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# Competition is heating up between Colorado banks and credit unions for commercial business

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Hillary Mantelli and her husband Doug dreamed about owning a business while raising their two sons. They first went to Play It Again Sports to get gear for their children, who participated in many different activities.

“They outgrew sports equipment so fast,” Mantelli said.

A trademark of the Minneapolis-based retail business Winmark Corp. (Nasdaq: WINA), Play It Again Sports stores, which sell new and used equipment, are each run as franchises. When a location in Castle Rock went up for sale in April of 2014, Mantelli and her husband bought it. Soon afterward, they decided to apply for a loan with the U.S. Small Business Administration but Mantelli opted to go through a credit union rather than a bank for it.

“A friend introduced us to the credit union concept and it just felt like the right choice,” Mantelli said. “They were so helpful navigating the SBA process and there was just a more personalized touch. I’ve been part of banks, but the credit union just felt like the right direction to go in.”

A growing number of small business owners are choosing Colorado-based credit unions over Colorado-based banks to meet their financial needs. Scott Earl,



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president and CEO of local trade group Mountain West Credit Union Association, told Denver Business Journal that the state's credit unions are growing at an even faster rate than their peers across the U.S. Through June 2019, Earl said year-over-year memberships in Colorado credit unions grew 4.6% in comparison to the national growth rate of 3.7%.

"Oftentimes, small businesses aren't able to get loans at banks, and credit unions are a better option for them — and because there are fewer local banks, consumers, especially small businesses, are turning to credit unions to invest in their businesses as well as their communities," Earl said in an email interview.

A DBJ analysis of headquarters locations, branch counts, total assets and SBA lending data shows credit unions taking the lead over local banks in several growth measurements, despite their different business models. And the banks have noticed. The American Bankers Association, the Colorado Bankers Association's national counterpart, has increased its lobbying against credit union tax exemptions over the past few years.

"Credit unions have grown so big here and the question is: Are these credit unions serving their purpose to aid low-income people?" asks [Amanda Averch](#), a spokeswoman for the Colorado Bankers Association.

## **Catalysts for competition**

Two events this year — the first-ever attempt by a Colorado-based credit union to acquire a Colorado-based bank and a clash between the [Colorado Bankers Association](#) and a credit union over the credit union's new headquarters building — have highlighted the growing tension between local banks and credit unions in the Centennial State.

In September, Boulder-based [Elevations Credit Union](#) announced that it planned to acquire the assets of Greeley-based Cache Bank & Trust. It is the first attempt to do so in state history, although [Gerry Agnes](#), president and CEO of Elevations Credit Union, previously told DBJ that this is a growing trend in the credit union sector.

For instance, Tampa-based Suncoast Credit Union recently announced its plans to buy Miami-based, \$746 million-asset [Apollo Bank](#) in what it says is the largest bank acquisition by a credit union in U.S. history.

With more than \$2 billion in assets, Elevations Credit Union is the fourth-largest credit union in the state, whereas Cache Bank & Trust had slightly more than \$121.7 million in assets as of June 30.

“This is not unique in the industry,” Agnes said. “... Credit unions have become much larger and sophisticated community financial institutions and the community bank market over the years has shrunk.”

The deal is still awaiting approval by state and federal agencies that regulate both credit unions and banks. Averch, the Colorado Bankers Association spokeswoman, said CBA representatives plan on testifying with “concerns” about the acquisition when it is discussed at a future Colorado State Banking Board meeting.

The Colorado Bankers Association more directly sparred with Colorado Springs-based ENT Credit Union — which is the largest credit union headquartered in Colorado and would be the third-largest bank holding company in the state as measured by assets if it were a bank — over its new headquarters in late October.

The association and members of the group tweeted several criticisms of the credit union after ground broke on its future five-story, 300,000-plus-square-foot headquarters in Colorado Springs.

“How do you spin this? Our should-be tax dollars at work?” Tom Ashley, the regional president of Denver-based ANB Bank and a member of the Colorado Bankers Association’s Government Affairs Council, tweeted on Oct. 24. The Federal Credit Union Act exempts credit unions from paying state and federal income taxes.

If they were banks, Colorado-headquartered credit unions would have paid in the ballpark of just over \$5.7 million in taxes, given Colorado’s 4.63% corporate tax rate on their net income of \$124.1 million as of June 30, according to NCUA data.

A 1979 Internal Revenue Service explanatory memorandum noted that credit unions are exempt because they are organized without using capital stock and benefit members who share a common denominator, such as teachers. Additionally, the memorandum said that credit unions are exempt because they aid low- and moderate-income communities by offering them credit.

Credit unions do pay other taxes including property taxes. In 2018, Colorado credit unions paid \$117 million in direct taxes, said Earl, of the Mountain West Credit Union

Association.

“Credit unions do not pay state and federal income tax, and this is because of their structure as member-owned, not-for-profit financial cooperative[s],” Earl said.

“Because of this structure, there are no profits to tax. Instead, the money is returned to their members in the form of lower interest rates, higher dividends and lower fees. ... Banks regularly use tax exemption as a red herring to avoid the reality.”

## **Four measures of growth**

But credit unions have gained on banks headquartered in the state on several fronts. DBJ analyzed Federal Deposit Insurance Corporation, National Credit Union Administration and SBA data to see how credit unions and banks compared in four measures:

### **1. Headquarters**

Both local banks and credit unions have undergone closures and out-of-state acquisitions since the Great Recession. There were fewer credit union and bank headquarters in the state as of June 30, 2019, in comparison to June 30, 2009, but this year marks the first time in the last 10 years that there are more credit unions headquartered in Colorado than banks, according to FDIC and NCUA data as of June 30.

