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Washington, DC 20036

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Floyd Stoner
Executive Vice President,
Congressional Relations &
Public Policy
Phone: 202-663-5339
Fax: 202-828-4548
fstoner@aba.com

March 2, 2010

The Honorable Nancy Pelosi
Speaker of the House
U.S. House of Representatives
H-232 The Capitol
Washington, D.C. 20515

The Honorable John Boehner
Republican Leader
U.S. House of Representatives
H-204 The Capitol
Washington, D.C. 20515

Dear Speaker Pelosi and Minority Leader Boehner:

During a recent visit to Capitol Hill, the credit union industry expressed support for legislation (H.R. 3380) to increase the credit union member business lending cap from 12.25 percent of a credit union's total assets to 25 percent, raise the *de minimus* level of a credit union business loan to \$250,000, and exclude other loans from the cap as part of a jobs legislative package. The American Bankers Association (ABA) strongly urges you to oppose this unnecessary expansion of credit union lending authority.

Increasing the business lending cap and expanding credit unions' already broad authority would substantially increase the risk exposure of credit unions, while affecting only a handful of credit unions resulting in minimal impact on lending. *In fact, only 37 of the nearly 7,600 credit unions, or about one-half of one percent of all credit unions, would be directly impacted because they are at or near their Congressionally mandated 12.25 percent lending cap.* In other words, credit unions have substantial lending capacity and authority under current law to make additional business loans and have elected not to.

Furthermore, the National Credit Union Administration reported that the number of credit unions offering any reportable business loans fell by 14.3 percent since the beginning of the year to 1,674 of almost 7,600 credit unions. This is further evidence that raising the cap would have very little impact on lending to businesses.

When Congress passed the Credit Union Membership Access Act of 1998 (CUMAA) to protect consumers served by credit unions, it imposed a limit of 12.25 percent of total assets on business lending. Congress made its intent clear. The legislative history for CUMAA explained that the business lending restrictions:

...are intended to ensure that credit unions continue to fulfill their specified mission of meeting the credit and savings needs of consumers, especially persons of modest means, through the emphasis on consumer rather than business loans. The Committee action will prevent significant amounts of credit union resources from being allocated to large commercial loans that may present additional safety and soundness concerns for credit unions and that could potentially increase the risk of taxpayer losses through the National Credit Union Share Insurance Fund. (Senate Report 105-193, May 21, 1998, pp. 9-10)

The substantial tax and regulatory statutory benefits that credit unions currently enjoy are meant to be an incentive for credit unions to make credit available to consumers of modest means. Instead of furthering this goal, an increase in the business lending cap

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will simply allow credit unions to stray further from their traditional mission.

Congress recognized that business lending is fundamentally different from consumer lending. The restrictions Congress placed on the ability of credit unions to make business loans reflect the reality that business lending poses greater risks than secured lending to individuals. Hence, increasing the business lending cap will only increase the risk exposure of credit unions.

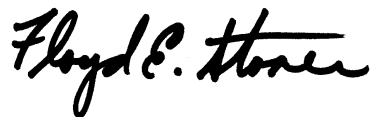
Credit unions and their regulators, at both the state and federal levels, have demonstrated a weak track record of evaluating and managing the type of risks involved in commercial lending. The GAO warned about this in 2003: “[S]ince member business loans constitute only a small percentage of credit union lending, most NCUA examiners will not have significant experience looking at this type of lending activity. In contrast, banks and thrifts offer these loans to a much greater extent than credit unions and their regulators do have experience in this area.” The GAO was skeptical that NCUA was up to “the challenge to ensuring that it is adequately prepared to monitor” the expansion of credit union business lending.

While the credit union industry would argue expansion of business lending would immediately impact all credit unions, the fact is that the primary beneficiaries of such expanded authority are large, aggressive, growth-oriented credit unions that have abandoned their mission of serving people of small means. *Again, only 37 of the nearly 7,600 credit unions, or about one-half of one percent of all credit unions, would directly benefit from increased business lending authority since only these 37 are at or within one percent of the current business lending cap.*

Moreover, under current law, the aggregate business loan limitation helps to prevent the tax-subsidy from being used to support large business loans. Business loans that are less than \$50,000 or have a governmental guarantee are excluded from this calculation of the aggregated business loan limit. Raising the threshold to \$250,000 would exempt even more credit union business loans from the aggregate business loan cap and reduce transparency. These loans would no longer be classified as member business loans, therefore NCUA’s member business loan regulations would not apply despite the fact that NCUA recognizes that business lending is fundamentally more risky than consumer lending. This would effectively impair the prudent supervision over credit union business lending and increases the likelihood of a loss to the National Credit Union Share Insurance Fund and a potential taxpayer bailout of credit unions. Credit unions currently have sufficient authority to meet the credit needs of small businesses without causing them to further stray from their mission of serving people of small means.

ABA strongly opposes H.R. 3380 and urges you to oppose inclusion of changes to credit union business loan requirements in any jobs bill.

Sincerely,

A handwritten signature in black ink that reads "Floyd E. Stoner". The signature is written in a cursive, flowing style.

Floyd E. Stoner

Cc: Members of the U.S. House of Representatives