

Looking to lend: Credit unions seeking authority to expand business loans

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Small-business owner Mike Cahill owns seven Valley car wash locations. He says he firmly supports the Small Business Lending Enhancement bill being considered in Congress, which would increase the percentage of their assets that credit unions can lend and increase the floor for small business loans from \$50,000 to \$250,000. (Photo by Josh Coddington)

Credit unions, which have been less affected by the recession than other financial institutions, are seeking the authority to make more business loans to their members. All they need is an act of Congress.

Arizona's 54 credit unions serve more than 1.5 million members with banking and financial services ranging from no-cost checking and saving accounts to mortgages, financial planning and business credit.

The federally-chartered, nonprofit credit unions did not jump on the subprime loan bandwagon, and although they have had some difficulties, by and large they've escaped the recession's most severe effects.

The credit unions say that they're ready to fill the gap created by the credit crunch and lend more to small businesses.

Mike Cahill, owner of the car wash chain Cobblestone Auto Spas, is one of many small-business owners who support giving credit unions more capacity to provide loans. He is a member of Arizona Federal Credit Union.

"We have had a very pleasant experience compared to the similar challenge facing traditional banks, he said.

The problem is that Cahill and other entrepreneurs are hitting a bank vault ceiling: Federal regulations limit credit union business lending (known as MBL, or member business loans) to 12.25 percent of the credit union's total assets. With more small-business owners in need of business credit to sustain or even grow their businesses and banks unable or unwilling to lend, they're turning instead to their friendly neighborhood credit union.

"Even the president has said that small businesses are not getting the credit they need," says Austin DeBey, vice president of governmental affairs for the Arizona Credit Union League. "He is looking to use \$30 billion of the TARP fund to help small businesses."

However, DeBey says, "Many small businesses looking for credit during the economic crisis have found that credit has dried up for all."

DeBey also notes that credit unions have met Arizona businesses' needs for about 100 years. Also, credit unions did not take TARP dollars, says DeBey; "We've been responsible" with shareholders' money, he says.

Credit unions across the nation have urged Congress to take action and raise the lending cap put in place in 1988. Sen. Mark Udall, a Democrat from Colo., sponsored S2919, the Small Business Lending Enhancement Act of 2009. The bill would raise the MBL cap to 25 percent of assets as well as increase the floor for small business loans to \$250,000 from \$50,000.

In January, credit union officials traveled to Washington, where they met with Arizona Sen. Jon Kyl, a Republican, and other legislators. In a statement released by the Arizona Credit Union League, the meeting went well, with Kyl expressing interest in the bill and its possible effects.

DeBey notes that several members of Arizona's congressional delegation, including Democratic Rep. Raul Grijalva, have come on board to support the legislation. Joe Katz, press secretary to Democratic Rep. Ann Kirkpatrick, said via e-mail, "While the Congresswoman is not an official co-sponsor of HR3380 (the concurrent House MBL expansion bill), she has signed a letter calling for the bill to be included in the FY 2011 budget and she is strongly supportive of this effort."

DeBay also says the legislation will help create jobs and build businesses without one dime of taxpayer money.

"We estimate that lifting the lending cap would create 1,300 jobs in Arizona and extend \$120 million in business lending," he says. In fact, the Arizona Credit Union League notes that the average MBL granted at Arizona credit unions is \$332,000, small by traditional bank standards, and the state's credit unions have loaned just 4.12 percent of their total assets to businesses to date.

On the other side are traditional banks, which oppose the legislation.

John Hall, spokesman for the American Bankers Association, says credit unions were created to serve the needs of people with modest means, and in exchange for tax-exempt status, the credit unions agreed to the cap in 1998. Hall also says many of the business sectors that are most in need of financing include home builders, who are "having a hard time getting loans."

He also says that in sectors where business loans are in high demand, "there are lots of people trying to obtain credit-worthy customers."

Hall says one reason banks are denying credit to business owners is that they must prove they have a diversified loan portfolio to regulators, and so they can't lend more than a certain percentage of assets to any one business sector. Finally, Hall says only 37 credit unions nationwide have hit their caps. "The vast majority are nowhere near the 12.25 percent cap," he says.

One credit union that is nearing its cap is Arizona State Credit Union. Paul Stull, Arizona State's spokesman, notes that his credit union would like to serve more of

its customers' business financing needs. He said both credit unions and banks can benefit from the increased business.

DeBey said some banks that have hit their own lending ceilings are actually referring their customers to credit unions. CUNA released a statement referring to a recent study by the Small Business Administration that found traditional banking institutions have decreased access to capital for small businesses. Conversely, the 16 credit unions in the state that extend MBLs have increased their business lending by nearly 500 percent to \$426.2 million, while traditional banks in Arizona have slashed business lending by \$4.1 million, a 30 percent decrease.