

**From:** Bill Cheney [<mailto:officeoftheceo@cuna.com>]

**Sent:** Monday, April 16, 2012

**To:**

**Subject:** Setting the Record Straight on Fitch Ratings Article Regarding Credit Union Small Business Jobs Act

Earlier today, you may have received a communication from the American Bankers Association regarding a "Fitch Ratings" article on credit union business lending dated April 3, 2012. I'd like to take this opportunity to set the record straight by presenting the rest of the story.

The article says that "limited [credit union business lending] experience could increase risk." This would indeed be the case if inexperienced credit unions were to jump into business lending; however, a number of credit unions have been engaged in business lending for decades. Further, S. 2231, the bill that would raise the credit union business lending cap, explicitly contains the following three provisions for a credit union to go beyond the current 12.25% cap:

- a. The credit union must have at least 5 years of experience making business loans.
- b. The credit union must have been above 80% of the cap for at least four quarters, and
- c. The credit union would be allowed to increase business lending by no more than 30% in any one year, under a tiered approach.

The article further states, "we believe that in the current environment credit-worthy businesses should experience little to no difficulty securing loans in the banking sector."

In general, any time there is an increase in the supply of a product, small business loans in this case, users of that product will find more of it available, on better terms, and more of it will be consumed. In other words, small businesses would benefit from this bill. Further, numerous studies have reported on shortages of small business credit during the recession and its aftermath. In fact, the latest NFIB monthly survey shows a reading of negative 11 for availability of credit.

The article perpetuates the banking trade groups' argument that, "credit unions do very little business lending, highlighted by the small amount of credit unions in danger of reaching or surpassing their 12.25% limit." This likely refers to the ABA's contention that only 29 credit unions are at the cap. They measure this as the number of credit unions with ratios of MBLs to assets between 11.25% and 12.25%. This analysis misses several important factors.

- a. There are about as many credit unions with MBL to assets ratios between 12.25% and 15% as between 11.25% and 12.25%. A few of these credit unions are grandfathered as having had a history of making MBLs before the 12.25% cap was imposed in 1999. The others may have experienced a reduction in assets after having reached the cap.
- b. We classify as "at the cap" all credit unions with MBL to asset ratios of 10% to 15%. For example, for a \$100 million credit union with MBLs equal to 11% of assets, just four or five average sized loans would put them over the cap. Credit unions in this group

essentially have to eschew any new business, keeping their limited remaining cap authority available for existing member borrowers. There are about 140 such credit unions.

- c. We classify as "approaching the cap" those credit unions with between 7.5% and 10% of assets in MBLs. On average, these credit unions will reach the cap in about two and a half years at recent growth rates. There are about 170 such credit unions.
- d. We classify as "feeling initial constraints of the cap" those credit unions with MBL to asset ratios of between 5% and 7.5%. At their recent fairly rapid growth rates, these credit unions too would be capped in about two and a half years. There are about 210 such credit unions.
- e. In total, these roughly 500 credit unions account for about 75% of credit union business loans subject to the cap. They have to progressively retard their business lending the closer they get to the cap.

Finally, the article concludes that "it would be difficult for credit unions to build up viable business lending activities for several reasons. At the onset, addressing infrastructure and capability would be challenging. As a part of business lending, a bank must have and relies on adequately trained staff (which includes business credit approval and monitoring infrastructure) and be able to provide competent business cash management services and other ancillary products. We believe smaller credit unions with limited resources might find it difficult to successfully compete in a larger business loan environment."

S.2231 would not require or even allow all credit unions, of all sizes, to ramp up business lending facilities. It would only allow those credit unions with extensive experience in business lending to exceed the current 12.25% cap. In other words, any significant increase in business lending at credit unions would come only from those credit unions that already have extensive experience in business lending. In addition, current National Credit Union Administration rules, under the current cap, require a credit union to use the services of an experienced individual (at least two years) before even setting up a business lending program.

The banking trade associations have inundated the Hill with misleading and blatantly false information regarding credit unions, their mission and their activity. The fact is that credit unions have been serving their members by offering business lending for more than 100 years (without a cap for the first 90 years), and the Udall-Royce Credit Union Small Business Jobs bill would allow those credit unions with the most experience to continue to lend to their members safely and soundly.

We encourage you to support S. 2231 / H.R. 1418, the Credit Union Small Business Jobs bill.

Best regards,

Bill Cheney

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