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WRITTEN STATEMENT
OF
GRACE MAYO
PRESIDENT & CEO
TELESIS COMMUNITY CREDIT UNION
ON BEHALF OF THE
CREDIT UNION NATIONAL ASSOCIATION (CUNA)
BEFORE THE
HOUSE SMALL BUSINESS COMMITTEE'S
SUBCOMMITTEE ON TAX, FINANCE AND EXPORTS

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Chairman Bradley, Ranking Member Millender-McDonald, and other members of the Subcommittee, I am Grace Mayo, President and CEO of Telesis Community Credit Union. I appreciate the opportunity to represent the Credit Union National Association (CUNA) at this hearing to address the Small Business Administration's (SBA) funding level and fee structure for the 7(a) Guaranteed Loan Program, as well as a legislative proposal that would increase credit unions' ability to better serve their members who are small business owners. CUNA is the largest credit union advocacy organization, representing over 90% of our nation's approximately 8,800 state and federal credit unions and their 87 million members.

Telesis Community Credit Union has over $500 million in assets and serves more than 36,000 members. I also serve as Chairperson for Business Partners, LLC, a Credit Union Service Organization (CUSO) that is cooperatively owned by 14 credit unions and serves over 160 credit unions nationwide. Business Partners, LLC was established in 1995 to assist credit unions with member business services and SBA lending programs. The organization serves credit unions that do not have the expertise to offer business loans, providing in-house origination, underwriting, loan participation and quality control services.

CUNA applauds the Chair for holding this important hearing, and looks forward to working with Congress to address the SBA program funding concerns facing today's small business owners and lenders alike.

Credit Union History with SBA's 7(a) Loan Program

CUNA is a strong supporter of the 7(a) loan program, which provides America's small business owners with capital to start or expand their businesses. Previously, the SBA had taken the legal position that credit union participation in the 7(a) program had to be limited to generally those credit unions with common bonds based on geography. As only one in five of the nation's approximate 8,800 federal and state credit unions are

community chartered, this interpretation severely limited the ability of small businesses to obtain SBA-guaranteed loans through a credit union.

On February 14, 2003, the SBA issued a legal opinion removing restrictions on the types of credit unions that may participate as lenders in the 7(a) program. CUNA applauded the SBA and Administrator Hector Barreto for these bold steps. As a result, all types of credit unions that are able to meet the SBA's eligibility requirements are able to participate in the program. Today, as reported by the SBA, over 250 credit unions offer their members SBA 7(a) loans.

While this is very good news for credit unions, it may be even better news 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 $100,000. However, given the fact that the average size member business loan is $166,506, while the average credit union SBA member business loan is $94,744, this is a market 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. Recent research published by the SBA in 2004 reveals that "credit access had been significantly reduced for small businesses," largely in part because of the consolidation in the banking industry. However, credit unions will have a difficult time increasing participation in the 7(a) program faced with the current roadblocks of increased fees and inadequate funding of the SBA's programs.

CUNA strongly supports legislative initiatives to reduce the program's fees and has advocated for the highest possible appropriation in order to keep the program even more beneficial to small business and accessible to credit unions. CUNA believes that the greater the number of available sources of credit to small business, the more likely a small business can secure funding and contribute to the nation's economic livelihood.

Our concerns about the 7(a) program relate mostly to the issue of whether the SBA is sufficiently funded, and the ability for credit unions to continue accessing this program if the fee structure continues to increase. The increasing fees have made the program very expensive for small businesses and lenders, and could have the unintended consequence of blocking credit union access to this program – thus impeding small business access to the smallest of loans.

This year, additional fees have been proposed and existing fees are set to be raised further, making the program even more expensive. The aftermath of Hurricane Katrina is also expected to cause the program's costs to rise in the near future due to an increase in defaults. Additionally, as a result of shifting the full cost to businesses and lenders, the 7(a) program has been destabilized. Without adequate funding, there are only two ways

to manage the program's costs -- either raise fees on businesses or scale back the program.

Let me provide you a couple of examples of the types of SBA 7(a) loans that were issued through Telesis Community Credit Union:

> *One of our credit union members took out a $250,000 SBA 7(a) loan to open a small, non-traditional form of health care business in the southern California. The individual trained in China in traditional Chinese medicine, and was a top student in her class for each of the 5 years spent in medical school winning several awards for her outstanding achievements. Upon graduation, she worked in China for several years as traumatologist, and developed several very effective treatment regimens for afflictions such as musculoskeletal pain syndrome and infertility. She came to the United States and is now currently licensed in California as a Board Certified Acupuncturist. She utilized the proceeds of her SBA guaranteed loan to purchase furniture and fixtures for her clinic, and the machinery and equipment needed to keep the ancient Chinese medicine current and up-to-date in the western technological world.*
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> *A second example is a $625,000 SBA 7(a) loan our credit union made to a woman who wanted to expand her child care program in Sacramento, California. This woman currently had an established program for two years, however the business struggled with finding adequate facilities to take on additional enrollments to enable the business to gain a stronger financial footing. Due to the tight financial picture, the owner was only able to put down 10% of the purchase price of $525,000 which made her ineligible for most commercial real estate programs (other than the SBA guaranteed 7a program). With their 10% down payment, Telesis Community Credit Union was able to finance the purchase of the real estate for the new facility ($472,500) as well as provide additional funds to purchase furniture and fixtures ($102,500) and supply much needed working capital ($50,000) to aid the business until construction was complete. The original facility could accommodate 54 children; the new facility now houses 110 children.*

Without funding, we will see higher costs imposed on small businesses and a narrower program that does not fully meet the needs of small businesses. Some credit unions are already facing objections from their members to the increased fees for the 7(a) loans. Credit union members used to the reduced fees or free services of their credit union find it difficult to accept a higher fee for a SBA 7(a) loan. Many credit unions, including mine, have been approached by lenders and venture capitalists that are seeking to get referrals of business owners who were interested in, but declined, our SBA lending programs. In some of these cases, these entities have offered lower fees for the business loan, but at much higher rates and/or other loan stipulations that cost much more to the small business owner in the long term.

