

Credit unions push for new loan rules

Law currently limits lending to businesses

By [Mike Freeman](#), UNION-TRIBUNE STAFF WRITER

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As politicians bash banks for not lending enough to stimulate the economy, credit unions have launched a campaign to persuade lawmakers to loosen regulations so they can make more loans to businesses.

Two bills in Congress would more than double the percentage of a credit union's assets that can be earmarked for business loans. Credit union supporters hope key provisions of the bills will be folded into jobs legislation now being considered on Capitol Hill.

For the first nine months of 2009, banks pulled back small-business lending by 15.1 percent, "which is why everyone is trying to figure out how to get them to start lending again," said Bob Arnould, senior vice president of government affairs for the California Credit Union League.

"During the same period, credit unions increased small-business lending by 11 percent," Arnould said. "We would like to do more."

Banks say loan volumes have declined because the crippling recession has decreased small businesses' demand for credit.

"Our California banks have money to lend," said Rodney Brown, head of the California Bankers Association. "I don't think it's the availability of credit. If you're running a small business, you don't borrow money just to borrow money. You're not going to borrow for capital improvements or capital goods if you don't have the confidence that you'll have the flow of business to justify that."

Brown added that if credit unions want to act more like banks and boost lending to businesses, they should drop their tax-exempt status as not-for-profit institutions and start paying taxes like banks do.

Banks and credit unions have been fighting turf wars for years. Credit unions traditionally have focused on consumer lending, such as auto loans, credit cards and mortgages. Their loans to businesses are limited by law to no more than 12.25 percent of total assets.

The two bills in Congress would boost the business lending limit to 25 percent of assets.

Credit union groups are organizing meetings with members of Congress and U.S. Treasury officials during the last week of February to lobby for the higher business lending cap. Executives from San Diego's USA Federal Credit Union, California Coast Credit Union and North Island Credit Union are scheduled to participate.

[Jim Harris](#), chief executive of University & State Employees Credit Union in San Diego, said the \$555 million institution has focused mostly on consumer loans in the past, though it has made about \$40 million in business loans to members, with the average size about \$1 million.

The 12.25 percent cap discourages USE Credit Union from more aggressively pursuing business lending, he said.

Like banks, credit unions are searching for additional sources of income.

“On the consumer loan side, demand has been very, very weak for a year and a half,” Harris said. “We have been looking for all types of opportunities to make more loans. We have money to lend. We see this as an important part of our future strategy.”

Bankers say credit unions have a lot of room within the current cap to increase business lending. The American Bankers Association says only 37 of the 7,600 credit unions nationwide are near the 12.25 percent limit.

The association also contends that the credit union charter emphasizes providing financial services to people with modest means. Lifting the cap would allow a few large credit unions to make multimillion-dollar loans to fund hotels, malls and condo developments.

Banks have been cautious with lending for several reasons. Federal banking regulators are strongly encouraging banks to keep very high capital cushions, in part because they fear plunging commercial real estate values will push billions in loans toward default. High capital ratios limit the amount a bank can deploy to make more loans.

But bankers say tougher capital requirements are only modest roadblocks to lending. They contend the bigger issue is a lack of demand from quality borrowers for new loans.

San Diego Trust Bank, for example, has seen its loan portfolio shrink from 2008 to 2009. The profitable community bank, which did not take federal bailout funds, said nearly all the decrease is attributable to construction loans that were paid off when a project was finished.

“There were very few new construction loans to replace them,” said Michael Perry, chief executive of the bank. “We would love to lend more. We just aren’t seeing much demand from creditworthy borrowers at the moment. Most small businesses are hunkering down, not expanding.”