



NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

February 16, 1988

GC/RD:sg
4650

Office of General Counsel

Gary J. Gianforti, Esq.
Mangione, Gianforte & Roisman
134 South Fitzhugh Street
Rochester, NY 14608

Re: Balloon Mortgage Loans (Your December 31, 1987,
Letter)

Mr. Gianforti:

You have asked whether a Federal credit union ("FCU") may offer a variable rate mortgage loan due and payable in full in twelve years or less but with an amortization period of greater than twelve years (commonly called a "balloon loan") where the property securing the loan is not the personal residence of the borrower. Such a loan is permissible, regardless of the type of property securing the loan.

The question you asked was a general one, and our response is without regard to the financial condition of any particular FCU. If an individual FCU abused its power to grant these loans to the extent that its financial health was threatened, NCUA might take action under its safety and soundness powers, 12 U.S.C. §1786.

Section 107(5) of the Federal Credit Union Act [12 U.S.C. §1757(5)] provides that an FCU has the power:

to make loans, the maturities of which shall not exceed twelve years except as otherwise provided herein. . . .

Section 701.21(c)(4) of the NCUA Rules and Regulations [12 C.F.R. 701.21(c)(4)], governing loans and lines of credit to members, provides:


The maturity of a loan to a member may not exceed 12 years.

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VOI I Part C (2) Balloon loans

Gary J. Gianforti, Esq.
February 16, 1988
Page Two

At this time, Federal credit union law does not regulate the amortization rate of loans -- only their maturity. The loans you describe, maturing in twelve years or less (though amortized over a longer period), are permitted.

Sincerely,

A handwritten signature in black ink, appearing to read "Timothy P. McCollum". The signature is written in a cursive style with a large initial "T" and "M".

TIMOTHY P. MCCOLLUM
Assistant General Counsel

RD:sg