HOME EQUITY LINE OF CREDIT
FREQUENTLY ASKED QUESTIONS

What is a home equity line of credit?

A home equity line of credit (HELOC) is an open-ended revolving line of credit, enabling you to borrow funds up to your available credit limit. The line is secured by the equity in your home. Because it is a revolving line, it is the most flexible type of home financing available: as you make payments on the line, you free up your credit limit and increase the amount you can borrow.

How does a Naveo HELOC work?

- It must be secured by your primary or vacation home.
- Currently there is a special low introductory interest rate fixed for the first twelve months.
- After the introductory period, the interest rate becomes variable, changing monthly with the Wall Street Journal Prime Rate.
- A HELOC has 2 different phases, a draw period and a repayment period.
    - The draw period is the initial 10 years of the loan, when you have ongoing access to available funds up to the credit limit.
    - Once the draw period ends, the line enters the repayment period, a new ten-year period when you can no longer borrow new funds, and must start making monthly payments to reduce the principal balance on the line of credit.
- The minimum monthly payment amount during the draw period is interest due on the outstanding principal balance, with a minimum $50.00 payment.
- During the repayment period, you must make principal and interest payments based on the balance owed at the time the repayment period begins. The new minimum payment will ensure the outstanding balance is paid in full by the maturity date.
- Annual maintenance fee of $45.

How is my monthly HELOC payment calculated? When is it due?

Because your HELOC is based on a variable rate, your monthly payments will vary.

- During the draw period (the first ten years), when you can borrow and repay multiple times, your minimum monthly payment will be interest accrued based on the outstanding principal balance. Although only interest is due, we encourage you to pay more than the minimum amount due, in order to rebuild the equity in your home and free up available credit on your line for future borrowing needs.
- During the repayment period (the last ten years), your monthly payment will be a combination of principal and interest to repay the outstanding balance by the maturity date.

Payments are due on the 25th of each month.

How much can I borrow on a Naveo HELOC?

You can borrow as little as $25,000 or up to $250,000. The actual credit limit will be determined by:

- your credit history,
- the amount of available equity in your home, and
- your current monthly debt obligations.

The equity in your home against which you can borrow (the HELOC credit limit) is 80% of the appraised value of your residence, less the balance on your 1st mortgage balance and any other liens against the property.

Example: Value of Home $500,000.00 X 80% = $400,000.00 - 1st Mortgage $275,000.00 = $125,000.00 (Equity in your home)

What can I use a HELOC for?

A HELOC allows you to tap into your home's equity for cash to pay for any legal purposes. Here are some popular uses of HELOC borrowings:

- Home improvement or renovation
- College tuition
- Consolidate high-interest debt
- Pay off credit card debt

Can I use a HELOC to pay off my mortgage?

Yes, you can use a HELOC to pay off your mortgage. If your HELOC has a better interest rate than your mortgage and you can pay off the loan within the draw period before rates go up, then it could be a good option. However, keep in mind that the HELOC has a variable interest rate, whereas most regular mortgages have a fixed rate.

Can I use a HELOC for a down payment on an investment property?

Yes, you can use a HELOC for a down payment on an investment property. Just note that lenders look at your debt-to-income ratio (DTI, total monthly debt obligations as a percentage of gross monthly income) to determine if you qualify for new loans. Carefully consider whether you'll be able to meet the monthly payment obligation of a HELOC with the rental/investment income. If the DTI ratio is too high, you may be putting your home in jeopardy. A guideline suggested by Federal regulations for a manageable DTI is 43% or less.

How do you qualify for a HELOC loan?

There are a few requirements to qualify for a HELOC.

- You need to have sufficient equity in your home. This is measured by your loan-to-value (LTV) ratio, which is the ratio of what you owe on your mortgage divided by your home's market value. The maximum LTV is 80%
- A good credit score is also important to determine your eligibility and interest rate. The best rates are available if your credit score is 720 or higher.
- You need regular income sufficient to pay for your current monthly liabilities and the new HELOC. A good DTI ratio is 43% or less.

What credit score do you need to get a HELOC?

Credit scores will impact the interest rate you receive. Credit scores of 720 or higher are eligible for our best premium pricing. Standard pricing will apply for credit scores between 700-720. For scores below 699, a higher rate may apply. Even if you have had credit history problems, you may still be able to qualify for a HELOC depending on your financial situation and other criteria, but the interest rate may be higher.

How can I apply for a HELOC?

When you are ready, you can apply online, in person or by phone at 617-702-5142.

What documents will I need to apply for a HELOC?

Please see our Home Equity Line of Credit Application Documentation Checklist.

Does a HELOC require an appraisal?

Yes, in most cases we require a drive-by appraisal, which does not require an inspection of the interior of your home. The appraisal determines the amount of available equity and helps us establish a credit limit for your HELOC.

Are there closing costs with a HELOC?

Closing costs vary with each application, and include fees for a credit report, a flood certification, an appraisal, document preparation, title search and recording charges at the local county registry. Generally, the closing costs are less than $700. Naveo offers a no-closing-cost option, which requires a minimum HELOC credit limit of $25,000 and a minimum initial advance of $15,000.00 within the first 90 days. If you pay off and close the HELOC within the first 36 months, you will need to repay those closing costs.

How long does it take to close on a HELOC?

It varies depending on your situation. Generally, it will take between 2-4 weeks to close a HELOC once you have submitted your application and the required supporting documents.

Do all the property owners need to be on the loan?

No, not all owners need to be obligated on the loan. However, everyone listed on the deed must sign off on the mortgage and be present at the closing.

How soon after closing can I access my line of credit?

