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The Boston Globe

## Trying to fill lending gap

Over banks' objections, credit unions seek higher loan limits



Credit unions want to expand business beyond the typical individual customers and serve more small businesses. "This is going to be a vast and growing area," said Robert M. Cashman, chief executive of Metro Credit Union in Chelsea. (Dina Rudick/Globe Staff)

By Beth Healy  
Globe Staff / February 10, 2010

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When Shaunna Schiller and her husband were launching their Sturbridge construction business last year, they needed to lease an excavator and a loader for their first job. Nice as the staff was, the [Bank of America](#) branch where they had their deposit account would not give them an equipment loan.

They ultimately got the loan, for \$38,400, from a source they had considered unlikely - nearby Southbridge Credit Union.

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"My thought process was always that credit unions were much stricter when it came to lending than banks were," said Schiller, president of Schiller Brothers Earth Moving & Construction Corp. Until she met a Southbridge manager at a networking group, she said, "I would have never even thought to go to a credit union for financing."

With many banks still recovering from the credit crisis and under pressure from regulators to be cautious, credit unions are eager to fill the lending gap for small business owners like the Schillers. Exploiting a political opening, credit unions are lobbying Congress to increase their lending limits, arguing that they could help create jobs without the \$30 billion President Obama has proposed giving community banks for small business loans.

"As we can lend more to the small businesses, it creates more jobs, helps the consumer, and hopefully pulls that sector back up," said Ronald H. Covey Jr., chief executive of St. Mary's Bank credit union in Manchester, N.H.

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Credit unions such as St. Mary's want to lend up to 25 percent of their assets to small businesses, double the current federal cap on their commercial loans. They also want to raise the threshold for loans that count toward that cap, to \$250,000 from the current \$50,000 level.

Covey said the \$700 million credit union, the nation's oldest, is already up against the 12.25 percent cap on business loans, as demand has jumped in the past two years. Without an increase, Covey said, St. Mary's will have to start turning away requests for loans within a few months.

Credit unions and banks are locked in an age-old rivalry; community banks in particular fume that credit unions have an unfair advantage because they do not pay taxes. This latest push by credit unions smacks of a land grab, banks say, and they promise to summon all their forces against bipartisan bills that would permit credit unions to make more small business loans.

"For our members, there's really a fairness issue here. They're very emotional about this," said Chris Cole, regulatory counsel for the Independent Community Bankers of America, a lobbying group for small banks. He said bankers dispute the credit unions' argument that the demand for small business loans is going unmet, but said that, nonetheless, the president's new \$30 billion plan would expand lending dramatically.

The House Financial Services Committee will hold a hearing on the credit unions' request in early March. Its chairman, Representative Barney Frank, readily acknowledged that letting credit unions lend more to businesses is controversial. "The community banks don't like it," said Frank, a Democrat from Newton. But he noted this is a rare moment in which banks are on the defensive. "It's going to be a burden on the banks to show that they can meet the demand."

As Congress and the White House set their focus on getting the economy back on track, Frank said, all avenues to free up capital should be considered. "Is this a way to get more loans into a system that needs them?" he asked.

Tom Parello, president of New England Bride Inc., a magazine publisher and bridal show organizer in Lynnfield with 10 employees, had his line of credit called in at Sovereign Bank last spring. He had banked with Sovereign for several years, so its request to immediately repay a five-figure loan was a surprise.

"They were going through a review of all their loans, and they decided they were going to recall the loan, which meant I had to repay the final balance," Parello said. His accountant suggested he talk to Metro Credit Union, based in Chelsea, which gave him two loans - one to pay off the Sovereign loan and an additional line of credit.

Robert M. Cashman, Metro Credit Union chief executive, said Parello is one of many new customers over the past year.

"We've received so many inquiries from small businesses around our branches, this is going to be a vast and growing area," Cashman said. "If credit unions could lend more, you could stimulate the economy and create more jobs." With \$775 million in assets, Metro is one of the state's largest credit unions.

A spokeswoman for Sovereign Bank declined to comment.

At Bank of America, spokeswoman Anne Pace said the lender has seen a "noticeable decrease in small business loan applications" in the past year. She said the nation's largest bank plans to increase its small business lending this year over the \$16.5 billion it extended in 2009.

Banks, for all their current troubles, contend that they are most qualified to make business loans. "When you allow credit unions to increase their

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commercial lending, that's the riskier part of the banking business," said Cole, of the Independent Community Bankers. "You're allowing them to gamble on something they're really not all that experienced with."

Executives at credit unions beg to differ. Covey, the head of St. Mary's credit union and a former banker, is expected to testify at Frank's hearing in March.

"The issues that we're having are consumer-based right now," Covey said. "Between the auto and home portfolio, that's what's feeling the strains of the economy right now." The business loan portfolio, he said, "is performing stellar."

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