



Credit Union National Association

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January 19, 2010

DANIEL A. MICA  
PRESIDENT & CEO

The Honorable Harry Reid  
Majority Leader  
United States Senate  
Washington, DC 20515

The Honorable Mitch McConnell  
Minority Leader  
United States Senate  
Washington, DC 20515

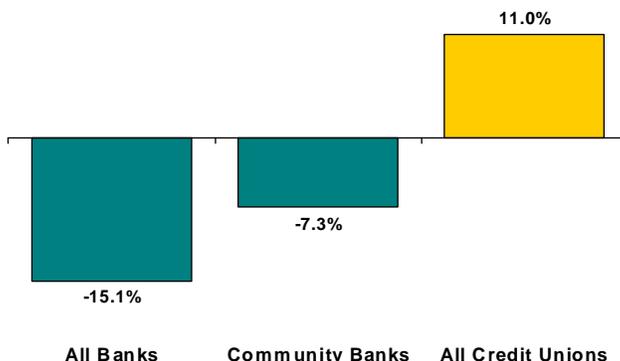
Dear Majority Leader Reid and Minority Leader McConnell,

On behalf of the Credit Union National Association (CUNA), I am writing to urge you to support S. 2919, the Small Business Lending Enhancement Act, and to include it in the jobs creation legislation that the Senate is expected to consider this winter. CUNA represents nearly 90% of America's 7,800 state and federally chartered credit unions and their 92 million members.

We were disappointed to see today's American Bankers Association letter opposing S. 2919 and discouraging you from including it in jobs creation legislation. The bankers' once again oppose efforts aimed at providing small businesses with capital, and offer no alternative to address the current problems facing small businesses – problems that they have helped create and appear to be doing little to help alleviate.

Banks and other financial institutions have pulled back access to credit, and small businesses owners are feeling the effects of the banker action. Numerous small business surveys report that tight credit is one of the significant drags on small business today. And, an increasing number of small business owners are telling policy makers that they are being turned away by their banks. Recent call report data suggests that banks – both large and small – are turning away many business borrowers. The graph below reveals that bank business loan portfolios are shrinking, while credit union business loan portfolios are growing.

**Business Loan Growth**  
12 Months Ending September 2009



Source: FDIC, NCUA & CUNA E&S. Community banks are defined as banks with less than \$1 billion in assets.



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Credit unions remain willing to lend to their small business-owning members. Allowing credit unions to extend loans to these credit starved businesses will add fuel to a self-sustaining economic expansion. Increasing competition in the small business loan marketplace will increase the efficiency of capital allocation. Businesses will choose credit union loans over community bank loans only if credit unions provide a product that provides an overall better value. And credit union competition will ensure that banks are treating their small business customers more fairly.

If Congress enacted legislation that increases the statutory credit union business lending cap, as S. 2919 would do, credit unions could lend up to \$10 billion to small businesses this year, helping them create over 108,000 new jobs. This will not solve the entire problem facing small businesses, but it will provide meaningful assistance at no cost to taxpayers and without increasing the size of government.

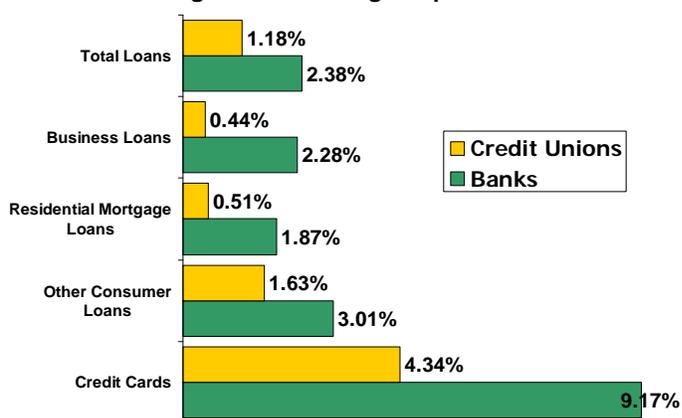
### **Credit Unions Have a History of Providing Business Loans to Their Members**

Credit unions have been lending to their business-owning members since credit unions' inception in the United States over a century ago. Prior to 1998, there was no statutory cap on the amount of business lending a credit union could provide to its members, and when the cap was imposed on credit unions, as part of legislation to permit them to continue serving their members, Congress grandfathered a number of credit unions that had a particularly strong history of business lending. To suggest, as the ABA has, that increasing a decade-old statutory cap on business lending would somehow permit credit unions to stray from their original mission ignores the well-documented history of credit unions providing business credit to their members.