Going forward, we urge Congress and this Subcommittee to reconsider the importance of the 7(a) program in helping to support small businesses in this country and improve the funding process for this very significant program by pursuing legislation that would reduce the program's fees without affecting the program level and restoring the $80 million appropriation for FY2007.

Need for Reform of Credit Union Member Business Loan (MBL) Limits

A second major roadblock that is threatening credit unions' ability to expand into the SBA 7(a) loan program is the current 12.25% credit union MBL cap. CUNA strongly supports H.R. 2317, the *Credit Union Regulatory Improvements Act* (CURIA) which proposes, among other things, to increase the current 12.25% cap to 20%, and increase the business loan threshold from $50,000 to $100,000. Though the government guaranteed portion of the SBA 7(a) loan is exempt from credit unions' current 12.25% MBL cap, credit unions can only offer SBA loans if they have a formal business lending program. The arbitrary limits that are currently in place greatly restrict many credit unions' ability to offer business loans, and as a result, prohibit credit union access to the SBA 7(a) loan program.

Some mistakenly believe that credit unions first obtained authority to lend to businesses with the passage of the Credit Union Membership Access Act (CUMAA) in 1998. On the contrary, CUMAA imposed statutory limits on credit union member business lending for the first time; until then, NCUA addressed business lending activities of credit unions through supervision and regulation. The CUMAA-imposed limits are expressed as a 1.75 multiple of net worth, but only net worth up to the amount required to be classified as well capitalized (i.e., 7%) can be counted. Therefore, the limit is (1.75 x 7) or 12.25% of assets for most federally insured credit unions.

Credit unions are not major players in business lending, although there are some credit unions which have a field of membership and expertise that would allow them to provide more businesses with more competitive credit options if permitted under the Federal Credit Union Act. (At mid-year 2005, the dollar amount of credit union member business loans was less than one percent of the total commercial loans held by all U.S. depository institutions. Credit union MBLs represent just 3.8% of the total of credit union loans outstanding, and only one in five U.S. credit unions offer MBLs. The average size of credit union MBLs granted in the first six months of 2005 was $166,506.)

Small businesses are the engine of economic growth, accounting for about one-half of private non-farm economic activity in the U.S. annually. Their ability to access capital is paramount. Their access is seriously constrained by the double-whammy of banking industry consolidation and the CUMAA-imposed limitations on credit union MBLs. FDIC statistics show that the largest 100 banking institutions now control over 70% of banking industry assets nationally – in 1992, the 100 largest banks held about 45% of total banking industry assets.

Basic problems with the current MBL limit include the following:

- **The limit is arbitrary and unnecessarily restrictive.** Insured commercial banks have no comparable business lending portfolio concentration limitations. Thrift institutions have portfolio concentration limitations, but those limitations are substantially less restrictive than the limits placed on credit unions in CUMAA. There is no safety and soundness reason that net worth above 7% cannot also support business lending. If all net worth could be counted, the actual limit would average between 18% and 19% of total assets rather than 12.25% of total assets.

- **The 12.25% cap discourages credit unions from entering into business lending.** Even though very few credit unions are approaching the 12.25% ceiling, the very existence of that limitation discourages credit unions from opening business lending departments. Credit unions must meet strict regulatory requirements before implementing an MBL program, including the addition of experienced staff. Many are concerned that the costs of meeting these requirements cannot be recovered with a limit of only 12.25% of assets. For example, in today's market, a typical experienced mid-level commercial loan officer would receive total compensation of approximately $100,000. The substantial costs associated with hiring an experienced lender, combined with funding costs and overhead and startup costs such as a data processing system to support this type of lending, present a serious barrier at most credit unions given the current 12.25% limitation.

- **The MBL threshold definition creates a disincentive that hurts small businesses.** The current $50,000 threshold for defining an MBL is too low and creates a disincentive for credit unions to make loans to smaller businesses. Permitting the threshold to rise to $100,000 would open up a significant source of credit to small businesses. The NCUA Board was on the verge of revising its regulations to move the threshold to $100,000 when Congress incorporated the then $50,000 regulatory definition into the 1998 law. Even business purpose loans up to $100,000 are so small as to be unattractive to many larger commercial lenders. A simple inflation adjustment of the $50,000 threshold, which was initially established by regulation in 1993, would result in a threshold figure of $65,000.

In reforming credit union MBL limits as proposed in H.R. 2317, Congress will help to ensure a greater number of available sources of credit to small business. More credit unions could enter the MBL market, and take advantage of the SBA's 7(a) loan program – which ultimately benefits the small business owner. This will make it easier for small businesses to secure credit at lower prices, in turn making it easier for them to survive and thrive.

Conclusion

In summary, Mr. Chairman, CUNA is grateful to the Subcommittee for holding this important hearing on the funding of key SBA programs. CUNA and our member credit unions look forward to working with the subcommittee to ensure the 7(a) Guaranteed Loan Program operates under a lower fee structure and is properly funded in order to help small business owners gain access to the capital they need to improve their business and our nation's economy.