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## PRESS RELEASE

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## CUSO CEO: Credit Unions Have Work to Do to Catch Up With Banks in Business Services; Also Have Some Advantages

(Portland, OR – February 3, 2015) – Credit unions have their work cut out for them to catch up with offering the same basic business products and services as banks, Larry Middleman, President/CEO of CU Business Group told an audience of 50 credit unions during a webinar on current industry trends last week. However, Middleman also points out that credit unions do have some clear advantages over banks.



Larry Middleman

In particular, Middleman, who founded the business services CUSO in 2002, believes credit unions are behind in offering cash management solutions for small businesses. The top products used by small businesses today, Middleman shared, are electronic or automated, including products such as merchant card services, payroll, remote deposit capture, ACH and positive pay. Credit unions are behind in applying automation and technology to their services, an area where banks excel, he said.

The cost of offering these electronic services is going down, while system and vendor options rise, according to Middleman, who says there are many avenues for credit unions to advance in this area by outsourcing and forming strategic partnerships with vendors.

During the webcast Middleman also discussed financial services needs from the small business perspective. Small businesses cite the lack of credit availability and uneven cash flow as two of their top challenges. Many banks now offer consultative advice in structuring a financial management system to businesses as an added value. Bankers are not only telling business customers about their products, but also helping them design a system to make life easier and benefit the business.

“Credit unions also need to start thinking this way,” Middleman said. While these are key areas credit unions can help businesses with, credit unions tend to focus more on transactional lending secured by commercial real estate. “There needs to be more evolution toward lending on business operations and providing businesses with the funding they need through products like lines of credit and working capital loans,” Middleman explained.

Middleman segmented the small business market by annual sales, explaining that credit unions tend to dominate the microbusiness market, defined as businesses with annual sales less than \$250,000. However, these businesses rely on personal loans and credit cards for financing. More established businesses, however, are looking for traditional financing.

Credit unions need to offer what more substantial small businesses need as well, Middleman said, noting a recent focus group of business owners who stated that credit unions don't appear have the products or infrastructure to serve them.

Currently only a small percentage of credit unions require small business borrowers to keep their primary checking account at the credit union, while more than 60% of banks require this. "Having the operating checking account at the credit union is a source of no-cost core deposits," Middleman said. "Plus it is on-demand risk management, as the credit union can see if business cash flow begins to falter."

Conversely, Middleman also pointed out that credit unions have some clear advantages over banks, which are beginning to see credit unions as a threat to keeping their small business customers.

Two factors small businesses consider when selecting a lender are the speed of approval and the stability of the institution.

"Speed is critical," Middleman said. "This is where credit unions have an advantage. With the lack of bureaucracy, and being close to members and local businesses, credit unions can be fast. Banks often have centralized lending which takes extra time for handoffs and communication."

Credit unions' local decision making abilities are another clear advantage, as the CEO of the credit union is typically right in the community with the business owner. Plus, there are fewer mergers taking place at credit unions than at banks. This stability is very important to small businesses.

Industry experts predict the rising demand for credit from small businesses in 2015 cannot be met solely by national and community banks. This means businesses will turn to credit unions, which as an industry have made a solid, steady climb in MBL totals, increasing overall business lending by 56% since 2008. Business lending at community banks actually decreased by 24% in the same timeframe.

The challenge, according to Middleman, is for credit unions to balance this increased demand while maintaining diligent underwriting standards and credit quality.

Studies also show that overall, credit union members are significantly more engaged with their financial institution than bank customers, which means credit unions have a significant opportunity with owners of small businesses who are already members. Middleman commented, "Credit unions need to get the product package up to par with banks, then the real opportunity for serving small business members will grow exponentially."

### **About CU Business Group**

Established in 2002, CU Business Group, LLC, provides a wide array of business lending, deposit, and consulting services to credit unions nationwide. CU Business Group provides products and technical expertise to credit unions with advanced business programs, and all the basics for those just starting out. Based in Portland, Oregon, with offices in the West, Southwest and Eastern U.S., CU Business Group has a staff of 36 professionals and is the largest business services CUSO in the industry, serving more than 470 credit unions in 45 states. For more information, visit [www.cubg.org](http://www.cubg.org).

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