

June 2, 1997

Ron Ehrenreich, Treasurer
Syracuse Cooperative Federal Credit Union
723 Westcott Street
Syracuse, N.Y. 13210

Re: NCUA's Member Business Loan Regulation, Your March 26, 1997, Letter.

Dear Mr. Ehrenreich:

You have asked whether certain real estate loans that Syracuse Cooperative Federal Credit Union (the FCU) is making should be classified as business loans. The loans, as described below, are within the definition of a business loan provided in Section 701.21(h)(1)(i) of NCUA's Regulations.

The FCU's field of membership includes Eastside Neighbors in Partnership (ENIP), a nonprofit, tax-exempt organization. ENIP assists in renovating decrepit buildings to provide housing for neighborhood residents with low incomes. The renovated buildings are cooperatively owned by residents, and all of the voting members of ENIP are residents of the cooperative housing organization. The credit union makes loans to ENIP for renovation-to-permanent financing of the housing cooperative units. The loans are all secured by first liens on the one-to-four family residences that are the primary residences of ENIP members.

Section 701.21(h)(1)(i) defines a member business loan as "any loan, line of credit, or letter of credit, the proceeds of which will be used for a commercial, corporate, business investment property or venture, or agricultural purpose." Under Section 701.21(h)(1)(i)(A) a loan is exempt from the definition if the loan is "fully secured by a lien on a 1-to-4-family dwelling that is the member's primary residence."

The loans to ENIP are for a business purpose and must be defined as a business loan unless otherwise exempt. The loans are not within the exemption for one-to-four family residences because they are not secured by the primary residence of the borrower, namely, ENIP.

There may be an alternative method of granting these loans to avoid the requirements of the business loan regulation. It is our understanding that the major problem for your credit union in granting these loans in compliance with the business loan rule is the maturity limitation. A loan made for a business purpose and secured by any real estate other than a member's primary residence is defined as a member business loan and generally has a 12-year maturity limit. The FCU could grant a loan directly to members of ENIP, if they are members of the FCU, to purchase and renovate the property and

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have ENIP guarantee the loan. If the loan is structured in this manner, the member's

collateral is the primary residence and, if there subsequently is a repayment problem, then ENIP, as the guarantor of the loan, would be ultimately responsible for repayment. A loan program structured in this manner would allow the FCU to grant members of ENIP renovation-to-permanent financing loans secured by the housing cooperative units. If you decide to restructure your loan program in this manner, you should first consult with the region to address any safety and soundness concerns.

Sincerely,

Sheila A. Albin
Associate General Counsel

GC/MJMcK:bhs
SSIC 3501
97-0403

cc: Region I Director