

WRITTEN STATEMENT
OF
CARL SORGATZ
PRESIDENT
HAWTHORNE CREDIT UNION
ON BEHALF OF THE
CREDIT UNION NATIONAL ASSOCIATION
BEFORE THE
SUBCOMMITTEE ON FINANCE AND TAX OF THE
HOUSE COMMITTEE ON SMALL BUSINESS

APRIL 30, 2008

Chairwoman Bean, Ranking Member Buchanan, and members of the Subcommittee, I am Carl Sorgatz, President of Hawthorne Credit Union in Naperville, Illinois. I appreciate this opportunity to appear before the Committee on behalf of the Credit Union National Association (CUNA) and to express our support for increased access to capital for small businesses, particularly in light of the current credit crunch. CUNA is the nation's largest credit union advocacy organization, representing over 90% of our nation's approximately 8,400 state and federal credit unions, their State credit union leagues, and their nearly 90 million members.

Hawthorne Credit Union has offices in Naperville, Bolingbrook and at Lucent Technologies and provides financial services to employees of over 125 companies and to people who live or work in Cook, DuPage, Will, Kane and Kendall Counties. Through our Credit Union Service Organization (CUSO), Hawthorne Credit Union provides Member Business Loans (MBL) to our members. Four other Chicago area credit unions are also members of the CUSO.

Small businesses are the lifeblood of the economy. For nearly a century, credit unions have been there to serve the business lending needs of their members. Our member business loans reflect the diverse background and expertise of our members. For example, in recent years the credit unions in our CUSO were able to help their members achieve success with a landscaping business, a restaurant and sports bar, an environmental services company and a long-haul trucking business.

Madame Chairwoman, you undoubtedly hear a lot of rhetoric surrounding credit union member business lending. But, please allow me to paint a picture of the MBL activity of credit unions. Member business loans that credit unions provide their members are relatively small loans; in 2007, the average credit union MBL originated was \$180,710. Nationally, credit union business lending represents less than one percent (.89%) of the

depository institution business lending market; credit unions have about \$28 billion in outstanding business loans, compared to \$3.1 trillion for banking institutions¹ In general, credit unions are not financing skyscrapers or sports arenas; credit unions are making loans to credit union members who own and operate small businesses.

Despite the apparent “credit crunch” with respect to small business and other lending, the chief obstacle for credit union business lending is not the availability of capital – credit unions are in general very well capitalized. Rather, the chief obstacle for credit unions is the arbitrary statutory lending limits imposed by Congress in 1998 and the burdens associated with many of the SBA lending programs.

Under current law, credit unions are restricted from member business lending in excess of 12.25% of their total assets. This arbitrary cap has no basis in either actual credit union business lending or safety and soundness considerations. Indeed, a subsequent report by the U.S. Treasury Department found that business lending credit unions were more regulated than other financial institutions, and that delinquencies and charge-offs for credit union business loans were “much lower” than that for either banks or thrift institutions.²

This cap is overly restrictive and undermines public policy to support America’s small businesses. It severely restricts the ability of credit unions to provide loans to small businesses at a time when small businesses are finding it increasingly difficult to obtain credit from other types of financial institutions, especially larger banks.

The cap not only restricts the credit unions that are engaging in business lending and approaching their limit, but also credit unions who would like to enter the business lending market. The cap effectively bars entry into the business lending arena because the startup costs and requirements, including the need to hire staff with business lending experience, exceed the ability of many credit unions with small portfolios to cover these costs. Today, only one in five credit unions have MBL programs and aggregate credit union member business loans represent only a fraction of the commercial loan market.

My credit union will soon reach our MBL cap and will face turning away our members for loans that will help them achieve success. If one of our lending partners, Meadows Credit Union, had been near the cap in early 2006, they would have been forced to turn away a member who was a semi trailer truck driver barely able to make ends meet. He came to his credit union knowing that if he could go into business himself and buy his own truck he could better provide for his family because drivers who own their own trucks are in a much better position to obtain more lucrative contracts and have access to more business.

As the member investigated his options he realized he had two main problems. First, he was beginning what is referred to as a “start up” business and, secondly, the loan that he needed was for an amount that was less than what most banks wanted to consider. So, he

¹ All financial data is December 2007. Credit union data is taken from NCUA; Bank data is from FDIC.

² Credit Union Member Business Lending U.S. Department of the Treasury, January 2001.

came to his credit union where they were able to provide him \$75,000 to buy his first truck. This member has considerably improved his financial position and has already paid back the loan in full and has seen business improve significantly.

Credit unions approaching the cap face the dilemma of having to turn away members who are unable to secure business loans from other financial institutions. Congress can help credit union members avoid being turned away by their credit union by enacting any or all of the several bills currently pending that would help promote greater credit union participation in small business lending: H.R. 1537, the Credit Union Regulatory Improvements Act (CURIA), H.R. 5519, the Credit Union Regulatory Relief Act (CURRA), and H.R. 1849, the Credit Union Small Business Lending Act.

