ISSUE BRIEF

NSBA National Small Business Association®

Improve Access to Credit and SBA Lending

The credit crunch continues to stifle America's entrepreneurs and U.S. job growth

Problem:

Small-business owners face unique challenges when trying to obtain financing. Start-up and expanding small businesses frequently do not have the assets necessary for a traditional bank loan, and smaller loans generally are less-profitable for banks.

- Capital is the lifeblood of any small business, and according to NSBA's 2018 Mid-Year Economic Report, there was a drop in bank lending to smaller firms, which has real-world implications: 35 percent said lack of capital is hindering their ability to grow their business or expand operations, and 19 percent said they had to reduce the number of employees as a result of tight credit.
- In the same report, 71 percent of small firms reported they are able to get adequate financing, yet that is down from 73 percent only six months prior.
- The community banks, which had been the biggest providers of small business loans, are disappearing. The total number of community banks has fallen from more than 14,000 in the mid-1980s to fewer than 7,000 today. Both the decline in community banking and the increased hesitancy among major banks to lend to small businesses may have contributed to the decline in small business loans from 50 percent of all bank loans in 1995 to only 30 percent in 2013.
- The nation's credit unions are currently limited to a cap on business loans of 12.25 percent of their assets, yet they are willing, and able to increase their lending to small firms but need Congressional action to increase the cap. Credit unions could lend an additional $16 billion to small businesses, helping them create nearly 150,000 new jobs in the first year after enactment if Congress increases the statutory cap on credit union business lending.
- According to a 2018 FDIC small-business lending report, larger small banks are less likely than smaller banks to focus on small-business loans: just 37 percent of larger banks say they make most of their C&I loans to small business, compared with 78.7 percent of small banks.

Solution:

NSBA urges Congress to protect and support the U.S. Small Business Administration's (SBA) critical loan programs as well as increase credit unions' small-business lending cap so that .

- In FY 2017, SBA approved 62,430 loans totaling more than $25.44 billion, whereas in FY2015, the SBA approved 63,461 7(a) loans totaling nearly $23.6 billion—so fewer loans at a higher dollar amount.
- With the continued high loan volumes, NSBA supports an increased authorization level for SBA loans in order to prevent unnecessary stalls in lending.
- Regulators should seek avenues to ease restrictions on lenders for smaller loans since a one-size-fits-all formula doesn't often work for many small businesses and start-ups.
- SBA must have flexibility in their lending offerings, and lawmakers should support efforts to enhance SBA lending programs through legislation such as *the Small Business 7(a) Lending Oversight and Reform Act of 2018* (H.R 4743/S. 2283) which would increase SBA's oversight over lenders in the lending guarantee program; *the Microloan Modernization Act of 2017* (H.R. 2056/S. 526), which would raise the limit on lending institutions for total microloans; *the Small Business Investment Opportunity Act (H.R. 2333)* which would strengthen and expand the Small Business Investment Company (SBIC) program; and the Investing in Main Street Act (H.R. 2364) which would increase allowable investment levels in SBICs.

Learn More: [Read NSBA's detailed white paper on improving access to capital.]