

**America East SBA Lenders Conference
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**As Prepared for:
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Administrator
U.S. Small Business Administration**



America East Lenders Conference – Breakfast Keynote
As Prepared for Karen Mills, SBA Administrator

Good morning, everyone. Thank you, Ron (Phillips), for being such a great partner both as a Certified Development Company and in our Entrepreneurial Development programs.

On behalf of my fellow Mainers, I want to welcome all of you who've traveled from out of state... or "from away," as we say here. Maybe at some point this week we can help you find your favorite lobster shack, though we all might have different opinions on where to find the best lobster rolls (and I'm not sure the First Lady would approve of the calories we'd consume in the process.)

Our Regional Administrator for this part of the country is a Mainer: Jeanne Hulit. She has great experience as a lender herself. She's also an expert in trade financing and economic development. Thank you for helping organize this event, Jeanne. I also want to thank our hardworking Maine District staff, led by Moe Dube... as well as our SBA resource partners who are with us.

And of course, it's great to be here with all of you: banking leaders, credit unions, CDCs, and others from the East half of the country.

This morning, I want to talk about the progress we've made together through the Recovery Act... the importance of the Small Business Jobs Bill now in Congress... and how we can continue to collaborate as partners.

As you know, in October 2008, credit froze. When the new Congress and Administration came in, we knew we had to act fast.

That's why the Recovery Act did two important things for our top loan programs. It increased the guarantee to 90% and reduced many of the fees.

This had two positive effects:

The increased guarantee helped bring 1,300 lenders back to making SBA loans who hadn't since at least 2007. This included about 100 credit unions. In fact, some of our new lending partners might be here today. We're glad to have you.

The waived fees helped business owners keep more of their own money to invest it back into their firms. That's good news, because we know that small businesses create about 2 of every 3 new jobs each year.

As a result of these two enhancements, we were able to work with lenders like you to approve 70,000 SBA Recovery loans.

And we proved to taxpayers that SBA Recovery loans are a great bang-for-the-buck. We took just \$680 million in Recovery dollars, and turned it into \$30 billion in overall lending support.

But the best part is this – our borrowers report that they're saving or creating hundreds of thousands of jobs because of Recovery loans. And I think that all of YOU deserve a round of applause for that.

But gaps still exist... And it's not just the small businesses that are struggling that can't find credit. Healthy small firms are still having trouble finding loans, too.

According to the NFIB, from 2003 to 2006, about 61% of small businesses had all their credit needs met. Today it's about 40%.

The good news is that Recovery loans have helped us maintain a flow of credit. The bad news is we ran out of money for these enhancements three months ago.

We've run out of money about 5 times over the past year. Each time, Congress stepped in because they saw how well this worked.

A few times, we ran out of funds before they acted, so we created an online "queue" – a stand-by list just like at the airport. This is for small firms who chose to wait in line for the possibility of the higher guarantee and waived fees.

Each time that we got more funding, we were able to get those loans approved in a matter of days.

Has anyone seen the queue? It's online. Today, the stand-by list has grown to about 1,000 small businesses who need loans now.

And we've heard anecdotally from people like you that there are even more of our applications filled out and just sitting on your desks – waiting for a possible extension.

So our weekly loan volume is down over 50%.

The message that you, your customers, the President and I are all sending is clear: Now is not the time to pull back.

We need to "build on what works" – by extending these Recovery Act provisions through this year.

Not only will the Senate bill extend our Recovery loans... It will help us fill even more credit gaps that exist in the lending market.

Let me give you a couple of examples.

One is working capital. How many of you have heard from a potential borrower, "My credit line got pulled and I can't find a working capital loan"? We have Express loans to help with that problem. The President has asked Congress to include a temporary increase on these loans from \$350,000 to \$1 million.

How about commercial real estate? A lot of small firms are owner-occupied: The dentist that owns his office. The manufacturer that owns her warehouse. We know that many of these mortgages are coming due for refinancing. We're asking Congress to let folks like you use the 504 program to refinance these firms, especially if they're good firms that haven't missed a payment and are creating jobs.

And we know we need permanent changes, too.

Specifically, our data shows that many of our borrowers are bumping up against our loan caps. We need to increase 7(a) and 504 loan sizes from about \$2 million to \$5 million. This will help local franchisees open up another location and create jobs. It will help manufacturers who need special equipment to increase production and drive innovation. It will help small exporters with that next big order from abroad (and I know you have a breakout session on this topic today). I should point out that larger SBA loans have actually performed *better* – with lower default rates – so this is a good deal for taxpayers, too.

