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What is a loan extension and how does it work?

In general, a loan extension will allow you to skip a certain number of immediate payments—which, while not set in stone, is typically just one—and add them onto the end of the loan. In most cases, the maturity date of the loan is then extended by the number of postponed payments. It's important to understand that while you may not have to pay during the brief reprieve period, you're still going to be accruing interest daily. Every lender will have different criteria, but you'll probably need to show them that your situation was temporary—for example, if you had a significant, one-time medical expense or a major car repair. You will also need to show a lender that you are willing and able to stay on track after the resumption of payments begins.

Many lenders will require that you have a history of on-time payments to even consider a loan extension and/or have policies that limit the number and frequency of extensions you can receive during your loan. Some charge fees for extensions, ranging from a percentage of your outstanding balance to a flat fee. Be sure to ask your lender if there are any fees before agreeing to an extension. Ultimately, loan extension decisions are at the discretion of the lender.

Finally, it's important to understand that a loan extension is not the answer for everyone. But it is a possibility for someone seeking relief after a short-term financial hardship—because most of us face a bobble every now and then.

Southwest Montana Community Federal Credit Union will again be offering Holiday extensions beginning November 15, 2024. Contact a loan officer to see if you qualify.