

**WRITTEN STATEMENT
OF
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ACTORS FEDERAL CREDIT UNION
ON BEHALF OF THE
CREDIT UNION NATIONAL ASSOCIATION
BEFORE THE
SMALL BUSINESS COMMITTEE
U.S. HOUSE OF REPRESENTATIVES
MARCH 8, 2007**

Chairwoman Velazquez, Ranking Member Chabot, and other members of the Small Business Committee, I am Jeff Rodman, President of Actors Federal Credit Union in New York City. I appreciate this opportunity to appear before the Committee on behalf of the Credit Union National Association (CUNA) and to express the Association's support for legislation to improve the Small Business Administration's 7(a) Loan Guaranty Program and make the program more affordable and accessible to small business owners and smaller lenders. CUNA is the nation's largest credit union advocacy organization, representing over 90% of our nation's approximately 8,800 state and federal credit unions, their State credit union leagues, and their 88 million members.

Actors Federal Credit Union, located in the heart of New York City's theater district, has over \$86 million in assets and serves over 16,000 members in the entertainment community. Founded in 1962 by members of Actors' Equity Association, Actors FCU serves 75 different groups involved in theater, dance, music and motion pictures, as well as behind-the-scene workers involved in makeup and hair, studio mechanics, camera and lighting, and theatrical wardrobe. Some noteworthy facts about Actors FCU's history include giving our first mortgage to the late actor Jerry Orbach in the 1960s and having Angela Lansbury become our ten thousandth member in 1979.

In addition to providing an array of traditional financial services, Actors FCU offers an unusual and unique small business lending program. Our loan products must respond to the unique needs and circumstances of our members, many of whom would be considered bad credit risks at local banks because of the periodic nature of their work or lack of standard income documentation. We also make many loans that would be considered too small for most banks to consider. For example, Actors has made over \$2 million in small loans for financing musical instruments.

Madam Chair, Actors has considered participating in SBA's 7(a) program for some time and believes it would both expand and enhance our business services to members. We received numerous inquiries about 7(a) loans from members seeking larger loans to purchase equipment for a production company or costumes for a theater group. Unfortunately, we have found the process for qualifying as an SBA lender, and the requirements for underwriting and servicing individual loans, to be too cumbersome and

time consuming to recoup the expense for the small size or number of loans we would make. Recent increases in both lender and borrower fees for the 7(a) program provide an additional disincentive for initiating a full 7(a) loan program that many of our members may find to costly to use.

Credit Union Involvement in SBA's 7(a) Loan Program

CUNA is a strong supporter of the 7(a) loan program, which provides America's 26 million small business owners with the capital and technical assistance needed to start and expand their businesses. We view the 7(a) program as an essential tool for achieving the credit unions' mission of serving all the credit needs of members, particularly low- to middle-income individuals and groups living in communities that are not adequately served by other traditional financial institutions.

We want to commend Chairwoman Velazquez for her sponsorship in recent years of amendments to the Science, State, Justice and Commerce Appropriations bills to increase annual appropriations for the 7(a) program in order to reduce costs to both borrowers and lenders. CUNA was pleased to be part of a coalition of 20 business groups advocating for these important amendments. We also commend the Chairwoman for her recent leadership in opposing the significant cuts proposed in SBA's core programs in the Administration's FY2008 budget request.

While CUNA strongly supports the 7(a) program, its member credit unions have not been major participants in the program. Currently, less than 2% of all U.S. credit unions offer SBA loans to their members. While larger credit unions are more likely to be involved with SBA loans, and business lending generally, only about 18% of larger credit unions with more than \$500 million in assets offer 7(a) business loans. While the number of credit unions participating in the 7(a) program has increased steadily since 2003, SBA-guaranteed loans represented only a small portion (2.6%) of all business lending to credit unions members in 2006.

Several important factors have discouraged larger numbers of credit unions from participating as 7(a) lenders. First, Congress imposed overly strict limits on credit union business lending as part of the 1998 Credit Union Membership Access Act (CUMAA). From their inception in the early 1990s, credit unions had been active business lenders with no limits on the volume of business loans they could originate or hold. CUMAA imposed additional regulation on member business activity and a loan volume cap of 12.25% of credit union total assets. This arbitrary cap had no basis in either actual credit union business lending or safety and soundness considerations. Indeed, a subsequent report by the U.S. Treasury Department found that business lending by credit unions was more regulated than other financial institutions, and that delinquencies and charge-offs for credit union business loans was "much lower" than that for either banks or thrift institutions.¹

¹ Credit Union Member Business Lending. U.S. Department of the Treasury, January 2001.

The effect of the 12.25% business loan cap has been to discourage credit unions from initiating business lending programs. Given the added requirements and start up costs for an approved member business lending (MBL) program, including hiring of experienced staff, many credit unions fear that these added costs can not be recovered with a lending limit of only 12.25% of assets. As a result, the number of credit unions offering MBL programs has increased by only 350 over the past decade. Today, only one in five credit unions have member business lending programs and aggregate credit union member business loans represent only a fraction of the commercial loan market.

A second factor limiting credit union participation has been SBA policies that, until 2003, limited credit union eligibility to participate in the 7(a) program only to credit unions with geographic or community charters. Since the number of credit unions with community charters still represented a small percent of all credit unions, this severely limited credit union access to the program. Fortunately, SBA issued a revised legal opinion on February 14, 2003, removing restrictions on the types of credit unions eligible to participate as 7(a) lenders. CUNA applauded the SBA and Administrator Hector Barreto for this important change that now permits all credit unions that are able to meet the SBA's eligibility requirements to participate in the program. Today, as reported by the SBA, over 250 credit unions offer SBA 7(a) loans.

