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Written Testimony of

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Hearing on
"Initiatives to Promote Small Business Lending, Jobs and Economic Growth"

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Mr. Chairman, Ranking Member Bachus, and Members of the Committee: thank you very much for the opportunity to express the views of the Credit Union National Association (CUNA)[1] regarding the Obama Administration's "Initiatives to Promote Small Business Lending, Jobs and Economic Growth." My testimony will focus on the two proposals that the Administration transmitted to the Committee recently, the Small Business Lending Fund Act (H.R. 5297) and the State Small Business Credit Initiative Act (H.R. 5302), as well as legislation which key members of the Senate along with CUNA have recently negotiated with the Department of Treasury and other supporters of legislation in both chambers to increase the credit union member business lending cap and facilitate the ability of credit union to help small businesses and further support the economic recovery.

The need for legislation to address the credit crunch facing small businesses is indisputable. As the Congressional Oversight Panel reported last week,

> "Although Wall Street banks had been increasing their share of small business lending over the last decade, between 2008 and 2009 their small business loan portfolios fell by 9.0 percent, more than double the 4.1 percent decline in their entire lending portfolios. Some borrowers looked to community banks to pick up the slack, but smaller banks remain strained by their exposure to commercial real estate and other liabilities. Unable to find credit, many small businesses have had to shut their doors, and some of the survivors are still struggling to find adequate financing."[2]

Credit unions are well aware of the demand for business loans because credit union business lending portfolios have expanded by 10% as business owners are turned away by large and small banks unwilling, or unable, to extend credit. As the financial crisis deepened and the small business credit crunch intensified, credit unions were a part of the solution for many small businesses, and credit unions have the financial capacity to do more to help these

[1] CUNA is the nation's largest credit union advocacy organization representing nearly 90% of America's 7,800 state and federally chartered credit unions and their 92 million members.

borrowers; however, there are statutory limits that inhibit credit unions from providing more small business loans.

Small Business Lending Fund Act

The Small Business Lending Fund (SBLF) Act would establish a $30 billion temporary small business lending fund for banks having total assets of $10 billion or less. Under the proposal, the Department of Treasury would be authorized to purchase preferred stock and other financial instruments from eligible institutions under certain conditions. The legislation is intended to provide community banks with an incentive to lend to small businesses. Further, the legislation makes it clear that recipients of funds made available under this legislation are not considered recipients of Troubled Asset Relief Program (TARP) funds.

Credit unions are not eligible to participate in the SBLF; and, quite frankly, credit unions do not seek to be eligible for this fund. The fact of the matter is that credit unions remain generally well-capitalized and have continued to lend throughout the financial crisis. Credit unions do not need taxpayer money to encourage them to do what they were chartered to do, which is to serve their members' financial needs. What restricts their lending to small businesses is NOT a lack of capital; rather, it is instead an arbitrary provision of the law that limits the amount of capital credit unions can provide to small businesses. Therefore, notwithstanding the proposed investment $30 billion of taxpayer money in the nation's community banks to spur lending, we believe Congress should increase the credit union member business lending cap, permitting credit unions to serve their business-owning members in a greater capacity.

In contrast to the administration's $30 billion proposal, increasing the credit union member business lending cap could be done without cost to the taxpayers and without an increase to the size of government. Further, credit unions have a long history of engaging in business lending to their members, and they have demonstrated that they can lend to these members safely and soundly; when credit union business loan charge-off and delinquency

[2] Congressional Oversight Panel. "The Small Business Credit Crunch and the Impact of TARP," May 13, 2010. 4.

numbers are side-by-side with the banks', this is made crystal clear. Indeed, since 1997, the loss rate on credit union MBLs has averaged only 0.15% compared to 0.82% at banks.

