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Credit unions fight cap on business loans

By David Ranii - Staff Writer
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Credit unions that offer business loans are facing a credit crunch of sorts.

Under federal law, credit unions have limits on how much money they can loan to businesses, depending on their size.

"We are a bit frustrated because we live under this cap," said Pete VanGraafeiland, vice president of business lending at Coastal Federal Credit Union, which is based in Raleigh and has 190,000 members.



Staff photo by Corey Lowenstein - Lisa Schmid is the owner of The Food Factory in Cary.

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Coastal, which last year made about \$100 million in business loans, has turned down more than \$30 million in loans during the past 90 days because it essentially has reached its lending limits, he said. Personal loans aren't subject to a cap.

Credit unions are pushing Congress to ease or eliminate the ceiling on business loans. In order to succeed they'll have to overcome the opposition from banks.

Credit unions already have an unfair advantage because they're nonprofit organizations and don't have to pay taxes, said Paul Stock, executive vice president of the N.C. Bankers Association.

"Business lending ... is the heart of what commercial banks do," Stock said.

Testimonials from business owners such as Harlan Nobles could shape the political battle.

Noble owns Comfort Wizards, a 15-employee heating and air conditioning sales and service business based in Garner. Noble, who started his business in February 2005, obtained a \$95,000 line of credit from Coastal Federal three years ago after his application was rejected by a bank because he lacked a sufficient track record.

Without that line of credit, said Noble, "we wouldn't be as big as we are. We might be a two- or three-man effort."

The ceiling on business loans, established by a law that took effect in 1998, is 12.25 percent of a credit union's total assets. The Credit Union National Association estimates that, if that cap were erased, credit unions across the country could loan an extra \$10 billion to businesses.

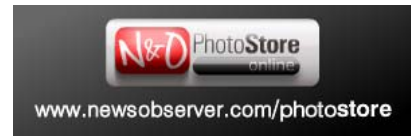
"The people that are beating on our doors are small-business owners whose lines of credit have been curtailed or canceled by other financial institutions," said VanGraafeiland. "It is kind of heart-rending."

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Last year credit union business loans rose 18 percent to nearly \$33 billion. The average loan: \$215,000.

About 27 percent of the more than 8,000 credit unions nationwide make business loans. Credit unions with a Triangle presence that make business loans include: Coastal Federal; Winston-Salem-based Truliant, which has offices in Cary and Mebane; and the Local Government Federal Credit Union, which is based in Raleigh.

Truliant, which began lending to businesses in 2002, probably won't hit its limit for 12 months or more, said Ginger Salt, senior vice president.

But, she added, "we don't want to be faced with turning [businesses] away because we have hit some arbitrary cap."

Credit unions contend that with the recession making it more difficult for businesses to obtain loans, the time is right to persuade Congress to do away with the cap.

"I think the prospects are the best they've been," said John Radebaugh, CEO of the N.C. Credit Union League.

But the banking industry is throwing its political clout behind the status quo.

The cap was imposed by Congress in 1998 to ensure credit unions focus on their primary mission, serving people of "modest means," said John Hall, a spokesman for the American Bankers Association.

"Banks are out there making small-business loans every day," Hall said. Moreover, he argued, a natural consequence of the recession is a slowdown in loan demand.

Stock, of the N.C. Bankers Association, also contended that today's economic climate demands "judgment and expertise at its highest" when it comes to making business loans -- making it precisely the wrong time to put more money in the hands of less-experienced credit union loan officers.

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