

Repayment options for Home Equity Lines of Credit

Columbia Credit Union offers two repayment options on Home Equity Lines of Credit.

1. The first option includes principal (the amount you borrowed) plus accrued interest. Home Equity Lines of Credit with this option are repaid at 1.5% of the outstanding balance owing or \$75.00 whichever is greater. The required minimum payment will change depending on the outstanding balance of the line of credit.
2. The second option is an interest only repayment during the draw period (credit and LTV requirements apply for this option). This option will not cover any of the principal amounts borrowed during the draw period. If you borrow \$10,000 and pay only the required interest due, at the end of the term you will still owe \$10,000.

Regardless of the minimum required payment on your Home Equity Line of Credit, you may choose to pay more. Many consumers choose to pay down the principal regularly as they do with other loans. For example if you purchase an automobile with your Line of Credit, you may want to pay it off as you would a typical auto loan.

Whichever payment option you do choose during the life of the draw period – whether you pay some, a little, or none of the principal amount of the loan – when the draw period ends, you may be required to pay the entire balance owed, all at once, or a significantly higher payment during the “repayment period”. You must be prepared to make this payment by refinancing it with the lender, by obtaining a loan from another lender, or by increasing your payment to the required 1.5% of the outstanding balance or \$75.00 whichever is greater. If you are unable to make these payments, you could lose your home.

Your plan has a variable interest rate, and your monthly payments may change, Assume, for example, that you borrow \$10,000 under a plan that calls for interest only payments. At a 10% interest rate, your monthly payments would be \$83. If that interest rate increases over time to 15%, your monthly payments would increase to \$125.

Similarly, depending on the change in the variable interest rate, payments made that cover interest and principal may affect how much is paid on the principal. The resulting outstanding balance will then affect the required minimum payment for the next period.

If you sell your home, you will be required to pay off your Home Equity Line of Credit in full immediately. If you are likely to sell your home in the near future, consider whether it makes sense to pay costs of setting up a Line of Credit. Also keep in mind that renting your home may be prohibited under the terms of your agreement.