



3138 10th Street North
Arlington, VA 22201-2149
703.522.4770 | 800.336.4644
f: 703.524.1082
nafcu@nafcu.org | nafcu.org

National Association of Federally-Insured Credit Unions

September 24, 2021

The Honorable Ben Cardin
Chairman
Committee on Small Business &
Entrepreneurship
United States Senate
Washington, DC 20510

The Honorable Rand Paul
Ranking Member
Committee on Small Business &
Entrepreneurship
United States Senate
Washington, DC 20510

The Honorable Nydia Velázquez
Chairwoman
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

The Honorable Blaine Luetkemeyer
Ranking Member
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

Re: Concerns Over SBA Direct Lending Provision in the *Build Back Better Act*

Dear Chairman Cardin, Ranking Member Paul, Chairwoman Velázquez and Ranking Member Luetkemeyer:

I am writing on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) to express our concerns about, and opposition to, provisions in the House Small Business Committee language from the *Build Back Better Act* that could allow the Small Business Administration (SBA) to directly offer a 7(a) loan product to market, circumventing current partners and community lenders such as credit unions. As you are aware, NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 127 million consumers with personal and small business financial service products.

Section 100502, “Funding for Credit Enhancement and Small Dollar Loan Funding,” creates a new small dollar lending program that would allow the SBA Administrator to originate and disburse loans, “including through relationships with third parties,” to small businesses. NAFCU has serious concerns that this provision does not require the SBA to work with lenders as they do with other 7(a) loan products and would allow them to make loans on their own should they so choose. Even though the SBA has authority to make direct loans now, they have not exercised this authority, with the exception of disaster loans and loans to Microloan program intermediaries, since 1998 due to the challenges associated with them, including a history of higher rates of fraud and defaults. They should not be granted new authority in this area.

NAFCU and our credit union members support the concept of expanding access to small dollar business loans as credit unions have always focused on servicing this market. Credit unions have been recognized as doubling their efforts in providing small business lending post-recession, despite considerable consolidation in the marketplace and statutory limitations on member business lending (MBL). The Paycheck Protection Program (PPP) is a prime example of the role that credit unions played in filling a need in this area, as the average credit union PPP loan was under \$50,000. Many credit unions stepped

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in to provide these loans to small businesses that were turned away from other financial institutions that did not want to make these smaller loans. Some credit unions that previously did no business lending swiftly sought authority from their boards of directors to offer business loans so they could provide businesses in need with PPP loans. The PPP was an example of how a public-private partnership can work effectively and efficiently to meet the needs of communities. The small dollar loan programs envisioned in the *Build Back Better Act* also provide the option for such a partnership between the SBA and lenders. Such an option is far superior to allowing the SBA to go directly to small businesses with these loans as the SBA has limited history working directly with small businesses and does not have the requisite experience as a lender nor established lending infrastructure to successfully carry out a program of this magnitude.

NAFCU recognizes the need for smaller loans for small businesses, and that is why we have supported legislation such as H.R. 5189, the *Member Business Loan Expansion Act*, which would make it easier for credit unions to offer smaller business loans under \$100,000 by ensuring these loans do not count toward the arbitrary credit union MBL cap. Allowing lenders that have relationships with small businesses, such as credit unions, to do more to help is a better approach to addressing this need. Conversely, allowing the SBA to come directly into the market and compete with community lenders could have unintended consequences such as driving many of these lenders out of the space, creating greater challenges for small businesses seeking access to credit.

It is with these thoughts in mind that we oppose giving the SBA the authority to offer this new 7(a) small dollar loan product directly to small businesses and we urge you to strike that authority from the language of the *Build Back Better Act* as it moves through the process. NAFCU believes that there are better ways to work with existing lenders to address the stated need of access to smaller loans to small businesses and we stand ready to work with you to achieve that goal.

We thank you for the opportunity to share our concerns on this important topic. Should you have any questions or require any additional information, please contact me or Lewis Plush, NAFCU's Associate Director of Legislative Affairs, at lplush@nafcu.org.

Sincerely,



Brad Thaler
Vice President of Legislative Affairs

cc: Members of the United States Senate
Members of the U.S. House of Representatives