



Testimony of

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on Behalf of

The National Association of Federal Credit Unions

“Increasing Access to Capital for Small Businesses”

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Introduction

Good afternoon, Chair Velazquez, Ranking Member Graves and members of the committee. My name is Mark Sekula and I am testifying today on behalf of the National Association of Federal Credit Unions (NAFCU). I serve as the Senior Vice President, Business Services for Randolph-Brooks Federal Credit Union, headquartered in Live Oak, Texas.

NAFCU is the only national organization exclusively representing the interests of the nation's federally-chartered credit unions. NAFCU-member credit unions collectively account for approximately 65.4 percent of the assets of all federally chartered credit unions. NAFCU and the entire credit union community appreciate the opportunity to participate in this discussion regarding access to capital for America's small businesses.

Historically, credit unions have served a unique function in the delivery of necessary financial services to Americans. Established by an act of Congress in 1934, the federal credit union system was created, and has been recognized, as a way to promote thrift and to make financial services available to all Americans, many of whom would otherwise have limited access to financial services. Congress established credit unions as an alternative to banks and to meet a precise public need—a niche credit unions fill today for nearly 92 million Americans. Every credit union is a cooperative institution organized “for the purpose of promoting thrift among its members and creating a source of credit for provident or productive purposes.” (12 § USC 1752(1)). While over 75 years have passed since the *Federal Credit Union Act* (FCUA) was signed into law, two fundamental principles regarding the operation of credit unions remain every bit as important today as in 1934:

- credit unions remain totally committed to providing their members with efficient, low-cost, personal financial service; and,
- credit unions continue to emphasize traditional cooperative values such as democracy and volunteerism.

Credit unions are not banks. The nation's approximately 7,800 federally insured credit unions serve a different purpose and have a fundamentally different structure than banks. Credit unions exist solely for the purpose of providing financial services to their members, while banks aim to make a profit for a limited number of shareholders. As owners of cooperative financial institutions united by a common bond, all credit union members have an equal say in the operation of their credit union—"one member, one vote"—regardless of the dollar amount they have on account. These singular rights extend all the way from making basic operating decisions to electing the board of directors—something unheard of among for-profit, stock-owned banks. Unlike their counterparts at banks and thrifts, federal credit union directors generally serve without remuneration—a fact epitomizing the true "volunteer spirit" permeating the credit union community.

Credit unions have grown steadily in membership and assets, but in relative terms, they make up a small portion of the financial services marketplace. Federally-insured credit unions have approximately \$813.4 billion in assets as of year-end 2008. By contrast, Federal Deposit Insurance Corporation (FDIC) insured institutions held \$13.9 trillion in assets and last year grew by an amount exceeding the total assets of credit unions. The average size of a federal credit union is \$92.5 million, compared with \$1.673 billion for banks. Over 3,200 credit unions have less than \$10

million in assets. The credit union share of total household financial assets is also relatively small, at just 1.4 percent as of December 2008.

Size has no bearing on a credit union's structure or adherence to the credit union philosophy of service to members and the community. While credit unions may have grown, their relative size is still small compared with banks. Even the world's largest credit union, with \$36.4 billion in assets, is dwarfed by the nation's biggest banks with trillions of dollars in assets.

America's credit unions have always remained true to their original mission of "promoting thrift" and providing "a source of credit for provident or productive purposes." In fact, Congress acknowledged this point when it adopted the *Credit Union Membership Access Act* (CUMAA – P.L. 105-219) a decade ago. In the "findings" section of that law, Congress declared that "[t]he American credit union movement began as a cooperative effort to serve the productive and provident credit needs of individuals of modest means ... [and it] continue[s] to fulfill this public purpose." This finding would no doubt be made today as well!

Credit unions continue to play a very important role in the lives of millions of Americans from all walks of life. As consolidation of the commercial banking sector has progressed, with the resulting depersonalization in the delivery of financial services by banks, the emphasis in consumers' minds has begun to shift not only to services provided, but also—more importantly—to quality and cost. Credit unions are second-to-none in providing their members with quality personal financial services at the lowest possible cost.

