AIB Advocates for Independent Business
www.indiebizadvocates.org

August 12, 2015

Sent via email to: regcomments@ncua.gov

RE: Advocates for Independent Business — Comments on Proposed Rulemaking for Part 723

Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Dear Mr. Poliquin,

Advocates for Independent Business (AIB) is a coalition of 15 national trade associations and other organizations that represent independent businesses. AIB's member organizations, which are listed at the end of this letter, collectively represent over 150,000 small Main Street businesses employing more than 600,000 people and providing over $10 billion in annual payroll.

We write largely in support of NCUA's proposed changes to its regulation governing Member Business Loans (MBLs).

Limited availability of credit has become a major impediment for new and growing independent businesses, especially those that are small. (The vast majority of our members have fewer than 25 employees). Last January, we conducted a survey of over 3,000 independent businesses and found that, of those that needed a loan in the last two years, 30 percent had been unable to obtain one. Small businesses owned by people of color and women fared even worse. Over 44 percent of minority-owned businesses seeking financing and 35 percent of those owned by women failed to secure a lender.[1] Our findings echo federal data that show that lending for big businesses is well above its pre-recession peak, while small business lending remains depressed.

A major factor behind this troubling trend is consolidation in the banking industry. Megabanks devote comparatively little of their resources to small business lending. As their market share has grown, overall credit availability for small businesses has shrunk. The largest 19 banks now control 59 percent of the total assets held by banks and credit unions, but account for only 23 percent of small business lending. In contrast, small and mid-sized community banks (those under $10 billion in assets) control just 17 percent of assets, but provide 53 percent of small

[1] "2015 Independent Business Survey: Buoyed by Public Support, Independent Businesses Report Strong Sales Growth." *Advocates for Independent Business* and *Institute for Local Self-Reliance*. Feb. 11, 2015. <http://indiebizadvocates.org/2015/02/11/2015-independent-business-survey-buoyed-by-consumer-support-independent-businesses-report-strong-sales-growth/>.

business lending.[2] Community banks are by far the largest source of loans for our members and, as such, we are deeply committed to policies that would reverse their decline and establish a level playing field vis-à-vis megabanks.

We also support an expanded role for local credit unions in small business lending. Over the last 10 years, credit unions have almost quadrupled their small business lending and now account for 7 percent of small business loans.[3] This growth has made up for a portion of the small business lending lost to banking consolidation.

We believe NCUA's proposed changes to its MBL rule will give credit unions more flexibility to meet the credit needs of local businesses and thereby increase overall lending to small businesses. In particular, we strongly support NCUA's move away from prescriptive rules, including specific mandates on collateral and personal guarantees. Small, local businesses are inherently singular enterprises and lenders need flexibility in making loan decisions appropriate to the circumstances of each prospective business borrower — so long as those decisions follow a sound underwriting policy overseen by regulators.

While we are largely supportive of NCUA's proposed rule change, we respectively urge the agency to review its proposal with an eye toward ensuring that both the aim and the outcome of the specific regulatory changes will be to enable community credit unions (those under $1 billion in assets that operate in a particular geographic region) to expand their lending to small businesses within their local area. Large regional and national credit unions, like big banks, tend to direct much of their lending to higher dollar-value loans to bigger businesses. Therefore, shifts in policy that would only result in an expansion of business lending by the largest credit unions are unlikely to offer benefit to small businesses and could work to further skew access to capital away from small enterprises. In particular, we question the agency's proposal to exempt participation loans that are commercial in nature from the 12.25 percent MBL cap. These are business loans and therefore should be subject to the same parameters as MBLs.

Thank you for the opportunity to offer comment on the proposed requirements.

Sincerely,

Stacy Mitchell

Stacy Mitchell
Coordinator, Advocates for Independent Business

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[2] ILSR analysis of NCUA and FDIC data. See: "Small Business Lending by Size of Institution, 2014." <http://ilsr.org/small-business-lending-by-size-of-institution-2014/>. And: "Understanding the Small Business Credit Crunch." Stacy Mitchell, *Institute for Local Self-Reliance*, April 16, 2014. <http://ilsr.org/understanding-small-business-credit-crunch/>.

[3] Ibid.

AIB Members

American Booksellers Association
American Independent Business Alliance
American Specialty Toy Retailing Association
Brixy
Business Alliance for Local Living Economies
Independent Running Retailers Association
Independent We Stand
Institute for Local Self-Reliance (coordinator)
National Bicycle Dealers Association
North American Retail Hardware Association
Professional Association of Innkeepers International
Real Diaper Industry Association
Record Store Day
Soccer Dealer Association
Society of American Florists
TriMega Purchasing Association