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March 10, 2025

The Honorable Mark Alford
Chairman
Oversight, Investigations, and Regulations
Small Business Committee
United States House of Representatives
Washington, D.C. 20515

The Honorable Derek Tran
Ranking Member
Oversight, Investigations, and Regulations
Small Business Committee
United States House of Representatives
Washington, DC 20515

Dear Chairman Alford and Ranking Member Tran,

I write to you today to urgently request **regulatory reforms that will empower credit unions to better serve America's small businesses**. As a representative of the credit union community, I have witnessed first-hand how **outdated statutory caps and bureaucratic obstacles hinder credit unions from fully supporting local entrepreneurs**. By addressing these challenges, Congress and the Small Business Administration (SBA) can unlock billions in capital for small businesses – **at no cost to taxpayers** – and help create tens of thousands of jobs. The need for action is clear and compelling, and the potential benefits to our economy are substantial. DCUC represents credit unions stateside and overseas serving military and veteran communities as well as their families, encompassing over 40 million members and having over $525 billion in assets.

Impact of the 12.25% Member Business Loan Cap: In 1998, Congress imposed an arbitrary cap limiting most credit unions to lending no more than **12.25% of their assets** to member businesses. This cap has **no safety or soundness rationale**, yet it severely constrains small business credit. Many credit unions are now **bumping up against this 12.25% cap**, forcing them to **turn away creditworthy local businesses**. The cap is not constraining risky lending; it is **stifling growth**. Credit unions have proven to be **prudent business lenders.**

Credit Unions' Limited Participation in SBA Loan Programs: Credit unions enthusiastically participate in SBA-guaranteed lending – when they can. SBA loans align perfectly with credit unions' mission to serve **underserved entrepreneurs**, and credit unions have dramatically increased their SBA lending in recent years. Since 2014, credit union SBA loan portfolios nearly **tripled from $1.33 billion to $3.74 billion** (as of Q3 2024). Yet despite this growth, credit unions still originate only a **tiny slice of SBA 7(a) loans – roughly 2.7% as of last fiscal year**. According to SBA lender reports, in FY2024 credit unions made just **1,684 SBA loans (about $826 million) out of $31.1 billion total 7(a) volume**. Only **167 credit unions** across the country were SBA lenders that year, compared to over 1,200 banks and other institutions. This disparity is not because credit unions lack interest or capacity – **it is due to structural barriers** that make it difficult for credit unions to participate on a level playing field. In fact, thousands of credit unions don't offer any member business loans at all, partly because the **12.25% cap prevents them from achieving the scale needed to support a robust business lending program**. Those that do engage must navigate a process that is often onerous for smaller institutions. **Credit unions' share of SBA lending (under 3%) is disproportionately low**, especially considering that credit unions hold over $1.8 trillion in assets and have capital ready to deploy. With fewer legacy small business customers than banks, credit unions often reach *new* borrowers that banks overlook – truly expanding the pie of credit, not eating someone else's slice. (Notably, banking groups have conceded that **most credit union business loans serve borrowers banks **"would not otherwise"** lend to.) We are leaving a huge opportunity on the table to get more funds into the hands of entrepreneurs.

SBA Preferred Lender Program (PLP) Restrictions – Delays and Lower Approval Rates: A major reason credit unions account for such a small portion of SBA loans is the **difficulty in obtaining "Preferred Lender" status**. Under the SBA's Preferred Lender Program (PLP), experienced lenders are given delegated authority to approve 7(a) loans **in-house, often within 24 hours**. This streamlines the process tremendously. Unfortunately, **very few credit unions have been granted PLP authority**, leaving the rest to submit each loan to the SBA for approval. The difference is stark: instead of a one-day turnaround, non-PLP lenders often wait **1–2 weeks (7–10 business days) for SBA approval**, on top of the time already spent underwriting the loan. These delays can be devastating for a small business trying to, say, secure an equipment purchase or meet payroll during a crunch. By the time an approval comes through, the opportunity may have passed or the business may have resorted to high-cost credit. One credit union CEO described the SBA's process for non-PLP lenders as *"very time-consuming" and "very burdensome"* for his organization. Because his credit union lacked delegated authority, they had to **shoulder extensive paperwork and wait on SBA's loan-by-loan reviews**, making it **cost-prohibitive to fully utilize SBA programs**. He noted that they would need to hire dedicated SBA-specialist staff – *"very expensive for us to do"* – to handle the complexity, an investment hard to justify under current volume limits. The end result is that many credit unions curtail their SBA lending or avoid it altogether, even when there is borrower demand, because the **process is too slow and cumbersome**. Those that do participate without PLP authority face an uphill battle: not only slower approvals, but sometimes more conservative decisions. A lender deeply familiar with a local borrower might be willing to approve a marginal case that makes sense with SBA's guarantee – but if that loan must be sent to a distant SBA office for review, nuances can be lost and the application may be declined. In short, **the PLP bottleneck means fewer small business loans and slower funding** for the loans that do get made. This is a loss for the very entrepreneurs the SBA program is meant to help.

