U.S. Women's Chamber of Commerce

Testimony
of
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Before the House Small Business Committee and the House Financial Services Committee

"Condition of Small Business and Commercial Real Estate Lending in Local Markets"
9:00 a.m., February 26, 2010, 2128 Rayburn House Office Building

Chairwoman Velázquez and Chairman Frank, Ranking Members Graves and Bachus, Members of the Committees, I am here today representing the 500,000 members of the U.S. Women's Chamber of Commerce. Over three-quarters of our members are small business owners.

Thank you for this opportunity to update your committees on the condition of small business lending in local markets. Simply stated, the status of small business lending is so devastatingly poor that many business owners have given up even trying to secure capital and credit for their businesses. Our members tell us, regardless of their personal credit scores, proven business and financial track record, and contracts in hand – their access to capital and credit has become severely limited, and the fees and interest rates on their existing loans have risen to loan shark levels.

The consequences of this extended contraction in access to capital and credit have had a devastating effect on small businesses. Over the last two years, small business losses accounted for 40 percent of the 4.7 million positions cut by firms in total.[1] The results of a recent survey of our members have provided us with a very clear picture of the small business lending marketplace:

- The smallest businesses have either been wiped out or are struggling every day to stay in business.

[1] ADP National Employment Report, February 3, 2010. <http://www.adpemploymentreport.com/pdf/FINAL_Release_January_10.pdf>

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- Businesses in the $250 – 500K range have weathered the storm so far – and are seeking access to capital to fuel growth. Firms in this range tell us they could grow now – and add jobs – if they could only access capital and credit.

- Many of the businesses in the $500K – 1M range have significant overhead (equipment, raw materials) that make growth right now very challenging. And with little or no access to capital they have no way leverage their assets to fuel growth.

- Firms with over $1M in revenues have a more diversified set of capital and credit providers – but tell us they have very little appetite for growth due to the exorbitant fees, interest rates and uncertainty.

Nearly all businesses tell us that consumer confidence is extremely poor and that increased consumer confidence would help fuel their business growth. They also tell us it is important to complete the reform of our healthcare system and financial market regulations, and create a strong consumer financial protection agency so that they will have a clear picture of the future and can plan with confidence.

While U.S. banks report the sharpest decline in lending since 1942[2], another troubling trend is the extreme contraction in U.S. Small Business Administration (SBA) backed lending to women- and minority-owned firms. Between FY2008 and FY 2009, the percentage of SBA backed loans going to women-owned firms dropped from 23 percent to 20 percent and the total dollars lent dropped from 18 percent to 6 percent. During the same time period, the percentage of SBA backed loans going to minority-owned firms dropped from 33 percent to 22 percent and the total dollars lent dropped from 32 percent to 4 percent.[3]

We strongly encourage Congress to improve the opportunity for businesses to secure capital and credit, reduce the cost of credit, help small businesses to convert high interest debt into fixed term loans with reasonable interest charges, and help small business owners to assess their current financial condition and make good choices for the future.

We ask you to come up with solutions that match the scale of the challenge and address the real problems. The problems in the small business lending marketplace have been growing over the last decade. The resulting damage imperils not just small business owners – but every single American alive today and for generations to come. We cannot afford to send more of our taxpayer money into the hands of banks hoping they will do the right thing.

The job creation legislation recently passed in the Senate falls woefully short in addressing the size and scope of our problems. The recent FDIC comments on meeting the credit needs of

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[2] Michael R. Crittenden and Marshall Eckblad, "Lending Falls at Epic Pace," *Wall Street Journal*, February 24, 2010.
[3] National Association of Government Guaranteed Lenders, http://www.naggl.org/am/Template.cfm?Section=SBA_Statistics

creditworthy small businesses do nothing to change the fundamental problems.[4] And the President's proposal to distribute $30 billion of Troubled Asset Relief Program (TARP) funds to local and community banks in an effort to re-energize lending to small businesses is simply more of the same. Clearly this action would once again benefit the banks – with no guarantees of assistance to small business owners.

Treasury Secretary Geithner has said these funds should be removed from the TARP program first to assure bankers they will not face the disclosure and compensation restrictions that financial institutions faced when they accepted the bailout funds. He says, "TARP has outlived its basic usefulness because banks are worried about the stigma of coming to TARP, and they're frankly worried about the conditions." Additionally, he said 600 small banks withdrew their applications for TARP money because they did not want to face the restrictions or the perception that they needed a bailout.[5]

It is time to stop worrying about the banks and start worrying about the people. It is time for the SBA to support small businesses and job creation through a direct lending program. Very solid strategies have been established that would enable the SBA to loan directly to small businesses allowing for the sale back of loans to private sector investors and lenders after a period of time.

The arguments made that the SBA as a direct lender would be competing with private sector lenders are hollow – as one cannot compete with lenders that are not even seeking to compete and whose objectives are at odds with the needs of our country. The arguments that the SBA would have to hire and train people are true – a small price to pay for our economic future. Hundreds of qualified individuals have been laid off from lenders. We are confident these individuals would welcome the opportunity to step up and help save the future of our country.

Specifically, we recommend:

1. Increase SBA lending guarantees to 90 percent.
2. Focus on two sectors with the greatest urgent need – loans under $200K and loans in the $200 – 500K range.
3. Establish a direct lending program through the SBA allowing for the sale back of loans to private sector investors and lenders after a period of time.

Our problems are big and will affect the economic wellbeing of our great country for generations to come. We ask you to really see what is happening in America and respond to the scale and scope of these problems. New models are needed to lift us from our current recession and return us to a vibrant financial future. Strength, transparency, and affordable access to capital are vitally important so that our economy may be revitalized, our small businesses brought back to life, and jobs created.

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[4] Federal Deposit Insurance Corporation, "Interagency Statement on Meeting the Credit Needs of Creditworthy . Small Business Borrowers," February 5, 2010. <http://www.fdic.gov/news/news/press/2010/pr10029a.pdf>.
[5] Jim Kuhnhenn, *BusinessWeek*, February 24, 2010 <http://www.businessweek.com/ap/financialnews/D9E2LE6O0.htm>