Credit Union Business Lending: Safe & Sound
Business Loan Asset Quality Comparison

Net Charge Offs

	Credit Union MBLs	Commerical Bank Commerical & Industrial Loans
1997	0.18%	0.28%
1998	0.08%	0.43%
1999	0.12%	0.57%
2000	0.05%	0.01%
2001	0.10%	1.43%
2002	0.09%	1.76%
2003	0.08%	1.26%
2004	0.10%	0.50%
2005	0.05%	0.27%
2006	0.08%	0.30%
2007	0.09%	0.52%
2008	0.33%	1.01%
2009	0.59%	2.36%
Avg. Since 1997	0.15%	0.82%

Source: FDIC, NCUA and CUNA E&S.

The only groups that actively oppose additional credit union business lending are representing those to whom Congress is considering giving $30 billion to do precisely what credit unions are willing to do at zero cost to the taxpayers. These groups put forward many reasons why they believe credit unions should not be able to help small business-owning credit union members; but their reasons are not supported by facts. Attached to this statement is a document that rebuts the banking lobby's unsubstantiated reasons for opposing credit union business lending.

Credit unions are not asking for a bailout and they have not needed bailout money throughout the crisis. They too have been hurt by the severity of the recent financial crisis, but they remain on a sound footing and have capital to lend, but the law limits their ability to do so. If Congress intends to give the community banks $30 billion in taxpayer money as an incentive to lend, why would Congress not also increase the credit union business lending cap and permit credit unions to use existing resources to lend to their business-owning members? This is the question that small businesses, credit union employees and volunteers ask me every day. "The banks oppose it," is not a good enough answer for them especially when that is the only answer available. There is no sound public policy reason not to allow credit unions with the demonstrated capacity to do so to increase their lending to small businesses. That answer also certainly does not satisfy the small business owner who has been turned down by a dozen banks; it should not satisfy anyone. Failure to expand the credit union member business lending cap would literally leave money on the table – and, I think we can all agree that small businesses need as much help as possible.

The bankers say business lending is not a part of the credit union mission; but the facts show that credit unions have been doing this business from day one.

They say increased business lending would undermine credit union safety and soundness; but the facts show that we do this safer and sounder than the banks.

They say increasing the cap will only affect a small number of credit unions while at the same time claiming that increasing the cap will hurt community banks. It is a contradiction – and they are wrong on both accounts. The cap affects every credit union that has a member who looks to them for financing a new or existing small business. Some have active business lending programs; others do not engage in business lending because they view the cap an impediment that does not justify the cost of establishing a sound business lending program in the first place. Increasing the cap will have a profound effect on the hundreds of credit unions that will reach the cap in the next few years, but it should not adversely affect the banker dominance of the commercial lending market. Credit unions hold just under 5% of the small business loans at all depository institutions, and even less, about 1%, of the total business loan market at depositories. If the cap is increased, that market share might increase slightly – but banks would still have over 90% of the small business loan market. How much market share is enough for the banks that the Administration is proposing to give $30 billion to lend? And more important for small business, even with the banks' dominance in the marketplace, small business lending needs are still unmet.

They say that increased credit union business lending will lead to a reduction of other types of credit union lending, but that fact is that the average credit union has about 26% of its assets in cash and investments, which means if they are permitted to do more lending, they would most likely fund this increase out of excess investment holdings, and not a reduction in consumer lending.

They talk about the credit union tax status and that credit unions should not be granted an expansion of powers. However, this specious and sidetracking argument ignores the fact that roughly 2,500 banks are Subchapter S institutions, and, like credit unions, have been afford special federal income tax treatment by Congress. It is more than a little disingenuous for the bankers to use the credit union tax status as an argument against increasing the credit union member business lending cap when one-third of all banks are exempt from federal income tax, these banks would be eligible to receive funds under H.R. 5972, credit unions have not cost the taxpayer a dime, credit unions fund their own share insurance fund and no credit union member has ever lost a dollar of insured deposits in a federally insured credit union.

