Research Report

Commercial Lending During the Crisis: Credit Unions vs. Banks

David M. Smith, PhD

Associate Professor of Economics and Associate Dean of Academic Affairs
Graziadio School of Business and Management, Pepperdine University

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Progress is the constant replacing of the best there is with something still better!

— Edward A. Filene

Deeply embedded in the credit union tradition is an ongoing search for better ways to understand and serve credit union members. Open inquiry, the free flow of ideas, and debate are essential parts of the true democratic process.

The Filene Research Institute is a 501(c)(3) not-for-profit research organization dedicated to scientific and thoughtful analysis about issues affecting the future of consumer finance. Through independent research and innovation programs the Institute examines issues vital to the future of credit unions.

Ideas grow through thoughtful and scientific analysis of top-priority consumer, public policy, and credit union competitive issues. Researchers are given considerable latitude in their exploration and studies of these high-priority issues.

The Institute is governed by an Administrative Board made up of the credit union industry's top leaders. Research topics and priorities are set by the Research Council, a select group of credit union CEOs, and the Filene Research Fellows, a blue ribbon panel of academic experts. Innovation programs are developed in part by Filene i^3, an assembly of credit union executives screened for entrepreneurial competencies.

The name of the Institute honors Edward A. Filene, the "father of the US credit union movement." Filene was an innovative leader who relied on insightful research and analysis when encouraging credit union development.

Since its founding in 1989, the Institute has worked with over one hundred academic institutions and published hundreds of research studies. The entire research library is available online at www.filene.org.

Acknowledgments

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Executive Summary and Commentary

by Ben Rogers,
Research Director

My long stint as a mediocre Boy Scout taught me a lot of painful trivia: Apply sunscreen when trekking above 7,000 feet, sleeping bags rated for 40 degrees are virtually useless at 10, and "moon boot" is definitely not synonymous with "hiking boot." But compensating for the painful moments were the handful of practical lessons that forestalled more painful lessons. Among them: A bowline is the best knot around, and you can't start a raging campfire without slivers and clumps of kindling. A match (even one abetted by a generous splash of lighter fluid) just won't light a dry log.

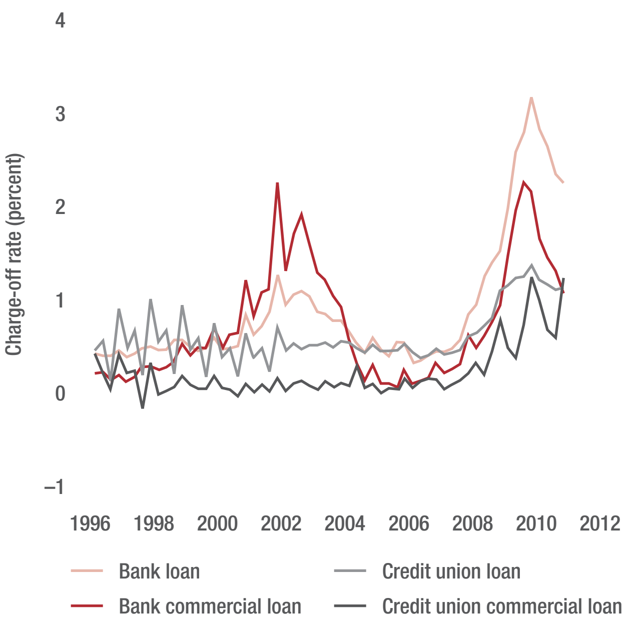
The US economy is struggling to catch fire after years of recession and slow growth. One of the essential components of economic kindling, business lending, is simply hard to find. An early 2012 report from the National Federation of Independent Business (NFIB) shows the "availability of loans" for small businesses as only now approaching 2008 levels, and the number of its survey respondents expecting credit conditions to improve during the next three months has been stagnant for more than a year (Dunkelberg and Wade 2012). The Federal Reserve's January 2012 survey of senior bank loan officers shows that while credit is slowly easing, it is still hardest to come by for small firms (Federal Reserve Board 2012). Kindling needed.

What Is the Research About?

