October 28, 1993

Peter J. Liska
McKenna, Liska & Leone
229 Broad Street
P.O. Box 610
Red Bank, New Jersey 07701

Re: Interest Rate and Maturity of Business Loans (Your October 7, 1993)

Dear Mr. Liska:

You have asked us what the limitations are on the interest rate and maturity of member business loans (Section 701.21(h) of NCUA's Rules and Regulations (12 C.F.R. 701.21(h)). For a federal credit union (FCU) the interest rate ceiling is 18% and the maturity limit is 12 years on any business loan.

Section 701.21(h)(2) requires that member business loans made by FCUs must be in accordance with Sections 701.21(a) through (g) of NCUA's Regulations to the extent that those sections are not inconsistent with the business loan rule. Section 701.21(c)(7)(ii)(B) currently authorizes an FCU to extend credit to its members at a rate not to exceed 18 percent. In general, except for certain real estate transactions which may have greater maturities (see Section 107(5)(A)(i) and (ii) of the FCU Act (12 U.S.C. 1757(5)(A)(i) and (ii)) and Sections 701.21(f) and (g) of NCUA's Rules and Regulations) and lines of credit (which are not subject to a maturity limit), FCU loans have a maturity limit of 12 years. (See Section 107(5) of the FCU Act and Section 701.21(c)(4) of the Regulations). The 12 year maturity limit is thus applicable to member business loans.

Section 701.21(h)(2)(i)(J) of the business loan regulation does not permit an FCU to deviate from the above cited interest and maturity limits. It simply requires that FCUs have written policies that address the appropriate interest rates and maturity of business loans in light of the risks posed by such loans.

Sincerely,

Hattie M. Ulan
Associate General Counsel

GC/MM:sg
SSIC 3501
93-1017

cc: Region II Director