While SBA's 2003 policy change was good news for credit unions, it may prove to be even more important for small businesses. As we understand from the SBA, many small businesses have difficulty obtaining funding through banks or other lenders to start or maintain their businesses, particularly when the small business is seeking a loan of less than \$150,000. Given the fact that the average size of credit union member business loans is \$166,506, and the average credit union SBA 7(a) loan is \$87,600, this is a market that credit unions are well suited to serve. And this is a market that credit unions are eager to serve.

Credit Union Concerns Regarding SBA's 7(a) Loan Program

CUNA is hopeful that credit union participation in the SBA 7(a) program will continue to grow. However, credit unions will have a difficult time increasing participation when faced with the current roadblocks of increased fees and inadequate funding of the SBA's programs.

The decision in 2005 to provide a zero-subsidy for the 7(a) program has dramatically altered the program. While intended to make the program self-sustaining and free from the uncertainties of annual appropriations, the change has prompted SBA to increase the maximum size of 7(a) loans and force borrowers to pay substantially higher fees. As Chairwoman Velazquez noted last year, this has meant additional fees for smaller to mid-sized 7(a) loans ranging from \$1,500 to \$3,000.

These higher fees, in combination with the paperwork burdens of processing regular 7(a) loans, have discouraged many small to mid-sized credit unions, like Actors Federal Credit Union, from participating in the program. Credit unions currently participating in the program also complain that their members, and even many prior SBA borrowers, are

finding it difficult to accept higher fee 7(a) loans. Many are dismayed to see members who have declined higher-fee 7(a) loans go to private lenders and venture capitalists that offer loans with much lower fees, but at much higher rates and/or other loan stipulations that cost the small business owner much more in the long term.

CUNA strongly supports legislative initiatives that permit the SBA to reduce borrower and lender fees for the 7(a) program to the greatest extent possible. We urge both this Committee and the Appropriations Committee to approve the highest possible FY2008 funding levels for the 7(a) program. Without this funding, the current zero-subsidy approach of the 7(a) program will discourage credit unions from participating in the program and force many participating small lenders out of the program. The result will be a far narrower program that does not adequately meet the needs of America's small business owners.

Initiatives to Encourage Small Lender Participation

CUNA also supports a number of additional proposals to encourage increased participation by credit unions and other smaller lenders in the 7(a) program.

Low-Documentation Loan Program: CUNA urges the Committee to direct the SBA to reinstate the 7(a) low-documentation loan program ("Low-Doc") that the agency terminated in 2005. Following its creation in 1994, the Low-Doc program became one of SBA's most successful programs by reducing the documentation required for smaller loans and streamlining the lending process. Low-Doc made the 7(a) process more cost efficient for lenders to make smaller loans, and also to make smaller numbers of loans. This is extremely important for credit unions, most of which continue to have restricted fields of membership and, thus, are limited in the number of 7(a) loans they can make in any year. Elimination of the Low-Doc program has forced many smaller lenders to leave the program, reduced the numbers of smaller 7(a) loans, and shifted more loans to higher-cost regional and national lenders. CUNA urges the Committee to authorize a new and expanded 7(a) Low-Doc program.

Community Express Loan Program: CUNA also requests that any legislation provide for permanent authorization and expansion of the Community Express loan program. Initiated by SBA as a pilot program in 1999, the Community Express program has operated as a development tool to target 7(a) loan assistance to small businesses located in low- and moderate-income communities, and to individual business owners from underrepresented segments of the population, including women, minorities, and veterans. Borrowers benefit from lower documentation requirements, a streamlined application process and free technical and management assistance. Given the historic mission of credit unions to meet the unique credit needs of individuals and groups not adequately served by other traditional financial institutions, the Community Express program offers a logical vehicle for increasing credit union participation in 7(a) lending. CUNA requests that the Committee not only provide permanent authorization for the Community Express program, but expand the eligible lenders to include community development credit unions and other qualified credit unions that serve underserved areas.

Prequalification Programs for Small Lenders: CUNA urges the Committee to consider innovative ways to further simplify current 7(a) loan documentation and processing requirements for credit unions and other smaller lenders. A possible approach would be to create a specialized prequalification loan program, structured along the lines of SBA's current prequalification programs for minorities, veterans and other target groups, that would permit local technical-assistance intermediaries to prequalify potential borrowers, match them with suitable local lenders, and expedite final approvals. At a minimum, CUNA urges that the current 7(a) Prequalification programs for minorities, veterans and other groups be expanded to encourage broader participation by credit unions and small lenders, and that priority for funding prequalified loans be given to interested and qualified local lenders.

Microloan Program: Many credit unions have extensive experience in making very small loans to members to fund part-time or second businesses. CUNA would urge the Committee to use this expertise by permitting qualified credit unions to serve as non-profit community based intermediaries for purposes of obtaining funding under the Microloan program and making loans to eligible borrowers. At a minimum, credit unions should be able to serve jointly as intermediaries with other non-profit organizations, quasi-governmental agencies or tribal organizations. We further urge that credit unions that qualify as intermediaries be permitted and encouraged to assist all potential microloan borrowers in the local area without regard to the credit union's specific field of membership.

Conclusion

In summary, I want to thank Chairwoman Velazquez and the Committee for providing CUNA with an opportunity to express its supports for adequate funding for the 7(a) program and for reforms to make SBA's important loan programs more accessible to credit unions and other small lenders. CUNA looks forward to working with the Committee to ensure that the 7(a) loan program remains a viable and attractive option for the critically important small business sector of our nation's economy.