Home Equity Line of Credit (HELOC) FAQs

1. **How does a HELOC differ from a Home Equity Loan?**
   - **HELOC:** Provides a revolving line of credit with a variable interest rate. You draw funds as needed and only pay interest (during the I/O period) on what you actually borrow.
   - **Home Equity Loan:** Provides a one-time lump sum cash payout with a fixed interest rate and fixed monthly payments over a set term.

2. **What are the "Draw" and "Repayment" periods?**
   A HELOC is split into two distinct phases:
   - **The Draw Period (3-Year or 5-Year):** During this time, you can freely borrow money up to your credit limit.
   - **The Repayment Period (27 or 25 Years):** Once this phase begins, you can no longer withdraw funds.

3. **How is the payment calculated?**
   - **First 10-Years** – Interest Only Payment (regardless of draw period)
   - **Year 11-30** (or Year 11-20-depending on the Terms chosen by borrower) – Payment is amortized over 20 years (10 years).

4. **What does a 90-day lock-out period mean?**
   After closing, the borrower is not allowed to draw against their revolving portion of the line for initial 90 days (even if the line is replenished within the 90 days).

5. **What rate and payment do I qualify the borrower?**
   - **Qualifying rate**: Note Rate (Index + Margin) + 2% (For DSCR loans – Note Rate)
   - **Payment**: Amortizing principal and interest (P&I) based upon the total line amount, repayment term, qualifying rate

6. **Are Impounds required?**
   No impounds are required.

7. **Is Power of Attorney allowed?**
   POA is not allowed.

8. **How can the borrower request additional draws?**
   Borrowers can request subsequent draws via phone (disbursed via ACH) or by using provided checks. Complete details and instructions on how to initiate these draws will be included in the monthly billing statements sent by the servicer (SPS).

9. What fees are associated with a HELOC?

- **Early Termination Fee** - $500
- **Late Charge** - 5% (may vary depending on state requirements)
- **Over-Draft Fee** - $25
- **Annual Fee** - $100
- **Returned Payment** - $25

10. Does an Early Payoff (EPO) Penalty apply to HELOC?

Yes – if any HELOC is paid in full or paid down by more than twenty percent (20%) of the original line amount within one hundred eighty (180) days of the funding date, Broker must reimburse LenderMac all compensation received, plus an administration fee of $595.

11. Are Non-Trid Business Purpose (Non-Licensed States) loans allowed on HELOC?

Yes – Business Purpose (Non-Trid) loans are allowed.

12. Does 3-Day Right of Recission apply to HELOCs?

Yes – it applies to loans secured by the borrower's primary residence.

13. If the subject property is free and clear, is HELOC allowed?

No – we currently do not allow 1st lien HELOCs.

14. What Points and Fees tests are required on HELOCs?

HELOC is an Open-End credit and therefore are not governed by TRID or QM. However, Section 32 and HCM do apply to HELOCs and may limit points and fees.

15. How are Brokers compensated?

- Maximum compensation is 4.25% (combined) based on the initial draw amount.
- Both Lender- and Borrower-Paid compensations available.