



NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

November 22, 1989

Office of General Counsel

GC/MM:scg
SSIC 4650
89-1008

Ms. Claire Beaudoin
Digital Employees' Federal Credit Union
P.O. Box 130
Maynard, MA 01754-0130

Re: Second Mortgage Maturities (Your September 27,
1989, Letter)

Dear Ms. Beaudoin:

You have asked us whether a ten-year maturity on the repayment period of a second mortgage line of credit is in compliance with NCUA Rules and Regulations. It is. The NCUA Board has recently approved a change in the NCUA Rules and Regulations that extends the maturity on a second mortgage loan to twenty years.

BACKGROUND

Digital Employees' Federal Credit Union is considering a new second mortgage program which would offer members a line of credit with a ten-year maturity. After the ten-year draw period, the loan would convert to a repayment period of a fixed term.

ANALYSIS

We have reviewed similar lending programs in the past and have concluded that, for purposes of the limits on FCU loan maturity, this type of program is neither a line of credit nor a closed-end loan. Instead we have viewed this type of program as a hybrid or bifurcated loan, the first part providing for a line of credit, and the second part providing for a closed-end loan or "refinancing" of the line of credit.

FOIA
Vol. I, C, 2 Loan Maturities

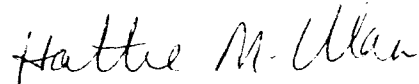
Ms. Claire Beaudoin

November 22, 1989

Page 2

There is no maturity limit on lines of credit. Section 701.21(c)(4) of NCUA's Rules and Regulations (12 C.F.R. 701.21(c)(4) provides ". . . Lines of credit are not subject to a statutory or regulatory maturity limit. . . ." On October 17, 1989, the NCUA Board approved a change to Section 701.21(f) of the NCUA Rules and Regulations (12 C.F.R. 701.21(f)) which limits the maturity on second mortgage loans to 20 years (prior to this change, the maximum maturity limit on a second mortgage was 15 years). The ten-year maturity of the repayment period under your program is consistent with the new twenty-year limitation on second mortgage loans in Section 701.21(f). It would have been permissible even before the change in the regulation.

Sincerely,



HATTIE M. ULAN
Assistant General Counsel