

Testimony of

David Rader  
Executive Vice-President of SBA Lending  
Wells Fargo Bank

Before the

Senate Small Business Committee  
United States Senate

March 19, 2009

Chairwoman Landrieu, Ranking Member Snowe, and Members of the Committee, my name is David Rader and I am the Business Executive responsible for managing Wells Fargo's SBA Lending line of business. Thank you for inviting me here today to speak about our SBA lending business. During my 26 years with Wells Fargo my career has focused on meeting the financial needs of small business owners. I also had the good fortune to have grown up in an entrepreneurial family—my father owns and operates a small business in Alexandria, Minnesota. So you could say I have a passion for small business, it's in my blood.

Today, I would like to provide you with an overview of our SBA business, our lending philosophy, and our thoughts for the future.

Wells Fargo SBA Lending is a national SBA lender with more than 400 team members. We offer SBA 7(a), SBA*Express* and 504 loans to small businesses coast to coast. Since 2003 we have been the nation's #1 7(a) bank lender by dollars, generating \$658MM in 2008, up 8 percent from 2007 levels. These dollars represent a significant number of both large and small loans, with a combined average loan size of \$237,000 for 7(a) loans. We believe that the flow of new loan dollars into our communities represents a very powerful statement for job creation and economic development.

In fiscal 2008, according to the SBA, we processed 2,776 loans – making Wells Fargo the fourth largest originator of 7(a) loans as measured by units. As of the end of February 2009, Wells Fargo, together with Wachovia bank, was the #1 national bank lender and the #1 SBA dollar lender in 13 states. Our businesses have originated \$355 million in 7(a) and SBA*Express* loans and we intend to achieve year over year growth in our lending activity.

Our SBA lending business currently manages over \$6 billion in assets which represents approximately 16,000 small business customers. We are a profitable business and are growing in both unit and average loan balances year over year.

Wells Fargo is, and always has been, committed to helping small businesses succeed financially. In this current economic environment, it is more important than ever to work with business owners to help them access the capital they need to manage and maintain their businesses. We continue to have money available to lend and we are actively adding to our staffing levels, hiring additional business development officers to grow our business and support increased loan volumes. Frankly, we want to make more loans. As the #1 SBA bank lender in dollars for six consecutive years, it is our business to say yes to as many business owners as we can.

We continue to seek out credit-worthy customers and approve loans that will be sound, profitable and long-term assets for the bank. Our lending decisions are based on doing what is best for our customers and for our company. Our credit philosophy is to approve a loan only when we believe a borrower has shown that they can repay it aside from the SBA loan guaranties. We rely on the fundamentals of sound credit underwriting. We have historically earned above average SBA PLP audit ratings. At Wells Fargo, we do not sell our SBA loans on

the secondary market. We work with our customers to help them manage all of the financial aspects of their business and this practice helps strengthen the relationships we have with them.

Our portfolio of loans is geographically diverse, industry diverse, and is comprised of the types of businesses we see everyday on Main Street. We are financing the businesses that we all frequent during our weekend errands—the dry cleaner, the grocery store, the coffee shop, the restaurant, and the automotive repair shop, to name a few. Today these mom-and-pop businesses are suffering due to the current economic environment. Their customers are spending less money in their establishments which means these business owners have less money in their pockets too.

We continue to see our prospective customers waiting on the sidelines. We see businesses reeling from declining revenues and they are cutting expenses as fast as they can just to survive. With the future as unclear as it is today, customers aren't borrowing money like they use to and fewer and fewer are interested in buying a building, buying new equipment or acquiring a business. Our credit-approved customers are halting their projects, canceling their loan and walking away from their dreams prior to their scheduled loan closing. Most customers say that fear of the unknown has caused them to pull back and ride out the economic storm.

Many existing customers are suffering from declining financial trends such as weaker sales, tighter cash-flows and smaller profits. Some customers are posting losses for the first time in their business history. Industries that rely heavily on discretionary consumer spending, such as the restaurant, hospitality and those industries relating to housing, are truly struggling. We are also seeing declining commercial real estate values and business valuations, making it more difficult for customers to sell their building or their business and making it more difficult for us to make prudent loans.

On the bright side, Wells Fargo is encouraged by the administration's recent announcement regarding the changes to the SBA 7(a) and 504 loan programs. In our opinion, these provisions will reduce fear and help increase access to capital for small business. We are excited and supportive of the guaranty fee waiver for 7(a) loans and the customer fee waiver for 504 loans. We believe the increase in the 7(a) loan guaranty percentage up to 90% will help stimulate loan demand and provide an economic incentive for small businesses to borrow money. Wells Fargo expects to say "YES" to even more creditworthy borrowers with these new program enhancements.

As we all work together to stimulate small business lending, Wells Fargo continues to be optimistic about our ability to help businesses succeed financially and want to work with them to fulfill their financial dreams. We are confident that we will continue growing our SBA lending business and maintain our #1 SBA national lending status in dollars. We will continue to be a prudent business lender and we look forward to strengthening our partnership with the Small Business Administration.

Madam Chair, Ranking Member Snowe and Members of the committee, thank you and I would be glad to answer any questions.