Regulatory and Compliance Burdens on Credit Union SBA Lending: Beyond the PLP issue, **duplicative and onerous compliance requirements disproportionately impact credit unions**, which tend to be smaller institutions with lean staffing. By regulation, SBA loans demand *extensive* documentation, servicing, and reporting. Lenders must navigate lengthy Standard Operating Procedures (SOPs), collect detailed borrower information beyond normal commercial loan standards, and **file monthly reports on every SBA loan (Form 1502), paying servicing fees and performing regular audits of each borrower**. If any step is missed, the SBA's guarantee on the loan could be voided, so meticulous compliance is essential. Large banks have entire SBA departments to manage this; most credit unions do not. The **fixed costs** of maintaining an SBA lending program – training staff, updating software to interface with SBA's E-Tran system, compliance reviews, etc. – are difficult to absorb when the credit union business lending portfolio is capped at 12.25% of assets. In practice, the average SBA loan made by a credit union has historically been quite small (about **$100,000 on average as of 2011**), meaning the extensive work required per loan represents a high relative cost. Even today, credit unions often focus on **microloans and smaller-dollar SBA 7(a) loans**: for instance, during the recent Paycheck Protection Program (PPP), the **average PPP loan made by a credit union was under $50,000 – less than half the overall PPP average loan size**. Credit unions excel at serving very small businesses, but these loans generate only modest income, so **heavy compliance burdens make the economics challenging**.. This extra expense and time is worthwhile when we can actually make the loans – our members benefit greatly – but it becomes a hurdle if arbitrary limits prevent sufficient volume. **Thousands of credit unions have the financial capacity to help small businesses but choose not to enter the SBA lending arena at all, precisely because the regulatory overhead is so high under current constraints**. In other words, the **status quo discourages many community-based lenders from participating in SBA programs**, to the detriment of underserved entrepreneurs who might otherwise access credit. We believe smarter regulation can maintain safety and soundness while **bringing more of these mission-driven lenders into the fold**.

Real Small Businesses Are Being Affected: The victims of these limitations are **America's small businesses – the startups, mom-and-pop shops, and local job creators who rely on financing to survive and grow**. When a credit union must say "no" due to regulatory reasons, it doesn't hurt any big bank's profits – it hurts the small business owner who had one fewer avenue for affordable credit. Consider also the experience of many minority-owned and community-based businesses during the COVID-19 pandemic. As big banks prioritized larger PPP loan applications, **credit unions stepped in to assist smaller firms** that might otherwise have been left behind. Credit unions and other community lenders made a profound difference: *nearly 45% of credit unions participated in the PPP program in 2020*, and collectively **credit unions delivered 361,980 PPP loans totaling $15.1 billion, helping to protect almost 200,000 jobs** during the pandemic. The **average credit union PPP loan was just $47,000 in 2020 (and $34,000 in 2021)**, indicating that credit unions reached the tiniest businesses – sole proprietors, family restaurants, independent contractors – who often lacked established banking relationships. In fact, in 2020 credit unions' PPP loans supported about **1.3 million jobs (roughly 6 jobs per loan)**. These are the hair salons, corner stores, and food trucks that *larger lenders often overlook*. During the crisis, regulators temporarily **lifted barriers (such as granting all federally-insured credit unions expedited SBA authority for PPP)**, and credit unions responded by rushing aid to those who needed it most. This experience proves that **when regulatory handcuffs are removed, credit unions can and will deliver capital effectively to underserved small businesses**. We have countless stories of grateful borrowers: the independent bookstore that a credit union helped keep open during lockdowns, the minority-owned startup that received an SBA microloan when no bank would take a chance, the veteran entrepreneur who turned to his credit union for a business line of credit and built a thriving enterprise. But for every success story, there are others who were turned away due to the cap or stuck waiting due to red tape. **If Congress allows credit unions more freedom to lend, we will see more businesses started, more jobs created, and more vibrant local communities**.

