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NCUA Media Release

NCUA Asks Congress to Lift Cap on Member Business Lending

Proposed Law Would Enhance Lending to Small Business Community Prudently and Diversify Credit Union Portfolios

ALEXANDRIA, Va. (June 16, 2011) – National Credit Union Administration (NCUA) Board Chairman Debbie Matz testified today before the Senate Committee on Banking, Housing and Urban Affairs regarding credit union member business lending (MBL).

"Member business lending allows small businesses to obtain reasonably priced loans," said Matz. "Simply put: More competition benefits the entire marketplace and has a positive effect on the cost and availability of credit. Prudent member business lending strengthens a credit union's balance sheet. It diversifies credit union portfolios and improves their ability to withstand economic cycles. Member business lending also develops communities. It spurs job growth and expands consumer access to goods and services."

The crux of her testimony supported the Small Business Lending Enhancement Act (S. 509), a bill that would alter the cap on MBL for credit unions. The present statutory cap establishes the aggregate limit on a credit union's net member business loan balance as the lesser of 1.75 times the credit union's net worth or 12.25 percent of total assets, with certain exceptions.

"The current statutory cap deters many credit unions from fully serving the business lending marketplace," said Matz. "This bill would allow more credit unions to achieve the economies of scale necessary to make greater investments in business lending expertise and systems, engage in prudent underwriting, and diversify their portfolios. These changes would be good not only for credit unions, but also for their members and communities."

NCUA's testimony supports increasing the current statutory MBL limitation. Under the proposed bill, experienced, well-capitalized credit unions, consistent with safety and soundness, could increase member business lending portfolios on a gradual basis, by no more than 30 percent annually, up to a new cap of 27.5 percent of a credit union's total assets.

"Entrepreneurs work hard, take risks, and put people to work," said Matz. "To fulfill their dreams, they need capital. Credit unions have long met the capital needs of small businesses. Credit unions are frequently the only lenders willing to make small loans to open a car repair shop, expand a boutique, or start a daycare center. The capital provided to hardworking Americans enriches lives, provides employment, and reinforces the economic base of communities."

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Today, credit unions have more than 167,000 outstanding loans to businesses, and statistics suggest that credit unions serve a small but important segment of the marketplace:

- Approximately 2200 credit unions hold member business loans, up 10 percent since 2006;
- Eighty-three percent of MBLs are secured by real estate.
- The average size of an MBL is $223,000.
- While nearly 30 percent of credit unions underwrite business loans, these loans comprise just 1 percent of all commercial lending.

MBL averages range from $17,000 for unsecured lines of credit, to $680,000 for construction and development loans. In 2010, credit unions granted or purchased $12.1 billion in MBLs, and another $3.1 billion were added in the first quarter of 2011.

If legislative changes increase the current cap on member business lending, Matz indicated that NCUA would move swiftly to amend its rules and vigorously supervise the law's implementation. NCUA currently is drafting proposed amendments to its MBL rule to clarify and revise a number of current provisions. A draft rule will be issued for public comment in the near future.

In her testimony, Matz also made a case requesting authority to examine third-party vendors directly, similar to the powers of other federal banking regulators. This action would give NCUA access to examine and take enforcement actions against credit union service organizations whenever necessary to protect safety and soundness. NCUA is the only Federal Financial Institutions Examination Council agency that does not have examination authority over financial institution vendors.

A copy of NCUA's written testimony can be found at: click here

NCUA is the independent federal agency created by the U.S. Congress to regulate, charter and supervise federal credit unions. With the backing of the full faith and credit of the U.S. Government, NCUA operates and manages the National Credit Union Share Insurance Fund, insuring the deposits of more than 90 million account holders in all federal credit unions and the overwhelming majority of state-chartered credit unions.

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