H.R. 4293, the "Restore Main Street's Credit Act of 2012"

***Background**:* Whether for new equipment, for working capital or to refinance existing debt at a more favorable rate, Main Street businesses need better access to capital. According to a 2011 study conducted at Pepperdine University[1], 54% of businesses surveyed with gross receipts under $1 million expressed a desire to access capital in 2011. Only 36% of those businesses seeking capital were successful in securing a bank loan. Brick-and-mortar microbusinesses that demonstrate good cash flow and credit, but lack the collateral necessary to satisfy risk parameters in underwriting, are left with few viable alternatives to secure business financing at the time they need it most.

A July 2011 Treasury press release[2] portrayed the centerpiece of the Small Business Jobs Act of 2010 (Jobs Act), the Small Business Lending Fund (SBLF) as a "Main Street" solution. But only $4 billion of the $30 billion available was administered to fewer than 350 banks and CDLFs nationally. More than half of monies allocated were utilized for banks to refinance debt obligations incurred by the Troubled Asset Relief Program (TARP).[3] Yet another Jobs Act component, the State Small Business Credit Initiative, allows for participation for businesses with up to 750 employees with up to $20 million in capital needs to participate in federally leveraged lending programs at the state level.[4]

Despite reduced fees and expansions of current SBA lending programs, millions of lines of credit to Main Street businesses have been pulled and requests for extensions are frequently denied.[5] According to the SBA Office of Advocacy, more small employer businesses were closed than started in 2008, 2009 and 2010 for only the third, fourth and fifth time in the United States since 1989. From 2006 to 2009, the bankruptcy rate for small employer businesses tripled.[6] "One-size-fits-all" solutions to small business capital issues are not always the best solutions for Main Street businesses.

Brick-and-mortar businesses along Main Street that anchor communities and drive local commerce continue to operate without a proven, sustainable safety net. The National Main Street Business Coalition encourages Congress to enact policies that recognize fundamental characteristics of Main Street microbusinesses and adequately address their unique challenges in accessing capital by traditional means.

Issue: Recently, credit unions have sought the means to increase the availability of capital to small member businesses that are currently restricted by federal statute. Specifically, the National Association of Federal Credit Unions (NAFCU) and Credit Union National Association

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[1] Dr. John K. Paglia, *Private Capital Markets Project: State of Small Business Report – Fall 2011*, Pepperdine University, bschool.pepperdine.edu/smallbiz2011 (November 2011).
[2] U.S. Department of Treasury Press Release, *"Treasury Kicks Off Billions Of Dollars In Main Street Lending Through The Small Business Lending Fund,"* July 7, 2011.
[3] Emily Maltby and Angus Loten, "A Tale of Two Loan Programs," *Wall Street Journal,* October 20, 2011 (http://online.wsj.com/article/SB10001424052970204138204576603100469929700.html).
[4] 12 U.S.C. 5705(c)(4)
[5] Julie Bennett, "What to Do When the Bank Pulls Your Line of Credit," *Entrepreneur Magazine*, January 13, 2010 (http://www.entrepreneur.com/article/204590).
[6] U.S. Small Business Administration Office of Advocacy, "Private Sector Establishment Births and Deaths, Seasonally Adjusted," (http://www.bls.gov/web/cewbd/table9_1.txt)

(CUNA) have advocated for passage of H.R. 1418 and S. 509, the "Small Business Lending Enhancement Act," legislation that would increase the business lending cap from 12.25 to 27.5% of total credit union assets. Both bills have significant bipartisan support: H.R. 1418, introduced by Rep. Ed Royce (R-CA), has 128 cosponsors; S. 509, introduced by Sen. Mark Udall (D-CO), has 22 cosponsors.[7] The House Subcommittee on Financial Institutions and Consumer Credit held an October 12, 2011 hearing to examine H.R. 1418. At the hearing, witnesses representing the American Bankers Association (ABA) and Independent Community Bankers of America (ICBA) testified in strong opposition to these bills.

The National Main Street Business Coalition (NMSBC) recognizes the important role of local banks in supporting community commerce. Unfortunately, Main Street business owners who easily demonstrate good cash flow and credit often lack the collateral necessary for these banks to approve traditional bank loans at reasonable interest rates, if at all. According to NAFCU, credit unions increased business lending by 4.5% in the 12 months ending June 2011 as bank lending declined by 1.8% in that same period. But constrained by federal limitations, credit unions only provide 1.3% of all business loans in the U.S. Despite these arbitrary constraints, credit unions provided $12.6 billion in lending to 300,000 small businesses during the first three quarters of 2011, up 71% from the previous year.[8]

The historical purpose behind establishment the U.S. credit union system was to provide financial services to entities of modest means and support the development of local communities. The limitation on member business lending, imposed as part of the Credit Union Membership Access Act of 1998, stifles the ability of credit unions to service loans to today's Main Street businesses. Though exemptions exist for certain types of lending, credit unions are approaching a point at which they will begin turning capital-hungry microbusinesses away. Coupled with ill-fitting attempts by Congress to enhance small business capital access, Main Street is concerned that another financial and community crisis may be looming.

Owners of Main Street businesses want to make the investments necessary to continue operating in local communities. NMSBC believes that a safety net to stabilize these businesses, and by extension the communities that they serve, can be accomplished by "right-sizing" federal policies to sustain brick-and-mortar microbusinesses while restoring financial liquidity.

Solution: The NMSBC respectfully asks Congress to exempt member business loans made by credit unions from statutory limitations for brick-and-mortar microbusinesses with 20 or fewer full-time employees. NMSBC believes that this solution would allow credit unions to restore a path to capital for Main Street while allowing requiring regulators to ensure the safety and soundness of new lending. Further, the NMSBC believes that such an exemption is consistent with the original purpose of establishing the U.S. credit union system. Most importantly, Main Street businesses would be provided better access to capital at no additional cost to the American taxpayer.

Status: The NMSBC asks Congress to pass the "Restore Main Street's Credit Act" to sustain brick-and-mortar Main Street businesses and the local communities they serve.

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[7] As of March 30, 2012
[8] Elaine Pofeldt, "Small biz loans: Credit unions to the rescue?," CNN.com December 2, 2011 (http://management.fortune.cnn.com/2011/12/02/small-business-loans-credit-unions-to-the-rescue/).