### **Credit Union Business Loans Are Performing Better Than Similar Bank Loans**

The bankers' assertion that raising this cap would increase the risk exposure of credit union lending portfolio is curious considering the fact that credit union loan delinquency and charge-off rates are significantly better than the bank rates for similar-sized business loans. Credit unions, as not-for-profit cooperatives tend to be quite risk averse, and manage their portfolios accordingly. The chart on the next page demonstrates this vividly by showing annualized loan loss rates at credit unions and banks over the first three quarters of 2009.

### Credit Unions: A Record of Safe Lending Loan Charge-Offs – Through Sept. 2009 Annualized



Source: FDIC, NCUA & CUNA E&S.

Across the board, the credit union loan loss rate is about half that of banks (1.18% vs. 2.38%). For business loans in particular, the credit union loan loss rate is only one fifth of the same rate at banks (0.44% vs. 2.28%). Among the three major categories of credit union lending (residential mortgage, consumer, and business), business lending has the lowest loss rate.

To the extent an increase in business lending were funded by reductions in mortgage or consumer lending, a move to more business lending could even reduce the overall risk of the credit union loan portfolio because of both the lower recent loss experience on business lending and the effect of diversification. However, it is more likely that increased business lending would be funded by reduced holdings of investments, which tend to have very low credit risk, so there would be a minimal increase in the risk of credit union portfolios. Furthermore, current rules severely limit business lending by credit unions that are not adequately capitalized, and the NCUA has full authority to supervise business lending by credit unions. Increased business lending by credit unions would not be risk free, but it would certainly be very low risk.

#### **Increasing the Credit Union Business Lending Cap Will Permit Credit Unions to Continue to Be Part of the Solution to the Small Business Credit Crunch**

Finally, the bankers assert that Congress should not increase the credit union business lending cap because doing so would only benefit a small number of credit unions. They are focusing only on the small number of credit unions within one percent of the cap. This ignores the effect of the cap on credit unions approaching the limit as well as those that do not engage in business lending because of the cap.

Most of the business lending at credit unions is concentrated in those getting close to the cap. In other words, credit unions with the most active business lending programs are beginning to bunch up under the cap. Over half of member business loans are in

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credit unions with over 7.5% of assets in business lending. These credit unions have contributed much of the recent growth in credit union business loans, and their contribution is likely to fall dramatically in the next few years without an increase in the cap.

It is also important to keep in mind that credit unions do not simply lend up to the cap and then suddenly stop lending. The closer a credit union gets to the cap, the more it will slow business lending growth. So, while the ABA claims that only 41 credit unions are within one percent of the cap, there are over 300 that have more than 7.5% of their assets in business lending and now see their loan growth slowing as they approach the cap. Even though the *number* of credit unions close to the cap may not be large, these credit unions represent a substantial portion of credit union business loans (25%), and without an increase in the cap more credit unions will join this group. Business lending credit unions subject to the cap account for 75% of all credit union assets. Although only 10% of assets are in credit unions very close to the cap, at recent growth rates, this proportion will rise substantially.

Moreover, the existence of the cap not only serves as a limit on the amount that active business lending credit unions can lend, but also as a deterrent to engaging in business lending for those credit unions that do not offer business loans. Credit unions that would otherwise consider offering business loans choose not to do so because the cost of hiring the experienced staff necessary to do this lending safely and soundly outweighs the benefit of offering business loans when the cap may be met relatively quickly.

### **Conclusion**

S. 2919 will help small businesses access credit and create jobs. We believe that increasing the statutory cap on credit union business lending could result in credit unions lending up to \$10 billion in new capital to small businesses in the first year after enactment, helping them to create over 108,000 new jobs.

On behalf of the 92 million members of America's credit unions, we urge you not leave this money unused nor let these jobs go uncreated because the bankers who caused the crisis oppose credit unions. Please include S. 2919 in job creation legislation.

Sincerely,

A handwritten signature in cursive script that reads "Daniel A. Mica".

Daniel A. Mica  
President and CEO