Testimony of Senator Carl Levin
Senate Banking Committee Subcommittee on Economic Policy

Hearing on "Restoring Credit to Main Street: Proposals to Fix Small Business Borrowing and Lending Problems"

March 2, 2010

Chairman Brown, Ranking Member DeMint, members of the subcommittee, thank you for inviting me to speak to you this morning about the important issue of ensuring that small businesses have access to the credit they need. On behalf of the Michiganders and Americans whose livelihoods are at stake, thank you for taking up this enormously important issue.

I'd like to tell you a little bit this morning about the truth on the ground in my state, the word we're getting from small business owners and from community banks who are, even as macroeconomic indicators show our economy is recovering, struggling with the effects of the worst economic crisis in decades. And I'd like to suggest some strategies that I believe, after a great deal of research and discussion, can help relieve those struggles and get our economy, and our constituents, working again.

But first, I want to try to impress upon each of you just how important I believe this issue to be. Recent economic data suggests that, from a technical standpoint, our economy is rebounding. Gross domestic product is starting to grow, and the flood of layoffs and business closings that hammered us for so many months has slowed to a trickle. But for many Americans, things haven't gotten any better, and for far too many, the situation is worse. Unemployment in my state is almost 15 percent, and it is unacceptably high in most states. So far, despite the fact that our economy is becoming productive again, it is not providing the job growth necessary to restore hope and opportunity for the millions of Americans who were caught up in the economic hurricane of financial collapse.

If we do not act, and quickly, to help restore employment, the "green shoots" for which we have so much hope will not blossom. They will wither.

What stands in the way of job growth? When I talk to employers in Michigan, often the first problem they discuss with me is the difficulty in obtaining the capital they have traditionally relied on to finance their operations: capital to meet payroll, to finance inventory, to update their equipment or to expand their business. Dozens upon dozens of businesses have come to us, worried about their inability to keep their lines of credit or get new ones. Even those with good credit and paying customers often cannot get the financing they traditionally have obtained, or sometimes can get it only by agreeing to unaffordable terms. Let me mention just one typical Michigan example of the problem: a small manufacturer based in the Thumb region of our state. The company's longtime bank lender told the company it could not renew the firm's five-year loan, instead offering 90-day renewals at a much higher interest rate, even though the company had never missed a payment and had adequate business revenue. The company, with 77 workers and 150 customers, sought a loan elsewhere, but other banks – 28 of them – rejected its application. That story can be repeated 100 times throughout the state.

At times my staff has worked on a one-on-one basis with individual businesses and local banks, trying to find solutions that can keep business humming. We have had discussions with the Michigan Bankers Association and with state officials to try to match worthy businesses with banks willing and able to lend. But the problem persists. And it is especially damaging in Michigan, where so much of our job base consists of small and mid-sized manufacturers. These companies form the economic backbone of communities across the state, and they are in capital-intensive industries that make access to capital absolutely vital.

This is frustrating on many levels, but perhaps most frustrating for me, not to mention the businesses involved, is that the local banks they have done business with for years want to continue to lend, but in many cases cannot. For much of this crisis, our attention has been focused on the largest financial institutions in our country. Programs like TARP provided large sums of capital to these institutions because their failure would endanger the entire economy. We've also focused on them because, in many cases, it was their actions that precipitated the crisis.

But now, while giant firms such as Citi and Goldman Sachs report massive profits, the real lifeblood of many local economies – local banks – don't have it nearly so good. Recently, the FDIC released a report that demonstrates the scope of the problem. At the end of 2009, the report said, 702 banks across the United States were in at least some danger of failure. That was up from 252 banks at the beginning of the year, and up 27 percent from just three months before. The FDIC warned that this jump is largely the result of a crisis that began on Wall Street spreading throughout the country. And as a result of that spread, bank lending has plummeted, down 7.5 percent from 2008 to 2009. Nationally, business loans – again, the lifeblood of business and employment – declined 18.3 percent.

And in Michigan, the situation is worse. One estimate is that overall bank loan volume in Michigan declined by 74 percent from 2007 to 2009!

The first point I would make is that while those large banks have gotten most of the help so far, they are also the ones pulling back the most on lending. I agree strongly with FDIC Chairman Sheila Bair, who said, "Large banks do need to do a better job of stepping up to the plate here." But that is not all of the problem. I agree with Sen. Merkley and with the Administration that we must to something to support community banks so that they can lend to the small businesses that are key to creating jobs in our communities.

We can help businesses that are being turned down for credit despite having excellent credit histories and adequate orders and revenues or viable plans to diversify into emerging growth industries. In many cases, the banks that have long serviced these companies are simply unwilling or unable to lend, not because they fear an increased risk of default, but because the business's collateral has fallen in value. Just as the value of our homes has fallen in this recession, so has the value of the inventory, equipment and buildings held by businesses. Because those assets are worth less, banks are less willing to provide loans that use them as collateral. Even if a bank has enough capital to lend to small businesses, they are unlikely to do so for businesses – like so many in my state – whose assets have fallen so rapidly in value.

In Michigan, our Michigan Economic Development Corporation has a program that is designed to help support the collateral values of borrowers in this situation. And for years, the state has operated a Capital Access Program, which also helps borrowers with decreased collateral values. That program funds reserve accounts to support loans to businesses that need collateral support. I think we can learn from these programs, and those in other states, and work together to craft legislation that will directly help businesses whose depleted collateral values are inhibiting not only their abilities to survive and grow, but also our economy's.

There are other policy details that I have strong feelings about, but again, my strongest feeling is that this is a problem requiring urgent attention. I congratulate the subcommittee on holding this important hearing, and encourage you all to push hard for a solution that will get capital to struggling businesses so that they can do what we need them to do: put more people to work. Thank you.