This report, from David Smith, an economist at Pepperdine University's Graziadio School of Business and Management, seeks to quantify the performance of credit union commercial lending at a time when credit unions seek to widen their access to the business lending market. If the economy needs as much kindling as possible, shouldn't credit unions be able to help? Opponents of the loosened standards argue that increasing credit unions' ability to lend to businesses goes against their historical mandate and should threaten their tax-exempt status, arguments that are beyond the scope of this report. What this research does address is the argument, echoed as recently as June 2011, that "business lending is risky and raises serious safety and soundness concerns" (Wilson 2011).

This study builds on previous work by Smith and Stephen Woodbury from 2010, *Withstanding a Financial Firestorm: Credit Unions vs. Banks* (Madison, WI: Filene Research Institute). In it, the authors show that credit unions are surprisingly resilient to the downside of the business cycle, especially compared with commercial banks. According to that study, credit unions' aggregate loan portfolios

Figure 1: Charge-Off Rates for Banks and Credit Unions



Sources: Federal Reserve Bank, Commercial Bank and Bank Holding Company Database, 1996–2010; Credit Union National Association, 1996–2010.

appear to be about 25% less sensitive to macroeconomic shocks than those of banks.

This report follows a similar methodology to examine business lending, a topic that has seen far less comparative research. Starting with high-level trends in lending, the analysis goes on to compare commercial lending delinquency and charge-off data from banks and credit unions, with special attention paid to how the two portfolios compare during unemployment spikes in the business cycle.

What Are the Credit Union Implications?

While credit unions, as an industry, are newer to commercial lending, their delinquency and charge-off rates compare favorably to those at commercial banks—scoring as well as or better than banks on both counts in almost every quarter studied:

- Credit union commercial loan growth has been steady during the 15 years examined here. More importantly, it has been resilient during the last two recessions, suggesting that credit unions can buoy both lending growth and, as a consequence, overall business activity.
- While banks tend to contract commercial lending during economic stress, the opposite is true for credit unions. Commercial loan growth rates for banks turned negative following the recessions beginning in 2001 and 2007, but credit union growth rates remained positive during both periods.
- Despite the positive trends noted above, commercial lending, as measured by delinquency and charge-off rates, is more sensitive to the business cycle for credit unions than it is for banks—a potential cause for concern and further study. Yet, the data show that credit unions continue to offer business loans when others retreat.

At a time when the economy needs kindling from any corner, credit unions' stable commercial lending history shows they may be a helpful source.

About the Author

David M. Smith, PhD

Prior to obtaining his PhD in economics at Michigan State University in 1997, David M. Smith worked for seven years as a manager in the financial services industry. Since completion of his academic credentials, Smith has consulted for various industries, specializing in the computer, financial services, medical, and nonprofit sectors. His economic expertise includes the areas of labor pay and productivity, forecasting, and analysis of specific labor markets. A labor economist with an applied focus, Smith has published numerous articles that have appeared in both academic and practitioner journals. His research on credit unions has been used in arguments before the US Supreme Court as well as in state legislative hearings. Smith is frequently quoted by the media, including most recently the *Chicago Tribune*, CNN, the *Los Angeles Times*, Fox News, *USA Today*, the *New York Times*, and the *Investor's Business Daily*. Smith currently is associate professor of economics and associate dean of academic affairs at Pepperdine University's Graziadio School of Business and Management.

CHAPTER 1
Introduction

A 15-year analysis of credit union commercial loan performance starts with a sketch of current economic challenges and the pros and cons of increasing business lending powers. This study mirrors a similar inquiry that showed credit unions are more stable consumer lenders during recessions.

As the US financial system begins to heal after the most severe stress endured since the Great Depression, an urgent economic and political issue is how to fund new and growing businesses and increase levels of employment. The consensus among policymakers and economists is that enhanced levels of capital attainment can help jump-start a sluggish economy. Yet access to capital appears to be an ongoing challenge, in particular for small businesses. A nationwide survey of 7,500 small businesses in fall 2011 revealed that in the eyes of these business owners, limited access to capital is perceived as the number one hindrance to creating new jobs. And of the 1,667 small businesses that sought bank loans over the last 12 months, less than half were successful (Paglia 2011). This is consistent with data from a recent NFIB study, yet it is markedly different from data in the mid-2000s, when nearly all small business owners indicated they had their most recent credit request approved (Dennis 2010).

