FIRST FINANCIAL
CREDIT UNION

Understanding Your Home Equity Line of Credit

A Home Equity Line of Credit (HELOC) is a useful way to use the equity in your home as liquid funds. It is important to understand the stages of your HELOC and how to approach them in a way that promotes your financial well-being.

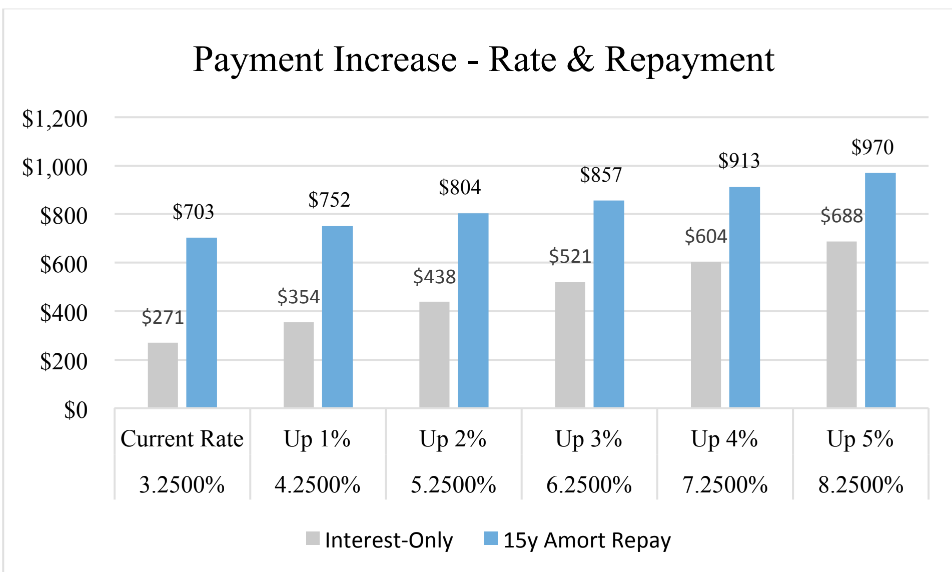
Approaching the End-of-Draw Date

Most HELOCs are set up in a way that only requires interest payments during the first stage, usually ten years, of the loan. After that, the loan will reset, and the payments are re-amortized to include the full payment. The new payment amount required can be much higher than the interest-only payments, resulting in payment shock.

How Principal and Interest Payments Impact You

During the draw period, if you only make the minimum payment or interest-only payment, the amount you owe remains unchanged. Once the end-of-draw date arrives, your required payments will include both principal and interest, which means your payment might increase significantly.

The chart below is an example of the impact on monthly payments at the end-of-draw date (and if rates were to increase).



There are a number of options available to you leading up to a HELOC reset, and by planning ahead and knowing your options, it will empower you to make the best financial decision.

Steps You Can Take Now to Prepare

1. Assess – Make a note of your end-of-draw date and your outstanding balance so you know where to start. Make sure you understand the terms of your HELOC and your repayment options.

2. Consider – What are your plans for your home? Think about how long you plan to stay in your home, any large purchases coming up, and the timing of any other major events that may impact your decision.

3. Plan – Think ahead about what you can afford, and how long the process may take. Call us for help determining the best repayment option for you, and estimating what you can afford. We are your financial partner, and we offer help every step of the way.

Glossary of Useful Terms and Definitions

Amortization - Paying off the outstanding balance of a loan by making equal payments on a regular schedule (usually monthly). The payments are structured so that the borrower pays both interest and principal with each equal payment.

Annual Percentage Rate (APR) – The annual cost of funds over the loan term expressed as a percentage rate. APR can be fixed or variable.

Draw Period – The specified time when borrowers can access money in their HELOC. The minimum payment during the draw period is interest-only.

End-of-Draw Date (Repayment Period) – The date at which the draw period ends on a HELOC and the beginning of the repayment period. At this time, the borrower begins to repay the borrowed amount for the predetermined term of the loan.

Equity – The difference between the current market value of a property and the principal balance of all outstanding loans.

HELOC – A line of credit using the borrower's home as collateral for a specified loan amount for which the borrower is approved.

Interest-Only Payment – A payment option in which payments are made only on the interest, usually during the first period of repayment on a loan, or the "draw period." None of the payment goes toward principal at that time, so at the end of this draw period, the loan re-amortizes to include both principal and interest in the required payment amount.

Maturity Date – When a loan with an outstanding balance (inclusive of any fees) becomes due.

Payment Shock – A type of risk that occurs when a scheduled payment increases, usually due to an introductory rate, the end of an interest-only payment period, or an increase in rate on an adjustable rate loan.

Principal – The borrowed amount still owed on a loan, not including interest.

Refinance – To re-organize existing debt by incurring a new debt that incorporates or pays off existing debt.