NSBA
National Small Business Association

Issue Brief

Improve Access to Capital

Problem:

America's small businesses are facing a serious lending shortage. According to NSBA's 2023 Economic Report, more than one-third of small businesses (37 percent) say they are unable to obtain adequate financing—the highest this indicator has been since 2008. That same report found that the number of small businesses who said they are unable to grow or expand their business operations due to a lack of capital is at its highest point since 2007.

- 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. Bank consolidations and strict formulaic lending disadvantage small business.
- The U.S. Small Business Administration (SBA) is a critical piece of the capital gap for small businesses and is often the only way many small businesses get approved for loans. In FY 2022, SBA guaranteed nearly 47,700 7(a) loans worth $25.7 billion to small businesses. Unfortunately, SBA has time and again found itself a political football with lawmakers failing to promptly reauthorize funding levels and give the agency the flexibility needed to ensure all small businesses have access to financing.
- Crowdfunding is another key piece to the credit puzzle, however due to complex regulations, it is falling far short of its potential to help entrepreneurs and growing small businesses.
- Credit unions can also help fill the credit gap. Unlike banks, however, 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.

Solution:

Access to credit can help small businesses grow, invest in the business, increase hiring and much more—which leads to U.S. economic growth.

- Congress needs to protect and support the SBA's 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.
- The pool of available SBA lenders should be responsibly expanded to include alternative lenders if properly vetted and approved and SBA should seek opportunities to streamline and simplify the application process in order to benefit all small businesses.
- Lawmakers and the SEC should make efforts to ease the process for crowdfunding and avoid creating costly new regulatory regimes in the process.