

SENATE COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP



Opening Statement for
“*Perspectives from Main Street on Small Business Lending*”
Thursday, March 19, 2009 at 10:00 a.m.
Room 428A of the Russell Senate Office Building

(As Prepared)

Thank you for coming here today. I am pleased to open this hearing entitled: “Perspectives from Main Street on Small Business Lending.” I’d also like to thank Ranking Member Snowe and our other committee members for attending this important hearing. While I’ll be introducing all of the witnesses momentarily, I’d like to extend a special welcome to Guy Williams, President of Gulf Coast Bank, from New Orleans, Louisiana.

A discussion on the pain small businesses are suffering could not come a moment too soon. Restaurants are shutting their doors, stores are going out of business and entrepreneurs are looking to unemployment lines as even some small business owners with the best credit history are having difficulty getting loans. In fact, Mark Zandi, the chief economist at Moody’s, said that “credit markets remain badly shaken” and the TARP “did not significantly improve the flow of credit to households and businesses.”

When financial institutions reduce lending, small businesses lack the resources they need to invest, grow or meet payroll. The statistics are alarming:

- The Federal Reserve conducts a survey every four months of approximately sixty large domestic banks and twenty-four U.S. branches of foreign banks. According to the Fed’s most recent survey, 70% of banks have tightened their lending standards to small businesses.
- Just one year earlier, the same survey indicated that only 30% of banks were tightening their lending standards.
- And while the Small Business Administration usually guarantees about \$20 billion in loans each year, this year SBA lending may fall below \$10 billion.
- In a recent survey of small business owners and managers conducted by the Small Business Research Board, 41% of the respondents concluded that their lines of credit have decreased while only 20% saw an increase in their credit lines.
- Without credit, small businesses cannot expand; they cannot succeed; and most importantly, they cannot hire new employees.

While we know that lending is decreasing, it’s not altogether clear where the source of the problem lies; the true extent of the problem; and where the solutions can be found. I hope that we can use this hearing to dig a little bit deeper and find some answers so that we can form solutions.

Now I’d like to be clear—the purpose of this hearing is not to play the “gotcha” with anyone. Finger-pointing and the blame game will not get Americans back to work. Even if it could, several other committees in both this chamber and the other body have beaten us to the punch. Rather, I hope we can have a productive discussion about the challenges that Main Street businesses face. It is also critically important to understand the perspectives from our lending institutions — both large and small.

ASSESSING THE PROBLEM

To provide meaningful lending relief to our small businesses, it is essential that we understand the full extent of the problem. I’m particularly interested in whether our current liquidity problems have been uniform across all lending

institutions, or have smaller banks continued to lend? Have credit problems been concentrated in a particular region or sector of the economy? And have small businesses with strong credit histories had the same level of difficulty obtaining reasonable financing as those with weaker histories?

FINDING SOLUTIONS

This hearing is also about finding solutions. On Monday, Senator Snowe and I had the privilege of attending President Obama's discussion of several initiatives aimed at spurring small business lending. This Committee worked closely with the President to write and pass critical provisions in his Economic Recovery Act. For example, we will temporarily eliminate borrower fees on SBA 7(a) loans, which are partially guaranteed by the SBA and issued by a bank to a small business to support its operations. These fees have made 7(a) loans unaffordable for small businesses looking to expand.

Additionally, the SBA will temporarily eliminate fees for both borrowers and lenders on its 504 Certified Development Company Loans. These loans offer small businesses long-term, fixed rate financing for major fixed assets such as land, buildings and equipment. Earlier this week, I met with some 504 small business lenders who told me that the fees on a typical 504 loan cost borrowers nearly \$12,000. Eliminating those fees means \$12,000 that a small business owner can use to buy new equipment or purchase healthcare for his or her employees.

The SBA will also be given temporary power to guarantee up to 90 percent on new loans made under its 7(a) loan program – the largest program under the SBA. By increasing the SBA guarantee, we will reduce the risk that banks take on when they lend to small business owners, encouraging them to lend and help entrepreneurs to open a new business or hire a new worker.

The President also announced his intention to use \$15 billion in TARP money to purchase SBA-backed loans from banks that are unable to sell such loans on the secondary market. This means that lenders will be able to sell their SBA loans to the government or other investors, allowing them to make additional loans to Main Street businesses.

CONCLUSION

While we'll be learning about the intricacies of small business lending, this hearing is ultimately about jobs – job retention and job creation. Over the last 15 years, businesses employing less than 500 people have created 93 percent of all new jobs and employed 58.6 million workers. Businesses employing less than 20 people employed 21.3 million workers.

Sadly, since November, 80 percent of the job losses have come from small businesses. While corporate layoffs get the headlines, small business layoffs increase breadlines. Washington must keep dynamic, small businesses at the forefront. Ten jobs lost here and five jobs there really add up, hurting the economy, our communities and our families. When Main Street small businesses can't get credit, Americans lose jobs and dreams are deferred.

I look forward to hearing from our small business owners and lenders who will be testifying momentarily. I hope we can use this opportunity to understand the root causes of our problems and formulate effective solutions for our nation's small businesses.

I'd now like to turn to Senator Snowe for her opening statement.