date shown on your statement equal to the sum of the Line Minimum Payment and the FRP Minimum Payment for each FRP in use.

a) Line Minimum Payment: The Line Minimum Payment will equal the periodic finance charges that accrued on the outstanding Line balance during the preceding billing cycle as shown on each monthly statement (Interest Only Minimum Payment).

b) The FRP Minimum Payment is: A fixed payment amount that is sufficient to pay off the Partition Advance Fee, the balance and periodic finance charges for each FRP, if one hundred twenty (120) equal payments at the fixed rate applicable to that FRP were made. Any amount still owing after one hundred nineteen (119) billing cycles will be added to the final minimum payment due. Additional payments on any FRP may be made at any time but you will continue to be obligated to make the fixed payment for the FRP as long as any amount is still owing on the FRP. The amount of any reduction in principal from a payment on an FRP will become available to you on your Line once it is posted, until the end of the Draw Period. If your Draw Period is not renewed then access to the Line will not be available during the Repayment Period.

c) Repayment Period: The Minimum Payment may not fully repay the principal that is outstanding by the end of the Draw Period. If your Draw Period is not renewed for an additional term, during the Repayment Period you may continue to make scheduled payments on any Fixed Rate Partition balances outstanding at the end of the Draw Period until they are paid in full. Additionally, any outstanding line balance and Other Charges will be converted to a Fixed Rate Partition balance without a Partition Advance fee on the last business day of your Draw Period and will be subject to finance charges for a Fixed Rate Partition, and will be required to be repaid in one hundred twenty (120) equal monthly payments for balances of $5,000 or more; or sixty (60) equal monthly payments for balances of less than $5,000. Any amount still owing after one hundred nineteen (119) billing cycles or after fifty nine (59) billing cycle respectively, will be added to the final minimum payment due.

Payments will be applied in the following order: First, to each FRP on a first in-first out basis for all unpaid periodic finance charges and then to the FRP's principal balance in an amount necessary to amortize the FRP within its amortization schedule, then to all unpaid periodic finance charges on the Line, then to all Other Charges, then to the Line. For introductory and promotional offer balances, payments to the Line are applied on the basis of the lowest rate balance first to highest rate balance last. If there are no balances on the Line, overpayments are applied as a prepayment to the FRP(s) on a first in-first out basis. If there are no balances on any FRP or on the Line, overpayments are credited to the Line and returned upon request. In order to make additional partial prepayments to an FRP or to prepay an FRP in full without paying off your Line, you must contact Customer Service to make arrangements to do so.

Stop Payment Orders. We agree to honor a stop payment order against a Check when received from you within a reasonable time prior to payment. A stop payment order becomes effective after we have actually received the order and had a reasonable time to process it, and the order will remain in effect for thirteen months. Our acceptance of a stop payment order does not mean that the Check has not yet been paid, and we shall have no liability resulting from the payment of a Check before your stop payment order becomes effective. A stop payment order may be renewed for successive periods equal to its original period of effectiveness if we receive a renewal notice prior to the order becoming ineffective.

A stop payment order against a Check must accurately describe it as to date, number, amount, and payee, and must correctly recite your name and the Account number. You agree that it is current industry standard to process stop payment orders by means of computer technology. Accordingly, your failure to provide the exact identification of Account number and Check number in order to identify the Check to be stopped will result in the Check being paid if presented, and we will not be liable for such payment. Errors in your name or the Account number, or inaccuracies in the description of the number, amount, issue date or payee on your written stop payment order shall relieve us from any liability for any mistaken payment or wrongful dishonor. Any errors on our written acknowledgment to you of a stop payment order, must be reported by you in writing to our Customer Service Department within 10 calendar days of the written acknowledgment date. We shall not be liable for any mistaken payment or wrongful dishonor occurring after the 10-day period, unless errors or inaccuracies are so reported to us within the 10-day period.

Before we will release a stop payment order, our Customer Service Department may require the receipt of a written request, signed by you, requesting the withdrawal of the order.

