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National Association of Federally-Insured Credit Unions

B. Dan Berger
President & Chief Executive Officer

October 14, 2021

The Honorable Isabella Casillas Guzman
Administrator
Small Business Administration
409 3rd St, SW
Washington, DC 20416

RE: **Direct Lending Proposal**

Dear Administrator Guzman:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I am writing to you regarding the direct lending provisions included in the *Build Back Better* (BBB) *Act.* 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. At their core, credit unions were founded to assist their local communities, and still abide by the spirit of helping those in their communities with small business lending. Access to small business lending is vital in ensuring our local communities continue to thrive, promote innovation, and provide jobs. This rang true during the pandemic when credit unions stepped up to provide Paycheck Protection Program (PPP) loans to small businesses desperately in need of capital. The success of the PPP was in part due to the credit union industry, which provided lower-dollar PPP loans and served small business owners that were turned away from other lenders. Besides offering SBA loans, credit unions offer their own member business loans, catering towards the needs of those small business owners falling within their unique fields of membership.

The *Small Business Act* provides the SBA with the authority to make direct loans, but the agency has not exercised this power since 1998. The BBB Act would re-instate a direct lending program to provide small businesses with loans under $150,000. Although the provisions allow for the continuation of small business lending through partnerships with credit unions and other third-party lenders, NAFCU has concerns that a direct loan program may lead to unintended consequences. One of those concerns is a decrease in the level of SBA lending partners. In recent years, NAFCU members have worked to increase the number of lending partners despite statutory limitations imposed on credit union’s ability to provide small business loans. Moreover, credit unions continue to focus on providing credit to our nation’s small businesses, regardless of size. Over the past five years, 57 percent of business loans made by credit unions were under $150,000, compared to 46 percent of loans under $150,000 for other lenders. An SBA direct lending program could serve to reduce the level of lending partners at a time when business lending is greatly needed.

According to NAFCU's 2021 *Federal Reserve Meeting Survey,* 50 percent of NAFCU members increased their small business activity last year, which is not surprising given the economic hardships small businesses faced during the pandemic. More notably, 60 percent of NAFCU members anticipate sustaining 2020 levels of small business lending over the next two or three years. NAFCU members report building new relationships with small businesses through the Paycheck Protection Program (PPP) and deepening relationships with existing small business members. Moreover, NAFCU members that were previously not involved in SBA lending have expressed interest in offering other SBA loan products after providing PPP loans. Early in the pandemic, 70 percent of NAFCU members that were not already involved in SBA lending but did participate in the PPP expressed an interest in becoming an SBA lender. Given this increased interest in SBA lending programs and the expected demand in small business lending, it is imperative that credit unions have all options available to provide capital for small business members. The SBA should focus on continuing to strengthen and expand its credit union partner base instead of diverting resources toward a new, potentially risky direct lending program.

Although the direct lending provisions in the BBB Act are well-intentioned to help expand access to lower-dollar small business loans, the broad grant of authority leaves many questions unanswered. NAFCU and its member credit unions respectfully request that the SBA provide responses to the following questions:

- Why did the SBA cease the direct lending program in 1998? Does the SBA anticipate the cost of providing direct loans to be less than the costs before the program ceased in 1998?

- Does the SBA have any data demonstrating that community financial institutions are unable or unwilling to provide loans under $150,000, necessitating a direct lending program?

- Will the SBA have enough staff and resources to implement an effective and efficient direct loan program given the level of appropriations in the BBB Act?

- What internal controls will be in place to mitigate the risk of fraud?

- How will the SBA protect borrower data?

- How long does the SBA anticipate running a direct loan program to meet the needs of small businesses that are in need of capital under $150,000? Alternatively, does the SBA anticipate the direct program running temporarily and monitoring the continuing necessity for the program?

- Does the SBA anticipate the number of SBA lending partners to decrease because of direct lending? Does the SBA anticipate the number of community financial institutions and smaller lenders to decrease if the agency initiates a direct lending program, and does the SBA have a plan to restore the level of SBA lending partners if a decrease occurs?

- Are there alternatives to a direct lending program that can be more cost-effective for the SBA and stimulate lower-dollar small business loans (e.g., technical assistance from SBA field offices in setting lending partners up for success; offering other incentives to increase lending under $150,000)?

- Does the SBA need more than 90 days to provide interim final rules laying the foundation for the direct loan program?

The regulatory landscape for financial products and services has drastically changed since the SBA last provided a direct loan, outside of direct disaster loans, in 1998. The agency must ensure it is not only well-prepared before embarking on this type of expansive new program, but also working to protect its existing and future lending partnerships. NAFCU appreciates the partnership with the SBA as the number of credit unions participating in SBA lending has continued to increase over the past few years. However, credit unions are very concerned about the long-term impacts a direct lending program may have on their ability to provide business loans under $150,000, and their participation in SBA loan programs in the future. NAFCU appreciates your leadership and I look forward to discussing the issue of direct lending programs further. If I may be of assistance to you in any way, please do not hesitate to contact me directly.

Sincerely,

B. Dan Berger
President & CEO