



NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

GC/JT:SS
4650
JAN 13 1987

Office of General Counsel

Mr. Bill Warren
Treasurer/Manager
Baker Employees Federal Credit Union
600 North Broad Street
Phillipsburg, New Jersey 08865

Dear Mr. Warren:

This is in response to your letter of October 17, 1986, in which you raised several questions regarding repayment of loans.

You stated in your letter that the Baker Employees Federal Credit Union (FCU) enters into loan agreements that provide for payments on loans to be made on the first day of each month, in a stated amount of money, and for a stated number of payments. You asked whether it was permissible for the FCU to allow its members to substitute weekly or semi-monthly repayments for the monthly repayments required by the loan agreement. The weekly or semi-monthly repayments, when combined, equal the amount of the single monthly repayment, and are made in the month before the single monthly repayment is due.

Nothing in the FCU Act or the NCUA Rules and Regulations would prohibit the FCU from permitting its members to substitute weekly or semi-monthly repayments for monthly repayments. In essence, by making weekly or semi-monthly repayments as described above, a member is prepaying part of his loan, i.e., making a payment before he is contractually obligated to do so. Section 107(5)(A)(viii) of the FCU Act (12 U.S.C. §1757(5)(A)(viii)) permits a borrower to repay his loan, in whole or in part, prior to maturity.

Your second question was whether the FCU was guilty of discrimination and preferential loan treatment because it did not actively inform members that they could substitute weekly or semi-monthly loan repayments for a single monthly repayment, but only provided this option if a member requested it. You were particularly concerned about this issue because, of the seven members who have selected the option, three are FCU employees, and one is the FCU President.

Section 701.21(d)(5) of the NCUA Rules and Regulations states in part that the terms of any loan made to an official shall not be more favorable than the terms and conditions for comparable loans made to any other credit union member.

FOIA 1012 Part C B

Mr. Bill Warren
JAN 13 1987
Page Two

We question whether permitting the FCU president and employees to change their repayment schedule as described above constitutes the granting of a "more favorable" loan term as it simply permits these members to prepay a portion of their loan, which is expressly permitted by the FCU Act. Moreover, as the repayment option is available to all members, it is not the type of preferential treatment prohibited by the NCUA regulation. We would note that this regulation applies only to FCU officials, and not all FCU employees. Section 701.21(d)(2) of the NCUA Rules and Regulation (12 C.F.R. §701.21(d)(21)) defines the term "officials" as a member of the board of directors, credit committee, or supervisory committee.

Regulation B, 12 C.F.R. §202.1 et seq., determines whether a creditor is discriminating against a loan applicant in a prohibited manner. Permitting only members who request that their loan repayment schedule be changed as described above, and not informing all members that this option is available, is not the type of act prohibited by Regulation B.

Your final question was whether the FCU's board of directors should have been consulted before members were permitted to change their loan repayment schedules. Neither the FCU Act nor the NCUA Rules and Regulations require that an FCU's board of directors approve this type of change.

We hope this has been of assistance.

Sincerely,

(S)

STEVEN R. BISKER
Assistant General Counsel

JT:sg