In the event we recredit the Account for a paid Check, then you hereby assign to us all rights against third parties. You or any joint account holder may order a stop payment. You agree that we will not be obligated to reimburse you immediately upon notice of alleged wrongful payment; that it is your obligation to prove the fact and amount of damage suffered; and that in no case will we be liable for more than your actual damage.

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We shall not be liable for any damages unless we have failed to act in good faith and exercise ordinary care. You agree to indemnify us and hold us harmless from any and all expenses incurred or damages suffered by us in honoring a stop payment order.

To place a stop payment order, write to National City, Equity Reserve Stop Payment Department, 4661 E. Main Street, Columbus, Ohio 43251-0928.

Termination of Line. Bank can terminate your Line and require you to pay the entire outstanding balance in one payment if you breach a material obligation of this Agreement in that:

- You engage in fraud or material misrepresentation in connection with your Line.
- You do not meet the repayment terms of this Agreement.
- Your action or inaction adversely affects the collateral or Bank's rights in the collateral.

To the extent permitted by 11 USC 506, Bank shall be entitled to reasonable court costs and attorneys' fees for independent counsel that Bank hires (unless you are a resident of New Hampshire, in which case we may not recover our attorneys' fees from you). Interest after termination, whether prior to or after judgment by a court of competent jurisdiction, shall accrue upon the outstanding unpaid balance at the rate determined under this Agreement until such balance is paid in full.

Suspension or Reduction of Credit Line. Bank can refuse to make additional extensions of credit or reduce your Line if you breach a material obligation of this Agreement in that:

- The value of the Dwelling securing your Line declines significantly below its present appraised value for purposes of the Credit Line.
- Bank reasonably believes 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 under this Agreement.
- Government action prevents the Bank from imposing the annual percentage rate provided for or impairs the Bank's security interest such that the value of the interest is less than 120 percent of the Credit Line.
- A regulatory agency has notified the Bank that continued Advances would constitute an unsafe or unsound practice.
- The maximum annual percentage rate is reached.

If your Line is suspended and you have used any FRP(s) then at Bank's option Bank may terminate the FRP(s) and transfer any FRP balances to your Line. Bank will give you written notice of any such action and conditions for reinstating your credit privileges. Bank may reinstate your credit privileges when the conditions leading to suspension are cured to Bank's satisfaction. Bank may require you to request reinstatement of credit privileges when the conditions leading to suspension or reduction of your Credit Line no longer exist. An additional title examination and other documentation may be required to reinstate your Line, and any costs associated with reinstatement will be paid by you where permitted by law.

Change in Terms. Bank may change certain terms of this Agreement at any time by giving you 15 days prior notice:

- The index and margin used for this Line if the original index is no longer available.
- A change that you specifically agree to.
- A change that benefits you.
- An insignificant change.
- Other changes permitted by applicable law.

Any change in terms will apply to balances outstanding on the effective date of the change as well as to balances generated thereafter.

Other Provisions. You shall promptly notify Bank of any change in circumstances which has a substantial adverse effect on your credit. You will furnish Bank with financial statements in a form satisfactory to Bank as Bank may request from time to time. Bank may also require a title examination and/or appraisal from time to time, the cost of which will be paid by you where permitted by law.
If this Agreement is signed by more than one borrower, each of you may draw Checks on the Line or use the Cards, and each and every borrower is jointly and severally liable for all Advances and charges on the Line. Any of you may direct Bank to not make further Advances on the Line, however, reinstatement will only be made on the joint request of all of you.

Your rights in your Line may not be assigned. The Mortgage may not be assumed by a subsequent purchaser of the Dwelling. All fees paid to Bank are not refundable.

All of Bank's rights under this Agreement are valid to the extent permitted by applicable law. If it is determined for any reason that any part of this Agreement is invalid or unenforceable, this shall not affect the validity or enforcement of any other provision, and this Agreement will then read as if the invalid or unenforceable part were not there.

Bank may delay exercising any of its rights under this Agreement without losing them. We may accept late payments or partial payments without losing any of our rights. **If your payment is marked with the words "Paid in Full" or similar language, you must send your payment to National City, 6750 Miller Road, Brecksville, Ohio 44141, Locator No. 7107.** If your payment is made to any other address, we may accept the payment without losing any of our rights.