Economic Benefits of Reform – Data and Projections: The upside of empowering credit unions in small business lending is enormous. Various analyses – both recent and prior to the pandemic – have quantified the potential:

- **Unlocking Billions in Capital:** The Credit Union National Association (CUNA) estimates that simply **removing the member business lending cap** (12.25% of assets) would **free up about $5.5 billion in additional small business loans in just the first year**. NAFCU (the National Association of Federally-Insured Credit Unions) projected similarly that raising the cap for experienced credit unions (from 12.25% to 27.5% of assets) would **inject roughly $13 billion in new small business credit** over the first year or two. That is new capital directly into America's job-generators, without any government spending.
- **Job Creation and Higher Growth: Every $1 million in small business loans creates an estimated 10 jobs**, and possibly more in distressed areas. CUNA's conservative estimate is that **lifting the cap would create nearly 50,000 jobs in the next year alone**. In the early 2010s, credit unions told Congress that raising the cap could **facilitate 140,000 new jobs** in the first year or two. Even if actual results are somewhere in between, we are looking at **tens of thousands of employment opportunities** that depend on credit unions being allowed to do what they do best – lend prudently to local members. By comparison, when banks received a $30 billion taxpayer-funded small business lending incentive in 2010, they left roughly **two-thirds of that fund unused and still turned away many borrowers**. Credit unions are asking for **no such taxpayer money** – just the ability to deploy our own capital to meet unmet credit needs. Given the chance, we will help drive a post-pandemic small business renaissance, fueling innovation and economic growth from the ground up.
- **Serving Underserved Markets:** Greater credit union flexibility in SBA lending would especially benefit **traditionally underserved segments – minority, veteran, and rural small businesses** – that often align with credit unions' member bases. For example, Congress is considering the **Veterans Member Business Loan Act**, which would **exempt loans made to veteran-owned businesses from the credit union cap**. This bipartisan measure recognizes that encouraging credit unions to lend more to veterans could significantly improve veteran entrepreneurs' access to capital. Similar logic applies to other groups: credit unions have a mandate to serve people of modest means and communities overlooked by others. If allowed greater lending capacity and given a seat at the SBA table, credit unions could channel more funding to **minority-owned businesses**, which research shows are often declined by mainstream banks at higher rates. The economic ripple effects – in new business formation, wealth creation in disadvantaged communities, and reduced inequality – are difficult to quantify but profoundly important. Simply put, **empowering credit unions to do more small business lending is pro-growth and pro-economic inclusion**. It complements other federal efforts to support small businesses, and does so by leveraging private capital (credit unions' member deposits) rather than public funds.

In light of these facts, we urge you to consider the following **policy changes to eliminate barriers and expand credit unions' role in small business lending**:

- **Raise or Eliminate the Credit Union Member Business Loan Cap:** Congress should enact legislation to **eliminate the MBL cap.** The cap is a blunt instrument that is now doing more harm than good. Lifting it would **unleash billions of dollars to small businesses** that have few other options.

  Expand Access to the SBA's Preferred Lender Program for Credit Unions: We ask the SBA to **streamline the process for credit unions to obtain delegated authority (PLP status)** and actively encourage more credit union participation. The **approval criteria for PLP could be adjusted** to account for a credit union's overall financial strength and lending experience (even if not solely in SBA loans), so that more credit unions qualify. Currently, some credit unions face a *catch-22*: you must do a high volume of SBA loans to earn PLP, but it's hard to do volume when each loan is slow and cumbersome without PLP. SBA should consider pilot programs to **grant temporary or probationary PLP authority to experienced credit unions** under, say, close monitoring, allowing them to prove performance. Additionally, Congress could direct the SBA to **set a target for increasing the number of credit unions with PLP status** each year. Even simply **allowing credit unions to use the SBA's Express programs for slightly larger loans** (the SBA Express cap is $500,000 currently) could help – for example, giving qualified credit unions delegated approval on 7(a) loans up to $1 million would dramatically speed up many deals. We also encourage the Committee to exercise oversight of SBA's lender approval processes to ensure **there is no bias (whether intentional or not) against non-bank lenders like credit unions**. The goal should be to **put credit unions on equal footing with banks** in the SBA lending arena, because every additional PLP credit union means faster service for borrowers and more competition in the market.