Credit unions seek expanded business lending power and argue that raising the current statutory limit of 12.25% of assets could release billions of dollars in new business loans into the US economy. Banking groups generally argue that expanding the cap runs counter to credit unions' mandate as consumer lenders and that credit unions in general are ill-equipped to effectively manage expanded lending powers. In spite of these pronouncements, the financial crisis has led to a retrenchment in business lending on the part of banks. Measured from December 2007 to September 2011, business lending is down 2.2% for banks yet has increased 43.2% for credit unions (Schenk 2011).

Business lending is down 2.2% for banks yet has increased 43.2% for credit unions.

Prior work has shown that credit union loan portfolios are more resilient in the face of economic stress than bank loan portfolios. Smith and Woodbury (2010) analyzed call report data from banks and credit unions from 1986 to 2009, a period that covers over two full business cycles. By correlating measures of economic stress with loan delinquency and charge-off rates, the authors' most conservative estimates suggest that credit union loan portfolios appear to be about 25% less sensitive to macroeconomic shocks than bank loan portfolios.

This report zeros in on commercial loan performance—in particular, loan delinquencies and net charge-offs—and examines the sensitivity of these variables to a key business cycle indicator: employment. If credit unions' commercial portfolios are as risky as, or less risky than, banks' portfolios, it should follow that the business loan delinquencies and charge-offs of credit unions will be less sensitive to business cycle downturns than will those of banks. In addition, business lending has a key relationship to the policy goal of increasing employment. This study analyzes the commercial lending practices of banks and credit unions over the business cycle.

Credit union loan portfolios appear to be about 25% less sensitive to macroeconomic shocks than bank loan portfolios.

This report analyzes 15 years of quarterly call report data for banks and credit unions, a period that covers 1996–2010. Prior to 1996, the level and amount of credit union business lending was not significant enough to make meaningful comparisons with bank commercial lending data. The report proceeds as follows: Chapter 2 provides some comparative statistics on commercial lending for banks and credit unions and goes on to reveal data on commercial loan delinquencies and charge-offs from banks and credit unions over the past 15 years. Chapter 3 looks at commercial loan growth rates over the business cycle, while Chapter 4 presents the statistical analysis and key results. Chapter 5 concludes with a summary and implications for regulating credit unions.

CHAPTER 2
Commercial Lending for Banks and Credit Unions

We begin with a comparison of commercial lending trends at banks and credit unions with a comparison of aggregate delinquency and charge-off performance between 1996 and 2010.

Although the majority of credit union lending has always been in loans to consumers, credit unions have engaged in business lending since their inception in the United States in 1908. Most credit union business lending is to small businesses. In December 2010, credit unions held $39 billion (B) in loans to small businesses, and in the third quarter of 2011, a typical credit union's total member business loan portfolio was approximately $219,000. Additionally, the last Treasury Department study of credit union business lending found that 59% of credit union loans made for business purposes were loans of $50,000 or less (US Department of the Treasury 2001). Credit union lending represents 5.3% of all small business loans at depository institutions.[1] Most credit unions are currently under a business lending cap of 12.25% of assets, established by law in 1998.[2] As of September 2011, 30% of credit unions offer business loans, and those loans account for 7% of total credit union loans (Schenk 2011).

Fifty-nine percent of credit union loans made for business purposes were loans of $50,000 or less.

Do banks and credit unions compete in the same markets in commercial lending? Credit unions are a relatively small player in the financial institution space, comprising about 6% of total assets, a figure that has held relatively constant for over 20 years (Schenk 2011). Community banks are the most likely competition for small business loans, though consolidation and mergers are reducing the number of community banks that serve small businesses (Ely and Robinson 2009). Thus, even if credit unions were allowed to expand business lending, it is unclear whether this expansion would materially encroach on the markets that banks serve.

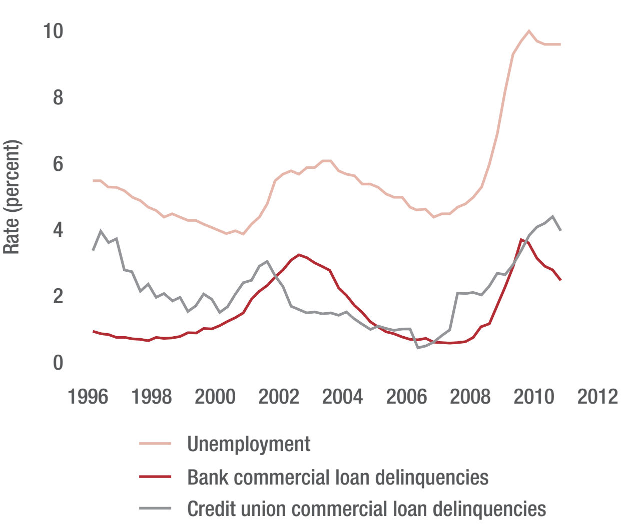
The Business Cycle, Delinquencies, and Charge-Offs

