Dear Senator:

On behalf of the nearly 5,000 community bank members of the Independent Community Bankers of America (ICBA), I am writing to express strong opposition to a credit union proposal that would significantly expand the powers of taxpayer-subsidized credit unions, in a future Senate jobs bill.

As we understand, the credit union proposal would raise the cap on "member business loans" a credit union can make to 25% of assets (up from 12.25%), increase the size of loans exempt from the cap to $250,000 (up from $50,000), completely exclude any loan made in an "underserved area," and repeal certain lending restrictions on undercapitalized credit unions raising serious safety and soundness concerns.

We applaud Congress for working to create new jobs and reduce unemployment, goals ICBA and all community bankers share. However, we do not believe this proposal would contribute to those goals.

The House sponsor of this proposal touted an analysis by the Credit Union National Association (CUNA) which states this increase in the lending cap would create a large number of new jobs in the first year after enactment. We question the credibility of that analysis considering it was done by the nation's largest credit union advocacy group, in whose interests it is to promote expanded powers for their members.

A more credible study conducted by the non-partisan and non-aligned Tax Foundation found that the credit unions' tax subsidy is contributing to the national debt by more than $30 billion over ten years. During this period of skyrocketing federal deficits, we believe it would be more prudent and more beneficial to our national economy to repeal the credit unions' tax exemption to help reduce the national debt.

Any increase in credit union commercial lending activity under the credit union proposal would probably be at the expense of taxpaying community banks, whose bread and butter business is small business lending. There is no evidence to support the contention that credit for small businesses is in short supply, as community banks have been lending to small businesses in their communities throughout the economic crisis. Indeed, small business loan demand is down in general where businesses and individuals are deleveraging and reducing their reliance on debt. Siphoning a portion of this business away from tax-paying community banks would threaten their ability to continue to serve their communities and be counter-productive to the goals of the jobs package.

An additional incongruency in the proposal states that the average credit union business loan is about $215,000, yet the loan level exemption from the cap would be raised to $250,000. This means that the cap would not be raised, it would essentially be eliminated. If this is the goal of the proposal, it should be made more transparent.

ICBA has consistently expressed concerns about expanding credit unions' commercial lending powers. Credit unions were created by Congress, and given certain tax and regulatory advantages (they are not subject to the Community Reinvestment Act, as are taxpaying community banks), for the purpose of serving individuals of modest means. It is doubtful that Congress, in passing the Federal Credit Union Act of 1934, ever envisioned credit unions making commercial loans.

Indeed, P.L. 105-219, the Credit Union Membership Access Act, which first codified the practice of commercial lending, actually imposed a limit on member business loans. The Senate Banking Committee report on this bill stated clearly Congress intended that business lending by credit unions be incidental to, and not the main focus of, the services provided to their customers. The current restrictions on member business loan activity is, in our view, more than sufficient for any credit union to make member business loans as an incidental service.

It has been clear for some time there is a strong trend in the credit union industry, routinely enabled by NCUA actions, away from the statutory mandate to serve people of small means and towards direct competition with taxpaying commercial banks for customers in the general population for all product and service lines.

Indeed, the continued pursuit of expanded commercial lending powers calls into question the credit union industry's commitment and ability to serve the needs of lower income and un-banked populations. Study after study has shown that credit unions do not achieve their statutory mission of serving people of small means, and community banks actually do a better job of serving lower income groups.

William A. Kelly, Jr., the lead researcher in a recent study conducted by the Graduate School of Banking at the University of Wisconsin-Madison, stated: "Credit union leaders often point out that an important benefit to members are lower rates on loans and higher rates on savings. However, the results show that any benefits offered do not go to especially modest-income households."

The study segmented credit union members into five income groups and measured the relative dollar value of benefits to those members. According to the study:

- 61 percent of credit union benefits go to households with incomes over $95,000;

- 29 percent go to households with incomes of $35,000 to $95,000; and

- 10 percent go to households making less than $35,000.

"Because taxpayers are subsidizing credit unions, the issue is, are credit unions serving modest-income people?" Kelly said. "We found that credit unions as a group benefit the upper end of the middle-income spectrum much more than the lower end. . . ."

In his policy analysis, Mr. Kelly concluded, "Taxpayers would benefit from a policy that required credit unions to pay income taxes as do other businesses, including cooperatives."

Credit unions should demonstrate they can satisfy the basic statutory mission that Congress spelled out for them before attempting to expand their powers into more complex and specialized fields.

ICBA also has concerns about the overall safety and soundness of the credit union industry. It has been reported the credit union industry is critically undercapitalized, and the NCUA and independent analysts have estimated that credit unions are facing losses in the $15-50 billion range, largely due to massive losses by corporate failures. This raises serious questions about the credit union industry's continued ability to serve people in their community just to satisfy their congressional mandate. Now is certainly the worst possible time to expand credit union powers into such a highly specialized and technical field such as business lending.

ICBA believes that adding the credit union proposal to a jobs bill would do more to promote the interests of large, multi-bond tax-exempt credit unions than to reduce joblessness and create new employment opportunities. We urge you to reject the attempt to take advantage of the economic crisis to satisfy these self-serving desires.

Thank you for this opportunity to express the view of our nation's community bankers.

Very truly yours,

/s/

Stephen J. Verdier