American Bankers Association
Building Success. Together.

ICBA
INDEPENDENT COMMUNITY BANKERS of AMERICA
One Mission. Community Banks.®

July 17, 2012

The Honorable Harry Reid
Majority Leader
United States Senate
S-221 The Capitol
Washington, D.C. 20510

The Honorable Mitch McConnell
Republican Leader
United States Senate
S-230 The Capitol
Washington, D.C. 20510

Dear Majority Leader Reid and Republican Leader McConnell:

The American Bankers Association (ABA) and the Independent Community Bankers of America (ICBA) are writing to renew our strong and emphatic opposition to S. 2231. This bill, which would raise the credit union member business lending cap, is counterproductive and controversial even among credit unions.

This bill more than doubles the current Congressionally imposed limits on credit union business lending authority, essentially permitting growth obsessed credit unions to use their tax subsidies to cherry-pick loans that tax-paying community banks would gladly make in their communities. Under current law, credit unions have enormous opportunity and flexibility to meet the needs of their small business customers without any change in the limit. In fact, the current Congressionally imposed limits are entirely appropriate given the significant risk and potential losses that would be borne by all credit unions, including the 70 percent that do no member business lending at all.

The credit unions' claims that this legislation would benefit all credit unions are being challenged by a chorus of voices within the credit union industry.

In April, several credit union executives specifically voiced their opposition to this legislation:

> "Asking for an 'expanded authority' for higher business lending authority brings a further risk to credit unions…Without asking we have already become the participants in the wind down and dissolution of credit unions that thought they 'knew how to make business loans'. The recent failures of large credit unions have added millions to our liability…In many cases business lending activity that surpassed regulatory limits (requiring waivers) was the culprit."
>
> Dennis Moriarity, Treasurer-Manager, Unity Credit Union

> "Increasing member business lending [MBL] limits for natural person credit unions is NOT something a majority of credit unions need or even want…The proposed MBL limit increase lacks safeguards to protect thousands of credit unions that fund the National Credit Union Share Insurance Fund (NCUSIF) and do NOT do MBL…<u>the industry as a whole, including regulators, is ill-prepared for asset-based expanded MBL</u>. We cannot risk another potential NCUSIF bailout until we're done paying for the current short-sighted [Corporate Credit Union] expanded authority debacle. Already-known future NCUSIF assessments thrust upon the nation's weakened credit unions is something Congress must consider before granting any new authority to the credit union industry." [emphasis added]
>
> Dale Kerslake, President/CEO, Cascade Federal Credit Union

> "There is a silent majority of credit unions that neither wants nor needs this legislation… Currently there are slightly more than five thousand credit unions that do not make business loans and less than 30 credit unions are near their member business loan cap… Business lending is inherently riskier than consumer lending. Currently, one hundred twenty-nine credit unions are reporting an astounding 10 percent default rate on their member business loans – it's alarmingly astounding. The National Credit Union Administration's Inspector General in 2010 reported that business loans were a factor in 7 of the 10 costliest credit union failures during the current financial crisis and recession… I urge you not to place my credit union or the credit union industry in jeopardy." [emphasis added]
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> Stuart Perlitsh, CEO, Glendale Area Schools Federal Credit Union

The Government Accountability Office (GAO) has documented the very concerns raised by these credit union executives. In its January 2012 report the GAO stated: "According to our analysis of historical financial data, failed credit unions had more member business loans as a percentage of assets than peer credit unions that did not fail or the credit union industry. In addition, more than 40 percent of failed credit unions participated in member business lending."

This legislation would benefit a select few credit unions while harming tax-paying community banks. Community based banks are prolific small business lenders and have stood by their customers throughout these difficult economic times. They are helping to expand small business credit as the recovery strengthens and demand returns, and they pay federal, state, and local taxes to support their communities.

ICBA and ABA urge you to support your local community banks by opposing S. 2231.

Sincerely,

Frank Keating	Camden R. Fine
President and CEO	President and CEO
American Bankers Association	Independent Community Bankers of America

Cc: Members of the U.S. Senate