



Co-op seeks to fill lending gap for small businesses

When you're looking for a loan to expand your business, your first thought probably isn't to turn to your credit union.

Maybe it should be.

Most credit unions don't make many business loans and lack the expertise to figure out how risky they are. Many are too small to do business loans of any size.

So seven area credit unions got together and formed Cooperative Business Services, a separate entity that does nothing but make business loans.



Reed

The credit unions team up to provide capital and use Cooperative Business Services' underwriting expertise. Several participate in each loan, which spreads the risk.

"Individually, many of these credit unions couldn't do transactions of any real size, and they might not want to because of the risk," said Keith Reed, CEO of Symmes Township-based Cooperative Business Services.

The initiative started in 2003, but it's gaining steam now, as capital has become tight and many borrowers find it difficult to get credit from the larger banks. The idea, Reed said, is to create a centralized talent pool of commercial loan underwriters and other support people.

Eight credit unions now have ownership in the cooperative, with the addition of a Columbus company. But the cooperative has grown to include 48 member institutions. Most are in Ohio, with many in Southwest Ohio where the group started and is based. But it's expanded to northern Ohio as well as Kentucky, Tennessee and West Virginia. Each member originates and participates in loans.

So far the group has made about 350 loans totaling \$220 million. That comes to about 60 loans and \$40 million a year.

The economic recession and accompanying credit crunch have actually helped.

"With the economy taking a turn and banks pulling back, the opportunities we're getting now are more robust and consistent than they ever have been," Reed said.

Jim Fishell, CEO of downtown Cincinnati's CBank, which specializes in business banking, said credit unions can make inroads.

CO-OP: *Banks suspicious, but credit unions say arrangement spreads risk, helps borrowers*

FROM PAGE 23

"There are probably still some gaps (that credit unions can fill)," he said.

The cooperative's loans are relatively small. The average deal is about \$550,000, Reed said. The group targets loans ranging from \$250,000 to \$2 million. But it has made a real estate loan for \$7.6 million.

Deal flow has grown at a slow and steady pace, but loan demand has declined recently with the economy's slump, Reed said.

The cooperative is combating that by sending its own business development officers into markets to help drum up business. Francia Harris is the cooperative's representative in Greater Cincinnati.

Fishell said he hasn't encountered credit unions in competing for loans.

Although Fishell said the concept is "an interesting idea," he believes it's flawed. The credit union owns the risk, even though it's not making the underwriting decisions.

"From the client's perspective, it's not the best idea," Fishell said. "The people who own the risk should know the company and the management team."

But at least some borrowers seem to like it.

Chris Conte, owner of Anderson Township-based shipping firm Wrap It Postal, got a loan through Cooperative Business Services and Fairfield-based AurGroup Financial Credit Union to buy a business. He told Cooperative Business Services: "This was the easiest loan transaction I have ever experienced by far. In fact, (it's) the only one I took pleasure in being a part of."

Cincinnati Police Federal Credit Union only recently joined the cooperative and started marketing its services to customers in April. It lacked the underwriting skills to make business loans, said CEO Tina Wocher.

Now it's able to participate in loans such as a \$2 million deal to provide financing to a church.

"It really is cooperative," Wocher said. "We're not taking so much risk in one loan."

Wocher, whose credit union has \$85 million in assets, would like to get about \$10 million in business loans.

That would put Cincinnati Police Federal near the legal limit. Regulations prohibit cred-

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it unions from keeping business loans on their books totaling more than 12.25 percent of assets.

Her credit union is required to bring in \$1.6 million in loans. It pays \$10,000 to get in the program and \$800 a month until it brings in the required loan amount. She expects to add business customers as a result.

"It's an investment to us," Wocher said. "Consumer loans have slowed, and this helps us through this."