While there are fewer than a hundred of each headquartered in the state as more and more out-of-state banks and credit unions move in, there were 81 credit unions headquartered in Colorado versus 77 banks.

### **2. Assets**

Both Colorado-based credit unions and banks have seen their total assets grow over the last 10 years.

Earl, of the Mountain West Credit Union Association, said he believes this is in part due to the fact that Colorado’s population has exploded during that time period.

“Because credit unions are inherently local, it only makes sense that we would see so many based in our state. ... With the growth of population that we have seen in

Colorado, it is a natural expectation that credit unions based in the state would see growth,” Earl said.

The assets of Colorado-headquartered credit unions have skyrocketed from more than \$14.7 billion in mid-2009 to more than \$26.7 billion in mid-2019. In comparison, Colorado-based banks have seen a much more steady increase from more than \$51.8 billion in mid-2009 to more than \$58.2 billion in mid-2019. There have also been several dips in bank assets during this time, with a low of \$44.4 billion in 2012, whereas credit unions in the state have only seen their numbers increase.

### **3. Branches**

Local and national banks and credit unions alike have decreased the number of branches they have in Colorado. This is due to a combination of bank and credit union ownership consolidation and the growth of digital banking.

“We are continually working to strike the right balance between traditional branch banking and the investment required to deliver the digital conveniences that our clients expect us to deliver,” Patrick G. Sobers, NBH Bank’s executive vice president and head of consumer banking and president of Community Banks of Colorado, told DBJ after the bank decided to close four branches in October.

The number of branches in the state owned by Colorado-headquartered banks has plummeted from a high of 832 in mid-2009 to a low of 514 in mid-2019. In comparison, the number of credit union branches have remained more steady, falling from a high of 319 in mid-2010 to a low of 279 in mid-2016 and rising back up to 299 in mid-2019.

It’s important to note that many of the bank and credit union branches of formerly Colorado-based financial institutions still exist, as the out-of-state acquirers didn’t close all of the branches once the acquisitions were finalized.

### **4. SBA Lending**

Only four of the 1,297 7(a) SBA loans processed by the SBA’s Colorado district office between Oct. 1, 2018, and Sept. 30, 2019, were made by credit union lenders, according to a DBJ analysis of data provided by the SBA.

But Colorado credit unions are building out their business teams. For example, in mid-November, Boulder-based Elevations Credit Union announced that it had hired Juan Evans to serve as a business banking relationship manager for the northern Denver area and U.S. 36 corridor.

“Adding Juan to our team is a critical step in expanding our ability to serve small businesses in the metro Denver area,” Ken Bauer, Elevations’ vice president of business lending, said in a statement. “His experience and passion for his clients is readily apparent to all who have had the opportunity to work with him.”

Earl, of the Mountain Credit Union Association, also noted that commercial loans made by Colorado credit unions grew 20.6% during the four quarters between June 2018 and June 2019. There are now five Colorado-headquartered credit unions — Bellco Credit Union, Canvas Credit Union, Denver Community Credit Union, ENT Credit Union and Westerra Credit Union — that have loan guaranty agreements with the SBA.

### **Why credit unions are gaining**

Credit union experts believe a combination of awareness and community banking consolidation are the main reasons behind the rise of credit unions in the state.

After Luke Micheal Beard spent 20 years working in real estate, he and his wife Renda Beard founded Denver-based Great Way Real Estate and Insurance. They now have 80 agents working with them on deals in Colorado, California and Arizona.

Renda Beard previously worked in banking and considered opening up a business account at a bank, but then one of her employees referred her to Canvas Credit Union. She and her husband decided to create a business account with Canvas and haven’t looked back.

“They get to know you more, which is nice, and being on the real estate side, they offer lower home equity lines and have promotions that regular banks don’t,” Beard said.

She said she and her husband would have joined a credit union earlier, but didn’t realize that they offered services to businesses.

Tansley Stearns, chief people and strategy officer at Canvas Credit Union, believes the growing awareness about credit unions in general has helped increase memberships in the state.

“We haven’t done ourselves justice in telling our story,” Stearns said. “We have to not only tell our story better, but also get rid of jargon.”

Words like “membership” and “cooperative,” along with general financial terms, often confuse prospective clients. In order to combat this issue, “jargon jars” were placed around Canvas Credit Union offices. Employees put money into the jars anytime they used a “jargony” word (the money went to charity).

“Let’s talk to people the way we talk to our friends,” Stearns said.

Stearns and Earl both said the growth of credit unions in the state is also a reflection of the growth in out-of-state acquisitions of Colorado community banks.

Six Colorado bank-acquisition announcements were made in 2018, the highest number in the last five years, and five more bank acquisitions have been announced so far this year. An analysis of FDIC and NCUA data by the Credit Union National Association found that in Colorado as of June 30, 77.3% of deposits in Colorado went to the largest 25 banks in the country, 13.7% went to credit unions and 9% went to smaller banks.

“... Community banks are suffering at the hands of mega-banks, not credit unions,” Earl said.

Concerns about big bank ownership led Byron Bateman, president, CEO and chairman of the board of Cache Bank & Trust, to sell his bank’s assets to Elevations Credit Union. He previously told DBJ that credit unions are in a great position to serve community bank customers due to their focus on members versus shareholders.

“We didn’t go into this deal lightly,” Bateman said in a statement. “We know Elevations is best suited to make long-term investments to ensure our customers have the financial solutions that are right for them, and we are confident this will be a great opportunity for all involved.”

**Monica Vendituoli**

Reporter

