February 16, 2005

John McKenzie, President
Indiana Credit Union League
8440 Allison Pointe Blvd., Suite 400
Indianapolis, Indiana 46250

Re: Interest-Only Payments in a Home Equity Line of Credit Program.

Dear Mr. McKenzie:

Alonzo Swann, Region III Director, asked our office to respond to your question regarding a home equity loan product. You have asked if a federal credit union (FCU) may make a home equity line of credit loan with a ten-year draw period, during which a member is only required to make interest payments, and, at the end of the ten-year draw period, the line of credit closes and the member pays the outstanding principal and interest over a five-year repayment period. Yes, this is permissible.

The Federal Credit Union Act expressly permits FCUs to make loans to members in the form of lines of credit and provides for repayment and amortization in accordance with NCUA regulations. 12 U.S.C. §1757(5)(ix). NCUA regulations provide that the amortization of a line of credit balance "shall be as determined by contract between the Federal credit union and the member/borrower." 12 C.F.R. §701.21(c)(4). Thus, an FCU may enter into a loan agreement to receive interest-only payments for a line of credit. The loan product you described also provides that borrowers may pay down the principal of the loan during the ten-year draw period, although not required to do so. We note that an FCU may not charge any penalty for any prepayment of the principal. 12 U.S.C. §1757(5)(viii).

An FCU should consider whether interest-only payments are appropriate in its loan program based on a risk management analysis. NCUA Letter to Credit Unions No. 124, June 1991, and NCUA Letter to Credit Unions 99-CU-12, August 1999, both available on NCUA's website, www.ncua.gov, provide guidance regarding risks involved in loans secured by real estate.

Sincerely,

/s/

Sheila A. Albin
Associate General Counsel

OGC/CJL/SAA:bhs
05-0135
cc: Region III