SENATE COMMITTEE ON
SMALL BUSINESS & ENTREPRENEURSHIP

Opening Statement for
"Small Business Financing: Progress Report on Recovery Act Implementation and Alternative Sources of Financing"
Wednesday, May 13, 2009 at 2:15 p.m.
Room 428A of the Russell Senate Office Building

(As Prepared)

Thank you for coming today. I am pleased to open this hearing on small business financing.

One of the most significant challenges facing small business owners in this economy is insufficient access to capital. I have made it a priority of this Committee to look into why small businesses are unable to borrow money from traditional lenders and what we can do to get capital into the hands of entrepreneurs.

Over the past 4 months this committee has looked at the various sources of small business Financing. *[Chart Number 1, showing the Sources of Small Business Financing, attached.]*

At our past hearings, we have heard from several types of lenders. We have heard from the big banks, the community banks and from lenders who provide SBA loans. Today, in our continuing mission to assist our main street businesses, we will hear from other sources of lending such as a credit card company, a credit union and a micro lender.

Since our first hearing this Congress on access to capital, President Obama has signed the Recovery Act into law. That legislation included key provisions that Ranking Member Snowe and I fought for to help jumpstart lending through the Small Business Administration. We made temporary changes to critical SBA programs, including 7(a) loans for general purposes, 504 loans for fixed assets, microloans and the SBA's largest venture capital program, the Small Business Investment Company program – as well as created a few new temporary loan initiatives.

We had five primary objectives:

1. To help unfreeze the secondary market for SBA loans, freeing up capital for lenders to make additional new loans;
2. To temporarily eliminate fees on SBA loans to make them more affordable for businesses and to ease cost of capital and profitability problems for the lenders;
3. To temporarily increase the guarantee on government-backed loans to as high as 90 percent. This will encourage risk-weary banks to lend more money to small businesses;
4. To free up more microloans and venture capital; and
5. To get emergency, short-term loans to small businesses having trouble making ends meet.

PROGRESS REPORT ON THE RECOVERY ACT

One of the primary responsibilities of this Committee is oversight to ensure that the provisions we passed are adequately implemented.

Three months ago, we passed the American Recovery and Reinvestment Act, and today we are here to look into what provisions of the Recovery Act have been implemented, whether they have been effective in spurring new lending, and when the other provisions will be up and running.

I'd like to welcome SBA Administrator Karen Mills. This is our first hearing with you since your confirmation last month. I look forward to your progress report on the implementation of Recovery Act small business provisions, as well as the $15 billion in TARP money that President Obama and Treasury Secretary Geithner have allocated to purchase SBA 7(a) loans to unfreeze the secondary market for SBA-backed loans.

According to an April survey by the National Small Business Association, only five percent of small businesses receive some financing from SBA programs. It is my hope that through the Recovery Act and future changes at the SBA, we can make SBA products more attractive and get more capital to small businesses. But while only five percent of small businesses report using SBA financing, these loans are very important to the spectrum of small business financing because they represent 40 percent of all long-term capital in this country. We need SBA programs to work now more than ever.

ALTERNATIVE SOURCES OF FINANCING

In addition to looking at SBA financing, today we will hear from representatives of organizations that provide small businesses with alternative sources of capital – credit cards, microloans, credit union capital and an emerging form of capital that is repaid as part of monthly revenue.

And their role is significant:

- Credit cards now represent the largest source of small business financing – 59 percent of small businesses now use credit cards. That number is up from 49 percent reported just five months ago. *[Chart Number 2, showing the percent of Small Businesses Using Credit Cards, attached.]*
    - This represents a serious trend for small businesses. This next chart *[Chart Number 3 attached.]* shows the trend for use of credit cards from 1993 when 16 percent of small businesses were using credit cards, as opposed to 44 percent in 2008 and as I previous showed, now 59 percent in 2009.
- Credit unions. There are almost 8,000 credit unions in this country that serve both small towns and large metropolitan areas. Yet, only a few more than 400 (about 5 percent) make SBA loans, including HOPE, a community development credit union, represented here today. I'd like to see more of our credit unions, particularly the smaller ones, making SBA loans. I don't think their participation will crowd out community banks; I think they are both important to easing the credit crisis on small businesses.

- Microloans. These mostly non-profit entities have seen their demand grow by as much as 75 percent in this economy as banks have turned down borrowers. In Louisiana, we have one SBA microlender, and they report that their lending went from five loans a year to five applications a week. We need more micro lenders and we need to figure out how to better support micro lenders like CDC of Long Island, here today.

WHAT WE LEARNED IN OTHER HEARINGS

I look forward to the upcoming testimony. Each of our hearings has been helpful to put in motion changes to policies to unlock credit for the nation's entrepreneurs.

We learned that loss or severe reduction of credit lines was probably the number one problem hurting small businesses in need of capital, and that lenders were doing it even when borrowers had never missed a payment. There are signs that the fee eliminations and higher loan guarantee passed in the Recovery Act are easing some of the credit burdens, and right now we are working on fairness for small business credit card holders.

We learned that the car and recreational vehicle industries were having problems meeting the size standards for SBA loans and that they needed floor plan financing. Less than two weeks ago, the SBA streamlined its 7(a) size standards so that up to 70,000 new businesses – including car dealers and suppliers – can participate in the agency's flagship loan program. This is the type of agility that the SBA needs to successfully assist America's small businesses. I commend the Agency for this change.

CONCLUSION

While the focus of today's hearing is on the implementation of the Recovery Act and alternative sources of small business financing, the focus of this Committee remains on jobs. With 80 percent of recent job losses coming from small businesses, we must redouble our efforts to strengthen small businesses – the engines of job creation.

Small firms pump almost a trillion dollars into the economy each year, create two-thirds of our nation's new jobs annually and account for more than half of America's workforce. They are the technology start-ups that produce cutting-edge clean energy sources, lifesaving medical advances and safer equipment for our troops. They are the construction companies that build our schools and our homes, and the businesses that fix our roads and our bridges.

I hope that we can use this hearing to dig a little deeper into what we can do – legislatively and through other means – to get capital into the hands of the business owners and workers who will lead this nation back toward economic prosperity.

I'd now like to turn to Senator Snowe for her opening statement.