CUNA
Credit Union National Association
cuna.org
Bill Cheney
President & CEO

601 Pennsylvania Ave., NW | South Building, Suite 600 | Washington, DC 20004-2601 | **Phone:** 202-508-6745 | **Fax:** 202-638-3389

February 14, 2013

The Honorable Ed Royce	The Honorable Carolyn McCarthy
Member of Congress	Member of Congress
United States House of Representatives	United States House of Representatives
Washington, DC 20515	Washington, DC 20515

Dear Representatives Royce and McCarthy:

On behalf of the Credit Union National Association (CUNA), I am writing to thank you for introducing the *Credit Union Small Business Job Creation Act*, legislation which would permit credit unions to more fully meet the credit needs of America's Small Businesses by increasing the statutory credit union member business lending cap. CUNA represents nearly 90% of America's 7,000 state and federally chartered credit unions and their 96 million members.

Your legislation is a commonsense economic recovery and job creation measure that would permit credit unions with experience in business lending to continue to lend to their small business members, without increasing the size of government. If enacted, we estimate that credit unions could lend an additional $13 billion to small businesses in the first year, helping them to create more than 140,000 new jobs.

The Credit Union Small Business Job Creation Act is fully consistent with both the history and mission of credit unions. Credit unions exist to promote thrift and provide access to credit to their members. Since their founding in the United States more than 100 years ago, credit unions have been serving the credit needs of their small business-owning members. While not the largest portion of credit union lending, small business lending is the fastest growing segment of credit union lending by a significant margin.

Unfortunately, since 1998, credit unions have been subject to an arbitrary statutory cap on business lending of 12.25% of a credit union's total assets; as a result, today, many credit unions are rapidly approaching the cap while others choose not to engage in business lending because of the cap. Your legislation is important because it would allow those credit unions approaching the cap to apply to the National Credit Union Administration (NCUA) for authority to lend beyond the cap – up to 27.5% of total assets. This approach is supported by the Obama administration, which worked with NCUA to help develop this legislation.

The opposition to this legislation proffered by the small bank lobby is well-known, but terribly flawed. In recent years, the bank lobby has argued this legislation would disrupt the "level" playing field that is small business lending while simultaneously arguing that the bill is unnecessary because relatively few credit unions are near the member business lending cap. Congress must not allow the banks to argue out of both sides of their mouth: either the bill is unnecessary – and therefore not necessary for them to oppose – or it disrupts the "level" playing field that allows them to enjoy 94% market share – which raises the question how much of the market do they need to be successful? Which is it? The answer is: neither.

The bank lobby's "level playing field" argument is rooted in an exaggerated concern over competition. The bank lobby is concerned that if credit unions – which have only 6% of the depository institution small business lending market – are allowed to do more business lending they will make loans that banks otherwise would have made, reducing bank profits. However, research on this point does not support the banks' argument. A study sponsored by the Small Business Administration suggests that 80% of the additional loans credit unions would make as a result of this legislation would be loans that banks would not make because they would be loans too small for a bank to consider, or made to borrowers either unwilling to deal with a bank or that have been turned down for credit by a bank.[1] Contrary to the bank lobby's assertion, your bill would expand the small business lending pie, not simply realign the slices.

Nevertheless, even in the highly unlikely scenario that the bank lobby is right and every single new loan that a credit union makes is a loan that a bank otherwise would have made, the result would be no more than essentially a doubling of credit union business lending, which would leave banks with a whopping 88% of the depository institution small business lending market. Does a market in which one entity controls 88% and the other 12% appear uneven? Yes, in favor of the dominant market participant, in this case the banks.

The bank lobby knows it has little ground to stand on with respect to its market competition argument, so they also argue that the bill is unnecessary because it would affect only a small number of very large credit unions. They want Congress to believe that, by virtue of the fact that a credit union is large, it has strayed from their mission. Sadly, this perspective ignores the fact that large credit unions have grown through the years because they are actively fulfilling their mission. More importantly, it ignores

[1] Wilcox, James. "The Increasing Importance of Credit Unions in Small Business Lending." Small Business Administration Office of Advocacy. September 2011. vi.

the fact that most of the credit unions approaching the member business lending cap are not large credit unions.

The truth of the matter is that there are just over 500 credit unions at or quickly approaching the cap, accounting for approximately 60% of credit union business lending. These credit unions are generally considered mid-sized and small credit unions, which makes sense since the cap is a percentage of total assets, so a smaller credit union is more likely to reach the cap faster than a larger credit union. If the cap is not increased, the ability of these credit unions to continue to be there for their small business-owning members will be jeopardized. This legislation is targeted toward those credit unions with business lending experience, and only permits credit unions which are well capitalized, close to the current cap and with a history of safe and sound business lending to apply for authorization to lend above the current cap level.

When the banks swing and miss on their competition argument and they are called on their misrepresentation of the impact of the legislation, they turn to an old familiar tune: credit unions are tax exempt and should not be allowed additional powers because it is not consistent with their mission. This is where the bank lobby strikes out.

Congress has conveyed an exemption from federal income tax to credit unions because they are not-for-profit financial cooperatives with a mission of promoting thrift and providing access to credit to their members, especially those of modest means. For the ninety year period between 1908 and 1998, the credit union tax status and unlimited business lending authority lived in perfect harmony. After the cap was imposed, credit union business lending actually expanded. **During the financial crisis, when many banks stopped lending to small business owners, credit unions fulfilled their mission and continued to lend**. Credit union small business lending increased 45% during the crisis, while bank small business lending decreased 15%. We know of several instances of banks referring credit-worthy customers to credit unions for business loans. **What credit unions did for their members – particularly their small businesses members – during the darkest days of the most recent financial crisis demonstrates precisely why it is absolutely critical that Americans have a credit union option in the marketplace, and why your bill is so important to enact as the economy continues to recover.** When other lenders fled the market, credit unions stood with those in need.

Your legislation says to the credit unions that stood with their business-owning members, keep lending. Keep serving the bakeries, the gas stations, the florists, and the carpenters; keep helping the restaurant owners, plumbers, independent grocers and shopkeepers.

The bank lobby opposes this bill because they oppose credit unions; their arguments are without merit. The bill will not endanger the small banks in your community; the bill will not alter the nature or focus of credit unions; the bill is not inconsistent with the credit union mission or the purpose of their tax status. This legislation recognizes that credit unions are working in their communities to help small businesses, and it is important to enact even though the bank lobbyists oppose it.

Credit unions understand that in order for the economy to fully recover, small businesses need access to credit, which will help their businesses grow. Credit unions have capital to lend, a history of prudent and safe small business lending, and a mission to help provide access to credit to their members—including their small business-owning members. They just need Congress to enact your legislation.

America's credit unions and their 96 million members stand ready to continue to be part of the solution to the economic problems our nation faces. To that end, we are encouraged by and appreciate your support for increasing the credit union member business lending cap. We encourage all Representatives to cosponsor this legislation, and hope the House will act quickly to pass your bill.

Best regards,

Bill Cheney
President & CEO