

June 2, 1993

Sheri Pino-Derie
Vice President of Operations
Bay Gulf Federal Credit Union
P.O. Box 271344
Tampa, Florida 33688-1344

Re: Balloon Loans (Your May 5, 1993, Letter)

Dear Ms. Pino-Derie:

You have asked whether loans to refinance a balloon note may carry a maturity limit of twelve years. Such loans may have a maximum maturity of twelve years as long as the series of loan transactions reflect no intent to circumvent the FCU Act and NCUA's Regulations concerning loan maturity limitations.

BACKGROUND

Bay Gulf Federal Credit Union (FCU) has in its loan portfolio balloon loans on unimproved land and rental properties. These loans were originally written based on a 30 year amortization with a balloon date of either three, five, or seven years. Although the FCU no longer makes these types of loans, the FCU wishes to refinance the loans when they come due. The FCU wishes the new loans to have a twelve year maturity.

ANALYSIS

These loans may be refinanced with a twelve year maturity as long as there is no intention to violate the twelve year maturity restriction in the FCU Act and NCUA's Regulations. (See 12 U.S.C. 1757(5) and 12 C.F.R. 701.21(c)(4)) for these types of loans.) Furthermore, each refinanced loan must conform to the FCU's written loan policies. Please note the business loan requirements found in Section 701.21(h) of NCUA's Rules and Regulations (12 C.F.R. 701.21(h)) may be applicable for these types of loans.

One additional note. NCUA does not regulate the amortization rate of loans -- only loan maturity. The loans you wish to make are permissible if the loans mature within twelve years even if the amortization is greater than twelve years.

Sincerely,

Hattie M. Ulan
Associate General Counsel

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SSIC 3501
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