Randolph-Brooks FCU and Business Lending

Earlier this year, Randolph-Brooks FCU was recognized by SBA Administrator Karen Mills as SBA's 2009 Credit Union Lender of the Year. We are also ranked as the 5th largest SBA Patriot Express Lender in the United States, year-to-date for 2009, with 133 loans totaling approximately \$8 million. Randolph-Brooks FCU is also ranked as the number one SBA lender in the 55 counties in our SBA district for 2009.

Randolph-Brooks FCU started its business program only five years ago, and today we have over 16,000 business accounts. We only started SBA lending a little over 2 ½ years ago, at the request of our members, and we currently have 414 loans totaling \$20 million. We grew \$13 million of that from 2008 to 2009, as businesses turned to us for credit after losing other sources. Through fiscal year 2009 (which for the SBA runs from October to September), we generated 153 loans totaling \$8.9 million, helped create 396 jobs, and retained 799 employees for businesses we loaned to.

Credit Unions in the Current Economic Environment

While credit unions have fared better than most financial institutions in these turbulent economic times, many have been impacted, through no fault of their own, by the current economic environment. In particular, the corporate credit union system has felt the biggest impact, and NCUA placed the two largest corporate credit unions, U.S. Central Federal Credit Union and Western Corporate Federal Credit Union, into conservatorship earlier this year. The passage and enactment of S. 896, *The Helping Families Save Their Homes Act of 2009*, and the temporary corporate credit union stabilization fund it created, provided important relief to natural-person credit unions in these challenging times.

It is also widely recognized by leaders on Capitol Hill and in the Administration that credit unions did not cause the current economic downturn. However, we believe we can be an important part of the solution. Credit unions have fared well in the current environment and, as a result, many have capital available. Surveys of NAFCU-member credit unions have shown that many are seeing increased demand for mortgage loans and auto loans as other lenders leave the market. A number of small businesses who have lost important lines of credit from other lenders are turning to credit unions for the capital that they need. However, more can still be done.

Our nation's small businesses represent 99.7 percent of all employer firms, employ half of all private sector employees, pay more than 45 percent of total U.S. private payroll, and have generated 60 to 80 percent of net new jobs annually over the last decade. Therefore, NAFCU believes the strength of the economy is strongly influenced by the health and well-being of America's small businesses. Many small business owners are members of credit unions around the country and rely on our services to help make their small businesses successful. Our nation's credit unions stand ready to help in this time of crisis and, unlike other institutions, have the assets to do so. Unfortunately, an antiquated and arbitrary member business lending cap prevents credit unions from doing more for America's small business community.

The *Credit Union Membership Access Act* (CUMAA) established an arbitrary cap on credit union member business lending of 12.25% of assets in 1998. CUMAA also directed the Treasury Department to study the need for such a cap. In 2001, the Treasury Department released its study, entitled "Credit Union Member Business Lending," in which it concluded that "credit unions'

business lending currently has no effect on the viability and profitability of other insured depository institutions.” The same study also found that over 50 percent of credit union loans were made to businesses with assets under \$100,000, and 45 percent of credit union business loans go to individuals with household incomes of less than \$50,000.

The current economic crisis has demonstrated the need to have capital available to help our nation’s small businesses. Many credit unions have the capital to provide small business with low-cost sources of funds that other lenders are not positioned to in this current environment, but are hamstrung by this arbitrary limitation. It is with this in mind that NAFCU strongly supports the passage of H.R. 3380, the *Promoting Lending to America’s Small Business Act of 2009*. Introduced by Representatives Kanjorski and Royce, this important piece of legislation would raise the member business lending cap to 25% while also allowing credit unions to supply much needed capital to underserved areas, which have been among the hardest hit during the current economic downturn.

