NSBA National Small Business Association

Issue Brief

Improve Access to Credit

Problem:

While no American small business has been unscathed by the COVID-19 pandemic and subsequent economic downturn, it has affected certain industries and locales more than others and disproportionately harmed minority-owned businesses. Access to credit can help small businesses avoid cash shortfalls—whether they are due to slow business, the current COVID-19 pandemic or daily operations—and stay afloat when times are tough.

- Capital is the lifeblood of any small business, and according to NSBA's most recent data, which was pre-pandemic, there was a drop in bank lending to smaller firms—35 percent said that 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.
- Because small firms are closely tied to the financial well-being of the owner, any negative mark on the owner's FICO score can exclude them from applying for a bank loan.
- Businesses with poor credit ratings face higher credit card and interest rates from lenders, and insufficient or delayed financing remains common reason for business failure.
- Unlike banks, credit unions can only lend 12.25 percent of the worth of their assets to businesses —leaving billions of dollars of potential loans to businesses off the table.
- The Credit Union National Association estimates that, if the MBL cap were lifted, credit unions would lend an additional $5 billion "in capital to small and informal business ventures" over the next year. Another $5 billion to small businesses and entrepreneurs could translate to 50,000 jobs created over the same period.

Solution:

With small businesses especially hard-hit by the COVID-19 pandemic, easier access to capital is more important than ever. Access to credit can help small businesses grow, invest in the business, increase hiring and more —which leads to U.S. economic growth.

- Congress needs to protect and support the U.S. Small Business Administration's (SBA) critical loan programs and increase the authorization level for SBA loans in order to prevent unnecessary stalls in lending.
- Regulators should seek 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.
- The statutory cap for credit union MBL should be increased from the current 12.25 percent to at least 25 percent of the total assets of the credit union. Banking regulators must embrace a new methodology for evaluating small-business financial soundness without placing such heavy reliance on a FICO score.

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