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Credit union battle with banks heats up

Banks and credit unions squabble over lending to small businesses

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WASHINGTON (MarketWatch) — A more than decade-old effort by credit unions to expand into more small-business lending is gaining momentum on Capitol Hill, driving worried bankers to step up their congressional lobbying to protect their turf.

At issue is legislation introduced in both the House and Senate that would allow credit unions to increase their small-business portfolio from 12.25% of their assets to 27.5%.

Larger credit unions have been pushing legislation to expand their lending to small businesses for years, with no success. However, Senate Majority Leader Harry Reid recently pledged to bring the bill — which has 22 sponsors including three Republicans and Reid — up for a vote in the Senate and regulatory observers expect that a vote could happen as early as later this month.

Backers of the legislation argue that it will create 140,000 new jobs and add $13 billion in mostly new lending to small businesses, with only a marginal amount taken away from banks.

However, banks refute those numbers, insisting that any new loan made by credit unions will either undercut a loan that a bank could have made or is a loan that should not be made because of improper underwriting standards. Since credit unions are not subject to federal corporate income tax, they have an unfair advantage because their cost of capital is less than that of a bank, the banks say.

Nevertheless, legislative observers argue that the mood in Congress is sufficiently anti-bank that the bill could be propelled into law.

“The credit unions have a better shot right now than at any point in the past decade,” said Nancy Bush, a bank analyst at NAB Research LLC. “This fits into the whole ‘let’s break up the banks, let’s diminish the impact of the larger banks’ mentality.”

Mark Calabria, director of financial regulation studies at the Cato Institute in Washington, said he thinks it has a good chance because proponents can make the case to Republicans that it is de-regulatory at the same time as they argue that it will help improve small businesses.

He said credit unions could catch a break because it is their number-one legislative issue that they have been pushing for years, while banks have a number of other issues on their agenda.

“This is the window of opportunity for it,” Calabria said.

But Bert Ely, president of Ely & Co. in Alexandria, Va., said he thinks the odds are against it, partly, because there doesn’t seem to be as much of an impetus for it in the House. However, he notes that the banks are operating on the assumption that its a “real threat.”

The House legislation, introduced by Rep. Ed Royce, Republican of California, has a bipartisan group of 128 co-sponsors. Royce said he believes the bill will “spur economic growth without saddling taxpayers with more debt” but so far Republican leaders in the House haven’t commented on it.

The National Association of Federal Credit Unions, which represents most of the larger credit unions, reports that there are 220 federally insured credit unions that are near or at the cap. NAFCU President Fred Becker said the existing cap has a chilling effect on credit unions, many of which may decide to invest in the employees and infrastructure for small businesses lending only if the cap were increased.

Only 183 credit unions have more than $1 billion in assets and about 70% of credit unions subject to the cap do not offer small business loans, according to National Credit Union Administration data from June.

With the current 12.25% cap, many small institutions would hit the limit with a few small loans — not enough to invest in a small-business lending division with new specialized personnel, backers say. Other credit unions that are quickly approaching the cap also would like to expand their lending, they said.