

Testimony before the Senate Committee on Banking, Housing, and Urban Affairs Subcommittee on Economic Policy Hearing on “Restoring Credit to Main Street: Proposals to Fix Small Business Borrowing and Lending Problems”
Senator Debbie Stabenow
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Thank you, Mr. Chairman, for your leadership on this issue and for holding this important hearing. And thank you, Senator DeMint (ranking member), for being here today as well. I appreciated hearing from my colleague from Michigan, Senator Levin, and I also want to thank Senator Warner and Senator Merkley, who have also been working so hard to fix this problem.

I'm also pleased that the Chairman of American Bankers Association, Art Johnson, is testifying today. As the CEO and Chairman of the United Bank of Michigan and United Community Financial Corporation in Grand Rapids, Art understands the serious problems facing community banks and small businesses in some of the hardest-hit areas of the country.

The subject of today's hearing is so important to our efforts to rebuild our economy. We know that small business create 64 percent of jobs in this country. We also know that small businesses tend to get loans from their local community bank, not big Wall Street firms. According to FDIC call reports, banks with less than \$1 billion in assets – making up only 12 percent of all bank assets nationwide – made nearly half of the small business loans.

Federal regulations have – rightly – cracked down on the big banks who caused this financial crisis. According to the FDIC data the amount of lending by the banking industry fell by about \$587 billion or 7.5% in 2009, which is the largest annual decline since the 1940s.

Ultimately, it is America's small businesses, and American workers, who suffer the most. I continue to hear from small businesses in my state who can't access credit to grow their company. Some of them have orders in – they have customers ready to buy their products – but they can't get the capital they need upfront to make the products.

However, it's important to separate the large financial institutions that benefited from TARP from the vast majority of banks. As I mentioned, the smaller banks, who did not receive nearly as much support from TARP as the larger banks, originate the vast majority of small business loans.

Thankfully, our community banks are still lending, despite dealing with increased pressures to increase capital and reduce risk. They, too, are suffering from an economic environment that makes it hard to raise capital. I look forward to hearing more about this from the witnesses on the next panel.

I am also looking forward to hearing follow-up about the issues raised by Senator Levin – especially how small businesses are dealing with reduced cash flow and collateral whose value has decreased in recent years. Many small business owners have used their homes as collateral for loans to keep their business opened, and as home prices decline, so too does their ability to keep credit flowing.

But, as we know, the housing market isn't the only place where values are declining. The commercial real estate market has also been hard-hit, which hurts manufacturers particularly hard. The value of manufacturers' property, factories, and equipment has dropped as much as 80 percent in the last 18 months.

As I'm sure our next panel can attest, even a healthy bank will not make a loan to a borrower who does not have enough collateral value.

In Michigan, our manufacturers are trying to retool and diversify. They are moving into high growth industries like health care, defense, and clean energy. But they are having trouble growing because they are having trouble getting credit. New regulations imposed on big banks make sense, but a one-size-fits-all approach is hurting the ability of small banks to help our small businesses. The theory of "too big to fail" now means that many of our businesses today are "too small to grow."

These are the companies who create jobs in America. If we are going to create jobs, we need to let those small businesses grow.

Nearly 700,000 Americans work for parts suppliers, more workers than in any other type of manufacturing company. Let me give you just one example of how this credit crunch is affecting these small manufacturers.

Wes Smith, who is the President of E&E Manufacturing, a metal stamping company in Plymouth, Michigan, is looking to expand his business, but might not be able to because his long-time lender recently reduced his line of credit and changed his loan covenants. Although sales picked up at the end of last year, and they are expecting a 20 percent increase in sales projections, he is having trouble getting the capital he needs to re-hire about 200 people he was forced to lay off during the worst of the recession.

That's 200 people at just one plant who could come back to work today if their company had better access to credit. As Senator Levin mentioned, Michigan started a successful program in 2009 that targets businesses that may be good credit risks, but have collateral or cash flow shortfalls.

The first \$13 million of that fund was fully committed within the first 5 months, and was oversubscribed by nearly 300 percent. Michigan's program has taken \$13.3 million in public funding to leverage \$41 million in private loans, which is a leverage ratio of about 3 to 1.

When the Senate considers authorization of President's Obama's Small Business Lending Fund, I hope we can take some of these funds and direct them toward programs, like the one we have in Michigan that would address these collateral depreciation issues.

We also must address the separate problem of small businesses being able to qualify for a loan. I hope that as we address this issue, we also extend the Small Business Administration loan guarantee that expires this month and increase the maximum loan size of SBA 504 and 7(a) programs, which the SBA estimates would create up to \$5 billion in growth for small businesses and as many as 160,000 jobs.

That's what this debate is really about – creating jobs and growing our economy. I hope this hearing can uncover ways that we can help small banks and small businesses create jobs and opportunity throughout America.