The bankers say that increased business lending will distract credit unions from serving the underserved. There are many in this country who are underserved and the credit union record on serving these populations is solid. But, as we recover from the Great Recession, our small businesses are underserved. Bank business lending portfolios have shrunk while credit unions' have increased. Credit unions want to meet the needs of their business-owning members, and a Treasury study has found that credit union loans to small businesses go disproportionately to business owners on the lower end of the income scale.[3]

The need for more small business lending is evident; the time for Congress to act is now. Investing $30 billion of taxpayer money in community banks may be part of the solution – CUNA does not oppose this aid because it may help small business. However, there is at least $10 billion of capital in well capitalized credit unions with business lending experience ready to be loaned if the credit union member business lending cap is increased, and it will cost the taxpayers nothing.

Increasing the Credit Union Member Business Lending Cap

Representatives Kanjorski and Royce have introduced legislation (H.R. 3380) which, if enacted, would increase the credit union member business lending cap from the current

[3] United States Department of the Treasury, *Credit Union Member Business Lending,* January 2001. 3.

level of 12.25% of total assets to 25% of total assets. The House bill has 113 cosponsors, including many members of this Committee. Similar legislation (S. 2919) has been introduced in the Senate by Senator Mark Udall, where it has 11 cosponsors, including Majority Leader Reid.

We appreciate the support of these and other Members of Congress. As a result of the momentum created in support of increasing the credit union business lending cap in both chambers, Senator Udall and others have negotiated modifications to this legislation with the Department of Treasury over the course of the last several months. We now believe that there is a proposal to increase the MBL cap which the Administration will support, and we urge you to include it in the small business lending package you will soon introduce.

The proposal that Treasury has told us they would support establishes a two-tier structure for the credit union member business lending cap. Tier One credit unions would be eligible to engage in business lending to the current cap of 12.25% of total assets. Tier Two credit unions would have to meet certain criteria and be approved by NCUA, but would then be permitted to engage in business lending to 27.5% of total assets. In order for a credit union to be considered for Tier Two status, the credit union would have to:

- be well capitalized (currently, at least 7% net worth ratio);
- be at or above 80% of the Tier One cap for one year prior to applying for approval;
- have engaged in member business lending for five years prior to applying; and
- be able to demonstrate sound underwriting and servicing based on historical performance; strong management, adequate capacity to lend, and policies to manage increased business lending.

The proposal calls for Tier Two credit unions to phase in additional business lending by limiting a Tier Two credit union’s business lending portfolio growth to no more than 30% per year.

NCUA would approve a credit union for Tier Two status using statutory standards, set by Congress, not the regulator. In addition, the proposal states that a credit union that drops below the well capitalized level would have to stop making new business loans until such time as NCUA determines they are again well-capitalized.

The proposal makes no change to the definition of a business loan, preserving, but not increasing, the current $50,000 de minimus threshold. Finally, the proposal directs the NCUA and the GAO to conduct separate studies of credit union business lending and report to Congress three years after enactment.

We believe that this proposal would permit credit unions to help small businesses in need of credit while at the same time ensuring that credit unions engaging in additional business lending are continuing to do so safely and soundly. Many of the new features of this proposal address safety and soundness, and will safeguard the National Credit Union Share Insurance Fund against increased exposure.

We estimate that if this proposal were enacted into law, credit unions could lend an additional $10 billion to small businesses in the first year after implementation, helping small businesses create as many as 108,000 new jobs. **This is a job creation proposal that would not cost the taxpayers a dime and would not increase the size of government.**

We urge Congress to permit credit unions to do what they were established to do – serve their members, including those who own small businesses. We have the willingness to help. We have the capacity to help. But, we need Congress to act.

State Small Business Credit Initiative

We have also reviewed H.R. 5302, the State Small Business Credit Initiative Act, which has been introduced by Representative Gary Peters (D-MI) and cosponsored by 25 Members of the House of Representatives. This legislation authorizes Federal support for two types of State business lending programs: capital access programs and other innovative loan programs. The idea behind both of these types of programs is to use small amounts of public resources to generate private financing of small business loans.

State Capital Access Programs have been successful in 34 states. States create a loan-loss reserve fund for small business loans, funded by fees paid by participating banks and credit unions, the borrowers and the state. The federal program seeks to assist states that have seen the most significant increases in unemployment over the last two years. This helps spread default risk and encourage credit unions and banks to lend more to small businesses.

