



NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

September 7, 1988

Office of General Counsel

Gary Greenwald, Esq.
Reichelt, Nussbaum, Brown, Dukes & LaPlaca
P.O. Box 627
Greenbelt, Maryland 20770

Re: Secured Lines of Credit - File No. 88-121 (Your
July 25, 1988, Letter)

Dear Mr. Greenwald:

A Federal credit union ("FCU") may extend secured as well as unsecured lines of credit to its members. As with unsecured lines, an FCU should take care in extending secured lines of credit to assure compliance with the FCU Act, NCUA regulations, other Federal law, and, where applicable, state law. As a general matter, state law will control unless it would limit or affect: rates of interest and amounts of finance charges; terms of repayment; or conditions related to the amount or purpose of the line of credit, the type or amount of security or the relation of the amount of security to the amount of the line of credit, the eligible borrowers, or the imposition or enforcement of liens on the shares of borrowers or accommodation parties.

Analysis

Your basic question is whether an FCU may "issue a line of credit to a member that is secured by an airplane, boat, or luxury automobile at such terms as are negotiated by the parties, similar to the type of authority it has for unsecured lines of credit."

FOIA

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Section 107(5) of the FCU Act [12 U.S.C. 1757(5)] authorizes an FCU to:

make loans, the maturities of which shall not exceed twelve years except as otherwise provided herein, and extend lines of credit to its members, to other credit unions, and to credit union organizations

Section 701.21(c)(4) of NCUA's Rules and Regulations [12 C.F.R. 701.21(c)(4)] states:

The maturity of a loan to a member may not exceed 12 years. Lines of credit are not subject to a statutory or regulatory maturity limit. Amortization of line of credit balances and the type and amount of security on any line of credit shall be as determined by contract between the Federal credit union and the member/borrower.

Pursuant to Section 107(5) of the FCU Act and Section 701.21(c)(4) of NCUA's Rules and Regulations, then, an FCU may extend both secured and unsecured lines of credit to a member.

You also inquired as to the applicability of state law to an FCU's extension of a line of credit. Section 701.21(b)(1) provides that:

Section 701.21 is promulgated pursuant to the NCUA Board's exclusive authority as set forth in Section 107(5) of the Federal Credit Union Act (12 U.S.C. 1757(5)) to regulate the rates, terms of repayment and other conditions of Federal credit union loans and lines of credit (including credit cards) to members. This exercise of the Board's authority preempts any state law purporting to limit or affect:

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(i)(A) rates of interest and amounts of finance charges, including:

(1) the frequency or the increments by which a variable interest rate may be changed;

(2) the index to which a variable interest rate may be tied;

(3) the manner or timing of notifying the borrower of a change in interest rate;

(4) the authority to increase the interest rate on an existing balance;

(B) late charges; and

(C) closing costs, application, origination, or other fees;

(ii) terms of repayment, including:

(A) the maturity of loans and lines of credit;

(B) the amount, uniformity, and frequency of payments, including the accrual of unpaid interest if payments are insufficient to pay all interest due;

(C) balloon payments; and

(D) prepayment limits;

(iii) conditions related to:

(A) the amount of the loan or line of credit;

(B) the purpose of the loan or line of credit;

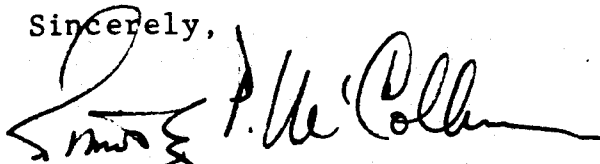
(C) the type or amount of security and the relation of the value of the security to the amount of the loan or line of credit;

(D) eligible borrowers; and

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(E) the imposition
and enforcement of liens on the
shares of borrowers and
accommodation parties.

Sincerely,

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

TIMOTHY D. McCOLLUM
Assistant General Counsel

JT:sg