The National Bureau of Economic Research (NBER) maintains a chronology of the US business cycle comprising alternating periods of peaks and troughs in economic activity, most directly measured by gross domestic product (GDP). During a recession, a significant decline in economic activity spreads across the economy and can last from a few months to more than a year, but generally at least two quarters of GDP decline are necessary to declare a recession. One useful measure of the health of the economy is the unemployment rate, since GDP and the unemployment rate are inversely correlated. The unemployment rate, measured monthly by the Bureau of Labor Statistics, is considered a concurrent, or slightly lagging, measure of economic activity.

Figure 2 displays a time series of US unemployment rate data from 1996 to 2010. Two recessions are captured in the data, the first from March 2001 to November 2001 and the second from December 2007 to June 2009. The 2007–2009 recession led to a peak-to-trough GDP loss of 3.9% and a trough-to-peak increase of over 5% in the unemployment rate. In both recessions, employment exhibited a slow recovery period typical of recessions experienced since 1990.

Figure 2 also plots semiannual data on the commercial loan delinquency rates for banks and credit unions from 1996 to 2010, captured quarterly. A bank loan is considered delinquent when it is 90 or more days past due, and a credit union loan is considered delinquent when it is 60 or more days past due.[3] The bank delinquency rate appears to track the unemployment rate fairly concurrently, with a slight lag, while the credit union delinquency rate appears more divergent and less predictable. For credit unions, there is a downward trend in commercial loan delinquencies from 1996 to the most recent recession. One other feature of this time series worth noting is that there are different time periods in which the commercial loan delinquency rate is higher for banks than credit unions and vice versa.

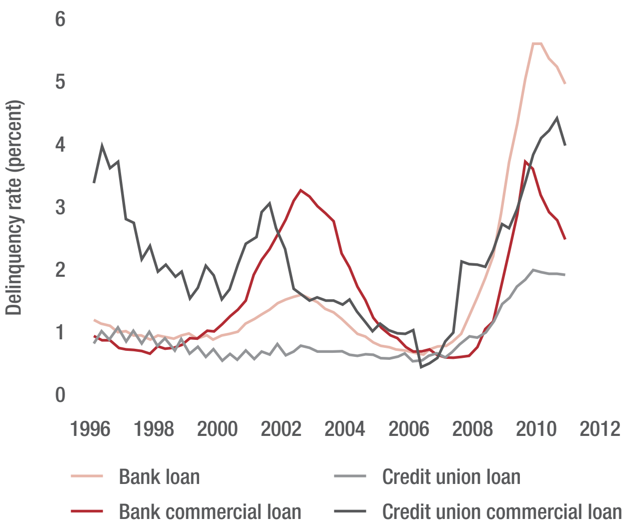
Figure 2: Unemployment and Commercial Loan Delinquency Rates



Sources: Federal Reserve Bank, Commercial Bank and Bank Holding Company Database, 1996–2010; Credit Union National Association, 1996–2010; US Department of Labor, Bureau of Labor Statistics, 1996–2010.

The data presented in Figure 3 offer some insight into the differences between the overall delinquency rate and the commercial loan delinquency rate for banks and credit unions. This time series reveals a couple of interesting patterns for banks and credit unions. First, and consistent with the results presented by Smith and Woodbury (2010), the overall loan delinquency rates for banks are consistently higher than those for credit unions, and during times of economic stress, the rates tend to be two to three times higher in magnitude. This fact is even more

Figure 3: Loan Delinquency Rates



Sources: Federal Reserve Bank, Commercial Bank and Bank Holding Company Database, 1996–2010; Credit Union National Association, 1996–2010.

pronounced when we consider that credit union delinquencies are somewhat overstated relative to bank delinquencies, given the different definitions of delinquent loans noted above.

