Testimony of
New York Credit Union Association
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Before the
Standing Committees on Banks and Commerce, Economic Development and Small Business regarding
Access to Capital for Small Businesses During the COVID-19 Pandemic
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Good morning Chairman Sanders, Chairwoman Kaplan, Ranking Members Helming and O'Mara and other distinguished members of these Committees.

My name is Henry Meier. I am the Senior Vice President and General Counsel of the New York Credit Union Association. The Association has now been in existence for more than 100 years, advocating on behalf of New York's 326 federal and state credit unions.

Thank you for inviting credit unions to offer testimony at today's hearing. Credit unions growth flourished during the Great Depression after the federal government followed the lead of states, including New York, and allowed credit unions to be created as a matter of federal law. Today, as we confront one of the greatest economic calamities since the Great Depression, credit unions are here to help. A financial system should not be judged by how well it accommodates people when times are good, but rather by how it helps people when times are tough. I'm proud to report that credit unions have done much to accommodate not only people in need, but also small businesses in need of a helping hand.

It's a cliché but small businesses truly are the backbone of both the state and national economies. Unfortunately, the pandemic has hit small businesses particularly hard. Before COVID-19, small businesses provided nearly half of all US private-sector jobs, yet they account for 54 percent (30 million) of the jobs most vulnerable during COVID-19. Specifically, half of jobs at firms with fewer than 100 employees are vulnerable to loss, compared with 40 percent of those at large private-sector employers[1]. Unfortunately these statistics are even worse for minority and women owned businesses.

[1] https://www.mckinsey.com/industries/public-and-social-sector/our-insights/covid-19s-effect-on-jobs-at-small-businesses-in-the-united-states#

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These statistics underscore why any comprehensive approach to dealing with the economic consequences of the pandemic must include assistance for small businesses.

The main federal effort to help our small businesses has of course been the Paycheck Protection Program (PPP). While this program is well-intended and has helped many small businesses, numerous problems have lessened its effectiveness, particularly for those small businesses most in need of help. For example, a key component of the PPP is that it authorizes businesses that meet certain criteria to have their loans forgiven. But even though borrowers could apply for loan forgiveness starting on August 10th, as of October 1st, the SBA had yet to forgive a single loan.

A second problem is that for many small businesses, the PPP application process is too complex. For example, a credit union told me about a business on Long Island whose president has more than 20 years of business experience. He estimates that staff spent more than a week working on its PPP application only to turn to the credit union out of frustration with the process. Fortunately, the credit union had the expertise the business needed and was able to prepare its PPP loan application in a day. Although examples such as these are difficult to quantify, we shouldn't underestimate that every approved loan represents saved jobs and the continued provision of services that New York needs.

A third problem with the federal effort has been difficulty in assisting the smallest of small businesses. We have all seen the stories about how more sophisticated businesses were able to quickly obtain large PPP loans. Credit unions specialized in giving loans to small businesses that probably would not have been able to obtain loans from bigger banks. In fact, nationwide the average credit union PPP loan was $67,000 and as low as $400.

Fortunately, not all the news has been bad. According to the Commerce Department, many Americans have taken this opportunity to work for themselves by starting a new business[2]. These people also need access to small business loans. 55% of these new entrepreneurs plan on starting their small businesses with a traditional loan from a bank or credit union.[3]

The bottom line is that the federal government's efforts at combating the pandemic, while helpful to many, could be improved upon. As we look for ways for the state to help small businesses, here are some important priorities to keep in mind:

Maximize the flexibility of credit unions to participate on a level playing field with banks when it comes to providing small business loans.

The businesses that obtained the $67,000 loans from credit unions were only able to do so because they fell within a credit union's field of membership. Now is not the time to be denying loans to small businesses based on legal technicalities. Under existing state law, credit unions can apply to provide services to underserved areas that fall outside their field of membership. In the coming weeks, the

[2] https://www.census.gov/econ/bfs/index.html?
[3] https://www.justbusiness.com/starting-a-small-business/pandemic-survey

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Association will be advocating for legislation that allows credit unions to provide services to consumers and businesses that fall outside their field of membership but who have been impacted by COVID-19. This proposal would, by definition, be limited in time and scope while ensuring that New Yorkers have the maximum amount of financial institutions available to them at the time they most need it. Similar legislation has been introduced at the federal level

Give needed support to businesses without imposing new mandates on lenders.

Just as businesses are facing tough times right now, so are many small credit unions. The legislature should avoid the temptation of imposing additional mandates on lending institutions and instead concentrate on programs that provide support for small businesses. An excellent model has been provided by the New York Forward Loan Fund (NYFLF). NYFLF targets the state's small businesses with 20 or fewer full-time equivalent (FTE) employees (90% of all businesses), nonprofits and small residential landlords that have seen a loss of rental income.[4] Crucially, the loans are not underwritten by the government but are instead underwritten by a panel including Community Development Financial Institutions (CDFIs) – which have experience making lending decisions. The loans must be fully repaid. This model could be expanded to allow a greater number of lenders to participate in the program, perhaps with the state providing some of the seed money.

The Federal government needs to act.

Finally, credit unions will continue to advocate for improvements in the federal government's pandemic response. We will continue to advocate for legislation that grants automatic forgiveness to any member who received a PPP loan of $150,000 or less. We will also be supportive of federal efforts aimed at increasing the flexibility of credit unions seeking to help localities and members who fall outside their field of membership.

A comprehensive approach to small business lending will not only be of immediate benefit to small businesses across New York state, but will also help lay the groundwork for a quicker and more vibrant economic recovery. Small businesses tend to expand quicker and grow faster than established businesses. A well-timed package of loan programs will help set the groundwork for the post-COVID era, which we all hope will arrive sooner rather than later.

Thank you very much for allowing the time to speak.

[4] https://esd.ny.gov/nyforwardloans-info

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