Testimony of

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On behalf of

America's Credit Unions

Hearing: "Driving Economic Growth: SBA Lending Programs and the Vital Role of Community Banks"

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Introduction

Good morning, Chairman Williams, Ranking Member Velázquez, and Members of the Committee. My name is Mike Sims, and I am testifying today on behalf of America's Credit Unions. I currently serve as the Chief Commercial Banking Officer at Georgia's Own Credit Union headquartered in Atlanta, Georgia. Georgia's Own is a community credit union serving over 240,000 members across Georgia with $4.3 billion in assets. America's Credit Unions is the voice of consumers' best option for financial services: credit unions. The association advocates for over 4,000 institutions who serve their over 142 million members nationwide.

I have worked in commercial banking at various financial institutions, including national, regional, and community banks for over 30 years, before joining the leadership team at Georgia's Own Credit Union to help enhance our organization's commercial and SBA lending platform. Thank you for holding this important hearing today. I look forward to sharing my experiences, in particular with the SBA's Lending programs.

My credit union's story began over 90 years ago with an initial investment of $160 from eight telephone employees. Georgia's Own Credit Union is a full-service financial institution that exists to help our member families and small businesses flourish and better the communities we serve. As a credit union, our "people helping people" philosophy is at the core of everything we do. We build personalized, meaningful relationships and provide unparalleled financial services to our members—from advice and support to a full suite of financial tools designed to help our members live well financially. Georgia's Own Credit Union has always been a place where members come first.

Background on Credit Unions

Credit unions serve a unique function in the delivery of necessary financial services to Americans. Established by an act of Congress in 1934, the federal credit union system serves to promote thrift and make financial services available to all consumers, many of whom would otherwise have limited access otherwise. Every credit union is a cooperative institution organized "for the

purpose of promoting thrift among its members and creating a source of credit for provident or productive purposes" (12 § USC 1752(1)). Congress established credit unions as an alternative to banks and to meet a precise public need—serving those that banks left behind—and today credit unions provide financial services to over 142 million Americans. Since President Franklin D. Roosevelt signed the Federal Credit Union Act (FCU Act) into law nearly 91 years ago, two fundamental principles regarding the operation of credit unions remain every bit as important today as in 1934:

1. Credit unions remain totally committed to providing their members with efficient, low-cost, personal financial services; and,
2. Credit unions continue to emphasize traditional cooperative values such as democracy and volunteerism.

The nation's approximately 4,600 credit unions serve a different purpose and have a fundamentally different structure than traditional banks. Credit unions exist solely for providing financial services to their members, while banks aim to make a profit for a limited number of shareholders. As owners of cooperative financial institutions, united by a common bond, all credit union members have an equal say in the operation of their credit union—"one member, one vote"—regardless of the dollar amount they have on account. These singular rights extend all the way from making basic operating decisions to electing the board of directors, something unheard of among for-profit, stock-owned banks. Credit unions continue to play a very important role in the lives of millions of Americans from all walks of life. Since the Great Recession, consolidation of the commercial banking sector has progressed at an increasingly rapid rate. At a time when for-profit banks are deemphasizing the human touch for financial services, credit unions are second-to-none in providing their members with quality personal financial services at the lowest possible cost.

Credit Unions as Small Business Lenders

Credit unions have a long history of helping underserved communities due to their cooperative structure, and nothing demonstrates this better than their response to the COVID-19 pandemic, when they extended loans through the Paycheck Protection Program (PPP) to small businesses that had been turned away by for-profit banks.

Unfortunately, credit unions have an artificial barrier to being able to do all that they can to help small businesses. When Congress passed the Credit Union Membership Access Act (CUMAA) (P.L.105-219) in 1998, it put in place restrictions on the ability of credit unions to offer member business loans. Credit unions existed for nearly 70 years without these restrictions. Congress codified the definition of a member business loan and limited a credit union's member business lending (MBL) to the lesser of either 1.75 times the credit union's actual net worth or 1.75 times the minimum net worth of a well-capitalized credit union (12.25 percent).