Focusing on the bank delinquency rates only, the relatively mild 2001 recession led to more delinquencies in commercial loans—relative to overall loans—while the opposite has occurred in the most recent recession, where the overall delinquency rates are higher. This is likely explained by the well-documented collapse of the residential real estate market in the most recent recession driving the overall delinquency rate higher. Turning to credit unions, the credit union commercial loan delinquency rate, when aggregated, almost always exceeds the overall delinquency rate. This is consistent with the notion that credit unions serve customers of modest means, including individuals who are unable to procure loans from other depository institutions. Individuals of modest means are more likely to be negatively impacted by an economic downturn. Supporting this notion, in 2001 the Treasury Department conducted a comprehensive analysis of credit union business lending and found that 25% of member business loans were made to members with a household income of less than $30,000 and that these loans totaled 13% of the outstanding member business lending balances. Another 20% of the loans (corresponding to 15% of the outstanding loan balance) went to households with incomes reported to be between $30,000 and $50,000 (US Department of the Treasury 2001). Although defining income for the self-employed can be a challenging task, and the data from the study are several years old, it is clear that credit unions serve the middle- and lower-income brackets to a far greater degree than banks.

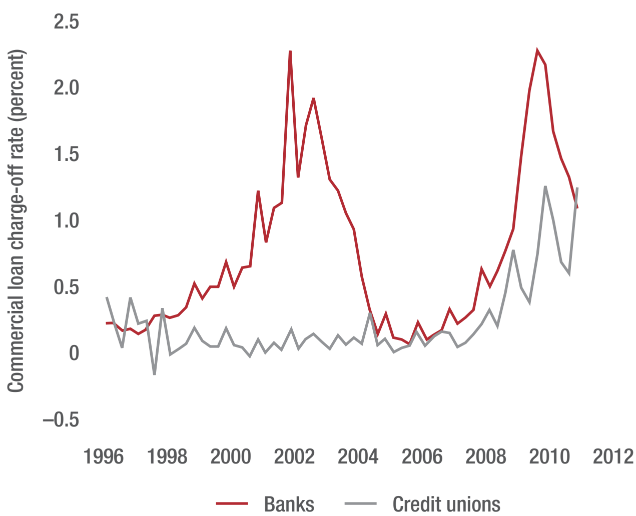
> The overall loan delinquency rates for banks are consistently higher than those for credit unions, and during times of economic stress, the rates tend to be two to three times higher in magnitude.

Delinquencies are only one measure of the extent to which financial institutions may be stressed. An alternative measure is the charge-off rate. It could be argued that the charge-off rate is more important than delinquencies in understanding the impact of business cycles on banks and credit unions because charge-offs are the ultimate outcome of delinquent loans and are directly related to financial performance. Figure 4 displays quarterly data on bank and credit union commercial loan net charge-off rates over the period of consideration. Net charge-offs represent loans removed from a balance sheet as uncollectible, less amounts recovered from loans previously charged off. In economic boom times, such as the late 1990s and mid-2000s, bank and credit union business loan charge-off rates tend to be similar in magnitude. However, during times of economic stress, bank charge-offs appear to be more responsive to the business cycle than credit union charge-offs, although this will be tested later with an econometric analysis.

In economic boom times, such as the late 1990s and mid-2000s, bank and credit union business loan charge-off rates tend to be similar in magnitude. However, during times of economic stress, bank charge-offs appear to be more responsive to the business cycle than credit union charge-offs, although this will be tested later with an econometric analysis.

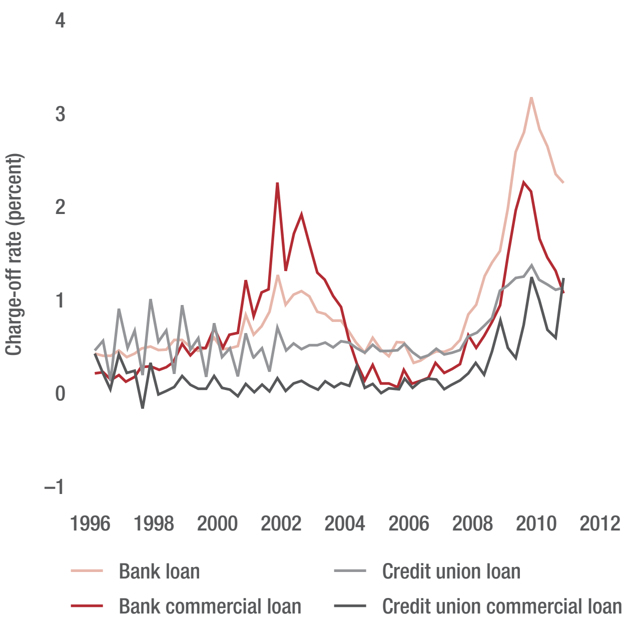
Figure 5 is analogous to Figure 3 in that it compares the differences in bank and credit union charge-off rates with their respective overall charge-off rates. Here it is evident that—particularly during times of economic stress—the charge-off rates for banks exceed those of credit unions, for both commercial loans and the overall loan portfolio. In the case of bank charge-off rates, note that the commercial loan charge-off rate tracks closely to the overall charge-off rate, with the