Credit Union Regulatory Improvements Act (H.R. 1537)

Credit unions support the provisions of H.R. 1537, the Credit Union Regulatory Improvements Act (CURIA), which would increase the current limit on credit union MBLs from 12.25% to 20% of total assets, and permit the National Credit Union Administration (NCUA) to increase the threshold for defining a MBL from \$50,000 to \$100,000. The bill would also allow, at the discretion of the NCUA Board, credit unions that fall below the net worth requirements for being “well capitalized” to make new business loans. This is especially important for adequately capitalized credit unions that have well-managed business lending programs.

Expanding the limit on credit union member business lending would allow more credit unions to generate the level of income needed to support compliance with NCUA’s regulatory requirements and would expand business lending access to many credit union members, thus helping local communities and the economy.

Credit Union Regulatory Relief Act (H.R. 5519)

A second piece of legislation that would facilitate credit union participation in small business lending is H.R. 5519, the Credit Union Regulatory Relief Act. Even though it does not address the MBL cap described above, H.R. 5519 does include several provisions that would permit credit unions to make more small business loans available, including provisions that would:

- clarify existing law that permits credit unions to participate in loan programs secured by the insurance guarantees, or commitments of State or Federal governments;
- exempt member business loans made in underserved communities from the MBL cap;
- exclude loans or loan participations by federal credit unions to non-profit religious organizations from the member business loan limits contained in the Federal Credit Union Act; and

- give the National Credit Union Administration additional flexibility to issue regulations providing for loan terms exceeding 15 years for specific types of loans.

Credit Union Small Business Lending Act (H.R. 1849)

A third piece of legislation that would be helpful to increasing credit union small business lending is a bill introduced by Chairwoman Velazquez entitled the Credit Union Small Business Lending Act (H.R. 1849).

H.R. 1849 recognizes the need to enhance credit union business lending through SBA programs and is intended to improve small business lending and cooperation between the NCUA and the SBA by:

- excluding from the Federal Credit Union Act's definition of MBL from any loan made in cooperation with the SBA under section 7(a) of the Small Business Act;
- directing the SBA to implement an outreach program to increase credit union participation in the SBA's section 7(a) loan program and to simplify the application process for credit unions;
- directing the SBA to provide up to an 85% guaranty for loans made by a credit union up to \$250,000 to a member residing in an underserved area, or where a member's business that is receiving assistance is located in an underserved area; and,
- clarifying that a federal credit union making a loan secured by the insurance guarantee, or advance commitment to purchase by the federal government or a state government (or agency of either) may make the loan under the terms and conditions specified in the law and applicable regulations under which the insurance, guaranty, or commitment is provided.

Credit Union Involvement in SBA's 7(a) Loan Program

CUNA is a strong supporter of the 7(a) loan program, which provides America's 26 million small business owners with the capital and technical assistance needed to start and expand their businesses. We view the 7(a) program as an essential tool for achieving the credit unions' mission of serving all the credit needs of members, particularly low- to middle-income individuals and groups living in communities that are not adequately served by other traditional financial institutions.

While CUNA strongly supports the 7(a) program, its member credit unions have not been major participants in the program. Currently, less than 2% of all U.S. credit unions offer SBA loans to their members. While larger credit unions are more likely to be involved with SBA loans, and business lending generally, only about 18% of larger credit unions with more than \$500 million in assets offer 7(a) business loans. While the number of credit unions participating in the 7(a) program has increased steadily since 2003, SBA-guaranteed loans represented only a small portion (2.6%) of all business lending to credit union members in 2006.

Several important factors discourage larger numbers of credit unions from participating as 7(a) lenders. First, as previously discussed the statutory MBL cap restricts the ability of credit unions offering MBLs from helping their members even more, and discourages other credit unions from engaging in business lending.

A second factor limiting credit union participation has been SBA policies that, until 2003, limited credit union eligibility to participate in the 7(a) program only to credit unions with geographic or community charters. Since the number of credit unions with community charters still represented a small percent of all credit unions, this severely limited credit union access to the program. Fortunately, SBA issued a revised legal opinion on February 14, 2003, removing restrictions on the types of credit unions eligible to participate as 7(a) lenders. Today 386 credit unions offer SBA 7(a) loans.

While SBA's 2003 policy change was good news for credit unions, it may prove to be even more important for small businesses. An SBA research publication noted that large bank consolidation is making it more difficult for small businesses to obtain loans.³ Given the fact that the average size of a credit union member business loan is \$180,710, and the average credit union SBA 7(a) loan is \$82,850, this is a market that credit unions are well suited to serve. And this is a market that credit unions are eager to serve.

CUNA strongly supports legislative initiatives that permit the SBA to reduce borrower and lender fees for the 7(a) program to the greatest extent possible. In March 2007, the House passed H.R. 1332, the Small Business Lending Improvement Act of 2007, with overwhelming bipartisan support. This bill will authorize and put in place a mechanism to reduce SBA 7(a) borrower and lender fees. We encourage the Senate to take action and hope the President will sign into law this important piece of legislation.

Conclusion

Madame Chairwoman, in summary, I want to thank you and the Committee for providing CUNA with an opportunity to express its support for further access to capital to small businesses. We urge Congress to enable credit unions to serve their member business lending needs by enacting the important legislation discussed today.

³ The Effects of Mergers and Acquisitions on Small Business Lending by Large Banks SBA, March 2005