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NAFCU
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April 15, 2011

The Honorable John Boehner
Speaker of the House
United States House of Representatives
Washington, D.C. 20515

The Honorable Nancy Pelosi
Minority Leader
United States House of Representatives
Washington, D.C. 20515

Re: Support H.R. 1418, the Small Business Lending Enhancement Act of 2011

Dear Speaker Boehner and Leader Pelosi:

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 H.R. 1418, the *Small Business Lending Enhancement Act of 2011*. This bipartisan legislation 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. The current outdated and arbitrary cap serves as a deterrent to many credit unions from further enhancing their member business lending programs, as any modicum of success would likely put them up against this arbitrary threshold and effectively penalize them for being successful in aiding small business.

Despite attacks from banking trade groups against this proposal, H.R. 1418 is a viable way to enable credit unions to assist our nation's small businesses with their lending needs.

This legislation is a carefully crafted compromise between key lawmakers, the National Credit Union Administration (NCUA) and the Department of Treasury and 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 NCUA including a requirement that the prudential regulator deem participating credit unions well capitalized. Quite frankly, the changes reflected in H.R. 1418 in comparison to the standalone legislation introduced in the last Congress to raise the member business lending cap were specifically designed to refute the banking industry's desperate argument that raising the cap would somehow put taxpayers at risk. We would emphasize that NCUA Chairman Debbie Matz wrote last year 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.

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 350 banks since the beginning of 2008. 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 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 <u>member business loans are generally less risky than commercial loans made by banks</u> 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. 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 urges you to support H.R. 1418, the *Small Business Lending Enhancement Act of 2011*, as a positive first step in assisting American small business owners during these difficult times.

Should you have any questions or require additional information please do not hesitate to contact myself or NAFCU's Associate Director of Legislative Affairs, Jillian Pevo, at (703) 842-2836.

Sincerely,

Brad Thaler
Vice President of Legislative Affairs

cc: Members of the United States House of Representatives