The federal support to state programs in H.R. 5302 would be particularly helpful in that it would be targeted to those states that have been the worst hit by the recession. It is in these very states that banks and credit unions have been hardest hit by rising losses on both their consumer and business loan portfolios. Faced with recent losses, these institutions require support and the incentive to expand loans to small businesses. Credit unions participate in capital access programs in a number of states, including Michigan. CUNA supports the legislation because we believe this will help spur small business lending and help create jobs, especially in those states hit the hardest by the recession. Coupled with an increase in the MBL cap for credit unions, the legislation would take a big step toward addressing the need for additional capital for small businesses in the nation's most economically troubled regions.

Conclusion

Mr. Chairman, thank you very much for the opportunity to testify today. I am happy to answer any questions the members of the Committee may have.

CUNA's Response to Objections to Raising the Credit Union Member Business Loan Cap

CUNA Research and Policy Analysis
May 18, 2010

Banking trade associations object to the expansion of credit union business lending authority. This paper provides a summary of the objections made by those opposed to lifting the business lending cap, and responds to those claims with facts.

By way of background, as of December 2009, credit unions held $36 billion in loans to small businesses. This represents 4.5% of all small business loans at depository institutions.[4] Were a doubling of the business lending cap at credit unions to eventually lead to a doubling of credit union business lending, that would leave at least 91% of the market to banking institutions. To the extent the additional credit union loans were made to borrowers whose credit demands would not have been met by banking institutions, the reduction in the banks' share would be less.

Most credit unions are currently under a business lending cap of 12.25% of assets, established by law in 1998. (There are statutory exemptions that some credit unions meet.) Prior to that date, there was no business lending cap at credit unions. Although the majority of credit union lending has always been in loans to consumers, credit unions have engaged in business lending since their inception in the US in 1908. The cap is expressed as 1.75 times net worth, but only net worth up to the level required to be well-capitalized (7%) can be counted. Thus, credit unions with excess capital are not permitted to hold additional business loans. Approximately 100 business lending credit unions were grandfathered by Congress because they exceeded the cap at the time of its imposition.

Banker Claim: Raising the cap would undermine credit union safety & soundness.

Facts: Credit unions have a long history of engaging in safe and sound business lending. Business lending at credit unions is much safer than at other institutions. According to data collected by NCUA and FDIC:

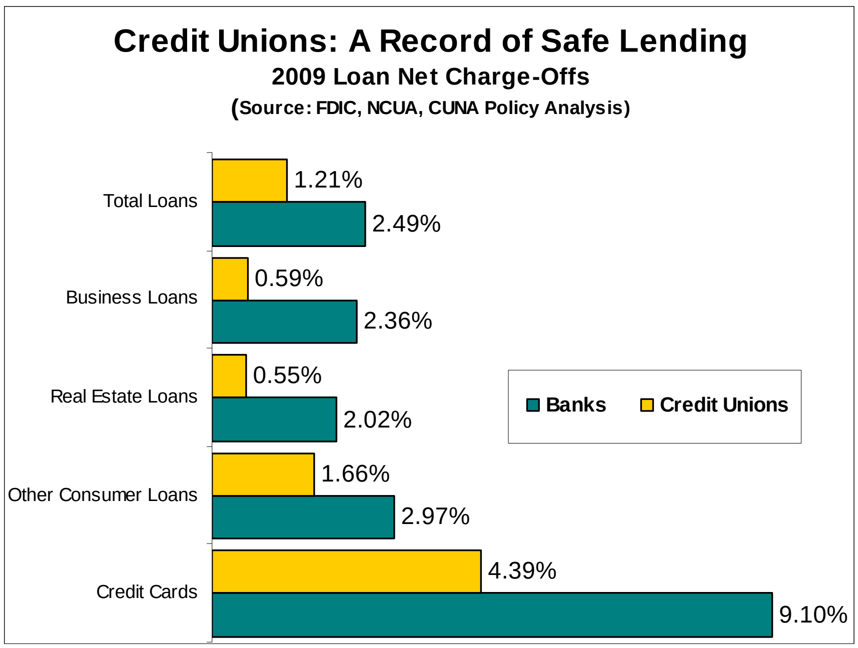
- Credit union member business loan net charge-off rates have been significantly lower than bank rates year-in and year-out for over a decade. Since 1997, credit union member business loan net charge-off rates have averaged 0.15%, a figure that is roughly **one-sixth** the 0.82% bank average over the same period.[5]
- More recently, the financial crisis and recession have increased losses at all lenders. However, the increase in loss rates at credit unions pales in comparison to bank results.

