

# Inland Valley Daily Bulletin

## Credit unions push to lend more money

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As Congress debates a national jobs bill, Inland Empire credit union leaders say their industry has its best chance yet of getting key legislation passed to remove a 12-year-old cap on business lending.

The move would free up \$53 million in new lending to companies and small businesses across San Bernardino and Riverside counties, along with another \$2 billion for California and \$8 billion for the rest of the nation, according to Ontario-based California Credit Union League.

"And that's a conservative estimate," said Bob Arnold, senior vice president of governmental affairs with the league, a trade association serving almost 500 credit unions in California.

Arnold joins 4,000 industry insiders gathering in Washington, D.C., to lobby Congress this week on the issue, while discussing other legislative matters.

More than 100,000 jobs nationwide could be created, with at least 1,000 of those in the Inland Empire, Arnold said - a forecast that's hotly contested by the banking industry.

While credit unions argue the legislative push is about creating jobs, the banking industry isn't buying it.

"It's an issue of market share," said Keith Leggett, senior economist with the American Bankers Association in Washington, D.C. "They've decided to reposition their argument to reflect what's going on right now with the economy."

The unfriendly competition between the two industries goes back decades.

Credit unions, being nonprofit, don't pay income tax - one of the arguments banks used in 1998 to get a Congressional cap placed on credit union business lending.

In both good and bad economic times, credit unions pulled tooth and nail to have the lending restriction removed.

Now they're pulling even harder.

"There's going to be a much more stepped-up grass roots movement now," Arnold said.

Larry Sharp, CEO of San Bernardino-based Arrowhead Credit Union, says the industry needs to strike while the iron is hot.

"(If passed), this legislation may have been harder to get it through if the economy wasn't the way it is," Sharp said. "We've always had opposition from banks when going down this road."

Most economists agree the U.S. economy is recovering, but several small business entrepreneurs and corporations say they're starving for more credit so they can hire new employees and expand.

As the nation's unemployment rate hovers around 10 percent, the Inland Empire unemployment rate registered at 14 percent in December, according to California's Employment Development Department.

The proposed legislation would let a credit union lend up to almost 25 percent of what its total assets are worth. Right now the cap is 12.25 percent.

It would also change the definition of a business loan. Instead of \$50,000 or more, a business loan would be defined as \$250,000 or more. Companies could still get credit below the new amount, but it wouldn't be classified as a business loan.

"Business people are coming to credit unions because they're being turned down by banks," Arnold said.

Business lending jumped a combined 25 percent - about \$55 million - for a handful of Southern California credit unions between 2008 - 09, according to data released by Members Business Services, a San Bernardino-based underwriter owned by the league and various credit unions.

"Competition from the banks during this time was almost non-existent," said Scott Burger, CEO of Members.

Arrowhead Credit Union executives have consistently argued that lifting the business lending cap would bode well for the economy, effectively boosting its business lending from \$100 million to \$200 million.

But that's a long-term projection. Arrowhead, being undercapitalized by regulatory standards, wouldn't be able to lend more money immediately under that scenario, and neither would dozens of other credit unions flirting with failure.

Still, about 2,000 credit unions nationwide - out of 8,000 total - lend to businesses, and more than 300 have hit their cap restriction, Arnold says.

He says some credit unions who don't lend to businesses would probably start doing it if the legislation was passed.

However, the California Bankers Association has its own numbers.

Only 37 credit unions are butting up against the lending cap, according to Beth Mills, spokeswoman for the association.

"(The legislation) would have very little impact on lending to businesses," she said. "And a lot of businesses don't even have the capacity to expand. There's not a demand for that with the economy."

Mulls noted the "competitive disadvantage" banks have since credit unions don't pay income tax.

"If they want to expand their authority, they should look at changing their charters to becoming banks," she said.

Both Mills and Leggett said it's hard to say what the chances are of legislation being passed, especially since the banking industry has launched its own lobbying counterattack.

"If it gets into a jobs bill, it may be hard to stop it," Leggett said.

He argues that Congress must have a "clean" jobs bill before considering passing it.

"Anything you have in there that will be controversial will make the bill harder to move," Leggett said. "Expanding business lending powers (for credit unions) is controversial."

Meanwhile, the credit union industry is forging ahead.

"Banks have made defeating this credit union job creation legislation a top priority, which takes unmitigated gall," Arnold said. "This legislation has great long-term potential."