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Statement of Treasury Deputy Assistant Secretary Don Graves
Small Business and Entrepreneurship Committee
United States Senate
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Chairwoman Landrieu, Ranking Member Snowe, Members of the Committee, I appreciate the opportunity to discuss Treasury's efforts to help America's small businesses and encourage job creation.

The Administration is committed to supporting small businesses and to creating the conditions in which entrepreneurs can thrive in our economy. President Obama recognizes that small businesses have been, and will continue to be, a vital engine of job creation and innovation in our economy, and that the country depends on the health and vibrancy of our small business sector to fuel our economic growth.

The Administration also recognizes the unique hardships faced by small businesses today: through no fault of their own, these businesses have borne much of the burden from the financial crisis. This is fundamentally unfair. As Secretary Geithner has said, "much of the damage [from the recession] has fallen on ordinary Americans and small business owners who were careful and responsible." A crisis that began on Wall Street quickly spread to Main Street. And, in the aftermath of the financial crisis, small businesses were faced with a cycle of decreased customer demand, slower payments on their invoices, reduced lines of credit, and, with no other options, were forced to downsize and lay off workers.

That is why, on September 27 of last year, President Obama signed into law the Small Business Jobs Act (the "Jobs Act"), the most important and comprehensive piece of small business legislation in over a decade. Many of you in this room were instrumental in that effort and I commend and thank you for your work.

At the bill signing, the President spelled out, in simple terms, the idea that guided the Administration's approach to helping small businesses recover from the financial crisis:

"Government can't guarantee success," he said, "but it can knock down barriers to success, like the lack of affordable credit. Government can't create jobs to replace the millions that we lost in the recession, but it can create the conditions for small businesses to hire more people, through steps like tax breaks."

Since the bill was signed into law, we have been working hard to put this concept into action. Pursuant to the Jobs Act, Treasury has implemented two crucial small business programs – the Small Business Lending Fund (SBLF) and the State Small Business Credit Initiative (SSBCI) – to help small businesses access affordable credit in order to expand and create jobs.

The Jobs Act also contained eight small business tax cuts – part of 17 small business tax cuts the President has signed into law – that provide tax relief to help small businesses invest in their firms and create jobs. Among other things, these tax provisions increased the amount of gain from qualified small business stock that may be excluded from tax, extended to five years the carryback period for general business credits, increased the amount of investments that may be immediately written off, extended bonus depreciation for new investments, increased the amount of the deduction allowed for start-up expenditures, and provided a deduction for health insurance costs in computing self-employment taxes.

Small Businesses are Critical to Continued Job Creation

Recent economic news has been promising. The economy added 244,000 jobs last month. The private sector has created 2.1 million jobs in the last 14 months, with an average of 214,000 private sector jobs created per month so far in 2011. Despite high energy prices and disruptions from the disaster in Japan, these last three months of private job gains have been the strongest in five years.

The health of our Nation's small businesses is vital to a sustained recovery. Not only are small businesses the engines of economic growth, small businesses also contribute disproportionately to job creation. According to the Federal Reserve Board, small businesses employ approximately half of all Americans and account for roughly two out of three net jobs created. While we still have a long way to go, as the President has said, there are encouraging signs that Main Street small businesses are seeing signs of recovery. According to one recent survey, 35 percent of small business owners are planning to hire more workers in the next six months and 37 percent expect their businesses to grow.

Yet, despite these signs of hope, we still have a great deal of work ahead of us. The most recent data available show that the smaller the firm, the slower the recovery in terms of employment. Moreover, the April National Federation of Independent Business survey shows that small business confidence, while improving, remains below historical levels. Although a variety of challenges face these firms, difficulty accessing credit, restrictive credit terms, and even the perception that their requests to borrow funds will be denied continue to constrain small business expansion.

The Administration is committed to building on the work that has already been done to help small businesses fully recover and return to their traditional role as engines of job growth in our economy. It is our hope and belief that the various components of the Jobs Act – tax cuts, enhancements to existing SBA programs, the SSBCI and the SBLF – will further that goal.

The Administration's Efforts to Support Small Businesses

When President Obama took office, the economy was in freefall and the credit crisis had already taken a severe toll on our nation's small businesses. Credit markets were frozen, bank lending for smaller firms had all but dried up, sales had decreased significantly and, as a result, many small businesses had been forced to lay off workers.

In response, the Administration has put forward a comprehensive agenda to improve economic conditions for America's small businesses. In partnership with Congress, we took action to help ensure that small businesses could access credit. Working with Congress, we helped pass numerous tax cuts that, among other things, allow small businesses to immediately write off more of their investments, carry back their net operating losses five years, use bonus depreciation to accelerate the rate at which they can deduct the cost of capital expenditures, and take advantage of a new tax credit for businesses that hire and retain workers that were previously unemployed. The Administration also took action through the SBA to address the severe decline in lending, which my colleague, Marie Johns, will discuss in more detail.

The Administration is also focused on fostering a dramatic increase in the prevalence and success of entrepreneurs, which also play a critical role in creating new jobs. In January of this year, the Administration launched its Start Up America initiative to promote partnerships and policies that will benefit America's entrepreneurs and start-up companies. Start Up America will foster a range of public-private initiatives designed to expand access to capital for high-growth startups throughout the country, identify and remove unnecessary barriers to high-growth startups and expand collaborations between large companies and startups.