After closing, you have three business days under federal law to cancel this new loan. This three-day period is called your "right of rescission" and it must pass before you can access HELOC funds. After your right-of-rescission period is over, funds can be disbursed, usually on the fourth business day after closing. We will provide you with a set of special checks that you may use to take draws on your HELOC. Each draw must be for at least $500.

Does a HELOC affect your credit score?

Yes, a HELOC is listed on your credit report. Like any credit card or loan, a HELOC may affect your credit score if it is not paid on time. Credit scores are determined, in part, by how much of the HELOC is used and the payment history, so it's important to make your payments on time.

Is HELOC interest tax deductible?

Tax-deductible rules are complicated and vary by circumstances. We recommend you consult your tax advisor for more details.

Can I refinance a HELOC?

Yes, you may be able to refinance your HELOC depending on your financial situation.

Can I increase my HELOC limit?

No, the HELOC limit cannot be increased. However, you may be able to refinance your current HELOC into a new HELOC with a higher credit limit, provided you meet qualifying criteria.

Can I have my draw period extended?

Normally, at the end of the ten-year draw period you must start making principal-and-interest payments and can no longer borrow new funds on the HELOC. If you meet current credit criteria, you may be able to refinance your outstanding balance into a new HELOC or mortgage loan. In some limited circumstances, we may be able to extend the draw period in a process similar to establish a new HELOC.

Can I change the interest rate on my HELOC from a variable to a fixed rate?

No, our home equity line of credit does not have a conversion option; however, you may be able to refinance the HELOC into a fixed home equity loan.

What makes a HELOC an attractive financing option?

Interest rates for HELOCs are typically lower than other forms of credit, such as personal loans or credit cards. Because your home is used as collateral, you reduce the risk to the lender, and therefore qualify for a lower interest rate. A lower rate means a lower cost to you. The interest you pay on a HELOC may also be deductible on your income tax return; consult a tax professional to determine if that will be true in your circumstances.

Which is better: HELOC or a Home Equity Loan?

Both are similar in that you are borrowing against your home’s equity and your rate is probably lower than rates with other types of personal loans. The best option depends on your borrowing needs and your level of comfort with the risk of changing rates.

- A HELOC is a credit line: you borrow what you need up to your approved credit limit, and make payments based on how much you have borrowed. When you pay down your balance, you then have more money available to spend again if necessary. You can use one

HELOC to meet many different borrowing needs over a ten-year period, so you won't need to go through the application process each time you need to borrow new funds. Interest rates are variable, so they may increase during the life of the HELOC. Your payment can change every month, either because the balance changes (increases if you spend more; decreases if you pay down what you owe) or because the interest rate changes. A HELOC is a good solution if you expect to have multiple borrowing needs over the next ten years, and if you don't mind the risk of changing interest rates and monthly payments.

- With a fixed rate home equity loan, all funds disburse at once when the loan term starts, your interest rate and monthly payments do not change, and you cannot access any additional funds without refinancing. There is no risk from changing interest rates or monthly payments. A home equity loan is a good solution if you want funds for just one immediate purpose, don't expect to need more money in future years, and don't like the risk of variable interest rates or monthly payments.

Which is better a HELOC or cash out refinance?

It depends on your individual financial situation.

A HELOC is a credit line that allows you to access cash for a period of time. A cash out refinance allows you to refinance your mortgage, giving you a lump sum of cash when you get the loan. The choice you make depends on your needs. Unlike a HELOC, a cash out refinance can provide the stability of a fixed principal and interest payment.

Can I get a HELOC on a rental property?

No. However we offer Commercial Lines of Credit secured by rental/investment properties. Those lending standards are different and interest rates higher. Please call us for further details on Commercial Lines of Credit.

What happens if I sell my house with a HELOC?

When you sell your home all liens or mortgages including your HELOC must be paid in full at closing. That is normally done by the closing attorney for the buyers.

Can I make additional principal payments to pay down HELOC?

Yes, you may make additional principal payments to pay down your HELOC.

Can I pay off a HELOC early?

Yes, you can pay off a HELOC early. If you choose to pay off what you have borrowed early, you can either close the HELOC permanently, or keep it open until you need additional money. If you want to keep the HELOC available for future borrowings, you can pay the balance down to zero, but keep it open for the future.

How can I close my home equity line of credit?

Follow these steps to close your line of credit:

1. Request a payoff quote by calling 617-702-5133 or by written request via mail or fax. Make sure to include your full account number, name, address and signature.
2. We will need written authorization to close your account.
3. Payoff will include all amounts due on your account (including principal, interest, charges, lien release and/or other fees). Payoff must be made with secured funds (such as a cashier's check) sent to the address below; or you can come in to one of our branches to payoff and close your account.

Regular and Overnight Mail:

Naveo Credit Union
Payoff Department
493 Somerville Avenue
Somerville, MA 02143

Fax: 617-547-3451

What is a lien or mortgage?

A lien or mortgage is a legal term for an attachment to your property that limits your ability to sell it, mortgage it, or change legal title to it. The lien also allows the lender to take legal title to the property and to sell it if you default on the loan that is secured by it.

What is a second lienholder?

A second mortgage is a lien on a property that is subordinate to a more senior mortgage. The second mortgage falls behind the first mortgage with respect to legal rights to the property. This means second mortgages are riskier for lenders and thus generally come with a higher interest rate than first mortgages.

What is the difference between interest rate and APR?

The interest rate is the simple cost to borrow the money disbursed in the loan, usually paid as part of the monthly loan payment. The APR (Annual Percentage Rate, a term defined by Federal law) is the total cost of the loan over its life, and includes not only the interest but also other charges associated with the loan, including some closing costs, points and fees.