[4] NCUA Call Reports and FDIC Statistics on Depository Institutions.
[5] Ibid.

During 2009, credit unions charged off business loans at a 0.59% rate – about one-fourth the 2.36% rate reported by banks over the same period.[6]

- Compared to other loans at credit unions, business loan net charge-off rates are lower than net charge-off rates on credit union consumer loans and essentially identical to the net charge-off rates in credit union real estate loan portfolios.[7]

As shown in the following graph, relatively low charge-offs are NOT confined to credit union business lending portfolios. Credit union net charge-offs are substantially lower than bank net charge-offs in each loan category. This lower loss experience at credit unions is the result of their operation under a cooperative structure, which provides much lower incentives to take on risk than a for-profit structure.[8]



Further, most credit unions have excess liquidity today which is depressing their overall earnings. Moving assets from low-yielding investments into higher-yielding member business loans, even after accounting for credit losses on those loans, will increase credit union earnings, capital contributions, and overall safety and soundness.

Finally, the federal credit union regulator, the National Credit Union Association (NCUA), has full authority to supervise credit union business lending. That regulation is no doubt an important reason behind the very low loss rates experienced on credit union business loans over the past

[6] Ibid.

[7] NCUA Call Reports.

[8] Edward J. Kane and Robert J. Hendershott, *The Federal Deposit Insurance Fund that Didn't Put a Bite on U.S. Taxpayers*, Journal of Banking and Finance, 20(September, 1996), pp. 1305-1327. Kane and Hendershott describe how the cooperative structure of credit unions presents credit union decision makers with incentives that are strikingly different from those faced by a for-profit financial institution, making it less feasible for credit union managers to benefit from high-risk strategies.

decade. Recently, NCUA Chairman Matz emphasized in a February 24, 2010 letter to Treasury Secretary Geithner[9]: "If legislative changes increase or eliminate the aggregate MBL cap, NCUA would promptly revise our regulation to ensure that additional capacity in the credit union system would not result in unintended safety and soundness concerns."

<u>Banker Claim</u>: Raising the cap would not create jobs or reduce unemployment. However, even if it did do so, the CUNA-produced estimate of job creation is too high.

<u>Facts</u>: Relaxation of artificial statutory lending restrictions will increase the efficiency of capital allocation in the economy. This will promote more lending, more spending, more job creation and higher economic growth. Recent bank business loan contraction suggests that, at least to some degree, credit unions will be making loans that banks are not making.

CUNA estimates that raising the business lending cap would allow credit unions to increase business lending by up to $10 billion in the first year after the cap is lifted. This estimate is based on three conservative assumptions, and is described below:

1. We assume that "grandfathered" credit unions (i.e., the approximately 100 credit unions that are currently above the 12.25% cap) do not increase their lending when the cap is raised.
2. We assume that credit unions that are not currently engaged in business lending would enter the market in an amount equal to 1% of total assets on average under the new authority. We further assume that only 40% of the increased activity would occur in the first year.
3. We assume that all other business lending credit unions lend in an amount equal to their current "use" rate, i.e., all non-grandfathered current business lending credit unions would eventually just over double their business lending. Our conservative estimate assumes that only 40% of the increased lending would occur in the first year.

Applying these assumptions produces an estimate of a $10.8 billion first-year increase in lending, which we have rounded down to $10 billion. That would represent an approximately 30% increase in credit union business lending. This is certainly plausible considering that credit union business loan portfolios increased by 30% or more in four of the past eight years. That growth has slowed recently as an increasing number of credit unions have begun to approach their caps.

