

May 20, 1994

Bruce Croteau
Senior Vice-President
St. Mary's Bank
P.O. Box 990
Manchester, New Hampshire 03105

Re: Vacation Homes (Your May 4, 1994 Letter)

Dear Mr. Croteau:

You have asked whether a loan to purchase a vacation home not used for rental or investment purposes is a business loan. As discussed in more detail below, we believe that this is not a business loan.

ANALYSIS

The underlying purpose of the loan is the determining factor in deciding whether it is subject to the business loan rule. A "member business loan" is defined 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 except that the following shall not be considered member business loans for the purpose of this section: (A) A loan or loans fully secured by a lien on a 1 to 4 family dwelling that is a member's primary residence....

12 C.F.R. 701.21(h)(1)(i).

Since you have limited your inquiry to loans on second homes for vacation or recreational purposes, we believe these loans do not meet the definition of a member business loan.

Sincerely,

James J. Engel
Deputy General Counsel

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SSIC 3501
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