

Federal Issue Brief



Background

Credit unions have been making member-business loans (MBLs) since their inception in the early 1900s. In the first 90 years of their existence, credit unions were not subject to a cap on business lending. The current cap was imposed on the industry by Congress in the Credit Union Membership Access Act of 1998 and limits most credit unions to lending no more than 12.25% of their assets to small businesses without any economic, safety and soundness or historical rationale.

Without this arbitrary limitation, credit unions could lend an additional \$16 billion to small businesses. This would result in helping to create nearly 150,000 new jobs in the first year after enactment.

Congress can increase the statutory cap on credit union business lending at no cost to taxpayers and without increasing the size of government. Credit unions welcome the opportunity to do more member business lending.

Proposed NCUA Rule on Business Lending

In early September, the MCUL commented on a proposed MBL rule change issued by the NCUA. While several components of this rule are helpful, the NCUA can and should go much farther than this proposal in order to remove artificial barriers to credit union small business lending. The MCUL and CUNA submitted letters in support of the NCUA's proposed MBL rule. If the NCUA's current risk based capital proposal is adopted as it currently stands, the proposed specification of the MBL cap would have limited effect on a credit union's aggregate MBL cap. Legislation to increase the small business lending cap is necessary for credit unions to better serve the needs of their members.

MCUL Position

MCUL encourages Michigan's congressional delegation to help credit unions provide additional working capital to Michigan small businesses by:

- Eliminating the cap and supporting or co-sponsoring H.R. 1188, the Credit Union Small Business Jobs Creation Act. H.R. 1188 would raise the cap on business lending for credit unions.
- Supporting S. 1440/H.R. 1422, exempting 1-4 Family Non-Owner Occupied Residential Loans from the cap.
- Exempting loans guaranteed by the SBA from counting towards the MBL cap.

Increasing the MBL cap to 27.5% of a credit union's assets would increase lending to small businesses while not adversely impacting bank small lending. An SBA study found that 80% of the additional lending created by raising the cap would support new small business lending. The 93% small business lending market share enjoyed by banks today would not be jeopardized.

Legislative Status

H.R. 1185 and H.R. 1422 were introduced and referred to the House Committee on Financial Services in March. S. 1440 was introduced and referred to the Senate Banking and Urban Affairs Committee in May. These bills have not yet been scheduled for a committee hearing.