

PRIMEMO

AUGUST 6, 2008

TO: FPA ADVISORS
FROM: GEORGE COLLIS, CFP®, CDFATM -- MANAGING DIRECTOR, PRIMUS ADVISORS
RE: HOME EQUITY LINES OF CREDIT

Over the past several months we have observed the tightening of underwriting standards for new home equity lines of credit (HELOCs). We believe some of these steps are both warranted and prudent.

There is a growing move underway to take even more drastic action on the part of banks that we consider to be grossly unfair to customers. **Many large banks are currently freezing consumer access to available credit on their lines of credit across the board. This action is being taken regardless of the payment history or creditworthiness of the consumer.** This action also deprives these consumers of access to funds for which they have already paid documentary stamps at closing.

Many of your clients put lines of credit in place as contingency plans. Some put them in place in anticipation of future use to cover planned expenditures, e.g., paying for college tuition or a major acquisition. Those strategies should be revisited and possibly modified.

We recommend that you take this opportunity to review the situation with you clients. We think at least two possible courses of action might be considered:

1. Have clients take draws against their lines of credit NOW based on anticipated future usage. Tapping the entire line might make good sense in many situations. In the alternative, taking a draw for the amount of anticipated future usage might be in order. In this case we would recommend taking 120% of the anticipated amount, since future actual costs invariably exceed our estimates. As this situation returns to a more reasonable status later, unused funds can be applied to reducing the outstanding balance on the line.
2. Discuss with your clients the possibility of restructuring the current HELOC as a home equity loan (HEL), a closed end loan with a fixed interest rate, loan amount and payment, and no future draws. Again, in this scenario, the loan amount should take into account future needs.

In both of these scenarios there is additional cost. The spread between the rate of interest earned on newly drawn money placed on deposit and the periodic interest on the HELOC or HEL will be the cost of this strategy. It is the premium

paid for continued access to the money one has already arranged access to, which access is now being foreclosed by the banks. This may not be fair, but neither is the rest of life.

Our view is that more actions like this one on the part of banks should be anticipated. At this moment we are not clear what they will be. We can assume that they will represent attempts to insulate the banks from future risks, real or imagined, clearly defined and broadly imagined. The steps outlined above represent a small effort at risk mitigation on behalf of clients.

If you encounter situations that are complex or where alternative strategies are not immediately clear, please feel free to give me a call. I'll be happy to collaborate with you to develop a workable solution. I can be reached at 410-974-1316, or by email at gcollis@primusadvisors.com.