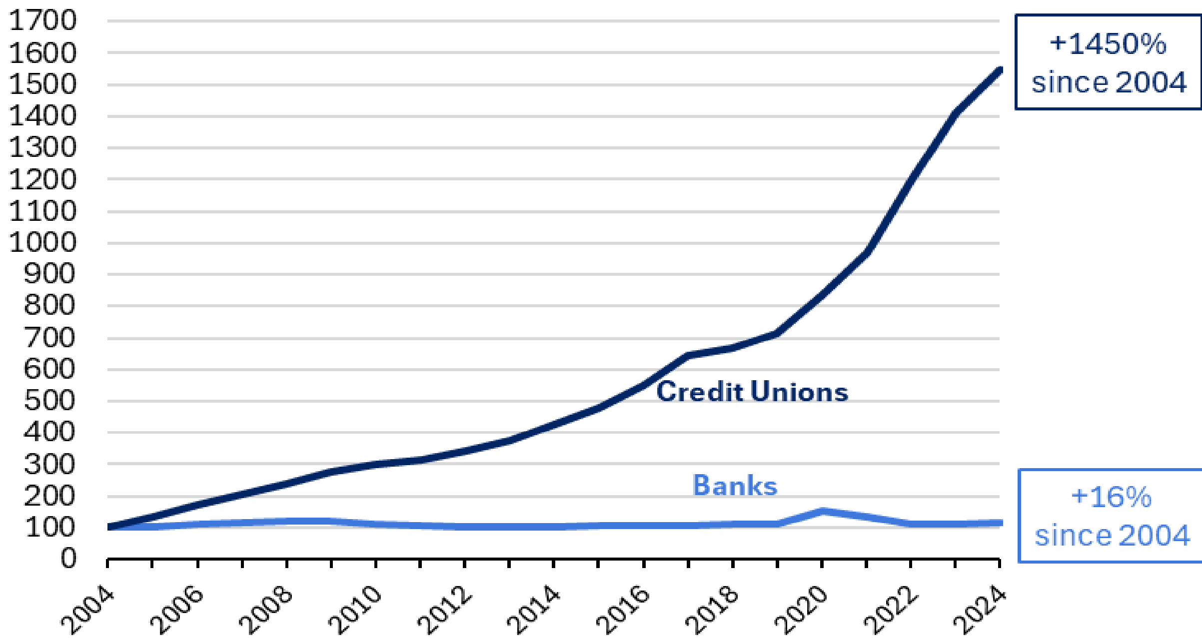
CUMAA also established, by definition, that only business loans above $50,000 count toward the cap. This number was not indexed and has not been adjusted for inflation in the nearly 27 years since enactment, eroding the de minimis level. Where many vehicle loans or small lines of credit may have been initially exempt from the cap in 1998, many loans that meet the needs of small business today are now included in the cap due to this erosion. To put this in perspective relative to inflation, what cost $50,000 in 1998 costs over $92,000 today, using the most recent consumer price index data. That is more than an 80 percent rate of inflation that is completely ignored by current law and greatly hamstrings a credit union's ability to meet its members' needs.

It should be noted that the government-guaranteed portions of Small Business Administration (SBA) loans do not count toward the member business lending cap, but the non-guaranteed portions do. This could ultimately lead to a situation where a credit union may be an excellent, or even preferred, SBA lender and have to scale back participation in SBA programs as it approaches the arbitrary cap. This would hit SBA Express loans first, as those have lower guarantees and, thus, may have a bigger impact on money available below the cap.

As such, we would urge Congress to support legislation to modify or remove the arbitrary cap on credit union member business lending. At the very least, Congress should update the $50,000 threshold to reflect inflationary changes over the last quarter century. This was proposed as part of H.R. 4868, the Member Business Loan Expansion Act, a bipartisan bill by Representatives Vincente Gonzalez and Brian Fitzpatrick in the 118th Congress.

While some on the banking side may say that credit unions unfairly compete, we would note that a 2011 study commissioned by the SBA's Office of Advocacy found that bank business lending was largely unaffected by changes in credit unions' business lending, and credit unions' business lending can actually help offset declines in bank business lending during a recession (James A. Wilcox, *The Increasing Importance of Credit Unions in Small Business Lending*, Small Business Research Summary, SBA Office of Advocacy, No. 387 (Sept. 2011)). The study shows that during the 2007-2010 financial crisis, while banks' small business lending decreased, credit union business lending increased in terms of the percentage of their assets both before and during the crisis.

Additionally, as the chart below outlines, credit unions have experienced strong growth in the number of small business loans made over the last 20 years as compared to banks. This includes continued growth during the Great Recession and during the coronavirus pandemic, when many small businesses turned to us when they could not get loans from other sources.