Because bank business loan portfolios are shrinking we assume that the new loans would largely be loans that would not otherwise be made by banks. We further assume that the $10 billion increase in lending would be a "new normal" - that the first-year addition would represent a permanent addition to loan volume in credit union portfolios. In this regard, the increase in lending can be viewed as ARRA-like stimulus similar to direct spending. Thus, we assume that the additional lending would produce jobs at a rate that is similar to the estimates published by the Council of Economic Advisors (CEA) in its May 2009 estimates of job creation.[10]

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[9] http://www.ncua.gov/news/press_releases/2010/MA10-0225MatzLending.pdf
[10] See: http://www.whitehouse.gov/administration/eop/cea/Estimate-of-Job-Creation/. Note: Use of Small Business Administration survey data would produce a much larger estimate of job creation. Since CUNA's aim was to produce a conservative estimate we chose not to use the SBA job creation data.

Using these assumptions and rounding, each $92,000 in additional MBL lending on the part of the nation's credit unions will create one additional job. Therefore expanded credit union MBL authority will result in an estimated first-year increase of 108,000 new jobs nationally.

Banker Claim: There is no evidence to support the contention that credit for small businesses is in short supply, as community banks have been lending to small businesses in their communities throughout the economic crisis.

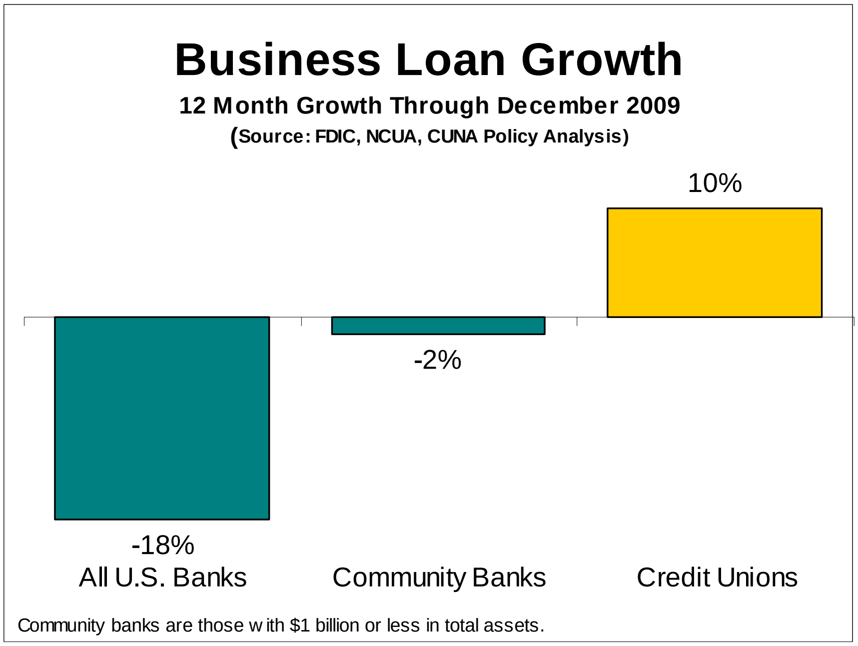
Facts: There is no doubt that there has been a reduction in the demand for business credit as a result of the recession. However, there is also considerable evidence that a significant contraction in the supply of business credit has contributed to the reduction in credit outstanding.

In a recent study, the NFIB reported that only . . . "Forty (40) percent of small business owners attempting to borrow in 2009 had all of their credit needs met. . . The current level of borrowing success is significantly lower than in the mid-2000s when up to 90 percent had their most recent credit request approved."[11] As the NFIB points out, for many businesses, the recessionary lack of sales is a more basic problem than lack of access to credit, but their findings are strong evidence that low credit availability is exacerbating the effects of the recession.

