



*Testimony of*

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*on behalf of*

The National Association of Federal Credit Unions

“Condition of Small Business and Commercial Real Estate Lending in Local  
Markets”

Before a joint hearing of the

House Small Business Committee

and

House Financial Services Committee

United States House of Representatives

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### *Introduction*

Good afternoon, Chair Velazquez, Chairman Frank, Ranking Members Graves and Bachus and members of the committees. My name is Rick Wieczorek and I am testifying today on behalf of the National Association of Federal Credit Unions (NAFCU). I serve as the President/CEO of Mid-Atlantic Federal Credit Union (MAFCU), headquartered in Germantown, Maryland.

Mid-Atlantic Federal Credit Union was founded in 1968 by a group of IBM employees. As the company down-sized in the 1990s, Mid-Atlantic converted to a community charter and currently serves all of Montgomery County, Maryland. I have been involved in the credit union community for over 26 years, and have been with Mid-Atlantic for the last six years, first as CFO, and then, for the last two, as President/CEO.

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 64 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 the "Condition of Small Business and Commercial Real Estate Lending in Local Markets."

Historically, credit unions have long served a unique function in the delivery of necessary financial services to Americans including those operating small businesses. 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 those who 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 93 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:

- 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 7,600 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 \$874 billion in assets as of September 2009. By contrast, Federal Deposit Insurance Corporation (FDIC) insured institutions held \$13.2 trillion in assets. The average size of a federally-insured credit union is \$114.4 million, compared with \$1.636 billion for banks. Over 3,000 credit unions have less than \$10 million in assets. The credit union share of total household financial assets is also relatively small, at just 2 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 \$40.1 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."

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.

### **Mid-Atlantic FCU and Business Lending**

At Mid-Atlantic, we are proud of our track record in helping our members and their small businesses. Our website has a Small Business Services section where we provide a range of important information to current and potential small business owners regarding steps they should take, from developing marketing plans to planning for cash flows.

We have been an SBA-approved lender since 2004, and became an SBA express lender just last year. We currently have 12 SBA loans closed or pending, the majority of which have been done in the last year, for a total of nearly \$8 million.

Mid-Atlantic currently has just over \$28 million in member business loans, putting us very near the arbitrary credit union member business lending cap of 12.25%. We believe that the success of our member business lending program is attributable to the expertise we have on staff at our credit union and our credit union service organization, Mid-Atlantic Financial Partners, which works with us in the business lending process. Our top business lending personnel have over 85 years of SBA, business and commercial loan experience, and have been recognized by the SBA for their commitment to excellence.

### **Credit Unions in the Current Economic Environment**

It is widely recognized by leaders in both parties on Capitol Hill and in the Administration that credit unions did not cause the current economic downturn. We can however be an important part of the solution. Credit unions have fared well in the current environment and, as a result, 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 now turning to credit unions for the capital that they need. While credit unions are meeting these demands to the best of their ability, more can still be done.

One action that would allow more to be done is the increase of the arbitrary cap on credit union member business lending. Despite the fact that credit unions have long been engaged in member business lending, in 1998 the *Credit Union Membership Access Act* (CUMAA) for the first time established an statutory cap on credit union member business lending of 12.25% of assets. 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 for capital availability to help our nation’s small businesses. Many credit unions have the capital to provide small businesses with low-cost sources of funds that other lenders are not positioned to in this current environment, but are hamstrung by this arbitrary limitation. As noted previously, at Mid-Atlantic, we are approaching the arbitrary MBL cap. This means that despite the fact that we have the capital and expertise needed to make loans to small businesses to hire workers and create jobs in Montgomery County, we may soon face a situation where our efforts are curtailed arbitrarily.

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. The legislation would also raise the definition of what constitutes a member business loan, from \$50,000 to \$250,000. This is a significant step, for as this panel knows, one of the biggest declines in lending has been for loans under \$250,000. This change will make it easier for all credit unions to provide loans and lines of credit up to \$250,000 to America's small businesses, even if they are not approaching the arbitrary cap.

It should be noted that the banking industry's claims for imposing and maintaining the arbitrary cap were refuted as far back as 2001, when the Treasury Department released the aforementioned study 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 bill—mistakenly claims that credit union business loans are more risky, *the Treasury study concluded just the opposite*: "We found that member business loans are generally less risky than commercial loans made by banks and thrifts..." (p. 41). The National Credit Union Administration (NCUA) has a strong track record of overseeing credit union business lending, and

for the banking trades to suggest that raising the cap or adjusting an artificial limitation on the definition of a member business loan (that has not been adjusted for inflation since the last century) will lead to a potential taxpayer bailout of credit unions is simply absurd. Just two days ago, NCUA Chairman Debbie Matz wrote Treasury Secretary Timothy Geithner to assure him that if the arbitrary cap was modified, 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.”

NAFCU also strongly supports the reintroduction of the *Credit Union Small Business Lending Act*, which was first introduced by Chair Velazquez in the 110<sup>th</sup> 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 and fee waiver on SBA loans through at least the end of 2010. 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.

Additionally, while some have proposed raising the maximum SBA 7(a) loan amount from \$2 million to \$5 million, we do not believe that this is a good idea. We believe that a better approach would be to maintain the \$2 million amount, which would allow the SBA to guarantee a greater



number of loans, thereby helping more lenders, more small businesses, and more communities. Credit unions have not seen a demand for higher guaranteed loans.

**The President's Small Business Lending Initiatives**

As the panel is aware, earlier this month the President proposed creating a new \$30 billion fund. The fund would be created with monies remaining in the Troubled Asset Recovery Program (TARP) to make capital infusions into community banks. In turn, community banks would use that money to make loans to small businesses, in exchange for lower dividend payments. As the program is currently proposed, most credit unions would be ineligible and statutorily unable to participate in it, based on how credit union capital is defined in the Federal Credit Union Act.

While we applaud the Administration for its focus on increasing job growth and small business lending, we believe that the Administration should also find ways to include credit union business lending in its efforts. Raising the arbitrary credit union member business lending cap would make it easier for small businesses to have access to loans, all without any cost to the American taxpayer. Many credit unions, such as mine, are approaching the cap but have funds available to make more small business loans.

If Congress were to move ahead with the President's proposal for community banks, we believe it should be coupled and moved in tandem with relief from the arbitrary MBL cap for credit unions. If Congress opts to craft a new program to help spur lending to small businesses, we urge that it be one that includes credit unions as well.

Since credit union member business loans guaranteed by a government agency are exempt from the arbitrary cap up to the level of the guarantee, another approach Congress should consider is to use any new fund to establish a 100% guarantee on all credit union and community bank business loans that meet certain standards for a period of time. In order to have maximum impact, it would be important for such a program to be set up to include as many institutions as possible (i.e. not just SBA lenders) and not to create high regulatory hurdles that would only limit participation.

### *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. Legislation before Congress, such as H.R. 3380, the Promoting Lending to America's Small Businesses Act, and the proposals to extend the fee waiver and 90% SBA loan guarantee, would aid credit unions in their efforts to help our nation's small businesses. Additionally, as new programs are proposed, we urge that they be designed to include credit unions.

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