



Credit Union National Association

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June 20, 2006

Sen. Richard C. Shelby
Chairman
Committee on Banking, Housing and Urban Affairs
Room 534, Dirksen Senate Office Building

Sen. Paul S. Sarbanes
Ranking Member
Committee on Banking, Housing and Urban Affairs
Room 534, Dirksen Senate Office Building

Sen. Mike Crapo
Chairman
Subcommittee on International Trade and Finance
Room 239 Dirksen Senate Office Building

Dear Senators Shelby, Sarbanes and Crapo:

It is my understanding that Financial Services Committee Chairman Mike Oxley and Ranking Member Barney Frank have transmitted to the Senate Committee an initial compromise proposal to reconcile the differences between the Senate Financial Regulatory Relief Act (S. 2856) and the comparable House legislation (H.R. 3505). I am writing to express the view of the Credit Union National Association (CUNA) that, because of the proposed removal of all restrictions on small business lending by thrift institutions, we must respectfully urge the Committee to reject the initial House proffer. CUNA is the nation's largest credit union advocacy organization, representing roughly 90 percent of our nation's 8,800 credit unions and their 89 million members.

While I commend Chairman Oxley and Representative Frank for attempting to bridge the significant differences between the Senate and House bills, their inclusion of Section 212 among the nine House bill sections to be added to S. 2856 makes the proposed compromise unacceptable to credit unions. Section 212 would eliminate the current 20% of assets limitation on business lending by thrift institutions while leaving a more



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restrictive 12.25% of assets limitation on small business lending by credit unions. This would severely damage the tenuous balance between federal thrift and credit union charters without comparable and offsetting benefits for credit unions either in the proposed compromise or in the broader Senate legislation.

It has been CUNA's long-standing policy not to oppose any legislative or regulatory request by the bank and thrift industries to enhance their ability to serve their customers. Unfortunately, the same courtesy has not been extended to credit unions by bank and thrift industry groups. CUNA has attempted for several years to obtain a modest increase in the 1998 limitation on credit union business lending, encountering strong opposition from the banks. Therefore, we view it as inappropriate for Congress to consider a substantial expansion in thrift business lending, and a significant enhancement of the thrift charter, within the context of Senate legislation that was intentionally drafted to avoid any disruption of the delicate balance between federal charters and regulators.

CUNA also considers it inappropriate, and contrary to the intent of the Senate legislation, to remove all restrictions on small business lending by thrift institutions in the absence of evidence showing need for such a change. Thrift commercial and industrial lending accounts for a small percentage, 3.6 percent, of total thrift industry assets. Fewer than 10 percent of thrift institutions have more than 10 percent of assets in commercial loans, and most of those institutions have less than 15 percent of assets in such loans. In contrast, the credit union small business lending cap of 12.25% of assets is, by its very nature, far more binding and discouraging of new small business lending. The desire to expand business lending to members is among the top reasons cited for recent credit union conversions to mutual thrift charters.

CUNA does not oppose efforts by the thrift or banking industries to remove unnecessary or burdensome restrictions on business lending. However, we believe that the policy ramifications of such proposals need to be addressed in a more comprehensive fashion that takes into account the distinctive role and needs of all market participants. We would welcome any opportunity to work with the Banking Committee to improve the market for small business loans to benefit all potential lenders and borrowers.

Sincerely,



Daniel A. Mica
President & CEO