In March, Treasury co-hosted a conference called "Access to Capital: Fostering Growth and Innovation for Small Companies" to draw additional attention to the evolving challenges facing start-ups and high-growth companies, identify opportunities to reduce barriers to their success, and find new ways for the private sector and public sector to work together to help them access the capital they need to succeed. The conference convened policymakers, business leaders, entrepreneurs, and academics to ask questions and discuss ideas, such as the Administration's proposal to permanently eliminate the capital gains tax on small business stock, and provided an opportunity to have a fulsome discussion around challenges facing small businesses that will be important to overcome to build a more competitive economy over the long term.

The Small Business Lending Fund

At the Treasury Department, I oversee the SBLF and the SSBCI, both of which were enacted into law as part of the Jobs Act, and are designed to help small businesses access capital to grow and create jobs.

The SBLF is a fund that encourages lending to small businesses by providing capital to qualified financial institutions with assets of less than $10 billion. The program works by providing capital to participating financial institutions through Treasury purchases of preferred stock or debt instruments from each bank. Since banks leverage their capital, the SBLF will help increase lending to small businesses in an amount that is multiples of the total capital provided to participating banks, helping small businesses to expand and create new jobs.

The dividend or interest rate banks pay to Treasury on SBLF funding helps incent them to lend to qualified small businesses in need of financing. Under the Jobs Act, the rate will be reduced as a bank increases its lending to small businesses. The initial rate will be, at most, 5 percent, but if a bank's small business lending increases by 10 percent or more, then the rate will fall to as low as 1 percent. The Jobs Act provides that banks that increase their lending by amounts less than 10 percent can benefit from rates set between 2 percent and 4 percent. The Jobs Act therefore establishes a clear metric for measuring changes in lending after financial institutions come into the SBLF. Further, it ensures that the benefits of the program only go to those banks that use capital to extend additional credit.

If lending does not increase in the first two years, however, the rate will move up to 7 percent. For those banks that have increased small business lending, their lowered rate will remain locked in for the following two and a half years. After 4.5 years in total, the rate will increase to 9 percent if the bank has not already repaid the SBLF funding.

To date, SBLF has received 702 applications and total requests for $10.1 billion in funding. To ensure taxpayer dollars are properly safeguarded, we have been consulting with each applicant's federal banking regulator and conducting detailed financial assessments of each applicant to assess its likelihood of repayment. Treasury also considers the views of the relevant state banking regulators. To participate, the bank's federal regulator must validate its viability. The SBLF also has been implemented with strong oversight and accountability. In addition to requiring a small business lending plan from participating institutions and regular reports on the impact of SBLF capital, the SBLF itself is subject to robust oversight from the Treasury Inspector General and the Government Accountability Office.

We expect to complete our initial set of reviews in the next few weeks and we hope to complete initial fundings in June.

The State Small Business Credit Initiative

The SSBCI was funded with $1.5 billion to strengthen state programs that support lending to small businesses and small manufacturers. Because of the recession and ensuing state budget shortfalls, many small business programs at the state level have been scaled back, which, in turn, has posed further challenges to small businesses. The SSBCI was created to reverse this trend.

Because the SSBCI application requires states to show that $10 in new private lending can be leveraged for every new federal dollar, the SSBCI is expected to help leverage $15 billion in new lending to small businesses. Participating states will use the federal funds for programs to help finance small businesses and manufacturers that are creditworthy, but are not getting the loans or investments they need to expand and create jobs.

The SSBCI also allows states to build on successful models for state small business programs, such as collateral support programs, Capital Access Programs (CAPs), loan guarantee programs, loan participation programs and state-sponsored venture capital programs. Both existing and new state programs are eligible for support under the SSBCI.

The SSBCI is open to any state of the United States, the District of Columbia, and any U.S. Territory that establishes a new, or has an existing, capital access or credit support program that meets the eligibility requirements in the Jobs Act. In certain circumstances, municipalities may have an opportunity to apply directly to the Treasury Department for SSBCI funding.

Forty eight states, the District of Columbia, and all five territories have notified Treasury that they intend to participate in the SSBCI. We have already received 13 applications from states thus far requesting funds that would collectively leverage over $3.2 billion. Treasury has already approved allocations to North Carolina ($46 million) and California ($169 million); their programs have already utilized the funds to increase lending to small businesses in those states. Vermont ($13 million), and Missouri ($27 million) allocations have also been approved, and Missouri reports that applications to its SSBCI-approved state run venture capital fund total more than $50 million, exceeding the fund's planned initial capacity. Additional approvals for Hawaii ($13 million) and Indiana ($34 million) were announced this week.

Looking Forward

We believe, as do many of you, that the small business sector is an engine of job growth, innovation, and opportunity. Helping small businesses recover has been a priority for this Administration. We will continue, as the President said, to strive to create the conditions for America's small businesses to grow, hire, and thrive.

Thank you again for the opportunity to appear before this Committee today. I'll be happy to take your questions.