

Line of Credit / Home Equity Line of Credit FAQ

How does interest work for a Line of Credit?

Interest accrues daily but is “billed” monthly to your account. The payment information is stored on the system in what is called a “billing record”, and since this billing record is created at the end of the month, interest billed is for the previous month. Example: a bill created on 4/30/06 contains the interest accrued on the loan for the period of 4/1/06 through 4/30/06.

Why do I see an interest charge in my LOC history?

History provides details on each transaction and a running balance. The running balance in history is a “transactional balance”, not a principal balance. This means that the transactional balance information you see in history contains all elements of a loan, including principal, interest, and late fees. Interest is charged to the loan at the end of the month and added to the running balance. When the member makes a payment, the interest (and principal if enough funds are paid) is subtracted from the running balance.

Does the credit union compound interest now?

No, we do not compound interest. Just like our old system, the new system uses the principal balance of the loan to calculate the daily accrued interest.

How is the payment determined for a Line of Credit or a Home Equity Line of Credit?

The payment amount is calculated using a percentage of the principal balance as of the last day of the billing cycle (end of the month). The percentage used depends on the loan type:

- Line of Credit = 2.5% of the outstanding principal balance.
- Home Equity Line of Credit 80% and 90% Loan To Value = 1.2% of the outstanding principal balance.
- Home Equity Line of Credit 100% Loan To Value = 1.4% of the outstanding principal balance.

Much like the previous system, the payment amount is only recalculated when an advance is made on the loan, or it is paid off and a new amount is drawn on the loan. Otherwise, the payment amount remains the same for the life of the loan.

How do transfers work?

Just as on our previous system, payments can be made via automatic transfers. You may select from the following transfer frequencies:

- Monthly
- Monthly (End-of-the-Month)
- Semi-Monthly (1st and 15th only)
- Bi-Weekly (every 14 days)
- Weekly (every 7 days)

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How does payroll distribution work?

Just as on our previous system, you may choose to pay your loan via payroll distribution. Frequency of payment distribution depends on payroll frequency. Common payroll frequencies are semi-monthly, bi-weekly, or weekly.

Can I make extra payments on my Line of Credit?

Yes, but **only** after the full monthly payment has been satisfied and before the next billing cycle (end of the month). These can be set up as a **separate** fixed automatic transfer. The dates you can make these payments vary by when your automatic transfer or payroll distributions are set up. For example:

Example #1: Member has auto transfer loan payments, semi-monthly (1st & 15th), monthly pmt = \$100. This member can only make "extra" payments after the 15th, but before the end of the month.

Example #2: Member has auto transfer, monthly on the 27th, monthly pmt = \$100. This member can only make "extra" payments after the 27th, but before the end of the month.

Can my transfer be a fixed amount?

Yes, but **only** for amounts greater than or equal to the maximum-minimum payment. To calculate the maximum-minimum payment, take your credit limit and multiply it by the minimum payment percentage (as described above). Fixed payments can be made, but only if they are equal to or greater than this amount.

I satisfied my monthly payment for April, so why does my due date still say 4/30/06?

Due dates are not advanced until the next billing cycle. Once the new bill is created, the due date will advance. If a payment is past due, the due date will remain the same until payments are current.

I paid my Line of Credit to \$0.00 via CU Online, but now there's an interest charge showing for \$0.29. Why?

CU Online does not display a payoff amount. The balance that the member paid off did not include the interest accrued but not yet billed to the account. In order to fully pay off the loan, members will need to contact the credit union to get a correct payoff amount.