



Credit Union National Association

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April 23, 2013

The Honorable Darryl Issa  
Chairman  
Committee on Oversight and Government Reform  
United States House of Representatives  
Washington, DC 20515

The Honorable Elijah Cummings  
Ranking Member  
Committee on Oversight and Government Reform  
United States House of Representatives  
Washington, DC 20515

Dear Chairman Issa and Ranking Member Cummings,

On behalf of the Credit Union National Association (CUNA), I am writing regarding the hearing the Committee will hold later this week entitled, "Broken Promises: The Small Business Lending Fund's Backdoor Bank Bailout." CUNA is the largest credit union advocacy association in the United States, representing nearly than 90 percent of America's 7,000 state and federally chartered credit unions and their 96 million members. We appreciate your holding this timely and important hearing.

In 2010, banks and their national trade associations vigorously pushed for enactment of H.R. 5297, the Small Business Lending Fund (SBLF) Act. To this day, despite numerous negative government reports and news coverage, these same supporters in the banking community have yet to admit the obvious fact that the fund created by this Act has done little to stimulate bank lending to small business but has allowed more than 100 banks to use SBLF funds to repay, on better terms, the funds they received from the American taxpayer through the Troubled Asset Relief Program (TARP). In other words, the SBLF (Bank Bailout 2.0) was a sweetheart deal to further assist banks that were aided in TARP (Bank Bailout 1.0).

Earlier this month, the Treasury Department released a report regarding the implementation of the Small Business Jobs Act and the Small Business Lending Fund. The report states:

“In total, 137 institutions [banks] repaid a CPP [Capital Purchase Program, TARP] investment in connection with an SBLF closing. These banks received \$2.7 billion in SBLF funding and used \$2.2 billion of this capital to repay outstanding CPP balances.”<sup>1</sup>

On April 9, 2013, the Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) released a report that echoes the Treasury report. SIGTARP noted that:

<sup>1</sup> Department of Treasury. "Use of Funds Report -- Report to Congress submitted pursuant to Section 4106(3) of the Small Business Jobs Act." April 2013. 9.



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“Treasury invested only \$4 billion of the \$30 billion available – two-thirds of which (\$2.7 billion) went to 137 TARP banks that used \$2.1 billion in SBLF funds to exit TARP in 2011... The 132 of 137 former TARP banks remaining in SBLF have not effectively increased small-business lending because they used approximately 80% of SBLF funds (\$2.1 billion of the \$2.7 billion) to repay TARP.”<sup>2</sup>

SIGTARP went on to recommend:

“To preserve the amount of capital former TARP banks participating in SBLF have to lend, the primary Federal banking regulators (the Federal Reserve, FDIC, or OCC) should not approve dividend distributions to common shareholders of former TARP banks that have not effectively increased small-business lending while in SBLF.”<sup>3</sup>

It is important not to forget that the SBLF was strongly promoted by both the American Bankers Association (ABA) and the Independent Community Bankers of America (ICBA) as a way for their member banks to promote bank lending to small business and jumpstart economic recovery.

On May 18, 2010, ICBA testified before the House Financial Services Committee that the association “strongly supports the new SBLF proposal and we’ll do our part to make it a success.”<sup>4</sup> The American Bankers Association also gave their endorsement of the legislation in a statement for the record of the hearing, emphatically stating:

“ABA supports H.R. 5297, the Small Business Lending Fund Act of 2010, which was recently proposed to stimulate small business lending. This bill can help community banks meet the needs of small businesses across America.”<sup>5</sup>

Have community banks met these needs? The answer is obviously “no.”

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<sup>2</sup> Special Inspector General for the Troubled Asset Relief Program. “Banks that Used the Small Business Lending Fund to Exit TARP.” April 9, 2013. 2, 6.

<sup>3</sup> Ibid. 20.

<sup>4</sup> Testimony of James D. MacPhee, Chief Executive Officer of Kalamazoo County State Bank in Schoolcraft, Michigan, on behalf of the ICBA, before the House Committee on Financial Services hearing entitled, “Initiatives to Promote Small Business Lending, Jobs and Economic Growth.” May 18, 2010. 6.

<sup>5</sup> Statement of the American Bankers Association for the record of the House Committee on Financial Services hearing entitled, “Initiatives to Promote Small Business Lending, Jobs and Economic Growth.” May 18, 2010. 2.

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To put these past statements and their current silence on the dismal failure of the SBLF in context, it is important to take a look at the banking industry's performance. In the fourth quarter of 2012, America's banks reported net income of \$34.7 billion, an increase of \$9.3 billion (37%) from a year earlier. Eighty-six percent of banks made a profit in the fourth quarter. According to the American Bankers Association, bank revenue increased from the previous year, in part due to a \$10 billion (18%) increase in noninterest income on gains of loan sales and increased trading revenue.<sup>6</sup> Banks are clearly in excellent financial condition but have ignored small business lending and have chosen instead to use Bank Bailout 2.0 to cheaply pay off their obligations from Bank Bailout 1.0.

Credit unions were not eligible to participate in the SBLF and, frankly, did not need a taxpayer fund to encourage them to lend to their small business members. As we noted during the consideration of the SBLF, there was – and still is – a better way to stimulate lending to America's small businesses and it doesn't cost the taxpayers a dime. The Credit Union Small Business Jobs Creation Act (H.R. 688) would permit credit unions to more fully meet the credit needs of America's small businesses by increasing the statutory credit union member business lending cap. If enacted, we estimate that credit unions could lend an additional \$13 billion to small businesses in the first year, helping them to create more than 140,000 new jobs.

We know the banks oppose H.R. 688; but considering how they have used the taxpayer-subsidized SBLF, their opposition to this legislation is a pretty good reason to support it. Moreover, credit unions' performance in small business lending during the crisis – when they expanded their offerings 45% while bank small business offering contracted 15% -- should speak volumes of what small business should expect if Congress allows credit unions to continue to lend to them. Credit unions were there for small businesses when the banks, with taxpayer backing, abandoned them; and if Congress permits it, credit unions will continue to be there for small businesses during the recovery.

America's credit unions and their 96 million members stand ready to continue to be part of the solution to the economic problems our nation faces. We encourage all Representatives to cosponsor H.R. 688, and hope the House will act quickly to pass this bill.

Best regards,



Bill Cheney  
President & CEO

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<sup>6</sup> <http://www.aba.com/Members/Research/Documents/ConditionsoftheIndustry.pdf>