



H.R. 1418: The Small Business Lending Enhancement Act of 2011

Testimony of

Michael C. Hanson

President and Chief Executive Officer

Massachusetts Credit Union Share Insurance Corporation (MSIC)

Westborough, Massachusetts

Before the

Subcommittee on Financial Institutions and Consumer Credit

Committee on Financial Services

United States House of Representatives

October 12, 2011

Chairman Capito, Ranking Member Maloney and Members of the Committee, thank you for holding this hearing on *H.R. 1418: The Small Business Lending Enhancement Act of 2011*.

My name is Michael Hanson, and I serve as President and CEO of the Massachusetts Credit Union Share Insurance Corporation, commonly referred to as MSIC.

MSIC is the nation's oldest insurer of credit union deposits; it was formed by an act of the Massachusetts Legislature in 1961, to effect a public policy that all credit union members in Massachusetts have their deposits *fully* insured. This year, MSIC is celebrating its 50th Anniversary and continues its history of providing safe and secure deposit insurance to Massachusetts consumers, in good times and bad.

Today, MSIC is an excess insurer, providing deposit insurance for amounts in excess of the coverage provided by the National Credit Union Share Insurance Fund (NCUSIF). MSIC insures 97 credit unions operating in Massachusetts (both state and federally chartered). Those institutions hold approximately \$18 billion in assets and serve 1.6 million consumers.

MSIC has also served as the receiver for credit unions for the Massachusetts Commissioner of Banks, and we provide technical, capital, management and training assistance to our member credit unions. MSIC is a not-for-profit cooperative corporation, and runs an insurance fund which has been contributed to over the years by member credit unions. MSIC's excess insurance is backed by the fund as well as by each of our 97

member credit unions. We are a true cooperative, and MSIC is not sponsored or funded by any governmental entity.

In managing MSIC's insurance risk, we have a substantial monitoring program which evaluates the health and safety of both MSIC member credit unions in Massachusetts and the condition of the industry nationwide. Our independent evaluation of the condition of the credit union industry is the basis for my testimony today.

My own background has been submitted with my written testimony, but I would like to highlight one aspect that is relevant today. During 1991 and 1992, I served as the Massachusetts Commissioner of Banks, during the height of the New England Banking crisis. As a result, I have substantial experience in evaluating and supervising financial institutions, including both banks and credit unions, under adverse conditions.

H.R. 1418 is sound public policy and I urge its timely adoption.

In reaching this position, I have considered the following:

- The nation's economy is in need of added small business lending in order to stabilize our economy, to ease the unemployment crisis, and to provide a foundation for future economic growth.
- H.R. 1418 will allow the redeployment of existing credit union capital to member business lending, thereby increasing the amount of available lending to this important economic segment.

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- This action will not require any financial contribution by the federal government.
- Out of the nation's 7,386 credit unions, only 2,096 institutions engage in member business lending. Below is a break down for each credit union asset size category (data as of June 30, 2011):

<i>Data as of 06/30/2011</i>	>\$500M	\$100M - \$500M	\$50M - \$100M	\$10M - \$50M	<\$10M	Total Nation-Wide CUs
Total Assets	\$600,935,470,098	\$226,660,241,084	\$56,343,805,911	\$58,620,829,256	\$12,197,730,538	\$954,758,076,887
Total Loans	\$370,233,036,595	\$134,663,062,221	\$31,096,491,116	\$29,738,600,307	\$5,768,166,570	\$571,499,356,809
Total MBL	\$23,441,304,830	\$7,353,754,691	\$883,465,084	\$598,758,423	\$27,390,020	\$32,304,673,048
% of MBL to Assets	3.90%	3.24%	1.57%	1.02%	0.22%	3.38%
% of MBL to Loans	6.33%	5.46%	2.84%	2.01%	0.47%	5.65%

Source: NCUA; Calculations by MSIC.

- Member business lending continues to increase, and has become an important component of credit union loan portfolios. Nation-wide as of June 30, 2011, data for credit unions indicate total member business loans increased 5.57% to \$32.3 billion, as compared to \$30.6 billion the same time last year. This represents 5.65% of the total credit union loan portfolios.

- The history of credit union member business lending since the imposition of the current cap, set by the adoption of the *Credit Union Membership Access Act* (P.L. 105-219) in 1998, demonstrates clearly that those institutions participating in member business lending have done so in a safe and sound manner, and have the necessary infrastructure and expertise to continue to do so with added legal capacity. For example, current delinquency and charge off rates for member business lending is very reasonable for this type of lending in the current economic environment, and is no worse than the current numbers for the banking community. Delinquency at mid-year 2011 dropped to 3.64%, which is a 52 basis point improvement from the same time last year. Net charge-offs increased 18 basis points to 0.91% during the first half of 2011 compared to 0.73% in the same period last year. This compares to delinquency and net charge-offs for all credit union loans of 1.58% and 0.95%, respectively, for the first half of 2011.
- Credit Unions have only a small share of this national market, and should pose no competitive threat to the banking industry, even with the increased limit provided by H.R. 1418. In any event, increased competition is good for both industries, and more importantly, for consumers and the nation.
- We believe H.R. 1418 will give necessary tools to the credit union industry to succeed and prosper in the coming years, and will therefore improve the insurance risk to the NCUSIF, and, to a far smaller extent, upon MSIC's insurance risk. A

prosperous credit union industry is good for consumer lending as well as the delivery of financial services to persons of modest means and the underserved.

- Credit Unions did not participate in the consumer predatory practices that occurred during the recent financial crisis, as they consider their customers members and owners of their institutions. They have not engaged in such practices in any form of lending and will continue to provide consumer friendly products and services under H.R. 1418.
- H.R. 1418 provides more than sufficient safeguards on the expansion of credit union member business lending, and the National Credit Union Administration has, and will continue to, adequately supervise this area of business.
- We believe that the additional small business lending authorized by H.R. 1418 will help create jobs in the broader economy as demand increases.

Conclusion

The member business lending cap established in 1998 is now outdated. H.R. 1418 provides a sound framework for the expansion of this important activity, will provide some small measure of relief in the broader economy at no cost to the government, and will give important tools to the credit union industry for its future prosperity. Consumers will benefit as a result. I urge adoption of H.R. 1418.


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Thank you for your attention and the opportunity to present my views. I would be happy to answer any questions.

**United States House of Representatives
Committee on Financial Services**

“TRUTH IN TESTIMONY” DISCLOSURE FORM

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name: Michael C. Hanson	2. Organization or organizations you are representing: Massachusetts Credit Union Share Insurance Corporation
3. Business Address and telephone number: [REDACTED]	
4. Have <u>you</u> received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	5. Have any of the <u>organizations you are representing</u> received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
6. If you answered .yes. to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets. 	
7. Signature: 	

Please attach a copy of this form to your written testimony.