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B. Dan Berger
Executive Vice President
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July 13, 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

Re: Support Udall Amendment #4443 to Increase the Arbitrary Member Business Lending Cap for Credit Unions

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 #4443 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.

Despite relentless attacks from banking trade groups against this proposal, Senator Udall's amendment is a viable way to enable credit unions to assist our nation's small businesses with their lending needs.

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

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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 level of hypocrisy being displayed by the banking industry in opposing this amendment is remarkable. In a letter to lawmakers last week the Independent Community Bankers of America called the $30 billion Small Business Lending Fund established under H.R. 5297 a "fresh idea that should be given the opportunity to work," yet, it has become clear that they are not interested in innovative ways to assist our nation's small businesses if the solution isn't entirely self-serving. It should be noted that the Udall amendment is a departure from the tone of the underlying bill in the sense that it would not cost the taxpayer one penny.

While the banking industry fights tooth and nail to shut credit unions out of making small business loans to credit worthy Americans, the Federal Deposit Insurance Corporation (FDIC) has closed nearly 250 banks since the beginning of 2008. *The Washington Post* recently reported that the FDIC has grown drastically during the financial crisis, up 81% from two years ago including massive hiring in the division of resolutions and receiverships. If leaders of the banking trades would have spent the last few years as concerned about safety and soundness of their own industry as they seem to be about the credit union community, perhaps the financial crisis we face today wouldn't have been near as devastating.

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).

In short, the suggestion made by the banking trades that raising the cap is somehow harmful to the taxpayer is simply absurd. In addition, arguments made by the banking trades that an expansion in credit union lending would reduce tax revenue to struggling state and local governments is equally irrational. These loans will go to small businesses to create jobs and those jobs mean more people paying taxes. Additionally, while non-profit cooperative credit unions differ from banks in terms of tax treatment, it's important to remember that they still pay many taxes and fees, among them payroll and property taxes. Furthermore, share dividends paid to credit union members are taxed at the membership level.

We can all agree that the strength of the economy and labor force is strongly influenced by the health and well being of the small business community, however, unlike our banking counterparts NAFCU believes we must do everything possible to extend credit to small businesses from as many resources as possible. It is with this in mind that NAFCU supports Udall amendment #4443 to the Small Business Lending Fund Act (H.R. 5297) as a positive first step in assisting American small business owners during these difficult times. We urge the Senate to adopt this amendment.

Should you have any questions or require additional information please do not hesitate to contact myself or NAFCU's Director of Legislative Affairs, Brad Thaler, at (703) 842-2204.

Sincerely,

B. Dan Berger
Executive Vice President, Government Affairs

cc: Members of the United States Senate