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The prize: small-business loan market



Journal Photo by Walt Unks

U.S. Sen. Kay Hagan, D-N.C., backs legislation to increase the amount that credit unions can offer in small-business loans.

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By Richard Craver | Journal Reporter

Published: January 13, 2010

The tug-of-war between banks and credit unions is growing taut, with small-business owners and Congress increasingly feeling the tension.

Federal credit unions are urging support for a bill allowing them to offer more business loans to help meet a need for new capital during the financial crisis.

However, some banking trade groups oppose the plan, saying that it would give credit unions an unfair competitive advantage and that credit unions lack a high level of expertise in managing business loans.

Truiant Federal Credit Union held a news conference yesterday with U.S. Sen. Kay Hagan, D-N.C., who supports the legislation, and six small-business officials in the Triad.

If Congress approves the request, it would allow federal credit unions to offer up to 25 percent of their total assets in business loans, compared with the current 12.25 percent.

For example, Truiant could provide up to \$325 million in business loans, compared with up to \$159 million now. Marcus Schaefer, the president and chief executive of Truiant, said that the credit union is 12 to 18 months away from reaching its current business-loan cap.

"Small businesses," Hagan said, "are the engines that drive the North Carolina economy, and they represent the best way forward for economic growth in a time when the No. 1 issue in all our minds is jobs, jobs, jobs."

"Accessing credit, even in challenging economic times, is paramount for them to play that role," she said.

The banking trade groups say that the credit unions' request represents a "have their cake and eat it, too" scenario.

They say that credit unions compete unfairly because they don't pay taxes and are not subject to "burdensome" state and federal regulations.

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Schaefer said that credit unions don't pay federal income taxes on profits because a credit union doesn't declare profits. Its income goes back to the membership.

"We very much oppose any increase in the business-lending authority for credit unions," said Paul Stock, an executive vice president with the N.C. Bankers Association. "Though less-publicized than the difficulty facing banks, credit unions in many parts of the country are foundering.... More than doubling the authority for credit unions, many of which have no expertise in this arena, is a recipe for repeating the catastrophic lending practices that led to the widespread failures in the thrift industry two decades ago."

John Radebaugh, the president and chief executive of the N.C. Credit Union League, said that approving the legislation would enable credit unions to provide another \$10 billion in business loans nationwide.

By comparison, a Treasury Department report released in November found the top 22 banks that received federal bailout money reduced their small-business loan balances by a combined \$10.5 billion during a six-month period in 2009. Three of those banks didn't make any small-business loans during that time.

"We know we play a small role compared with banks, but we believe our efforts would help some small businesses to stay alive or be in a better position to hire," Radebaugh said.

The managers of Xpress Logistics Inc. say they don't want to be pawns in the political chess game between credit unions and banks. They just want a financial institution willing to provide them with another loan so they can expand their Greensboro trucking company beyond 24 vehicles and 30 employees.

"We could double our business, even in this economy, if we had access to more money," said Richard Alston, the president of Xpress, which opened for business in 2002.

"We are a young company, and most of the major banks aren't giving out credit lines unless you secure them with assets, such as our homes and vehicles," Alston said.

"Truliant looked at our business plan in 2004 and took a risk on us with an unsecured credit line, and offered a better rate than the banks. With this cap on loans removed, they have told us they are ready to loan to us again."

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Posted by (usmc65) on 01/13/2010 at 06:05 am.

Wow, she's alive.

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Posted by (citizen) on 01/13/2010 at 07:02 am.

Maybe she offers her approval, but the fact is she is still in the pocket of banks. Also, this is the first thing she has made a statement about since being elected. Thanks to the CUs for forcing her to make a decision. However, she is still a yes person for the Obama administration and HCR, taxation, cap & trade, etc. I do not know if we can take another 5 years.

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Posted by (meenyt) on 01/13/2010 at 07:05 am.

Is that really Kay Hagan? I thought it was an ad for the "Wizard of Oz". This picture must have been taken a couple of years ago. She has been unavailable for at least a year now.

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1

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