

September 9, 2020

The Honorable Nydia Velázquez  
Chairwoman  
House Small Business Committee  
United States House of Representatives  
Washington, DC 20515

The Honorable Steve Chabot  
Ranking Member  
House Small Business Committee  
United States House of Representatives  
Washington, DC 20515

Dear Chairwoman Nydia Velázquez and Ranking Member Chabot:

On behalf of America's credit unions, I am writing regarding the Committee's hearing entitled, "Transparency in Small Business Lending." The Credit Union National Association (CUNA) represents America's credit unions and their 120 million members.

For many small businesses and their employees, the economic disruption caused by the COVID-19 pandemic means financial catastrophe. As the economy recovers, all available small business credit needs to be deployable.

We understand that technology has led to the development of new lending models for small business loans and we think innovative access to credit can only help businesses as long as lenders and borrowers understand the risks associated with different credit schemes. Novel solutions to problems can also create other problems worse than the problem trying to be fixed, which is a risk to all participants from new tech focused business lending programs.

We remind the Committee that credit unions are already robust lenders to small business and could do more. Unfortunately, a 1998 federal law restricts credit unions' ability to fully deploy credit to small businesses, capping the amount any individual credit union can lend to small businesses at 12.25 percent of the credit union's assets. This cap makes little sense during normal economic times, but at a time when every available dollar will be crucial to reviving Main Street, it makes no sense.

Through legislation exempting 1-4 family non-owner occupied residential loans from the cap and regulation that clarifies that participation loans purchased by credit unions do not count against the cap, Congress and the National Credit Union Administration (NCUA) have taken steps in recent years to reduce the restriction the member business lending cap places on credit union business lending.

Nevertheless, the cap remains a limiting factor for credit unions with very active business lending portfolios. More than 800 credit unions serving 50 million members offer business loans subject to this restriction. Nearly 150 of these credit unions, serving 10 million members, have loaned more than 8% of assets to small businesses, making them actively constrained by the cap. These are exactly the type of experienced business lenders that our small businesses will need fully engaged in helping the economy recover.

Therefore, we urge Congress to enact legislation that exempts credit union business loans made during federally declared disasters and emergencies from the arbitrary credit union business lending restriction. Failure to do so would represent a decision to leave critical assistance on the sidelines when small businesses, Main Street, and the nation's economy need it the most.

Representatives Sherman (D-CA), Bonamici (D-WA), Young (R-AK), and Fitzpatrick (R-PA), along with eighteen other cosponsors, have introduced bipartisan legislation – H.R. 6789, the Access to Credit for Small Businesses Impacted by the COVID–19 Crisis Act of 2020. This legislation would temporarily lift the MBL cap for three years and is narrowly tailored for loans related to COVID-19.

Senator Wyden (D-OR) has also introduced companion legislation, S. 3676, the Access to Credit for Small Businesses Impacted by the COVID-19 Crisis Act of 2020.

CUNA conservatively estimates that temporarily removing the MBL cap will provide over \$5 billion in capital to small and informal business ventures, creating nearly 50,000 jobs over the course of the next year - at no expense to the federal government.<sup>1</sup>

Furthermore, additional credit union lending will not impede bank lending activity. A majority of credit union lending does not replace lending that would otherwise be done by banks.<sup>2</sup> SBA research specifically shows that roughly 80% of credit union business loans are loans that banks would not make.

H.R. 6789 and S. 3676 are commonsense pieces of legislation that provide a narrow remedy to ensuring small businesses can effectively access essential credit from local credit unions. We encourage its inclusion in upcoming legislation.

On behalf of America’s credit unions and their 120 million members, thank you for holding this important hearing.

Sincerely,



Jim Nussle  
President & CEO

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<sup>1</sup> CUNA Estimate Assumptions: 1. Grandfathered CUs, Non-Federally Insured and/or Low-Income designated do not increase lending; 2. Non-Commercial lenders lend in amount equal to 1% of assets on average under the new authority; 3. All other Commercial CUs lend in amount equal to 60% of their current use rate; 4. Estimates produced using assumptions 1-3 are further adjusted as follows: \* CUs with net worth/assets <=6% are assumed to have no Commercial Loan growth. \* CUs with net worth/assets between 6% and 7% remain at the current 12.25% cap. \* CUs with Comm Lns/assets >= 10% are limited to a 30% increase in Commercial Loans in the 1st year. 5. First year increases: baseline estimate = 50% of new use rate; adjusted/conservative estimate = 40% of new use rate. Employment increase is based on Council of Economic Advisors 5/09 ARRA job creation estimates (\$92,000 in spending creates 1 job / \$109,633 in 2019 dollars)

<sup>2</sup> Wilcox, James A. The Increasing Importance of Credit Unions in Small Business Lending. Small Business Administration Office of Advocacy. 2011. Contract SBAHQ-10-R-0009.