



**DCUC**  
DEFENSE CREDIT UNION COUNCIL

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**Anthony R. Hernandez**  
President/CEO

April 2, 2020

The Honorable Steven Mnuchin  
Secretary  
U.S. Department of the Treasury  
1500 Pennsylvania Avenue, N.W.  
Washington, D.C. 20220

The Honorable Jovita Carranza  
Administrator  
U.S. Small Business Administration  
409 3rd Street, S.W.  
Washington, D.C. 20416

**Re: Paycheck Protection Plan Concerns and Recommendations**

Dear Secretary Mnuchin and Administrator Carranza:

On behalf of America's 181 Defense Credit Unions and over 25 million members, I am writing to express concerns with the recent guidance on the Paycheck Protection Program (PPP) created in the CARES Act. As part of our response to the growing economic strain that COVID-19 is causing our country, the Defense Credit Union Council continues to seek ways we can partner with federal and state efforts to assist our Nation's working families and business owners in this time of need.

America's credit unions remain committed to helping small businesses succeed. Our nation's credit unions are uniquely positioned and structured to offer this kind of support to the communities where we live, work and play. Because we are member-owned financial institutions, we are really good at understanding our members' needs. Plus, given our commitment to our communities, it is our desire to provide our small businesses access to capital in order to protect their employees and keep their business afloat during this tough time.

While many of our members express a strong willingness to lend to small businesses via this program, here are some recommendations moving forward:

**Temporary Removal of Member Business Lending Caps.** Arbitrary limitations on member business loans in the Federal Credit Union Act (12 U.S.C. §1757a) prevent credit unions from doing more during this great time of need. Under the Federal Credit Union Act, a credit union's aggregate MBL is effectively capped at 12.25 percent of assets. Suspending this limitation would exempt business loans made to credit union members from current business lending caps. Thus, much needed assistance remains sidelined when we could be doing more. The CARES Act does not provide relief from these lending caps. We recommend a temporary removal of this limitation.

**Exempt Credit Unions from Military Lending Act Restrictions.** Credit unions are responsible lenders and have always championed programs to keep predatory lending away from our military. Yet, while many military members are currently getting receiving their paychecks, we also know that many military families rely on their spouses to supplement household income. Many of these spouses are self-employed. Yet, current Military Lending Act restrictions prevent credit unions from making small dollar loans as the fees and payback periods trigger the 36% MAPR cap. While the CARES Act does not provide relief, there is already statutory authority for the federal government to exempt credit unions from these restrictions. We recommend using this authority to exempt credit unions from Military Lending Act Restrictions on small dollar lending, specifically on business loans.

**Relax Restrictions on Expenses Other Than Payroll.** The recently released guidelines state that no more than 25 percent of loan can be used for expenses other than payroll. While we understand the program is intended for payroll relief, we also know that other critical expenses (e.g., rent, utilities, and ordering supplies) are needed to keep the

business running. Plus, these expenses have a multiplier effect on the economy which directly support payroll and employment in other businesses. This would quickly allow small businesses to jump start their operations and payback the loan much faster. We recommend relaxing this restriction and allow businesses to justify their need.

**Extending the Payback Period to 10 years.** The loan terms in the Paycheck Protection Program specify a short payback period of two-years. Given the length our country is not working, we believe a two-year payback period may be too short for struggling businesses. In fact, the CARES Act provides for loans of up to 10 years for the very same reason. We recommend Treasury and SBA use the authority provided by law to extend the payback period to 10 years depending on the need of the borrower.

**Stronger Protections Against Lender Liability.** Credit unions are very interested in participating in the program. However, there is unease with how the process will be administered; specifically, how loan eligibility will be determined, how credit unions submit and gain approval, and how they properly document the process. These questions are normal with any federally-guaranteed loan program. Yet, while we understand this is a fast moving program, we remain concerned about credit union liability in rushing the product to market. We recommend a simplified process so that credit unions can obtain SBA guarantees while continuing to make safe loans in the final PPP guidance.

**Borrowing by Credit Unions.** Finally, under the general SBA 7(a) loan program regulation, credit unions are precluded from being 7(a) borrowers because they “primarily engage in the business of lending.” This is an unprecedented time and likewise, unprecedented program, and we hope that the expansion of 7(a) loans will include credit unions in the list of allowed borrowers. The statutory text of the CARES act suggests that the 500-employee threshold should be the applicable standard. We recommend similar relief for our smaller-sized credit unions, some with less than 10 employees.

As strong community partners, we are very happy to work with the Treasury Department and the Small Business Administration to provide a vehicle to extend relief to our nation’s business owners. We hope these recommendations are helpful in removing obstacles and providing more tools for our credit unions to use in the current crisis. Plus, doing so sends a clear signal that our nation recognizes their impact in fostering entrepreneurship in successfully re-building our economy

If there is anything more we can do to highlight and provide additional information on these issues, please let us know. My office can be reached at (202) 734-5007 or at [ahernandez@dcuc.org](mailto:ahernandez@dcuc.org).

Sincerely,



Anthony R. Hernandez