



New York Bankers Association

99 Park Avenue

New York, NY 10016-1502

212.297.1699 Fax 212.297.1658

email msmith@nyba.com

Michael P. Smith
President

February 26, 2010

The Honorable Kirsten E. Gillibrand
United State Senate
Washington, DC 20510

Dear Senator Gillibrand:

Your recent column in *Long Island Business News* entitled, "Credit Unions Can Spur Growth, If We Let Them" states that "many banks have tightened their lending, reducing firms' credit lines and dramatically increasing interest rates." The article then suggests that expanded credit union business legislation, which you have sponsored, would "create more than 7,000 new jobs in New York," and "increase small business lending by \$10 billion in the first year." We urge you to reconsider your position on this important issue.

New York's banks are lending. They are lending to their small business customers, local governments, homeowners and consumers at all income levels. As in any recession, creditworthy small businesses have reduced their demand for credit as significant numbers of their customers reduce their purchases of goods and services and businesses dial back on their expansion plans. In addition, of course, decreases in values of many assets that might be used to secure loans, particularly real property and securities, have made many bank customers wary of increasing their outstanding debt. Importantly, hundreds, if not thousands, of non-federally insured lenders who had been making all types of loans in New York State prior to 2008 have left the market, either through failure or through eliminating lending operations.

Nevertheless, according to FDIC data, New York's commercial banks and thrift institutions actually increased their loans to small businesses from 2007 through 2009 (the most recent year for which data is available). On December 31, 2007, New York's FDIC-insured institutions held almost \$9.9 billion worth of small business loans (those defined by FDIC as under \$1 million in principal amount). By December 31, 2009, that figure had increased to over \$10.9 billion.

And our members are not content with increasing their small business loan portfolios. In a program sponsored by the New York Business Development Corporation (NYBDC), and endorsed by our Association, New York's commercial banks and thrift institutions are providing small businesses a "second look." This program, also endorsed by Senator Schumer and New York City Council Speaker

The Honorable Kirsten E. Gillibrand
February 26, 2010
Page Two

Christine Quinn, will offer an opportunity for any small business loan applicant that feels it was wrongly denied a loan to reapply through an independent third-party small business loan expert – the NYBDC – to access an ample pool of capital. This program is gradually being rolled out throughout the State and should ensure New York's continued leadership in small business lending.

On the other hand, New York's credit unions have not used the authority which they already have to increase their small business lending. Your column, for example, mentions that Bethpage Federal Credit Union, under the proposed legislation, could increase its business lending by \$461 million. But Bethpage has made only \$47 million in member business loans, according to their regulator, the NCUA. Even including their \$87 million in purchased loan participations in business loans, which could represent purchases of loan participations from throughout the world, they could have made \$316 million more in business loans with no change in the law.

Moreover, the assertion that banks and thrifts are "dramatically increasing interest rates" is at complete variance with Federal Reserve Board statistics. According to the Board's E-2 release, interest rates on small business loans (under \$1 million) averaged 4.09% for the week of November 6, 2009 (the most recent week available), while the same loans averaged 4.48% in the same week in 2008.

We strongly urge that you reconsider your position to increase the legal cap on credit union small business lending. New York's banks and thrifts are serving this market. Moreover, by the evidence currently available, even the largest credit unions in the State are not fully using their current authority to serve small businesses. We believe that strengthening the small business loan programs of the Small Business Administration and the New York Business Development Corporation would provide far greater rewards in assuring continued access to credit by New York's creditworthy small business borrowers.

We welcome discussing this and other issues in the coming weeks and months.

Sincerely,

A handwritten signature in black ink that reads "Michael P. Smith". The signature is written in a cursive style with a large, prominent "M" and "S".

Michael P. Smith