You understand that Bank is a national bank located in Ohio, and that Bank's decision to extend the Line to you was made in Ohio. Therefore, this Agreement and your use of the Line, Credit Line, and Checks, shall be governed by and construed in accordance with (a) Federal laws and regulations including but not limited to 12 USC § 85 and (b) the laws of Ohio, to the extent Ohio laws are not preempted by federal laws or regulations, and without regard to conflict of law principles.

The annual IRS Form 1098 will be issued only to the first borrower listed on this Agreement at origination and the designation of a borrower as first cannot be changed subsequently.
An electronic or optically imaged reproduction of this Agreement or any other document related to your Loan constitutes an original document and may be relied on in full by all parties to the same extent as an original.

You can change any term of this Agreement only in a writing signed by us.
From time to time, we may offer you special rates for balance transfer transactions or introductory or promotional offers on your Line. If we do, we will advise you of the annual percentage rates and finance charges associated with the special rate offer, how long they will be in effect, the balances to which they will apply, and other terms of the special rate offer. Any special rate offer will be subject to the terms of the offer and this Agreement.

Except as otherwise prohibited by law, Bank may provide to others, including but not limited to, consumer credit reporting agencies, information about our transactions and experiences with you. Also, Bank and its affiliates (collectively "National City") may share with each other all information about you for the purposes, among other things, of evaluating credit applications or offering products and services that National City believes may be of interest to you. Under the Fair Credit Reporting Act there is certain credit information that cannot be shared about you (unless you are a business) if you tell National City by writing to National City Corporation, Attention: Office of Consumer Privacy, P.O. Box 4068, Kalamazoo, MI 49009. You must include your name, address, Line (account) number and social security number.

You agree that you and Bank have an established business relationship, and unless otherwise prohibited by law, that National City may contact you to offer you products and services that National City thinks may be of interest to you. Such contacts are not unsolicited, and National City may contact you with an automated dialing and announcing device or by fax, email or other form of electronic communication and we may monitor telephone calls with you to assure quality service.

In this Agreement, the term "affiliates" means current and future affiliates of Bank, including, but not limited to, the following National City Corporation subsidiaries: National City Bank of Indiana, National City Bank of Michigan/Illinois, National City Bank of Pennsylvania, National City Bank of Southern Indiana, National City Home Loan Services, Inc., First Franklin Financial Corporation, National City Bank of Kentucky, Madison Bank and Trust Company, National City Mortgage Co. and National City Mortgage Services Co.

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[redacted]

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BR-3

You are hereby notified that a negative credit report reflecting on your credit record may be submitted to a consumer (credit) reporting agency if you fail to fulfill the terms of your credit obligations. If you believe that we have information about you that is inaccurate or that we have reported or may report to a credit reporting agency information about you that is inaccurate, please notify us of the specific information that you believe is inaccurate by writing to National City, P.O. Box 94982, Cleveland, Ohio 44101, Attn: 'Credit Bureau Disputes, Locator 7113.

NOTICES. The following notices are given by Bank only to the extent not inconsistent with 12 U.S.C. Section 85 and related regulations and opinions, and/or the choice of law provision set forth herein (with respect to which Bank expressly reserves all rights). You acknowledge receipt of the following notices before becoming obligated:

If the Dwelling is located in California: Lender may, at its option, declare the entire balance of the Secured Debt to be immediately due and payable upon the creation of, or contract for the creation of, any lien, encumbrance, transfer or sale of the Property.

If the Dwelling is located in Colorado: If your payments are received after the due date, even if received before the date a late fee applies, you may owe additional and substantial money at the end of the credit transaction and there may be little or no reduction of principal. This is due to the accrual of daily interest until a payment is received.

If the dwelling is located in Connecticut: Your initial Draw Period will be 9 years 10 months and cannot be renewed for additional draw periods.