NAFCU also strongly supports the reintroduction of the *Credit Union Small Business Lending Act*, which was first introduced by Chair Velazquez in the 110th Congress. This bill would have exempted credit union participation in Small Business Administration (SBA) lending programs from the MBL limits currently in place. These particular programs are invaluable tools, helping many Americans to successfully start and run their own businesses.

By exempting credit union participation in these programs, small businesses throughout the nation will have greater access to capital at a time when it is needed most. While we believe SBA loans should permanently be exempted from counting against a credit union’s MBL cap, we also support

a continuation of the 90% guarantee on SBA loans. We view these changes which allow credit unions to do more to help our nation's small businesses as an important step to help our nation recover from the current economic downturn.

SBA Access to Capital Legislation

NAFCU applauds the work of the Finance and Tax Subcommittee in moving the SBA Capital Access package of bills forward. In particular, we applaud the introduction of H.R. 3723 by Representative Deborah Halvorson and urge the Committee to act on this bill in a timely manner. This legislation will improve the SBA 7(a) program, and help lenders get these needed funds to our small business members.

We would like to share some of our thoughts on key sections of this legislation that we support:

Section 2: would create a program (to be established within district offices) that would assist small lenders who do not participate in the preferred lenders program, to make Section 7(a) loans. This would allow credit unions to make 7(a) loans without the added hurdle of becoming a preferred lender.

Section 3: would establish a new division within the SBA that would focus on lending in rural areas. Under the program, the guarantee would be 90 percent on amounts up to \$250,000, and applications, documentation and processing would be streamlined and abbreviated. We support this provision as well. We would ultimately prefer a 95-100% guarantee on all 7(a) loans up to \$250,000, as the guaranteed portion of SBA loans do not count against the arbitrary credit union member business lending (MBL) cap.

Section 5: would permanently establish a sub-division of the 7(a) program geared toward increasing lending to veterans, and would provide for, among other things, a permanent 90% guarantee for such loans.

Section 7: would help establish a lender training program at SBA's 10 regional offices.

Section 11: would clarify the requirements for lending to cooperative businesses.

Section 12: would create a mechanism under which businesses can apply directly to the SBA and the SBA would essentially auction off the loans to the private sector as part of a capital backstop

program. We believe such a mechanism can help credit unions get more involved with SBA lending, if they have the capital, by having the SBA tackle some of the up-front obstacles.

Section 15: would extend the temporary guarantees and the elimination of borrower fees until the end of 2011. We support this and even prefer permanency of the guarantees and a decrease in fees.

Section 16: authorizes the SBA to establish a one-page application for business stabilization loans (i.e. loans made under the stabilization act's small business lending program, which provides 100% guarantee on qualifying loans with a maximum of \$35,000) and allows lenders to use them. We support this. To the extent that a credit union wants to provide these loans, the application process would be shorter (and could possibly lead to a faster approval process).

Section 17: would amend the definition of a small business loan that qualifies as an SBA loan under the stabilization program. The existing law excludes from the definition "loan guarantees (or loan guarantee commitments made) by the Administrator prior to the date of enactment of this [stabilization] Act." This legislation would remove the exclusion. It appears that this change would allow the SBA to reclassify certain loans that qualify as loans made under the stabilization program, thus providing the 100% guarantee, even if the 7(a) loan is made before the enactment of the stabilization act.

Section 18 and 19: increases the maximum amount that can be made under the stabilization act's program from \$35,000 to \$50,000, and extends it to 9/30/11. These changes would enable credit unions to provide more assistance and for a longer period of time.

Conclusion

In conclusion, the current economic crisis is having an impact on America's credit unions, but they continue to provide excellent services to their members. Credit unions stand ready to help our nation and our nation's small businesses recover from the current economic downturn. Access to capital legislation currently before the Committee, such as H. R. 3723 and H.R. 3380, the Promoting Lending to America's Small Businesses Act, would aid credit unions in their efforts to help our nation's small businesses.

I thank you for the opportunity to appear before you today on behalf of NAFCU and would welcome any questions that you may have.