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President and CEO

May 17, 2013

United States Senate
Washington, D.C. 20510

Dear Senator:

On behalf of the 7,000 community banks represented by ICBA, I write to express our strong opposition to S. 968, the so-called Small Business Lending Enhancement Act, which would more than double the statutory cap on tax-exempt credit union commercial lending (or “member business loans” (MBL)) from 12.25 percent of assets to 27.5 percent of assets. This legislation is unnecessary, unwarranted, would expand and re-write the tax-exempt credit union charter, increase the deficit, and produce no economic or job growth. We urge you to oppose this controversial legislation. **A vote for S. 968 is a vote against community banks.**

S. 968 is unnecessary because only a small fraction of credit unions, about 1.2 percent, are at or near the current MBL cap of 12.25 percent of assets. The bill would benefit only the most aggressive credit unions. What’s more, the current cap is riddled with exemptions. Any loan under \$50,000, any SBA loan up to \$5.5 million, any loan purchased from another credit union, or any loan secured by the borrower’s principal residence is exempt from the cap. Of particular note, all designated low-income credit unions – of which there are nearly 2,000, in addition to 100 credit unions that were grandfathered – are totally exempt from the cap. The current cap is ineffective, and doubling it would only compound a flawed policy.

S. 968 is unwarranted because it is an abuse of the tax exemption granted to credit unions for a limited purpose – to serve people of modest means with a common bond among them such as an employer or union. The original charter has already been expanded to the point where credit unions have become “stealth banks,” barely distinguishable from commercial banks.¹ S. 968 would further blur the distinction. The current cap of 12.25 percent of assets was not set arbitrarily. It was included in the 1998 Credit Union Membership Access Act as a trade off for a liberalization of the common bond requirement, and, according the Senate Banking Committee report, its purpose is to “ensure that credit unions continue to fulfill their specified mission of meeting the credit and savings needs of consumers, especially persons of modest means, through an emphasis on consumer rather than business loans.”²

S. 968 would increase the deficit because any new tax-exempt credit union commercial lending would only displace current lending by tax-paying banks and thereby reduce tax revenues. Credit unions already cost taxpayers an estimated \$3 billion annually, according to a 2005 study by the non-partisan Tax Foundation.³ S. 968 would further expand the credit union tax subsidy and the deficit. The CBO should score S. 968 for its revenue loss to Treasury and its deficit-increasing

¹ Brendan Greely, “Have Credit Unions Become Stealth Banks?” Bloomberg Businessweek. (May 16, 2013)

² Senate Report 105-193

³ “Competitive Advantage: A Study of the Federal Tax Exemption for Credit Unions.” Tax Foundation. February 28, 2005.

impact as they have previous MBL bills. Any consideration of the current MBL cap should only be done in the context of a review of the credit union tax exemption.

Finally, I urge you to question the far-fetched claims made by S. 968 proponents regarding its impact on economic and job growth. A recent, exhaustive study, "[An Analysis of the Impact of Expanding the Ability of Credit Unions to Increase Commercial Loans](#)," by Ike Brannon of Capital Policy Analytics found that job-growth forecasts offered by proponents of a higher MBL cap are based on highly dubious economic assumptions. I urge you to review the study, which is attached. It also notes that credit unions with high business-loan-to-asset ratios comprise a disproportionate share of failed credit unions since 2008.

Again, community bankers nationwide urge you to oppose this controversial legislation. Tax-exempt credit unions do not need, nor should they be granted, dangerous and counterproductive new powers.

Thank you for your consideration.

Sincerely,

/s/

Camden R. Fine
President & CEO