

November 6, 2006

Gregory C. Hosmer, Attorney at Law  
736 Summit Avenue  
Philadelphia, PA 19128

Re: Member Business Loan Requirements for Constructing Boats.

Dear Mr. Hosmer:

You have asked whether a member business loan (MBL) for the construction of a boat is subject to the additional requirements for construction and development loans. Yes, a loan to construct a boat that will be used for commercial purposes must comply with the additional requirements in 12 C.F.R. §723.3.

NCUA rules define an MBL as a construction and development loan if the financing arrangement involves “acquiring property or rights to property, including land or structures, with the intent to convert it to income-producing property.” 12 C.F.R. §723.21. If a loan meets the definition of a construction and development loan, then a credit union must make the loan in compliance with §723.3.

The MBL requirements for construction or development loans apply to any commercial property or structure. You contend the rule is unclear in its applicability to boats because of the reference to “commercial or residential property” in §723.3. While the rule creates specialized standards for financing the construction of single-family residential properties by excluding these MBLs from the aggregate construction and development limit and the borrower equity requirement under certain circumstances, it does not restrict the applicability of the construction and development requirements only to residential properties or real estate.

If you have any further questions, please feel free to contact Staff Attorney Tonya Green or me at (703) 518-6540.

Sincerely,

/S/

Sheila A. Albin  
Associate General Counsel

OGC/MIG:bhs  
06-1025