

Plain English in Home-Equity Agreements

By George H. Hathaway

Home-equity agreements can be separated into the two types shown in Figure 1.

According to the 1997 *Home-Equity Lending Survey Report* of the American Bankers Association, "The typical HELOC/HEL borrower is a two-income family earning \$30,000 to \$70,000, is 35 to 49 years old, has 5 to 15 years' home ownership, has less than \$50,000 on the first mortgage balance, is using funds to consolidate debt, and owns a home worth \$50,000 to \$175,000."

The main differences between a home-equity line of credit and a home-equity loan is that the line of credit is not given out all at once and has a variable interest rate. Right now, interest rates are down. So most people are taking out lines of credit.

Lenders

Home-equity agreements are made by the four different types of financial institutions (lenders) shown in Figure 2.

Mortgage lenders are regulated and licensed by the Consumer Finance Division of the Office of Policy and Consumer Affairs of the Financial Institutions Bureau of the Michigan Department of Consumer & Industry Services, Town Center, 333 South Capitol, Suite A, Lansing, (517) 373-7279.

"Plain Language" is a regular feature of the *Michigan Bar Journal*, edited by Joseph Kimble for the State Bar's Plain English Committee. The assistant editor is George Hathaway, chair of the Committee. The Committee seeks to improve the clarity of legal writing and the public opinion of lawyers by eliminating legalese. Want to contribute a plain English article? Contact Prof. Kimble at Thomas Cooley Law School, P.O. Box 13038, Lansing, MI 48901. For information about the Plain English Committee, see our web site—www.michbar.org/committees/penglish.

Figure 1. Types of Home-Equity Agreements

General Type	Specific Type	Description
Open-end	Home-equity lines of credit (HELOC)	Lender approves a specific line-of-credit amount with a variable interest rate and takes a future advance mortgage for security, and homeowner gradually draws on the credit amount
Closed-end	Home-equity loans (HEL)	Lender loans homeowner a specific amount at a fixed interest rate and takes a second mortgage for security

Figure 2. Types of Home-Equity Lenders

Types of Financial Institutions	Specific Examples	Industry Trade Association
Banks	NBD, Comerica, Michigan National, Old Kent, First of America	Michigan Bankers Association, Don Booth, Executive Director (222 N. Washington Square, Lansing, 517-485-3600)
Savings and Loans (thrifts)	Standard Federal, First Federal	Michigan League of Community Banks, Robert Howell, Executive Director (200 N. Washington Square, Lansing, 517-371-2200)
Private Mortgage Companies	Capital Mortgage, Capstone Mortgage, First Alliance Mortgage, Guardian Mortgage, Rock Financial, Ross Mortgage	Mortgage Bankers Association of Michigan, Scott Faustyn, Executive Director (121 West Allegan, Lansing, 517-482-5000)
Credit Unions	Dearborn Federal Credit Union, Detroit Edison Credit Union	Michigan Credit Union League, Don Adams, Executive Director (20800 Civic Center, Southfield, 810-352-1250)

Number of Agreements

The 1975 Home Mortgage Disclosure Act (12 USC 2801 *et seq.*) requires lenders to report information about mortgage loans that they have made. Beginning in 1980 the Federal Financial Institutions Examinations Council compiled aggregate data for each metropolitan statistical area. This information is now available on the internet at www.ffiec.gov/hmda. The information

about the numbers of home-equity agreements is referred to as "home improvement loans, 1 to 4 family homes."

Line of Credit Documents

About a dozen different documents are typically associated with a line-of-credit agreement. These documents are shown in Figure 4.

Figure 3.
Number of Home Improvement Loans

Metropolitan Statistical Area	Number of Home Improvement Loans Originated in 1996
Detroit	21,646
Grand Rapids	7,455
Flint	3,144
Ann Arbor	2,708
Benton Harbor	1,085
Total	36,038

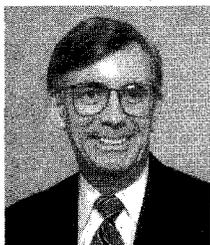
To increase user-friendliness and ease of handling, this package or set of documents should all be on standard letter-sized paper. But most are not. Furthermore, the two most important documents (the agreement and the mortgage) should be written in plain English—but most are not.

Standard Federal Equity-Line Agreement and Disclosure Statement

Standard Federal has an excellent set of home-equity agreement forms. All except one of the forms are written on standard letter-sized paper. Furthermore, most of the forms (including the main form—Equity-Line Agreement and Disclosure Statement) are written in plain English in a user-friendly format. An excerpt from this form is shown in Figure 5.

Conclusion

One of the goals of the State Bar of Michigan is public understanding of and respect for the legal profession. We can support this goal by promoting plain English in home-equity agreements. Lawyers can write home-equity agreements in a



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Figure 4. Documents Associated with a Line-of-Credit Agreement

Applications	Home-Equity-Loan Application Request for Joint Execution
Information	Information Regarding Bank-Equity-Line Loans Disclosure about Required Insurance Disclosure about Affiliated Business Arrangement Notice to Cosigner Notice of Right to Cancel
Agreement and Mortgage	Equity-Line Agreement and Disclosure Statement Equity-Line Mortgage (future advance mortgage)
Affirmations	Authorization to Release Status Information Affirmation of Non-Cancellation Affirmation of Insurance

Figure 5.

Excerpt from Standard Federal Equity-Line Agreement and Disclosure Statement

This document is your Equity Line Agreement ("Agreement"). It is a binding contract governing all of your Equity Line transactions. Please read all of the terms and conditions contained in the following paragraphs before signing this document.

In this document, "you" and "your" mean each of the persons who sign below as borrowers. "We," "us" and "our" mean Standard Federal Bank, a savings institution or our successors. The total amount of credit available to you at any time is referred to as your "Line of Credit." Each advance of funds, whether by check, cash advance or otherwise under your Line of Credit is referred to as a "Loan." "Collateral" means the real estate which you may have mortgaged as security for this Loan.

- 1. Loan Purpose.** You may use the proceeds of a Loan for any legal purpose, except: (a) the purchase of stocks or bonds, or (b) the making of any payments required under this Agreement.
- 2. Credit Limit.** Your Line of Credit is \$ _____. Each Loan will reduce your available Line of Credit. Each principal payment will increase your available Line of Credit.
- 3. Loan Requests.** Upon your request, we will make Loans to you in amounts up to your available Line of Credit. We do not have to make Loans to you if your Line of Credit is insufficient or if you are in default.

You may request a Loan through any of the following methods:

- a) by writing a "loan activator check" payable to anyone you choose. The minimum loan amount when writing a loan activator check is \$150. We will supply you with these special checks after you sign this Agreement.
- b) by using a Visa Equity Access card at any merchant displaying the Visa logo. There is no minimum loan amount when using your Visa Equity Access card. Daily transaction amounts involving the use of a Visa Equity Access card are limited to the lesser of your available line of credit or \$20,000. We will supply you with a Visa Equity Access card after you complete and return to the Bank a Visa Equity Access card application.
- c) You may request a loan in the form of a direct advance by signing and delivering to a teller at any of our branch offices an "Elective Loan Advance Request Form." The minimum direct advance is \$150.

We may, at our option, honor Loan requests made under any of the above methods which exceed your available Line of Credit.

clear style (reasonably plain English and user-friendly format) with content that meets all substantive legal requirements. The lawyers at Standard Federal have done this. We now want to find as many home-equity documents as possible from other

banks, savings and loans, private mortgage companies, and credit unions that are also written in plain English on standard letter-sized paper. We are especially interested in finding an equity-line mortgage that is written in plain English. ■