



National Association of Federal Credit Unions
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Fred R. Becker, Jr.
President and CEO

September 14, 2010

The Honorable Harry Reid
Majority Leader
United States Senate
Washington, D.C. 20510

The Honorable Mitch McConnell
Minority Leader
United States Senate
Washington, D.C. 20510

Dear Leader Reid and Leader McConnell:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents the interests of our nation's federal credit unions, I am writing to urge your support for Udall amendment #4609 to the Small Business Lending Fund Act (H.R. 5297) and to allow it to come to a vote. The Udall amendment, which would raise the arbitrary credit union member business lending cap to 27.5% of assets, up from 12.25%, would stimulate the nation's struggling economy by increasing access to credit for small business owners.

As you know, the bill currently being debated establishes a \$30 billion small business lending fund for community banks. The Independent Community Bankers of America have called this a "fresh idea that should be given the opportunity to work." Yet, the latest reports from Treasury Department show that more than 120 institutions – nearly all of them small banks – have missed their scheduled quarterly dividend payments owed in conjunction with taking TARP money during the financial crisis. It's ironic that as they struggle to repay taxpayers, community banks are on the front lines working to have a lending fund established in their name. Tuesday's *Washington Post* headline – "Rising Number of Small Banks are Becoming TARP 'deadbeats'" – says it all. It should be noted that while the banking trades wait for the next bailout, the Udall amendment raising the credit union member business lending cap would not cost the taxpayer one penny.

On Monday, The Joint Economic Committee released a report reiterating that the numbers of loans made to small businesses continue to fall, dropping 17.8% since the second quarter of 2008. Despite the obvious lack of lending coupled with an extended period of high unemployment, it has become clear that the banking trades aren't interested in helping extend capital to small businesses unless the solution is entirely self-serving.

It is unfathomable that the Senate would put the American taxpayer on the hook for \$30 billion, while not even taking a vote on a provision to help small businesses at no cost to the Treasury. If that is the case, we cannot support H.R. 5297 in its current form, and urge the Senate to reject it until such time as the Udall amendment can be considered.

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The Udall amendment, a carefully crafted compromise between key lawmakers and the Department of Treasury, includes important language that puts into place safeguards to address safety and soundness concerns, including limiting a credit union's member business lending portfolio growth to no more than 30% annually. In addition a credit union would need five consecutive years of experience of underwriting and servicing member business loans, and meet a series of standards set by the National Credit Union Administration (NCUA) including a requirement that the prudential regulator deem participating credit unions well capitalized. Quite frankly, the changes reflected in the Udall amendment in comparison to previously introduced standalone legislation to raise the member business lending cap (S. 2919) were specifically designed to refute the banking industries desperate argument that raising the cap would somehow put taxpayers at risk. We would emphasize that earlier in the year NCUA Chairman Debbie Matz wrote to Treasury Secretary Geithner to assure him that the agency was ready to respond to a modification of the arbitrary cap with respect to safety and soundness.

The banking industry's errant claims for imposing and maintaining the arbitrary cap were refuted as far back as 2001, when the Treasury Department released a study entitled "Credit Union Member Business Lending" and found that "...credit union's business lending currently has no effect on the viability and profitability of other insured depository institutions." (p. 41). Additionally, when examining the issue of whether modifying the arbitrary cap would help increase loans to businesses, the study found that "...relaxation of membership restrictions in the Act should serve to further increase member business lending..." (p. 41). Furthermore, while the banking industry—in their shameless opposition to this proposal—mistakenly claims that credit union business loans are more risky, *the Treasury study concluded just the opposite* and stated that "We found that member business loans are generally less risky than commercial loans made by banks and thrifts..." (p. 41).

Over 92 million Americans are members of their local credit union, and bringing Udall Amdt #4609 to a vote in the Senate while considering H.R. 5297 would enable small business owners across the country to access the capital they need to thrive. Increasing small business lending will undoubtedly lead to job creation, and credit unions stand ready to do their part.

If my staff or I can be of assistance to you, or if you have any questions regarding this issue, please feel free to contact myself, or NAFCU's Director of Legislative Affairs, Brad Thaler, at (703) 842-2204.

Sincerely,



Fred R. Becker Jr.
President/CEO

cc: Members of the United States Senate