

June 14, 2011

The Honorable Harry Reid  
Senate Majority Leader  
United States Senate  
Washington, DC 20510

The Honorable Mitch McConnell  
Senate Minority Leader  
United States Senate  
Washington, DC 20510

Dear Majority Leader Reid and Minority Leader McConnell:

On behalf of the nearly 5,000 members of the Independent Community Bankers of America as well as its partner state community banking associations, **we are writing to express strong opposition to the Small Business Lending Enhancement Act of 2011 (S. 509)**. Introduced by Senator Mark Udall (D-CO), this bill would dramatically expand the powers of taxpayer-subsidized credit by expanding the legal cap on “member business loans” from 12.25 percent to 27.5 percent of a credit union’s assets. This more than doubling of the statutory business lending cap cannot be allowed while credit unions remain subsidized by American taxpayers with their tax-exempt status.

Notably, only a handful of the very largest, most complex credit unions (an estimated 0.5 percent of the nation's approximately 7,400 credit unions) are at or near the current lending cap. Fully 70 percent report no member business loans at all. Furthermore, all Small Business Administration loans, as well as all small business loan of \$50,000 or less, are exempt from the cap. Small Business Administration loans can be as large as \$5.5 million. Therefore, there is already ample capacity for the credit unions to expand their lending if they choose to do so. The fact that only 4.5 percent of credit union assets are invested in commercial loans – a figure cited by advocates of S. 509 – does not suggest that the current cap of 12.25 percent is too low.

Credit union lending comes at a cost to taxpayers. Any expansion of commercial lending by tax-exempt credit unions would simply displace lending by taxpaying community banks and other lenders and reduce tax revenue to struggling federal, state, and local governments. According to the independent Tax Foundation, the credit union tax subsidy already exceeds \$3 billion per year. Increasing the cap on credit union member business lending would only increase the taxpayer subsidy and further undermine its original policy purpose.

Credit unions were created by Congress, and given tax and regulatory advantages (including exemption from the Community Reinvestment Act) 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.

The continued pursuit of expanded commercial lending powers calls into question the credit union industry's commitment to their tax-exempt mission and ability to serve the needs of lower income and unbanked populations. Study after study has shown that credit unions do not achieve their statutory mission of serving people of small means, and that community banks do a better job of serving lower income groups. Credit unions should demonstrate they are meeting the basic statutory mission for which they were created by Congress before attempting to expand their powers into more complex and specialized fields. **Therefore, we urge all Senators to strongly oppose S. 509, which would only exacerbate the already distorted and unfair marketplace of tax-exempt credit unions.**

Thank you for your consideration.

Sincerely,

**Independent Community Bankers of America**  
**Community Bankers Association of Alabama**  
**Arkansas Community Bankers**  
**Bluegrass Bankers Association**  
**California Independent Bankers**  
**Independent Bankers of Colorado**  
**Florida Bankers Association**  
**Community Bankers Association of Georgia**  
**Community Bankers of Iowa**  
**Community Bankers Association of Illinois**  
**Indiana Bankers Association**  
**Community Bankers Association of Kansas**  
**Louisiana Bankers Association**  
**Maine Bankers Association**  
**The Independent Community Bankers of Maine**  
**Maryland Bankers Association**  
**Massachusetts Bankers Association**  
**Community Bankers of Michigan**  
**Independent Community Bankers of Minnesota**  
**Missouri Independent Bankers Association**  
**Montana Independent Bankers**  
**Nebraska Independent Community Bankers**  
**Community Bankers Association of New Hampshire**  
**New Jersey Community Bankers Association**  
**Independent Community Bankers Association of New Mexico**  
**Independent Bankers Association of New York State**  
**Independent Community Banks of North Dakota**  
**Community Bankers Association of Ohio**  
**Community Bankers Association of Oklahoma**  
**Pennsylvania Association of Community Bankers**  
**Independent Banks of South Carolina**  
**Independent Community Bankers of South Dakota**  
**Tennessee Bankers Association**  
**Independent Bankers Association of Texas**  
**Virginia Association of Community Banks**  
**Community Bankers of Washington**  
**Community Bankers of West Virginia**  
**Community Bankers of Wisconsin**

cc: United States Senate