Credit Union National Association
CUNA

Jim Nussle
President & CEO

Phone: 202-508-6745
jnussle@cuna.coop

99 M Street SE
Suite 300
Washington, DC 20003-3799

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The Honorable Maxine Waters
Chairwoman
Committee on Financial Services
United States House of Representatives
Washington DC, 20515

The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Dear Chairwoman Waters and Ranking Member McHenry,

On behalf of America's credit unions, I am writing regarding "Phase 4" legislation Related to COVID-19. CUNA represents America's credit unions and their 115 million Members.

The COVID-19 pandemic has presented small businesses, consumers, and community-based financial institutions with unprecedented challenges. As you continue your work to provide funding and resources to our small businesses, we encourage you to remove barriers that prevent credit unions from fully serving their communities.

Ensuring Small Businesses Can Access Credit from Credit Unions

For many small businesses and their employees, the economic disruption caused by the COVID-19 pandemic means financial catastrophe. **As the economy recovers, all available small business credit needs to be deployable**. Unfortunately, federal law restricts credit unions' ability to fully deploy credit to small businesses, capping the amount any individual credit union can lend to small businesses at 12.25 percent of the credit union's assets. This cap makes little sense during normal economic times, but at a time when every available dollar will be crucial to reviving Main Street, it makes no sense.

Through legislation exempting 1-4 family non-owner occupied residential loans from the cap and regulation that clarifies that participation loans purchased by credit unions do not count against the cap, Congress and the National Credit Union Administration have taken steps in recent years to reduce the restriction the member business lending cap places on credit union business lending.

Nevertheless, the cap remains a limiting factor for credit unions with very active business lending portfolios. More than 800 credit unions serving 50 million members offer business loans subject to this restriction. Nearly 150 of these credit unions, serving 10 million members, have loaned more than 8% of assets to small businesses, making them actively constrained by the cap. These are exactly the type of experienced business lenders that our small businesses will need fully engaged in helping the economy recover

Therefore, Congress should enact legislation that exempts credit union business loans made during federally declared disasters and emergencies from the arbitrary credit union business lending restriction. Failure to do so would represent a decision to leave critical assistance on the sidelines when small businesses, Main Street, and the nation's economy need it the most.

Representatives Sherman (D-CA), Bonamici (D-WA), Young (R-AK), and Fitzpatrick (R-PA), along with eighteen other cosponsors, have introduced bipartisan legislation – H.R. 6550, the Access to Credit for Small Businesses Impacted by the COVID–19 Crisis Act of 2020. This legislation would temporarily lift the MBL cap for three years and is narrowly tailored for loans related to COVID-19.

Given the urgent financial needs of so many small businesses because of the COVID-19 crisis, now is the time to provide credit unions with additional flexibility to fully serve their business members. The need is great - over 20 million Americans filed for unemployment so far this month.[1] Many of these Americans will be looking to engage in "gig-economy" activities and many will need capital to get their businesses going. In 2008, the first year of the great recession, 3.3 million jobs were created by firms that were less than one year old.[2] But that's only part the story, many displaced workers are likely to be looking for capital to pursue a wide variety of more informal income generating opportunities. Recent research clearly shows that the Great Recession was the impetus behind a significant rise in the gig economy and growth in non-employer establishments dramatically outpaced traditional employer establishments.[3]

Credit union business lending has increased greatly since the Great Recession and some credit unions are now approaching the 12.25% of assets cap. We conservatively estimate that temporarily removing the MBL cap will provide over $5 billion in capital to small and informal business ventures, creating nearly 50,000 jobs over the course of the next year - at no expense to the federal government.[4]

Additional credit union lending will not impede bank lending activity. Small Business Administration research shows that growth in credit unions' small business lending is apparent in many respects, but a majority of credit union business lending is for loans that banks will not originate. That means a majority of credit union lending does not replace lending that would otherwise be done by banks.[5] It is lending that otherwise would not occur. SBA research specifically shows that roughly 80% of credit union business loans are loans that banks would not make.

In addition to recognizing that credit unions are important partners to small businesses, the Sherman-Bonamici - Young-Fitzpatrick legislation contemplates that the economic crisis facing America's small businesses will not end when the declared public health crisis expires which is why the legislation would extend the exemption from the cap for three years.

We believe H.R. 6550 is commonsense legislation that provides a narrow remedy to ensuring that small businesses can effectively access essential credit from local credit unions. We encourage its inclusion in upcoming legislation.

Ensuring Credit Unions Have Access to Sufficient Liquidity to Meet Members' Needs

The CARES Act included a much-needed expansion of the National Credit Union Administration's Central Liquidity Facility (CLF), allowing corporate credit unions to act as agents for natural person credit unions and expanding the CLF's borrowing authority from 12 times the paid in capital to 16 times. These changes make the CLF more accessible to credit unions and expand the amount of liquidity NCUA could provide credit unions. These measures sunset at the end of 2020.

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[1] Bureau of Labor Statistics.

[2] Bureau of Labor Statistics. https://www.bls.gov/bdm/entrepreneurship/bdm_chart2.htm

[3] Kacher, Nicholas and Weiler, Stpehan. The Rise of the Gig Economy. Colorado State University REDI Report. April 2017. https://www.libarts.colostate.edu/redi/wp-content/uploads/sites/50/2017/02/REDI-Gig-Economy-1-NK.pdf

[4] CUNA Estimate Assumptions: 1. Grandfathered CUs, Non-Federally Insured and/or Low-Income designated do not increase lending; 2. Non-Commercial lenders lend in amount equal to 1% of assets on average under the new authority; 3. All other Commercial CUs lend in amount equal to 60% of their current use rate; 4. Estimates produced using assumptions 1-3 are further adjusted as follows: * CUs with net worth/assets <=6% are assumed to have no Commercial Loan growth. * CUs with net worth/assets between 6% and 7% remain at the current 12.25% cap. * CUs with Comm Lns/assets >= 10% are limited to a 30% increase in Commercial Loans in the 1st year. 5. First year increases: baseline estimate = 50% of new use rate; adjusted/conservative estimate = 40% of new use rate. Employment increase is based on Council of Economic Advisors 5/09 ARRA job creation estimates ($92,000 in spending creates 1 job / $109,633 in 2019 dollars).

[5] Wilcox, James A. The Increasing Importance of Credit Unions in Small Business Lending. Small Business Administration Office of Advocacy. 2011. Contract SBAHQ-10-R-0009.

Given the unprecedented nature and the depth of this pandemic and the subsequent economic crisis, we urge Congress to expand the CLF's borrowing authority to 25 times the paid in capital, extend the expanded borrowing authority until December 31, 2021, and to make permanent the ability of corporate credit unions to act as agents for credit unions.

The consequence of not having these provisions in place prior to this crisis is that NCUA has had to engage in a membership campaign for the CLF, asking credit unions to contribute capital to the facility at the very time credit unions are most reluctant to give up capital. Congress should take steps to ensure the long-term viability of the CLF, so that it can be prepared to help credit unions in future crises.

Conclusion
There is no doubt that we are living through an unprecedented time and as such, we urge Congress should look at every option to provide Americans, small businesses, and credit unions the opportunity to survive and thrive.

Sincerely,

Jim Nussle
President & CEO