



February 25, 2010

The Honorable Barney Frank  
Chairman  
House Financial Services Committee  
2129 Rayburn House Office Building  
Washington, DC 20515

Dear Mr. Frank:

The Competitive Enterprise Institute is a not-for-profit non-partisan educational and research institute dedicated to individual liberty and free markets. We have diverse views on a number of issues, falling on both sides of the aisle. While we have many questions about the wisdom and potential consequences of the economic stimulus proposals announced in President Barack Obama's recent State of the Union address, we would particularly like to address his plans for small business lending. Specifically, we'd like to address a proposal that we believe will play a modest but important role in getting the economy moving again. As noted in the State of the Union address, small business lending could play a crucial role in job creation and economic stimulus. However, rather than simply diverting \$30 billion in TARP funds to community banks, we believe there is an easier solution: consider measures to make it easier for credit unions to expand lending to their business members. These simple measures could increase small business lending without costing the American taxpayer a dime.

As you know, current regulations limit credit unions to lending 12.25 percent of total assets to businesses. The Credit Union National Association has estimated that its proposals for raising the cap will inject \$10 billion into the economy. We do not endorse this particular figure but do know that anything that frees up capital for lending to businesses is a good idea that will have consequences similar to what you hope a handout of government funds to community banks would accomplish.

Credit unions have continued to lend even when banks have cut back. Credit union business lending, indeed, was the only major category of lending that grew during 2008. This happened because credit union members wanted more loans. With more ability to lend, credit unions will lend more and increase the amount of capital in the economy.

- Credit unions play a vital role in lending to underserved communities and small businesses. A large percentage of credit union business lending supports African-American and Latino-owned businesses.
- A disproportionate share of the businesses supported by credit union lending are engaged in complex fields where making loans requires specialized, insider knowledge. Not coincidentally, many of these fields—"green" agriculture and transportation to take just two examples—are the same fields you wish to target through a stimulus package.

Easing reserve requirements for credit union member business lending will not cost taxpayers anything. In fact, it will increase revenues since loan recipients and credit union members pay taxes on the revenues that result from the lending. Quite simply, expanding credit union business lending is a no-lose proposition: it will get the economy moving at no cost to the taxpayers. We urge you to support it.

Yours truly,

Michelle Minton, Director of Insurance Studies: The Competitive Enterprise Institute