If the Dwelling is located in Florida: FLORIDA DOCUMENTARY STAMP TAX IN THE AMOUNT REQUIRED BY LAW HAS BEEN PAID OR WILL BE PAID DIRECTLY TO THE DEPARTMENT OF REVENUE, AND FLORIDA DOCUMENTARY STAMPS HAVE BEEN PLACED ON THE TAXABLE INSTRUMENTS AS REQUIRED BY CHAPTER 201, FLORIDA STATUTES.

If the Dwelling is located in Maryland: We elect Subtitle 9, Credit Grantor Open End Credit Provisions, of Title 12 of the Commercial Law Article of the Annotated Code of Maryland.

If the Dwelling is located in Minnesota: If the amount of this Loan is $100,000 or more, we elect Minn. Stat. § 334.01.

If the Dwelling is located in Missouri: **Oral agreements or commitments to loan money, extend credit or to forbear from enforcing repayment of a debt including promises to extend or renew such debt are not enforceable. To protect you (borrower(s)) and us (creditor) from misunderstanding or disappointment, any agreements we reach covering such matters are contained in this writing, which is the complete and exclusive statement of the agreement between us, except as we may later agree in writing to modify it.**

If the Dwelling is located in New York: **YOU SHOULD CHECK WITH YOUR LEGAL ADVISOR AND WITH OTHER MORTGAGE LIEN HOLDERS AS TO WHETHER ANY PRIOR LIENS CONTAIN ACCELERATION CLAUSES WHICH WOULD BE ACTIVATED BY A JUNIOR ENCUMBRANCE.**

DEFAULT IN THE PAYMENT OF THIS LOAN AGREEMENT MAY RESULT IN THE LOSS OF THE PROPERTY SECURING THE LOAN. UNDER FEDERAL LAW, YOU MAY HAVE THE RIGHT TO CANCEL THIS AGREEMENT. IF YOU HAVE THIS RIGHT, THE CREDITOR IS REQUIRED TO PROVIDE YOU WITH A SEPARATE WRITTEN NOTICE SPECIFYING THE CIRCUMSTANCES AND TIMES UNDER WHICH YOU CAN EXERCISE THIS RIGHT.

If the Dwelling is located in North Dakota: **THIS OBLIGATION MAY BE THE BASIS FOR A PERSONAL ACTION AGAINST THE PROMISOR OR PROMISORS IN ADDITION TO OTHER REMEDIES ALLOWED BY LAW.**

If the dwelling is located in Oregon: **NOTICE TO THE BORROWER: Do not sign this loan agreement before you read it. The loan agreement may provide for the payment of a penalty if you wish to repay the loan prior to the date provided for repayment in the loan agreement.**

If the Dwelling is located in Texas: **THIS WRITTEN AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.**

If the Dwelling is located in Vermont: **NOTICE TO CO-SIGNER: YOUR SIGNATURE ON THIS NOTE MEANS THAT YOU ARE EQUALLY LIABLE FOR REPAYMENT OF THIS LOAN. IF THE BORROWER DOES NOT PAY, THE LENDER HAS A LEGAL RIGHT TO COLLECT FROM YOU.**

COPY RECEIVED. You agree to be legally bound to all provisions of this Agreement. You acknowledge receipt of a completed copy of this Agreement, including important information below regarding your rights to dispute billing errors ("Your Billing Rights").

[redacted] Bob Roe
TYPE OR PRINT NAME

X [redacted]
SIGNATURE

X
TYPE OR PRINT NAME

SIGNATURE

X
TYPE OR PRINT NAME

SIGNATURE

X
TYPE OR PRINT NAME

SIGNATURE

Address of Dwelling: [redacted]

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BR-4

National City® [redacted]

Date 1/03/2005

Equity Reserve Initial Advance Authorization

1. Check one:

   ☑ Yes! I have requested an initial advance from my Equity Reserve Line of Credit in the amount of $ ~~145,329.00~~ $145,270.00 [redacted]
   FOR TEXAS PRIMARY RESIDENCE PROPERTIES: The minimum advance amount is $4,000

   ☐ No, I'll wait for my convenience checks to arrive. I understand and agree that I will not have access to funds from my Equity Reserve line of credit until my convenience checks arrive.

