

## Banking & Finance Focus



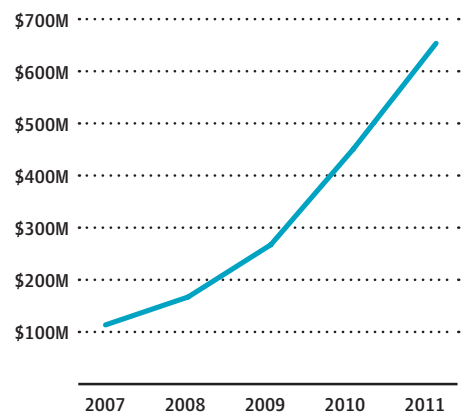
Photo by Joanne S. Lawton

When setting up Capital Area Transport Service, Wendy Smith found that banks “didn’t want anything to do with a startup.” But a Rockville credit union did.

### Ramping up

The number of local credit unions with business loans on their books has nearly doubled in the past four years to 30, and the total value of those loans has ballooned sixfold, rising to \$676.6 million as of June 30.

#### Sum of business loans



Source: National Credit Union Administration

# Where credit is due

## Amid a brutal lending backdrop, business loans balloon at an unlikely source: the neighborhood credit union

By Bryant Ruiz Switzky

In the mid-1990s, Wendy Smith was working at Suburban Hospital in Bethesda as a social worker, scheduling wheelchair transport vans to pick up and drop off patients. While watching the vans pull up and drive away each day, she got an entrepreneurial inkling.

“I had this dream that I was going to own a wheelchair van company,” Smith said. “It just never seemed like the right time.”

Then in 2009, Smith, working at a sales job that paid well but left her unfulfilled,

got the moxie to pursue her dream. She figured she needed about \$75,000 to get rolling. With good credit and a chunk of money saved up, she went to two large banks looking for a business loan. They both told her the same thing.

“They didn’t want anything to do with a startup company,” Smith said.

She was resigned to funding the company with her own money when she heard that her longtime credit union, Rockville-based **National Institutes of Health Federal Credit Union**, was starting to offer business loans.

“We sat down, they heard my story, and

we started the process,” Smith said. “They were very supportive.”

In October 2010, the credit union provided her with a \$75,000 loan backed by the Small Business Administration. She used the money to get her company, Kensington-based Capital Area Transport Service, on the road.

The deal with CATS also was NIH Federal Credit Union’s first business loan. Since then, the credit union has increased its commercial loan portfolio to \$12 million.

Other credit unions are getting in on the action too. In the past three years, the number of local credit unions holding commercial loans has nearly doubled, from 16 in 2008 to 30 in 2011. In that period, the value of business loans on the books at those institutions has mushroomed from \$168.9 million to \$655.4 million as of June 30.

Business loans are a departure for credit unions, not-for-profit financial cooperatives that serve a particular group of people and historically stuck to plain-vanilla home mortgages, auto and personal loans.

Their foray into commercial lending — called “member business lending” in credit union parlance — has come at a time when credit unions are hurting for higher-yielding lending opportunities and small businesses are hurting for credit.

“A lot of credit unions see opportunity and want to be a provider of services that perhaps other financial institutions are not providing,” said Paul Aguggia, a banking attorney in Kilpatrick Townsend & Stockton LLP’s District office. “A lot of good, visionary credit union management teams are trying to fill a void.”

NIH Credit Union was founded to serve NIH employees but expanded its charter in 2010 to include anyone in the local biomedical or health care fields. It began making business loans in response to feedback from focus groups of current and potential members, said CEO Juli Anne Callis.

“The recurring theme was: We need access to small business loans,” she said. “Our constituency is ripe for this type of service.”

Some credit unions only serve people within their specialized fields of membership who are starting businesses. But over the past decade, there’s been a growing trend of adopting community charters that allow credit unions to serve any business operating within a particular geographical area.

Germantown-based Mid-Atlantic Federal Credit Union, for example, can lend to any business in Montgomery County.

Another institution, District-based Sig-

nal Financial Federal Credit Union, serves anyone in D.C. or parts of Prince George’s County. Effectively any person or business can join Signal Financial just by making a donation to Artemis Racing, an organization promoting women in competitive cycling.

Alexandria-based Pentagon Federal Credit Union has a similar arrangement. Anyone can join by making a donation to the National Military Family Association.

Credit unions that want to lend heavily to businesses face a significant barrier: a statutory cap on business lending of 12.25 percent of their assets.

Credit unions up against their statutory cap can still make member business loans, but they have to focus on specific kinds of loans that are exempt from the cap or sell chunks of the business loans they make to other institutions, keeping most of the value off their books.

There is clearly a market for the latter option. As member business lending has proliferated, many credit unions that don’t originate any business loans have started buying them from other credit unions.

In the District alone, that includes U.S. Senate Federal Credit Union, State Department Federal Credit Union and Transportation Federal Credit Union, which have each begun buying chunks of business loans over the past two years and now have a combined \$33.3 million on their books.

Credit unions have unleashed perennial lobbying efforts to increase or eliminate the business lending cap. Barring legis-

lative action, credit unions can file for a waiver from regulators that allows them to lend up to 20 percent of their assets to businesses.

NIH Credit Union said it plans to apply for a waiver when it hits its cap in the next year or two.

Credit Unions’ entrance into the commercial sector has not been without controversy. Banks emphatically oppose the moves into business lending by credit unions, arguing that they have an unfair advantage because of their tax-exempt status, which allows them to offer lower rates and fees than banks can.

The prospect of raising the business lending cap especially irks bankers.

“We don’t think it makes sense in this environment where we have banks with ample money to lend, but that don’t have the loan demand,” said Bruce Whitehurst, CEO of the Virginia Bankers Association.

Credit unions counter that they still make up a very small slice of the market and are no real threat to banks.

Regardless of what bankers might think, entrepreneurs like Smith are thrilled with credit unions’ latest offering.

Less than a year after forming CATS, she borrowed an additional \$40,000 from NIH Credit Union to buy a second wheelchair van and hire two employees.

“I enjoy what I’m doing,” Smith said. “And I feel like I’m providing a good service to the community. There definitely are a lot of people out there in need of good transportation.”

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