- **Reduce Regulatory and Paperwork Burdens:** We urge a thorough review of SBA's rules and procedures with an eye toward **simplifying compliance for community-based lenders**. Some steps can be taken by the SBA administratively, and others may require legislative support. For instance, SBA could **further simplify the application and closing documentation for loans under a certain threshold** (say $250,000) – these smaller loans are common for credit unions and have relatively low risk. The SBA's recent moves to remove the requirement for a formal Loan Authorization and to modernize their SOPs are a good start. We ask that SBA **continue to digitize and streamline** the 7(a) loan process, and perhaps create an **"SBA Lending Hub" support program for smaller institutions**, where credit unions can receive centralized guidance or share services for packaging and servicing SBA loans. On the legislative side, we support efforts to **harmonize NCUA and SBA regulations** so that examinations and reporting can be coordinated. Credit unions already undergo rigorous safety and soundness exams from NCUA; to the extent that SBA can rely on NCUA oversight (for example, leveraging NCUA's data on credit union loan performance) it would prevent redundant compliance work. We believe it is possible to **maintain accountability without burdening lenders twice**. In short, **cut the red tape** that dissuades credit unions from making SBA loans. Free up credit union officers to spend more time extending credit and less time on duplicative paperwork. This will inevitably lead to more loans being made, especially smaller-dollar loans that big banks find less profitable.
- **Support Credit Unions' Role in Serving Underserved Communities:** Policymakers should view credit unions as **key partners in expanding access to capital** for groups that have historically faced barriers. In addition to raising the cap and easing SBA restrictions, we ask you to support initiatives that specifically leverage credit unions' strengths. For example, the Committee could champion **pilot programs for credit unions to reach rural entrepreneurs or minority small business owners** using SBA guarantees, and ensure those credit unions have the flexibility needed to be successful. Likewise, we respectfully urge you to **oppose any efforts that would diminish the credit unions' capacity to serve small businesses**. One current concern is the SBA's proposal to license more non-bank fintech lenders for 7(a) loans. While innovation is important, the SBA has finite resources for lender oversight. We echo NAFCU's caution that **diverting SBA's attention to supervising new, unproven fintech lenders could undermine support for existing community-based lenders**. Credit unions, as federally regulated depositories, are already closely supervised and have a duty to serve their members. In our view, **entrusting more lending capacity to credit unions is a safer, more reliable way to reach underserved markets** than depending on unregulated finance companies. We welcome competition, but please ensure it is **fair competition** and that credit unions are not left at a disadvantage relative to fintech or bank lenders. In summary, we ask you to **champion policies that allow credit unions to lend more freely to small businesses**, especially those in underserved segments, and to **remove policies that needlessly restrict or penalize those efforts**.

America's **small businesses are the engine of our economy**, and they depend on access to credit to start up, scale up, and thrive. Community-focused lenders – in particular, credit unions – have untapped potential to provide that credit. The reforms we propose will **drive small business growth** by enabling credit unions to **deploy more capital quickly and prudently**. Independent studies have affirmed that increasing credit union small business lending **does not crowd out banks, but rather fills a gap in financing that would otherwise go unfilled**. Small businesses will have more choices, better rates, and faster service when they can turn to their local credit union as a viable option for SBA loans and other commercial credit. The competition will spur all lenders to improve, and the only "loser" will be unnecessary bureaucracy.

Recommended Reforms and Expected Outcomes: In closing, we urge you to advance the above policy changes, which can be summarized as **1) lifting the credit union business lending cap, 2) expanding SBA delegated lending authority to more credit unions, and 3) streamlining regulatory requirements** for credit union small business lending. These steps will **empower an already safe and sound sector to do even more for our nation's entrepreneurs**. The anticipated results are straightforward: **billions in new small business loans, tens of thousands of new jobs created or retained, and an increase in lending to underserved communities**. Importantly, all of this can be achieved **without risking taxpayer funds or compromising safety** – credit unions will continue to operate under strict oversight and will only make sound loans, as they always have. In fact, credit unions' **7(a) loan default rates are among the lowest in the industry**, reflecting our careful underwriting and the deep relationships we have with our member-borrowers. By allowing credit unions greater flexibility, **Congress would simply be removing an artificial cap and outdated roadblocks**, thereby letting market forces work to provide more credit where it is needed.

I appreciate the Committee's thoughtful attention to these issues. **Now is the time to act**. Small businesses are rebounding from the pandemic and grappling with economic headwinds; they need all the support we can give them. Regulatory relief for credit union lending is a bipartisan solution that will spur job creation on Main Streets across America. I respectfully ask you to **support legislative proposals to modernize the credit union member business lending cap** and to **hold the SBA accountable for including credit unions as full partners in its lending programs**. These changes have broad support – from credit union members and small business owners to nonprofit consumer advocates – because they simply make sense. Let's not allow outdated restrictions to stand in the way of economic growth and innovation.

Thank you for your consideration and for your ongoing efforts to strengthen small businesses. **By enacting these reforms, Congress will enable credit unions to deploy our capital and expertise more effectively to the benefit of entrepreneurs nationwide.** We are eager to be part of the solution to America's small business credit needs. I would be happy to provide any additional information or work with you on crafting policies that ensure a robust, fair, and inclusive small business lending landscape.

I urge the Committee to ensure that credit unions are included in the SBA's lending partnerships and that legislative efforts support their ability to serve America's small business community.

Should you or your team have any questions or desire additional information, please do not hesitate to contact me at 202.557.8528 or by email at jstverak@dcuc.org.

Sincerely,

Jason Stverak
Chief Advocacy Officer
DCUC

CC: House Small Business Committee Members