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National Association of Federally-Insured Credit Unions

**Greg Mesack**  
Senior Vice President, Government Affairs

February 7, 2023

The Honorable Ann Wagner  
Chairwoman  
Subcommittee on Capital Markets  
Committee on Financial Services  
United States House of Representatives  
Washington, DC 20515

The Honorable Brad Sherman  
Ranking Member  
Subcommittee on Capital Markets  
Committee on Financial Services  
United States House of Representatives  
Washington, DC 20515

**Re: Tomorrow's Hearing, "Empowering Entrepreneurs: Removing Barriers to Capital Access for Small Businesses"**

Dear Chairwoman Wagner and Ranking Member Sherman:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I am writing in conjunction with tomorrow's hearing on removing barriers to capital access. NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 135 million consumers with personal and small business financial service products. As Congress addresses this important issue, NAFCU encourages you to consider how credit unions can play a role in providing capital to small businesses and entrepreneurs.

Inflation impacts most aspects of everyday life, and that is no exception for small business owners. The cost of food, energy, office space, and transportation have all increased dramatically over the last two years. A tight labor market has also driven up wages, further exacerbating the problem. Capital investments, crucial to the functioning and profitability of small businesses, particularly startups, are now more expensive than ever. The U.S. Chamber of Commerce Small Business Index for Q4 2022 found that over half of small businesses said that inflation is the top challenge facing the small business community, a dramatic 30-point increase since the same time in 2021.<sup>1</sup> That marked the fourth consecutive quarter that inflation topped the list of challenges for small businesses. As a result, 40 percent of small businesses reported taking out a loan.

Unfortunately, access to commercial credit is also in jeopardy. The October 2022 Biz2Credit Small Business Lending Index found that business loan approval rates at big banks dipped to 14.7 percent, a setback for the second month in a row.<sup>2</sup> Even as the economy has steadily rebounded from the impacts of the COVID-19 pandemic, business loan approval percentages are still roughly half of what they were before COVID hit the United States. Additionally, in February 2020, small

<sup>1</sup> U.S. Chamber of Commerce, "Small Business Index, Q4 2022" (December 14, 2022) available at <https://www.uschamber.com/sbindex/summary>.

<sup>2</sup> Biz2Credit, "Small Business Lending Index™" (November 2022) available at <https://www.biz2credit.com/smallbusiness-lending-index/november-2022>.

banks approved more than half of the business funding requests they received. In October 2022, that figure had dropped to only 21.2 percent. Interest rates are higher, and loans are harder to get, in part because cost structures have whittled away the profitability of smaller companies. NAFCU's member credit unions have also reported the high demand for small business lending as costs have increased across the board and businesses need higher-value loans.<sup>3</sup>

NAFCU shares the Subcommittee's goal of empowering entrepreneurs and strengthening small businesses in America. 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. NAFCU recognizes the need for smaller loans for small businesses, and that is why we have supported legislation such as the Member Business Loan Expansion Act, from the 117<sup>th</sup> Congress, 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 member business lending (MBL) cap. We believe bipartisan approaches such as this legislation provide small businesses an additional alternative to get the support they need in a timely manner.

By raising the definition of an MBL to exclude net aggregate loans less than \$100,000, we would quickly see increased loan availability, reduced burdens on borrowers, and it would make it easier for federal credit unions (FCUs) to make these loans. This would benefit the communities credit unions serve as well as the U.S. economy as a whole. It would also help to meet an unmet need. "Empirical results suggest that each dollar of new member business lending by FCUs generated 81 cents of an entirely new credit source for small businesses. In other words, the majority of FCU member business lending is new lending that would not have occurred otherwise. Findings suggest that credit union lending to small businesses could play an increasingly important role in ensuring the sector has adequate access to credit."<sup>4</sup>

Additionally, NAFCU has requested that the National Credit Union Administration (NCUA) amend section 723.2 of its rules and regulations to raise the threshold for net aggregate business loans that are excluded from the definition of a Commercial Loan, and thereby its stringent underwriting requirements, from \$50,000 to \$250,000. Although the Federal Credit Union Act defines MBLs, it does not define commercial loans, nor does it mandate prescriptive safety and soundness standards for FCU business loans. The definition of *commercial loan* was created by the NCUA Board through the rulemaking process in order to apply safety and soundness standards to a broader array of business loans. These include requirements such as establishing underwriting standards that include loan-to-value (LTV) ratio limits and methods for valuing all types of collateral authorized prior to extending any commercial loans. Given current economic conditions, the increasing costs associated with running a small business, and the emergence of safe, cost-effective alternative underwriting methodologies, NAFCU has asked the NCUA to update the definition of commercial loan to exclude those business loans where the aggregate net member business loan balance is less than \$250,000. The NCUA taking this step would be

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<sup>3</sup> NAFCU Small Business Lending Working Group, Q4 Meeting, (December 14, 2022).

<sup>4</sup> Member Business Loans; Commercial Lending, 81 Fed. Reg. 13530 (Mar. 14, 2016) (codified at 12 C.F.R. pt. 701, 723, and 741).

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another important way to help credit unions better serve the needs of main street small businesses who need easier access to smaller loans.

In conclusion, credit unions stand ready to help small businesses and create jobs. Providing relief such as this from the MBL cap does not take additional federal spending and is an easy way to free up more capital for Main Street America. As the Committee considers legislative approaches to help small business gain access to capital, we urge you to include legislation such as this in your efforts.

Thank you for your attention and the opportunity to share our thoughts on this important issue. Should you have any questions or require additional information, please do not hesitate to contact me or Chad Adams, NAFCU's Senior Director of Legislative Affairs, at (703) 842-2265 or [cadams@nafcu.org](mailto:cadams@nafcu.org).

Sincerely,

A handwritten signature in black ink, appearing to read "Greg Mesack". The signature is fluid and cursive, with the first name "Greg" being more prominent than the last name "Mesack".

Greg Mesack

cc: Members of the Subcommittee on Capital Markets