October 12, 1999

Rick W. Burden, Vice President
Notre Dame Federal Credit Union
P.O. Box 7878
Notre Dame, IN 46556-7878

Re: Lines of Credit and Maturity Limits.

Dear Mr. Burden:

You have inquired whether a student loan program proposed by your federal credit union (FCU) is a line of credit and excluded from the 12-year loan maturity limitation under 12 C.F.R. §701.21(c)(4). The proposed credit program does not meet the definition of an open-end credit plan under Regulation Z and, therefore, is not excluded from the 12-year maturity limitation imposed by the Federal Credit Union Act.

The loan program proposes that: 1) applicants receive loans in an amount up to their first year's education costs (i.e., tuition, books, room and board); 2) loan proceeds are disbursed at least twice each year; and 3) applicants may apply during their second school year for additional funds to cover education costs for that year. Your letter stated that "[e]ach subsequent application and loan proceeds will be added together into one loan account." Payments on the loan begin after the applicant has graduated, and the loan is amortized over fifteen years.

FCUs may "make loans, the maturities of which shall not exceed twelve years except as otherwise provided herein, and extend lines of credit to its members." 12 U.S.C. §1757(5). The maturity of a member loan may not exceed 12 years, as provided in 12 C.F.R. §701.21(c)(4). However, this regulation establishes that "[l]ines of credit are not subject to a statutory or regulatory maturity limit." The amortization of a line of credit is determined by the contract between the parties.

NCUA has historically used the Federal Reserve Board's definition of an open-end credit plan in Regulation Z to determine if a loan should be classified as a line of credit. Regulation Z, 12 C.F.R. §226.2(a)(2), defines open-end credit as follows:

Open-end credit means consumer credit extended by a creditor under a plan in which:

1. The creditor reasonably contemplates repeated transactions;
2. The creditor may impose a finance charge from time to time on an outstanding unpaid balance; and
3. The amount of credit that may be extended to the consumer during the term of the plan (up to any limit set by the creditor) is generally made available to the extent that any outstanding balance is repaid.

The proposed credit program requires an applicant to apply for the costs of school one year at a time. There is no preset credit limit covering all of the funds an applicant will eventually have access to while attending school. An application must be submitted for each additional extension of credit and there is a time limit for repayment. These limitations work to eliminate the revolving feature of open-end credit whereupon an applicant reduces indebtedness on the extension of credit before drawing on it again. As such, the proposed credit program could not be considered a line of credit and would be subject to the 12-year maturity limitation on member loans.

Sincerely,

Sheila A. Albin
Associate General Counsel

GC/CJL:bhs
SSIC 3500
99-0926