

Measure to Boost Credit Unions' Business-Loan Power Irks Banks

By John G. Edwards
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When Curtis Wells was establishing his recreational vehicle park in Boulder City in 1986, a local financial institution gave him loans to get going.

Since then, Wells has borrowed numerous times for the Canyon Trails RV Park and his former A&W root beer shop. He has never been late in making loan payments.

The 156-space RV park continues to operate at 100 percent occupancy during the winter and at 80 to 90 percent occupancy in the summer, he said. Curtis Wells started his Canyon Trails recreational vehicle Park in Boulder City with a loan from Boulder Dam Credit Union. Proposed legislation would raise the limit on business loans at credit unions with federal insurance to 25 percent of assets, up from 12.25 percent.

Wells is the kind of customer community bankers dream of, but he is committed to Boulder Dam Credit Union, which gave him his first loan and all the loans since. That makes community bankers unhappy because credit unions, as member-owned cooperatives, pay no federal taxes as banks do.

So, it's nosurprising that bankers are trying to kill the proposed Small Business Lending Enactment Act. The legislation would boost the limit on business loans at credit unions with federal insurance to 25 percent of assets, up from the 12.25 percent cap that has been in place since 1998.

Credit union leaders say the bill would increase lending to small businesses by \$10 billion and create 100,000 jobs without any expenditure of taxpayer dollars.

"This is a product that we're well prepared to handle and the country needs to do everything it can to put Nevadans back to work," said Bob Arnould, senior vice president of government affairs of the Nevada Credit Union League.

"We shouldn't leave something like this on the table," Arnould said, "because a few bankers want to protect their turf."

Credit union leaders from around the country will travel to Washington, D.C., on Feb. 23-24 to lobby lawmakers and to push for a higher cap on business loans. The credit union industry wants the measure amended to a jobs creation bill, Arnould said.

"This amendment is not included in the jobs bill being considered in the Senate and there has been no indication that such an amendment will be filed," Jon Summers, a spokesman for Senate Majority Leader Harry Reid, D-Nev., said in an e-mail.

Summers offered no comment on the amendment's merits.

William Martin, CEO of Service1st Bank, made no secret of his views.

"Credit unions have been trying to expand their lending powers for a number of years to make bigger and bigger loans for greater profits although their mission was founded on providing consumer loans to

individuals, a mission that has been long since forgotten," he said. "Everyone needs to remember that credit unions pay no taxes of any kind and as such are being subsidized by the U.S. and Nevada taxpayer."

Some see the credit union measure as a way to counter banks' alleged reluctance to increase their business lending.

During the year ended in September, U.S. banks reduced business lending by 15 percent and community banks, taken separately, reduced their business lending by 7.3 percent, Arnould said. However, credit unions increased their business lending by 11 percent.

William Uffelman, chief executive officer of the Nevada Bankers Association, said the drop in lending shouldn't be attributed to tight credit at banks.

"The problem isn't available credit," Uffelman said. "The problem is the state of the economy. People are afraid to borrow." Small businesses aren't looking for additional debt, Uffelman said, because "they don't have any customers and they don't know what the future holds."

Some financial analysts argue that credit unions lack the expertise that banks have developed for making business loans. Busted business loans were a factor, if not the key contributor, in all of the recent credit union failures in Nevada.

"The banks are experiencing a much larger commercial loan meltdown (than credit unions)," Arnould said.

Problem business loans contributed to problems at Cumorah Credit Union and Community One Federal Credit Union, Drake said. Cumorah received financial assistance to merge with Credit Union 1 of Illinois and Community One Federal received financial help to merge with America First Credit Union of Utah.

Boulder Dam Credit Union has been making business loans for 30 years and hasn't encountered major problems, General Manager William Ferrence said.

As a state-chartered credit union with private deposit insurance, Boulder Dam Credit Union isn't limited by the federal cap on business loans. Nevada statutes limit privately insured credit unions to lending out 10 percent of their assets to any one borrower. They can make multiple business loans of that size without restriction.

Given the current economy and fears of massive commercial real estate defaults, Ferrence said his credit union would make new business loans only to the best of borrowers. He said it was difficult to calculate the percentage of business loans outstanding because of the way his credit union classifies loans.

Clark County Credit Union, another institution with private deposit insurance, has been making commercial real estate loans for seven years. Commercial loans at the credit union equal 14 percent of assets, CEO Wayne Tew said. The typical loan is for \$1 million.

Tew said he was uninterested in making new commercial loans at the moment, in part because of the economy.

"We're not seeing a lot of loan demand," he said. "People are being really cautious in their borrowing."