

# Help America's Small Businesses: Support H.R. 3380 -- the Promoting Lending to America's Small Business Act

---

## **Small Businesses are Experiencing Difficulty in Obtaining Credit from Banks**

- Small businesses are finding it increasingly difficult to obtain credit due to the uncertainty that has enveloped the economy in the wake of the subprime lending crisis as well as the massive consolidation in the commercial banking arena that has occurred over the last several years.
- Small business owners are also seeing their existing credit lines with banks reduced or cut off. The struggles of CIT have only exacerbated the problems small businesses face.
- Those small business owners who are able to obtain credit often complain that the loan terms are much less attractive than they would be with additional lenders in the market.
- Small businesses need more options – not fewer.

## **Credit Unions Have a History of Making Loans to Their Business-Owning Members**

- Credit unions have been making member business loans (MBL) since the early 1900s.
- Throughout most of this period there were no limits on the volume of member business loans credit unions could originate or hold. In fact, statutory limits on credit unions' member business lending did not appear until passage of the Credit Union Membership Access Act of 1998 (CUMAA).

## **Credit Unions are in a Position to Help, but are Restricted by a Statutory Cap on Business Lending**

- Credit unions are subject to a cap on the amount of business loans they can extend which is essentially 12.25% of the credit union's total assets.
- There was no economic rationale for the limit when it was enacted. And, no rationale exists today.
- Credit union MBL loss rates are lower than those on credit union consumer loans and are a fraction of commercial loan loss rates at commercial banks, even during these difficult economic times.

## **Credit Unions Need Congressional Action to Continue to Serve Members Who Own Small Businesses**

- Today, credit unions have about \$30 billion in outstanding business loans, but nearly \$18 billion has been extended by credit unions approaching or exceeding the cap. (A small number of credit unions have a "grandfather" exemption from the cap imposed in 1998).
- Credit unions with important experience in business lending are approaching their capacity to help business owners absent Congressional action.

## **Congress Should Give Credit Unions the Opportunity to Serve Their Business-Owning Members**

- Congress has the opportunity to help small business owners by raising the credit union member business lending cap, and encouraging credit unions to lend to their business-owning members.
- Credit unions approaching the cap have the most experience in business lending – experience that facilitates this activity being done in a safe and sound manner.
- CUNA estimates that, if the Promoting Lending to America's Small Business Act was law, credit unions could extend up to \$10 billion in additional business loans to their members.

**H.R. 3380, the Promoting Lending to America's Small Businesses Act, Represents Economic Stimulus that Does Not Cost the Taxpayers a Dime and Does Not Expand the Size of Government**

# The Promoting Lending to America's Small Businesses Act

## Section-by-Section Analysis

---

### Section 1. Short Title

This section designates the name of the bill as the “Promoting Lending to America’s Small Businesses Act of 2009”.

### Section 2. Limits on Member Business Loans

Section 2 raises the limit on member business lending that a credit union can extend to 25 percent of its total assets. Current law on member business lending restricts credit unions to the lesser of 1.75 times actual net worth or 1.75 percent times net worth for a well-capitalized credit union, or approximately 12.25 percent of total assets. Prior to 1998, however, credit unions had no statutory cap for their business lending activities.

### Section 3. Definition of Member Business Loan

Section 3 authorizes the National Credit Union Administration to exclude from the calculation of the cap on member business loans any obligation of less than \$250,000. The current *de minimis* amount of \$50,000 for a credit union member business loan has remained unadjusted for inflation since 1998. By comparison, thrifts presently have a \$1 million *de minimis* exemption amount from their business lending cap.

### Section 4. Restriction on Member Business Loans

Section 4 provides the National Credit Union Administration with the regulatory flexibility to determine whether a credit union may continue to make new member business loans if its net worth falls below 6 percent. Under the provision, the agency will also have the authority to oversee all member business loans made by an undercapitalized institution.

### Section 5. Member Business Loan Exclusion for Loans to Nonprofit Religious Organizations

Section 5 excludes loans or loan participations by federal credit unions to nonprofit religious organizations from the member business lending cap. The change will facilitate the ability of credit unions to support community development efforts.

### Section 6. Encouraging Small Business Development in Underserved Urban and Rural Communities

Section 6 excludes from the calculation of a credit union’s member business lending cap those business loans made in underserved urban and rural communities. Consistent with language previously passed by the House, the section clarifies that loans made to businesses operating on a nationwide basis would not qualify for exemption from the cap, but member business loans made to locally-owned franchises of businesses operating on a nationwide basis would meet the criteria for an exemption, if in an underserved area.

Section 6 also defines a qualified underserved area to include not only census tracts that each meet the definition of “investment areas” under the Community Development Financial Institutions program, but also census tracts that each meet the criteria for qualifying as “low income areas” under the New Markets Tax Credit targeting formula adopted by Congress in 2000. Qualifying individual census tracts with 50 percent or more of the resident families earning annual incomes in excess of \$75,000, however, would not qualify as underserved.