Figure 4: Commercial Loan Charge-Off Rates for Banks and Credit Unions



Sources: Federal Reserve Bank, Commercial Bank and Bank Holding Company Database, 1996–2010; Credit Union National Association, 1996–2010.

Figure 5: Charge-Off Rates for Banks and Credit Unions



Sources: Federal Reserve Bank, Commercial Bank and Bank Holding Company Database, 1996–2010; Credit Union National Association, 1996–2010.

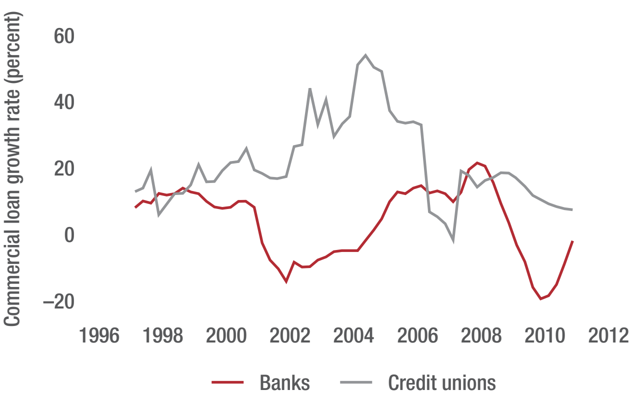
exception of the most recent recession with its preponderance of residential real estate–related charge-offs, which drove the overall charge-off rate northward. Similarly for credit unions, the commercial loan charge-off rate tracks closely to the overall charge-off rate. This is in contradiction with the difference in credit union delinquency rates presented in Figure 3, suggesting that credit unions have a relatively good track record of preventing delinquent loans, particularly commercial ones, from converting to charge-offs. In turn, this suggests that credit unions may have better information regarding the underlying risk of commercial loans than banks, which may be related to the member relationship inherent in the credit union business model. Banks are more likely to take greater risks as a result of a governance structure that incentivizes risk-taking behavior. This hypothesis has been supported by prior research. For example, Esty (1997) showed that in the 1980s savings and loan institutions that converted from mutual to stock ownership increased their level of investment in risky assets and experienced increased profit variability.

CHAPTER 3
Loan Growth

Credit unions and banks show plainly different patterns of growth in relation to the business cycle and recessionary periods. The data show that credit unions tend to lend through recessions while banks tend to pull back.

It is widely acknowledged that increased access to capital, particularly for small businesses, can play an important role in an economic recovery. Greater access to capital, acquired through lending, can fuel business expansion and employment growth. Thus, as we study differences between credit unions and banks during times of economic stress, it is instructive to consider commercial loan growth rates, particularly in the periods immediately following a trough in economic activity. These data are presented in Figure 6, where year-over-year commercial loan growth rates for banks and credit unions are plotted for the years 1997–2010. The data reveal marked differences in commercial loan growth rates between banks and credit unions over these 14 years. Commercial loan growth rates for banks turn negative in the periods immediately following the two recessions, while credit union growth rates remain positive during both periods. In December 2010, six quarters removed from the most recent recession, bank commercial loans were still contracting. Credit union commercial loan growth rates, while still robust, declined over the period of consideration, suggesting that some credit unions may be reaching their business lending cap.[4] If that is the case, it has implications for the ability of credit unions to contribute to economic recovery in future recessions, if the regulatory cap is to remain in place.