Not surprisingly, a large number of small business owners are telling policy makers that they are being turned away by their banks. That is the primary reason that Congress has held several hearings on this subject (most recently on February 26, 2010).

Moreover, recent data from financial institution regulatory reports supports this view. Call Report data suggests that banks – both large and small – are turning away many business borrowers. As shown in the following graph, bank business loan portfolios are shrinking, while credit union business loan portfolios are growing. If indeed the contraction in business credit outstanding were due solely to reduced demand, credit union lending would have declined as it did at banks, rather than registering a 10% increase in 2009.

[11] William J. Dennis, Jr. *Small Business Credit in a Deep Recession*, NFIB Research Foundation, February 2010, p 1. Available at www.nfib.com/Portals/0/PDF/AllUsers/research/studies/Small-Business-Credit-In-a-Deep-Recession-February-2010-NFIB.pdf



Allowing credit unions to extend loans to businesses that need credit will add fuel to a self-sustaining economic expansion. Increasing competition in the small business loan market will increase the efficiency of capital allocation. Businesses will choose credit union loans over community bank loans only if credit unions provide a product that provides an overall better value. And credit union competition will ensure that banks are treating their small business customers more fairly.

Banker Claim: Raising the cap is unnecessary because relatively few credit unions are now near the 12.25% member business lending cap.

Facts: For the past several years, business loans have been the fastest growing component of credit union lending (the other two sectors being residential mortgage loans and non-residential consumer loans.) From 2000 to 2009, business loans at credit unions grew at an annual rate of 25.1%, over three times faster than the 7.4% annual growth rate of all credit union loans.

However, that growth is now slowing as more and more credit unions approach their caps. The closer a credit union gets to its cap, the less accommodative it can be in granting business loans. As of December, 2009 the following conditions held with respect to credit union proximity to the cap (excluding grandfathered credit unions):

- 174 credit unions, with $8.8 billion in business loans outstanding, had business loans of more than 10% of assets. These credit unions are essentially capped; they are either at the cap or will be there within a little more than a year or less. In the three years ending December 2009, their business loans outstanding rose by $4.5 billion. They will be able to contribute very little to future business loan growth without an increase in the cap.
- Another 163 credit unions hold business loans between 7.5% and 10% of assets. Most of these credit unions will be capped within three years. They held $5.6 billion in business loans at year-end 2009, and their business loans grew by $1.9 billion over the preceding

three years. Their business lending will have to slow dramatically in the coming few years without an increase in the cap.

Taken together these nearly 350 credit unions account for approximately 60% of all business loans subject to the 12.25% cap. These credit unions have been the major contributors to credit union business loan growth over the past few years. Over the next few years, their business loan growth will dry up without an increase in the cap.

Finally, the cap also has a chilling effect on credit union entry into the business lending arena: For many credit unions even capped portfolios are not large enough to justify the sizeable up-front investment necessary provide this service.

Banker Claim: Raising the cap is undesirable because member business lending is incompatible with credit unions' statutory mission of serving only consumers.

Facts: Credit unions have been making business loans since their inception in the early 1900's. In the first 90 years of their existence, there was no business lending cap at credit unions. The current 12.25% of assets cap was an arbitrary limit imposed by Congress in the Credit Union Membership Access Act in 1998 (CUMAA).

The credit union tax exemption arises from their unique structure as not-for-profit, democratically-controlled cooperatives – and that structure is unchanged over the past 100 years. The tax exemption has absolutely nothing to do with the breadth or volume of credit union product and service offerings – a fact clearly spelled-out by Congress in CUMAA.

Banker Claim: Raising the cap is undesirable because increased member business lending will force credit unions to reduce their lending to consumers.

Facts: The average loan-to-asset ratio at credit unions that offer business loans is 69%. Accounting for the roughly 5% of assets in fixed and other assets, that leaves about 26% of assets in cash and investments. If an additional 12% of assets were eventually devoted to business lending as a result of lifting the cap, credit unions could fund the increase almost exclusively out of investment holdings.