2. Borrower must complete one or both of the options below if an initial advance is requested.
   If neither option is completed, the initial advance will be applied as a regular line advance.

   ☐ Apply $__________________ of the advance as a regular Line advance.

   ☐ Apply $__________________ of the advance as a Fixed Rate Partition (FRP) advance (minimum $5,000.00). FRP advances have a fixed rate and fixed payments for 120 months. (Note, this option results in higher monthly payments than a regular Line advance.)

[redacted] Bob Roe Type or Print Name	X [redacted] Signature
____________________ Type or Print Name	X____________________ Signature
____________________ Type or Print Name	X____________________ Signature
____________________ Type or Print Name	X____________________ Signature

IMPORTANT! IF THE AMOUNT OF THE INITIAL ADVANCE CHANGES, THE AMOUNTS ABOVE MUST BE REVISED AND INITIALED BY THE BORROWER'S. THE REVISION MUST BE FAXED TO THE NATIONAL CITY CLOSER, ALONG WITH THE REVISED SETTLEMENT STATEMENT.

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MORT .G .ROKERAGE BUSINESS CC TR.

[redacted]

(hereinafter called Borrower), employs [redacted]
(hereinafter called Business) to obtain a mortgage loan commitment (hereinafter called Commitment) within days from the date hereof and acknowledges that Business cannot make loans or commitments or guarantee acceptance into specific programs, terms or conditions of any loan. However, Business may issue a rate lock-in or commitment on behalf of a lender to the Borrower.

I. PROPERTY:
Address: [redacted]

Borrower's estimates of fair market value: $
Borrower's estimates of the balances on any existing mortgage loan: $

II. TERMS OF LOAN APPLICATION:
Loan Amount: $ 175,000 Interest Rate: 5.500 % Loan Term/Due In: 360 months / 360 months
Monthly Payment: $ 993.63
Loan Type: [x] First Mortgage [ ] Second/Junior Mortgage

III. MORTGAGE BROKERAGE FEE
Business, in consideration of the Borrower's agreement to pay a mortgage brokerage fee along with actual costs incurred in connection with this loan, agrees to exert its best efforts to obtain a bona fide mortgage loan commitment in accordance with the terms (or better terms) and conditions set forth herein. The Business and its associates or employees shall be held harmless from any liability resulting from failure to obtain said loan commitment. Borrower hereby agrees to pay the actual costs as estimated herein and Borrower agrees to pay Business a mortgage brokerage fee of $ for obtaining the commitment. Additionally, Borrower acknowledges that Business may receive additional compensation from Lender based on the mortgage program and terms Borrower has engaged Business to obtain in securing the commitment and that Business will receive a sum in range of % to % of the total loan amount. This additional compensation, the exact amount of which will be disclosed at the time of closing, is part of the total brokerage fee due Business. In no event will the brokerage fee, additional compensation included, exceed the maximum fee permitted by the applicable state law.

IV. APPLICATION FEE
An application fee is charged for the initial cost of processing, verifying and preparing your loan package to submit to a lender for commitment, and will be credited against the amount the Borrower owes if closing occurs. This fee is [x] Refundable [ ] Non-refundable [ ] Applicable to your closing costs at the time of the settlement of your loan. Business acknowledges the receipt of $ as an Application Fee.

V. DEPOSIT
Business acknowledge the deposit of $ will be used toward the costs incurred by the Business, or by third party, on behalf of Borrower, to pay expenses necessary to secure the mortgage loan commitment. Actual costs incurred by the Business for items listed on Good Faith Estimate are non-refundable, even if the mortgage loan commitment is not received. In the event of default by the Borrower, Business is authorized to immediately disburse from the deposit all sums then due Business or any third party. The disbursement is not a waiver of any other sums due Business by Borrower, as more fully enumerated herein. Money retained by Business as the deposit shall be returned to the Borrower, within 60 days of disposition of the loan, in accordance with the following:

(a) the services for which the money is expended are not performed.
(b) the services for which the money is expended are performed, but there is an excess amount that would be paid as brokerage fee but this commitment is not obtained.