And I'm not sure if we have microlenders here today, but the Senate bill will also support entrepreneurs who just need a little more help to get their new business up and running. The bill will increase SBA microloans from \$35,000 to \$50,000.

But we know that SBA programs and SBA loans can't fill *all* of the credit gaps that are out there. While our market share has probably increased over the past year, we're about 10 percent of the small business lending market.

We also need to reinvigorate small business lending in the conventional market, which is why we're supporting the Small Business Lending Fund – part of the Jobs Bill to be administered by Treasury.

How many of you are community banks? We know that Main-Street banks like yours do the lion's share of small business loans. The problem is that some smaller banks simply don't have enough capital to lend right now.

The 30-billion-dollar Fund will provide those banks with low-cost capital – as low as 1 percent – if they lend well beyond their 2009 levels. In other words, the Fund provides a strong incentive to increase lending among the hometown lenders who know the needs of small businesses the best. This is a smart way to help both borrowers and lenders, while using taxpayer dollars wisely to strengthen the economy.

Overall, the SBA loan expansions and the Lending Fund provide a strong one-two punch to reinvigorate small business financing...

As critical complement to that, the Small Business Jobs Bill also has some important tax cuts. These tax cuts are critical to helping small businesses grow and create jobs.

For starters, the bill will double the amount a business can write-off for equipment purchases from \$250,000 to \$500,000 through 2011.

It also restores first-year "bonus" depreciation through 2010.

In addition, entrepreneurs will be glad to hear that the bill eliminates the capital gains tax exclusion for those who purchase small business stock and hold onto it for five years. (This has been a major priority for the President.)

And for Americans who want to strike out on their own, this bill will double the maximum possible deduction for startups through this year.

The fact is, our President has already signed into law several tax cuts – 8 in fact, including 2 this year: The HIRE Act tax credits for small employers who hire folks who've been unemployed for at least 2 months. Affordable Care Act tax credits that are available this year for small firms that pay at least half their employees' health insurance premiums

And I should mention one other thing. Some folks are saying that letting the Bush tax cuts expire is going to hurt small business owners. It's a red herring. Here are the facts: Over 97 percent of business owners will keep their low rates under Obama's plan, which only allows tax cuts to expire for those making over \$200,000 individually or \$250,000 as a couple. In other words, we're protecting nearly all small business owners from these tax cuts that are expiring. Only a tiny fraction of business owners report that much income. And, again, we want even more tax cuts with the Jobs Bill.

Overall, both Republicans and Democrats should be able to agree that more tax breaks and more credit for small business owners is the right thing to do. Already, the U.S. Chamber of Commerce and the National Federation of Independent Businesses have voiced support for this legislation. And – by the way – the Senate bill is fully paid for in its current form – so it won't add a dime to the deficit.

The Senate has said this is their top priority when they return to Washington September 13. Small businesses are glad to hear that. We hope Congress will put a bill on the President's desk as quickly as possible, because we know you have customers waiting for it.

They're ready to open their doors, to expand their operations, and to put more hardworking Americans back to work.

Finally, we're making a number of investments in our agency – so that the SBA can be the best possible partner for you. In our new 5-year Strategic Plan, our number 2 goal – just under “growing businesses and creating jobs” – is “building an SBA that meets the needs of today's and tomorrow's small businesses.”

We're serious about improving our customer experience to serve you and your borrowers better. That's why we have more training opportunities for our field staff who want to work more effectively with new and existing SBA lenders. That's why I created a Simplification Task Force to find ways to strengthen our products, streamline our services, and speed up our turnaround times. That's why we're creating more clarity and improvements to our SOP. And that's why we're redesigning sba.gov to help you and your borrowers find the information you need more quickly than ever. I've seen the mock-up. It's a big improvement.

I know you'll hear more about “What's working and what's not” in the next panel....
... So let me close by simply saying “thank you” for continuing to work arm-in-arm with us.

You are playing a key role in our economic recovery as an SBA lender.

Small businesses are doing the heavy lifting. They've reinvented themselves. Many of them are gearing up to expand and lead us out of this recession as they've done time-and-time again throughout U.S. history. And we know that they are the ones who will actually create the jobs, not us.

So our job is to give them all the tools they need to grow, succeed, innovate, and keep America competitive around the globe.

Thank you for being here at this conference to renew our joint commitment to doing just that. Together, I know we can help our small businesses continue to lead the way in the 21st century. Thank you.

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