Georgia's Own Credit Union's Role as Small Business Lender

Georgia's Own Credit Union is proud of its work as a small business lender. We currently have over $571.5 million outstanding in member business loans, including SBA 7(a) and 504 loans. In 2024, Georgia's Own was the #1 ranked credit union in terms of SBA 7(a) loan production in the State of Georgia. We currently have 153 SBA 7(a) loans outstanding, totaling $153.9 million. We also make SBA 504 loans and currently have 5 outstanding loans totaling $17.4 million.

Like many community lenders, we saw a dip in interest in member business loans over 2023 and 2024, as inflationary concerns caused many small businesses to pull back on accessing capital. We have seen a noticeable uptick in interest and applications in the last three months since the election and expect 2025 to be a strong year.

As a credit union, we appreciate the way our MBL and SBA options allow us to work with our small business members to get them into a product that meets their needs. A great example is our work with Radiance Solar, a woman-owned small business specializing in solar power development and construction that is headquartered in Atlanta, Georgia. We were able to provide the owners with a $5 million SBA 7(a) CAP line product to fund their working capital needs. Our work with Radiance Solar has helped them become recognized as one of the top commercial and industrial solar installers in the United States, and we are currently in discussions with them to provide project financing for a distributed solar energy generation platform using the SBA's 504 Green Program.

Expanding Credit Union Participation in SBA Lending Programs

One of the most pressing challenges facing credit unions in expanding their utilization of the SBA's lending programs is the complexity of program requirements. While credit unions are eager to grow their SBA loan portfolios, many report that the administrative burden makes it extremely difficult to do so. Lack of internal expertise and high costs associated with participation remain significant barriers. A 2019 survey revealed that 68 percent of non-participating credit unions identified insufficient expertise in processing, closing, and servicing SBA loans as the primary reason for their non-participation. Moreover, smaller credit unions, which often serve the most vulnerable communities, frequently lack the resources to hire specialized staff or invest in the infrastructure necessary to navigate these programs.

Even with an experienced department at Georgia's Own we see these challenges as well. We may hear the right message from SBA leadership about wanting to help community lenders and small businesses, but it does not always translate to the field. Our day-to-day experience in contacting the SBA with questions about loans can often be cumbersome and frustrating. It is common for answers to questions to take days or weeks, or for us to experience delays while the SBA works to verify information on our borrowers. As a Preferred Lender under the SBA's Delegated Authority, we believe we should be given greater leeway to operate so we can get capital into our small business members' hands quicker.

Streamlining SBA loan processes would be a game-changer for credit unions and the small businesses they serve. For example, we commend the SBA's efforts during the pandemic to provide flexibility through initiatives like temporarily expanding size standards and increasing the Express Loan threshold from $350,000 to $500,000. These changes not only allowed credit unions to reach more borrowers but also demonstrated the potential for reducing procedural burdens without compromising program integrity. Making such changes permanent would incentivize broader credit union participation.

Additionally, providing more targeted training and technical assistance to community lenders is essential. Credit unions have expressed a strong interest in working with the SBA to enhance their operational capabilities in this space. Regular webinars, workshops, and on-demand training resources could address gaps in expertise and empower more credit unions to participate in programs like 7(a) and 504. We believe this can be done by regional offices being more proactive in reaching out to institutions in their footprint. By fostering a collaborative learning environment, the SBA can ensure that credit unions are well-equipped to deliver the high-quality, mission-aligned lending that small businesses need. We would encourage the SBA to better use regional offices in such an effort to engage existing program lenders and potential lenders as well. Having the SBA Regional Offices more fully engaged in the day-to-day operational issues faced by lenders will ultimately help streamline inefficiencies and enable quicker access to capital for the small business members that we serve. Without a fully engaged SBA Regional Office, lenders are left to themselves to navigate a very challenging and often complex SBA process labyrinth.

Safeguarding SBA Programs from Risks Introduced by Fintechs

The rise of fintech lenders in SBA programs has brought both opportunities and challenges. While fintechs have demonstrated an ability to leverage technology to reach new markets, their participation in SBA initiatives has raised serious concerns about program integrity. The PPP highlighted these risks, with a December 2022 report from the Select Subcommittee on the

Coronavirus Crisis revealing that fintech lenders were disproportionately associated with fraudulent loans. Among the troubling findings were instances where fintechs prioritized profits over compliance, bypassed fraud detection protocols, and failed to provide adequate oversight of their automated systems.

