

CUNA Response to Objections to Raising the CU MBL Cap

CUNA Policy Analysis - March 15, 2010

Background:

- Total CU MBLs = \$36 billion
- CU market share of small business loans at depository institutions = 4.5%
- Average size CU MBL outstanding = \$210,000

Removing the Cap:

- Estimated increase in MBLs = up to \$10 billion in the first year after the cap is lifted.
- New jobs = 108,000 nationally in the first year after the cap is lifted.

Banker Claim: Raising the cap would undermine CU safety & soundness.

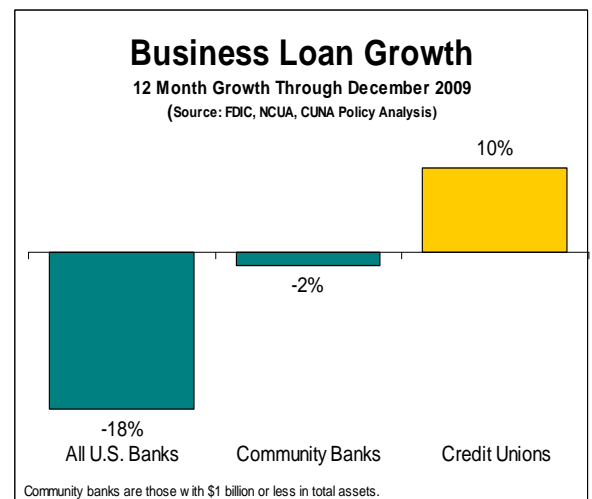
Facts: CUs have a long history of engaging in safe and sound business lending. Business lending at CUs is much safer than at other institutions:

- Since 1997, CU MBL net charge-offs rates have been **one-sixth** the bank average (0.15% vs. 0.82%)
- In 2009 CU MBL net charge-offs averaged **one-fourth** the bank rate (0.59% vs. 2.36%)
- CU MBL net charge-off rates are lower than net charge-off rates on CU consumer loans and essentially identical to the net charge-off rates on CU real estate loans.
- Most CUs have excess liquidity today which is depressing their overall earnings. Moving assets from low-yielding investments into higher-yielding MBLs, even after accounting for credit losses on those loans, will increase CU earnings, capital contributions, and overall safety and soundness.
- NCUA Chairman Matz emphasized in a February 24, 2010 letter to Treasury Secretary Geithner: “If legislative changes increase or eliminate the aggregate MBL cap, NCUA would promptly revise our regulation to ensure that additional capacity in the CU system would not result in unintended safety and soundness concerns.”

Banker Claim: There is no evidence to support the contention that credit for small businesses is in short supply - community banks have been lending throughout the economic crisis.

Fact: There is no doubt that there has been a reduction in the demand for business credit as a result of the recession. However:

- In a recent study, the National Federation of Independent Business reported that only . . . “Forty (40) percent of small business owners attempting to borrow in 2009 had all of their credit needs met. . . The current level of borrowing success is significantly lower than in the mid-2000s when up to 90 percent had their most recent credit request approved.”
- Many small business owners are telling policy makers that they are being turned away by their banks - a primary reason that Congress has held several hearings on this subject.
- Banks – both large and small – are turning away business borrowers. Bank business loan portfolios are shrinking, while CU MBL portfolios are growing. Allowing CUs to extend MBLs to those who need credit will add fuel to a self-sustaining economic expansion.



Banker Claim: Raising the cap will harm community banks.

Fact: CUs hold just 4.5% of all small business loans at depository institutions. It took CUs 100 years to reach this market share. Even if CUs doubled their share banks would hold an overwhelming 91% share.

Banker Claim: Raising the cap is unnecessary - few CUs are now near the 12.25% MBL cap.

Fact: For the past several years, MBLs have been the fastest growing component of CU lending. From 2000 to 2009, MBLs at CUs grew at an annual rate of 25.1%, over three times faster than the 7.4% annual growth rate of all CU loans. That growth in CU MBLs is now slowing as more and more CUs approach their caps.

- There are nearly 350 CUs that are now near the cap (i.e., non-grandfathered CUs with MBL-to-asset ratios greater than 7.5% of assets).
- These CUs account for approximately 60% of all business loans subject to the 12.25% cap. These CUs have been the major contributors to CU MBL growth over the past few years. Over the next few years, their MBL growth will dry up without an increase in the cap.
- The cap also has a chilling effect on CU entry into the MBL arena: For many, even capped portfolios are not large enough to justify the sizeable up-front investment necessary provide this service.

Banker Claim: MBLs are incompatible with CUs' statutory mission of serving only consumers.

Fact: CUs have been making MBLs since their inception in the early 1900's. In the first 90 years of their existence, there was no MBL cap at CUs. The current 12.25% of assets cap was an arbitrary limit imposed by Congress in the CU Membership Access Act in 1998 (CUMAA). The CU tax exemption arises from their structure as not-for-profit, democratically-controlled cooperatives – and that structure is unchanged over the past 100 years. The tax exemption has nothing to do with the breadth or volume of CU product and service offerings – a fact clearly spelled-out by Congress in CUMAA.

Banker Claim: Allowing CUs to increase MBLs will cause CUs to reduce their lending to consumers.

Fact: The average loan-to-asset ratio at CUs that offer business loans is 69%. Accounting for the roughly 5% of assets in fixed and other assets, that leaves about 26% of assets in cash and investments. If an additional 12% of assets were eventually devoted to business lending as a result of lifting the cap, CUs could fund the increase almost exclusively out of investment holdings.

Banker Claim: Tax-subsidized CUs should not be granted an expansion of powers – especially now - tax subsidies contribute to the national debt during a time of extreme budgetary pressure.

Fact: Having CUs pay federal income taxes will have no discernable effect on the federal budget deficit. The Administration's estimate of the value of the CU tax exemption was \$650 million in 2009 – equal to 0.046% of the \$1.4 trillion 2009 federal budget deficit. However, CU small business lending *does* in fact produce greater capital expenditures, greater economic activity and ultimately more job creation. The multiplier effect means that these new jobs lead to new spending which then sets in motion support to a self-sustaining economic recovery.

Banker Claim: Pursuit of expanded MBL powers calls into question the CU industry's commitment and ability to serve the needs of lower-income and un-banked populations.

Facts: Many modest means individuals run small businesses and need credit - especially true in recessions because unemployed and discouraged job seekers are more likely to form businesses during these events.

- Treasury's 2001 comprehensive analysis of CU business lending showed that CUs do a very good job of serving the business credit needs of low and moderate income business owners. Treasury found that 45% of CU MBLs were made to members with household income of less than \$50,000.
- Home Mortgage Disclosure Act (HMDA) data – the primary data used in CRA examinations - clearly and consistently show that compared to banks, CUs make a greater percentage of their loans to lower income individuals and that lower income households are much more likely to be approved for loans at CUs and much less likely to be denied a loan at CUs.
- CUs have repeatedly attempted to reach out to serve more individuals in lower-income households. However, bankers have used the courts to bar those efforts. This tactic of claiming that CUs are not “doing enough” on the one hand while simultaneously erecting obstacles to the provision of CU service does nothing to help these communities.