Figure 6: Year-over-Year Commercial Loan Growth Rates, 1997–2010



Sources: Federal Reserve Bank, Commercial Bank and Bank Holding Company Database, 1996–2010; Credit Union National Association, 1996–2010.

CHAPTER 4
Commercial Loan Performance for Banks and Credit Unions

The performance of commercial loans during recessionary periods is also important. This chapter shows that credit unions have a mixed record: While they do tend to lend more heavily in downturns, they also seem to be more susceptible (as measured by increased delinquencies and charge-offs) to those downturns.

Although the figures presented thus far reveal some differences between bank and credit union loan performance in economic downturns, an econometric analysis is necessary to confirm and quantify the differences. Bank and credit union call report data are available on a state-level basis, as is the unemployment rate, which allows for unique panel data to be constructed that include 3,060 observations (51 states, including Washington, DC, over 60 time periods). Credit union lending activity has been more pronounced in recent years, so econometric estimates were made over shorter time horizons, including 2000–2010 and 2005–2010. The findings presented below, using the entire 1996–2010 time period, do not differ significantly from the alternative time horizon estimates.

This analysis measures the approximate percentage change in bank and credit union commercial loan delinquencies and charge-offs resulting from a one-percentage-point increase in the unemployment rate. This measure is referred to as β. Differences among states are controlled for in the analysis using an econometric estimator called "fixed effects." Other controls include a time-period effect that captures nationwide economic conditions and other time-period-specific factors that may affect delinquencies. The discussion earlier regarding the level of commercial loan growth is also very relevant to the analysis. The impact of an increasing level of commercial loans could either offset or exacerbate the impact of unemployment. Thus, the econometric estimations measure not only the impact of unemployment on delinquencies but also the impact of the level of commercial loans. The impact of loan growth on delinquencies and charge-offs is captured as ∞.

The first column of Figure 7 reports the results of the estimating β for delinquency rates and charge-off rates for banks. The estimates suggest that a one-percentage-point increase in the unemployment rate leads to a 7.1% increase in the level of delinquencies and an 8.2% increase in charge-offs. These estimates are statistically significant. The estimate of ∞, measuring the impact of a 1% increase in

Figure 7: Quantifying Responsiveness to Economic Downturns for Banks

	ß (%)	∞ (%)	Commercial loan response to downturns	Combined impact of ß and ∞
Delinquency rate	7.1	–7.1	Contraction	Negative
Charge-off rate	8.2	29.5	Contraction	Positive

commercial loans, yields an interesting result: For delinquencies, the relationship is negative, but for charge-offs, the relationship is positive. In other words, when loan growth rates increase, commercial loan delinquencies tend to decrease but commercial loan charge-offs tend to increase. Both estimates are robust and statistically significant.

This finding has an important implication for what occurs in a recession and the quarters following. As was shown in Figure 6, banks tend to contract their lending during an economic slowdown. This contraction has an important impact on delinquencies and charge-offs, independent of the business cycle. If we combine the impact of a 1% increase in unemployment and a 1% decline in commercial loan levels, we find that the overall impact during a recessionary period is negative for delinquencies and positive for charge-offs. These results, though mixed, do not detract from the fact that commercial loan contraction during a recession can harm an economy's ability to recover.

When loan growth rates increase, commercial loan delinquencies tend to decrease but commercial loan charge-offs tend to increase.

The first column of Figure 8 reports the results of the estimating β for delinquency rates and charge-off rates for credit unions. For credit unions, the estimates suggest that a one-percentage-point increase in the unemployment rate leads to a 14.6% increase in the level of delinquencies and a 40.3% increase in charge-offs. These results are statistically significant and reveal that credit union commercial delinquency and charge-off rates are more sensitive to the

Figure 8: Quantifying Responsiveness to Economic Downturns for Credit Unions

	ß (%)	∞ (%)	Commercial loan response to downturns	Combined impact of ß and ∞
Delinquency rate	14.6	–15.3	Expansion	Slightly positive
Charge-off rate	40.3	–42.9	Expansion	Slightly positive

business cycle than those of banks; these differences are also statistically significant.

These results stand in contrast to the findings of Smith and Woodbury (2010), who found that the overall credit union delinquency and charge-off rates were 25% less sensitive to the business cycle than those of banks, using the most conservative estimates. In addition, these results would not have been easily discernible from Figures 2 and 4, which present aggregated data on delinquencies and charge-offs.