VI. SERVICES TO BE PROVIDED BY MORTGAGE BROKERAGE BUSINESS
In consideration for Business earning its fee, the services to be provided by Business are: assembling information, compiling files and completing credit application for borrower(s), processing the application file including verifying of information received and ordering vendor reports, preparing and submitting the completed file for conditional loan commitment between borrower(s) and lender, and any incidental services necessary to obtain commitment including courier, express mail, photographs, and telephone toll charges.

[redacted] 11-14-04 [redacted] [redacted]
Applicant [redacted] Bob Roe Date Mortgage Brokerage Business License #

11/14/04
Applicant [redacted] Date By [redacted] Date

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BR-6

TRUTH-L ,, ING DISCLOSURE STA EM T

(THIS IS NEITHER A CONTRACT NOR A COMMITMENT TO LEND)

Applicants: [redacted]

Property Address: [redacted]

Application No: [redacted]

Prepared By: [redacted]

Date Prepared: 11/09/2004

ANNUAL PERCENTAGE RATE	FINANCE CHARGE	AMOUNT FINANCED	TOTAL OF PAYMENTS
The cost of your credit as a yearly rate	The dollar amount the credit will cost you	The amount of credit provided to you or on your behalf	The amount you will have paid after making all payments as scheduled
5.640 %	$ 185,387.62	$ 172,320.00	$ 357,707.62

☐ REQUIRED DEPOSIT: The annual percentage rate does not take into account your required deposit

PAYMENTS: Your payment schedule will be:

Number of Payments	Amount of Payments **	When Payments Are Due	Number of Payments	Amount of Payments **	When Payments Are Due	Number of Payments	Amount of Payments **	When Payments Are Due
		Monthly Beginning:			Monthly Beginning:			Monthly Beginning:
359	993.63							
1	994.45							

Early TIL disclosure

☐ DEMAND FEATURE: This obligation has a demand feature.

☐ VARIABLE RATE FEATURE: This loan contains a variable rate feature. A variable rate disclosure has been provided earlier.

CREDIT LIFE/CREDIT DISABILITY: Credit life insurance and credit disability insurance are not required to obtain credit, and will not be provided unless you sign and agree to pay the additional cost.

Type	Premium	Signature	
Credit Life		I want credit life insurance.	Signature:
Credit Disability		I want credit disability insurance.	Signature:
Credit Life and Disability		I want credit life and disability insurance.	Signature:

INSURANCE: The following insurance is required to obtain credit:

☐ Credit life insurance ☐ Credit disability ☑ Property insurance ☐ Flood insurance

You may obtain the insurance from anyone you want that is acceptable to creditor

☐ If you purchase ☑ property ☐ flood insurance from creditor you will pay $ for a one year term.

SECURITY: You are giving a security interest in: [redacted]

☐ The goods or property being purchased ☑ Real property you already own.

FILING FEES: $

LATE CHARGE: If a payment is more than 15 days late, you will be charged 5 % of the payment

PREPAYMENT: If you pay off early, you

☐ may ☑ will not have to pay a penalty.

☐ may ☑ will not be entitled to a refund of part of the finance charge.

ASSUMPTION: Someone buying your property

☐ may ☐ may, subject to conditions ☑ may not assume the remainder of your loan on the original terms.

See your contract documents for any additional information about nonpayment, default, any required repayment in full before the scheduled date and prepayment refunds and penalties

☑ * means an estimate ☐ all dates and numerical disclosures except the late payment disclosures are estimates.

* * NOTE: The Payments shown above include reserve deposits for Mortgage Insurance (if applicable), but exclude Property Taxes and Insurance.

THE UNDERSIGNED ACKNOWLEDGES RECEIVING A COMPLETED COPY OF THIS DISCLOSURE.

[redacted] 11-14-04 Bob Roe [redacted]

(Applicant) (Date) (Applicant) (Date)

(Applicant) (Date) (Applicant) (Date)

BR-7

(Lender) (Date)

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