Credit unions, in contrast, bring a track record of prudent lending and robust compliance frameworks. Regulated by the National Credit Union Administration (NCUA), credit unions are subject to rigorous oversight that ensures adherence to safety and soundness standards. Unlike fintechs, credit unions are deeply embedded in the communities they serve, providing a level of accountability and trust that fintechs have struggled to match. By partnering with credit unions, the SBA can reduce the risks associated with fraud and ensure that taxpayer dollars are used responsibly.

To address these concerns, we urge the SBA to adopt stringent safeguards for fintech participation in its programs. This includes enhanced initial vetting, continuous monitoring, and requirements for compliance with the same regulatory standards applied to depository institutions. Additionally, the SBA should carefully evaluate the cumulative impact of regulatory changes. This includes the recent loosening of lending criteria and introducing new Small Business Lending Company (SBLC) licenses, to ensure they do not disproportionately benefit fintechs at the expense of community-based lenders. Protecting the integrity of SBA programs is essential to maintaining public trust and ensuring their long-term success.

Opposition to Direct Lending Initiatives

The SBA's past intent to address capital access gaps through direct lending initiatives is fundamentally misaligned with the agency's strength and mission. Direct lending by the SBA raises significant concerns about capacity, efficiency, and effectiveness. The Agency's Office of Credit Risk Management (OCRM) is already operating at maximum capacity, and expanding its responsibilities to include direct lending would strain resources further. Moreover, the SBA has

historically relied on partnerships with private sector lenders to deliver its programs, and there is little evidence to suggest that a shift to direct lending would yield better outcomes.

Credit unions are ideally positioned to fulfill the SBA's mission in this regard. During the PPP, credit unions demonstrated their ability to deliver SBA funds efficiently, often stepping in where traditional lenders faltered. An average credit union loan was $41,000, compared to $73,000 for other lenders, underscoring their commitment to serving the smallest businesses, which was one of the stated goals of the direct lending proposal. By leveraging the expertise, infrastructure, and community focus of credit unions, the SBA can achieve its goals without overextending its operational capacity.

Concerns with the Recent Rulemaking

The 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was enacted to respond to the 2008 financial crisis. One of the key provisions of this act was the creation of the Consumer Financial Protection Bureau (CFPB). The Bureau was established to protect consumers from another financial crisis, with institutions below $10 billion exempted from its oversight and enforcement. Everyone agrees that credit unions did not cause the 2008 financial crisis, and that is why we expressed concerns about the increased regulatory burdens that credit unions would face being subject to new rules from another regulator (the CFPB) in addition to those from our functional regulator, the NCUA. Unfortunately, our concerns have proven true, as the number of credit unions has declined significantly since the passage of the Dodd-Frank Act with regulatory burden being the number one reason given for credit unions disappearing.

Included in the Dodd-Frank Act was Section 1071, which amended the Equal Credit Opportunity Act (ECOA) to require financial institutions to report information concerning credit applications made by women-owned, minority-owned, and small businesses. The legislative purpose of Section 1071 is to facilitate enforcement of fair lending laws and to enable communities, governmental entities, and creditors to identify business and community development needs and

opportunities of women-owned, minority-owned, and small businesses. America's Credit Unions and credit unions across the country support this goal. However, we have concerns about how the CFPB has chosen to carry out its authority. The overly broad scope of the CFPB's final rule will increase burdens on community lenders and raise the cost of small business borrowing. It will also require covered financial institutions to collect data on businesses that are not "small businesses" by any traditional metric. We applaud Chairman Williams for introducing H.R. 976, the 1071 Repeal to Protect Small Business Lending Act, and would urge Congress to advance this measure if the new leadership at the Bureau does not take action to change the rule.

Conclusion

Small businesses are the driving force of our economy and the key to its success. The ability for them to borrow and have improved access to capital is vital for job creation. Credit unions are ready and willing to provide the capital to help small businesses grow. We urge the SBA to improve the process for its credit union lending partners and call on Congress to ensure that credit unions have the right regulatory environment to do so.

Thank you for your time and the chance to testify before you today on this important issue to credit unions and our nation's economy. I welcome any questions.