> Credit union commercial delinquency and charge-off rates are more sensitive to the business cycle than those of banks.

This result, which at first may seem perplexing, may be set into context with the estimate of ∞ presented in the second column of Figure 8. Estimates of ∞ for both delinquencies and charge-offs show an inverse relationship: As commercial loan levels increase, credit union delinquency and charge-off rates decline. As shown in Figure 6, credit unions tend to increase their lending during an economic slowdown. This expansion has an important impact on delinquencies and charge-offs, independent of the business cycle. If we combine the impact of a 1% increase in unemployment and a 1% increase in commercial loan levels, we find that the overall impact during a recessionary period on credit union delinquencies and charge-offs is slightly positive but essentially a "wash." This result does not detract from the fact that credit union lending during an economic downturn can play an important role in helping an economy recover.

> Credit union lending during an economic downturn can play an important role in helping an economy recover.

CHAPTER 5
Summary and Implications

Allowing credit unions to expand their commercial loan growth not only could help the economy but would also improve the resiliency of their loan portfolios in times of economic stress. Policymakers should consider relaxing regulatory caps on credit union business lending or consider alternative routes to promote credit union business lending.

This report has used data on US banks and credit unions from 1996 to 2010 to examine the differential impact of changes in business conditions on the commercial loan portfolios of banks and credit unions. We collected quarterly call report data on loan delinquencies and net charge-offs for all banks and credit unions in the United States and aggregated the data to the state level. The results presented in this report show that commercial loan performance for both banks and credit unions is impacted by the business cycle. Indeed, credit union delinquency and charge-off rates tend to be more sensitive to the business cycle than those of banks, though when aggregated, loan performance is more similar.[5] We find this result even though credit unions grant a greater percentage of business loans to small business owners, loans that at origination contain more inherent risk. At the same time, we documented that credit union commercial loan growth has been robust through the 15 years of data considered and resilient through the last two recessions (Figure 6). This loan growth has had an independent and important mitigating impact on the loan delinquency and charge-off rates for credit unions. Reconciling with the aggregated data presented in Figures 2 and 4, this positive impact of commercial loan growth rates is masking the independent impact of the business cycle on delinquencies and charge-offs. We do not find the same result for banks, since they tend to contract business lending during an economic downturn.

When comparing the commercial loan portfolios of banks and credit unions, we are not doing an "apples to apples" comparison, as the type and mix of loans differ between credit unions and banks. We are unable to control for differences in types of commercial loans, as commercial loan data are not collected at further disaggregated levels. Within this context, we might assume that as credit union loan portfolios grow, they become more similar to those of banks. Future research can examine whether the business loan performance of credit unions and banks also becomes more similar.

Credit union charge-off rates remained at low levels from 1996 to the most recent severe recession. Commercial loan growth rates have also slowed for credit unions since the onset of the Great Recession. This might indicate that some credit unions are approaching their business lending cap of 12.5%, and Hampel (2011) has provided evidence to support this notion. Access to capital, acquired through lending, can have a significant impact in a time of economic malaise, fueling business and employment growth. While banks tend to contract their commercial lending during times of economic stress, the opposite holds true for credit unions. Results here suggest that allowing credit unions to expand their commercial loan growth not only could help the economy but also would improve the resiliency of their loan portfolios in times of economic stress. Policymakers should consider relaxing regulatory caps on credit union business lending or foster other ways for credit unions to expand their business lending.

1. Credit unions hold an even smaller share of total business loans at depository institutions: 1.6%.
2. Approximately 100 business-lending credit unions were grandfathered because they exceeded the cap at the time of the law.
3. There is another difference in how delinquency rates for banks and credit unions are usually reported. For banks, delinquencies are generally reported as a percentage of all *gross* loans, but for credit unions they are reported as a percentage of all *net* loans. In order to provide a more consistent comparison, we calculate the bank delinquency rate as a percentage of *net* loans.
4. CUNA reported in 2011 that 174 credit unions, with $8.6B in business loans outstanding, had business loans of more than 10% of assets (Hampel 2011).
5. Although loan performance is similar at the aggregate level, we must use caution in applying this finding to individual financial institutions. The risk level borne by individual financial institutions is related to a wide variety of factors, including loan diversification, types of loans, and the level of loan participation.

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