



**SENATE COMMITTEE ON  
SMALL BUSINESS AND ENTREPRENEURSHIP**  
**Senator Mary L. Landrieu, Chair**

Opening Statement for  
Roundtable entitled: "*Small Business Access to Capital:  
Challenges Presented by Commercial Real Estate*"  
September 16, 2010 at 10:00 a.m.  
Room 428A, Russell Senate Office Building

*(As prepared for delivery)*

Good Morning and welcome to this roundtable entitled "Small Business Access to Capital: Challenges Presented by Commercial Real Estate." Since taking over as Chair of the Small Business Committee, providing greater access to capital has been one of my top priorities. We passed a groundbreaking small business jobs bill this year that addressed many of the credit concerns facing small firms. However, there is one issue that remains unsolved. It is impossible to address small business credit concerns without also discussing and addressing the ongoing issues with commercial real estate loans.

As some of you may be aware, the commercial real estate problem has been looming in the background since 2008. During discussions on Wall Street Reform and the financial crisis, many suggested that an impending crisis in the commercial real estate sector was around the corner. With more pressing aspects of the economy requiring our immediate attention, the commercial real estate issue was largely left untouched.

Approximately \$1.4 trillion dollars of commercial real estate debt is coming due through 2013. To give you context, that is about half of all outstanding commercial real estate, which, according to the Federal Reserve, is \$3.2 trillion. As you can see from the chart behind me, a significant amount of this debt is on the books of banks.

And even more pressing, according to the Federal Reserve, about \$338 billion is on the books of our community banks. Across America property values have dropped significantly in recent years and many borrowers will be unable to refinance those loans. More immediately, in anticipation of that crisis, many banks are holding back and lending less. This is a huge problem.

Let me be clear: on the Small Business Committee, we have already started work on this issue. In our Small Business Jobs Bill, which the President signed into law 6 weeks

ago, we tried to get at this problem by allowing refinancing of owner occupied commercial real estate debt through the SBA's 504 loan program. However, it is limited in size and in scope:

1. It is capped at \$7.5 billion, while we've just established that small banks are holding \$338 billion coming due through 2013; and
2. It is only for owner occupied commercial real estate.

While I strongly believe the refinance program is crucial and necessary, I do not believe it will solve the entire problem. Because the financial meltdown of 2008 required our full and immediate attention, the problems with commercial real estate debt have been largely ignored. Now that we have passed the Wall Street Reform bill, it is time to turn to assessing and identifying the commercial real estate problem.

#### How is Commercial Real Estate Connected to Small Business Lending:

Small businesses across the country have been repeating the same message to me for years: "it's getting harder and harder to get a loan." The ability of small businesses to access the credit markets is getting harder and harder. I hosted a Small Business Jobs Summit in Louisiana last month, and over 400 small businesses attended with the same message: "I need a loan."

Small business lending, in many ways, is directly affected by the commercial real estate environment. For example:

- 1) Small business across America either rent or own their business space. Whatever happens to the office building, shopping center, or warehouse where they work directly impacts these folks. If a shopping center is foreclosed upon, every tenant, from the doctor's office, to the shoe store, to the computer consulting firm to the deli are affected.
- 2) There is no financing available for new construction and development loans. This means parts of the economy are languishing because the construction project that would create 40 jobs at the construction site around the corner can't get financing. Approximately 7 percent of American jobs [approximately 9 million jobs] are tied to the commercial real estate market. This includes small construction companies, janitorial services, heating and cooling companies, landscaping companies, and leasing companies, to name a few.

That's 7 percent of jobs in an economy that cannot afford to lose one more job. For anyone who listened to me on the Senate floor during our Small Business Jobs Act debate, I am focused on three things above all else: JOBS, JOBS, and JOBS.

3) Small Bank Failures - There is a very real possibility that there will be many more bank failures in the next few years because of banks commercial real estate holdings. As I mentioned, the Federal Reserve estimates that of the \$1.4 trillion due, about \$338, or about one quarter of that debt is on the books of small community banks. There are currently over 800 banks on the FDIC watch list [out of a total of 7,830 banks nationally]. As of yesterday, there have already been 146 bank failures this year alone, and more are expected. To give some context, last year there were 140 failures for the full year. Once a bank closes its doors, the economic engine of Main Street is gone. Not only does everyone at the bank lose their job, but it makes it that much harder for any small business in town to get a loan

4) Finally, because the thousands of community banks know that in the next 3 years their borrowers will not be able to refinance their commercial real estate loans, they want to understandably PROTECT themselves from the possibility of failure. As a result, they are growing even more risk averse about lending. We are already seeing some banks hold back EVEN MORE from making loans. Now, I know many of you want to jump straight to discussing how to solve the problem. But first things first. In order to properly treat the problem, we must first accurately diagnose what that problem is. Our focus today is to explore the root causes of the issue. I encourage all of you to be as forthcoming as possible, identify every part of the process that is contributing to the problem: problems with appraisals, regulators, reduced values, general economy, and specifically how that affects small business lending.

This committee is the Congressional protector of small business across America, the very part of the U.S. economy that is responsible for two-thirds of new job creation. Jobs for hardworking families who cannot afford to lose them, jobs for people who have worked hard their whole lives, and now the office building, shopping center, or apartment building where they work is in trouble by no fault of their own. We must get in front of this issue.

After we build the legislative record, identify the problem, and urge action, I will work closely with my colleagues on the Banking Committee to resolve the problem to the best of our ability.

I would like to go around the table and allow everyone to spend a few minutes stating your name, what organization you are with, and your view of the commercial real estate issue and how it affects small business lending.

Following your statements, I will ask the first question to the group. If you would like to respond or offer input, please place your name card straight up and I will recognize you.

I will be joined here on the dais by my Small Business Banking Counsel, David Gillers, and by Chris Lucas and Jelena McWilliams of Senator Snowe's staff. Unfortunately, we have several votes scheduled for around 11:00 a.m., so I will stay as long as I can before I need to step out and turn things over to the staff.

Let's begin with Congressman Minnick from Idaho, who has been one of the strongest voices in the House for action on commercial real estate.