

TITLE 12 - BANKS AND BANKING
CHAPTER VII - NATIONAL CREDIT UNION
ADMINISTRATION

Organization and Operation of Federal Credit Unions;
Interpretation - Amortization of Long Term
Real Estate Loans

AGENCY: National Credit Union Administration ACTION: Interpretation

SUMMARY: Section 701.21-6(b)(2) of the Administration's Rules and Regulations (12 C.F.R. §701.21-6(b)(2)) requires that long term real estate loans be "amortized by substantially equal monthly installments sufficient to retire the loan at maturity." With the prior written consent of the Administration, loans may be amortized by other than substantially equal monthly installments. This document provides the Administration's interpretation of the phrase "substantially equal monthly installments."

EFFECTIVE DATE: Effective upon publication.

ADDRESS: National Credit Union Administration, 2025 M Street, N.W.,
Washington, D.C., 20456.

FOR FURTHER INFORMATION CONTACT: Thomas C. Buckman,
Examination Procedures Analyst, Office of Examination and Insurance, or John L.
Culhane, Jr. , Attorney Advisor, Office of General Counsel, at the address shown
above. Telephone numbers: (202) 254-8760 (Mr. Buckman); (202) 632-4870 (Mr.
Culhane).

SUPPLEMENTARY INFORMATION: With the advent of alternative mortgage
instruments, such as variable rate mortgages and graduated payment mortgages,
the Administration believes that it is necessary to state precisely the amount of
leeway allowed Federal credit unions in designing repayment plans by Section
701.21-6(b)(2) of the Administration's Rules and Regulations (12 C.F.R. §701.21-
6(b)(2)), which requires amortization by "substantially equal monthly installments."

The phrase "substantially equal monthly installments" is essentially the same as the
phrase "substantially equal payments" which appears in Section 701.21-2(a) of the
Administration's Rules and Regulations (12 C.F.R. §701.21-2(a)). Section 701.21-2
sets out the amortization schedule required for all loans except long term real estate
loans.

Both the phrase "substantially equal monthly installments" and the phrase
"substantially equal payments", are given the same meaning by the Administration,
as set out below. As a consequence of this interpretation, only standard mortgages
will comply with the Section 701.21-6(b)(2) requirement for amortization by
substantially equal monthly installments. Alternative mortgage instruments, such as
variable rate mortgages and graduated payment mortgages, may only be used with
the prior written consent of the Administration.

Interpretive Ruling and Policy Statements No. 793

Interpretation of the Phrase "Substantially Equal Monthly Installments"

The phrase "substantially equal monthly installments" in Section 701.21-6(b)(2) is essentially the same as the phrase "substantially equal payments" in Section 701.21-2(a) and both will be given the same meaning. The total of principal and interest for any one installment must be equal to the total of principal and interest for any other installment, with two exceptions. The total of principal and interest for the first installment and for the last installment may differ slightly from the total for any other installment. Taxes and insurance, may vary, as required, from installment to installment.

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LAWRENCE CONNEL
Chairman

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