Banker Claim: Tax-subsidized institutions like credit unions should not be granted expansion of powers – this is especially true now because the credit union tax subsidy is contributing to the national debt during a time of extreme budgetary pressure.

Facts: Having credit unions pay federal income taxes will have no discernable effect on the federal budget deficit. The Administration's current estimate of the value of the credit union tax exemption was $650 million in 2009, whereas the federal budget deficit was over $1.4 trillion in 2009.

Because credit union taxation would have an indiscernible effect on the deficit it would have no impact on interest rates in the economy. With no effect on interest rates, borrowing, spending, job creation and economic activity would be unaffected. However, credit union small business lending does in fact produce greater capital expenditures, greater economic activity and ultimately more job creation. The multiplier effect means that these new jobs lead to new spending which then sets in motion support to a self-sustaining economic recovery.

<u>Banker Claim</u>: Raising the cap will harm community banks.

<u>Facts</u>: As of December 2009, credit unions held a total of $36 billion in loans to small businesses. This represents 4.5% of all small business loans at depository institutions. It took credit unions 100 years to reach this share of market. Even if credit unions were to double their market share in the future that would still leave banks with an overwhelming 91% share.

The Treasury Department has found that credit unions do not have a competitive advantage over banks, and that credit union business lending does not harm community banks. In a 2001 report on credit union business lending, the Treasury Department concludes:

> Credit unions have advantages over other depository institutions in that some receive sponsor subsidies, while all are exempt from the federal corporate income tax. However, credit unions do face certain constraints, in the form of limitations on the eligibility to receive such loans and on the loans themselves, that banks and thrifts do not have. Overall, we cannot discern whether credit unions have a competitive advantage.[12]

and,

> Overall, credit unions are not a threat to the viability and profitability of other insured depository institutions.[13]

These Treasury conclusions were admittedly based on the existence of a 12.25% cap and a lower level of credit union business lending than pertains today. However, as mentioned above, doubling current credit union business lending would still leave over 90% of the market to banks. Under those circumstances, it is unlikely that Treasury would need to dramatically alter its conclusions.

<u>Banker Claim</u>: Pursuit of expanded commercial lending powers calls into question the credit union industry's commitment and ability to serve the needs of lower-income and un-banked populations.

<u>Facts</u>: It is true that part of the credit union mission is to serve those of modest means, along with others. It also is true that many modest means individuals run small businesses and need credit. This is especially true in economic downturns because unemployed and discouraged job seekers are more likely to form businesses during these events.

Treasury's 2001 comprehensive analysis of credit union business lending showed that credit unions do a very good job of serving the business credit needs of low and moderate income business owners. Treasury found that 25 percent of member business loans were made to members with household income of less than $30,000 -- and that these loans totaled 13 percent of the outstanding member business lending balances. Another 20 percent of the loans (with 15 percent of the outstanding loan balance) went to households with incomes reported to be between $30,000 and $50,000.[14]

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[12] United States Department of the Treasury, *Credit Union Member Business Lending,* January 2001. p 5.
[13] Ibid. p.5.
[14] Ibid. p. 3.

Beyond business lending, credit unions do an outstanding job of serving those of modest means. For instance, Home Mortgage Disclosure Act (HMDA) data – the primary data source in CRA examinations - clearly and consistently show that compared to banks, credit unions make a greater percentage of their loans to lower income individuals. HMDA data also reveal that lower income households are substantially more likely to be approved for loans at credit unions and substantially less likely to be denied a loan at credit unions.

For example, analysis of HMDA data shows that, since 2005, credit unions have approved an average of 68% of applications from low/mod income borrowers, whereas other lenders approved an average of only 51% of these applications. Moreover, since 2005, an average of 26% of total credit union mortgage originations were to low/mod income borrowers while low/mod income originations represented only 23% of total originations at other lenders.

It is worth noting that credit unions have repeatedly attempted to reach out to serve more individuals in lower-income households. However, bankers have used the courts to bar those efforts. This tactic of claiming that credit unions are not "doing enough" on the one hand while simultaneously erecting obstacles to the provision of credit union service does nothing to help these communities.

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