

**“Strengthening the Lending Environment
for America’s Small Businesses”
Federal Reserve Board Forum:
Addressing the Financing Needs of Small Businesses
July 12, 2010
Washington, DC**

**Keynote Remarks As Prepared for:
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Thank you, John. Thanks to everyone for being here to discuss small business financing and the critical role it plays in creating jobs and leading us to full economic recovery. I want to thank Chairman Bernanke and our partners at the Federal Reserve.

Early this year, they approached SBA about holding 40 Roundtables with small businesses and lenders around the country. We were happy to help. We also held a conference call with bank examiners to explain how SBA loans work, why they're important, and how to follow the Fed's guidance... because some of our lending partners needed clarity. Overall, this is a great partnership, and I know it will continue to grow.

The reason it's so important that we are tackling this issue today is clear. We all know the facts: Small businesses create about two of every three new jobs each year... More than half of Americans own or work for a small business... Small businesses continue to drive American innovation and competitiveness in the 21st century.

The biggest challenge facing small businesses right now is that too many good, creditworthy borrowers still can't find the capital they need to grow and create jobs.

According to the NFIB, from 2003 to 2006, about 61% of small businesses had all their credit needs met. In 2009, that dropped to about 40%.

Big business can tap into other sources of capital. But small businesses rely heavily on bank credit to start, sustain, and grow their business. That's why they're still hard-hit by this credit crunch.

Today's goal is to make sure small businesses can get adequate financing in order to lead us out of this recession – as they have in the past.

I think Chairman Bernanke put it best last month at the Roundtable in Detroit. He said that meeting the needs of creditworthy borrowers is – quote – “good for the borrower, good for the lender, and good for our economy.” I couldn't agree more.

So this morning, we heard from a panel on Private Sector Lending. I know there were some good ideas presented. There is some marginally good news in that area. For the first time since 2007, surveys show that lenders nationwide have stopped tightening standards. And I've heard a few bank CEOs who are stepping up and making public commitments to reinvigorate their small business lending operations.

But I've also traveled the country this past year, and what's clear to me is that America's 27 million small businesses need much more – and they need it now.

And I want to make one point right up front. Contrary to popular belief, it's not just the small firms that are struggling to survive that need these loans. It's also the small firms that are seeing growth despite the current economy. Some firms are ready to expand and hire more workers. If these healthy, creditworthy small businesses can't get loans to help them create jobs, something is very wrong.

So what can the SBA do to help? Well, let's start with how far we've already come.

A brief anecdote.

A couple of weeks ago, I was in Seattle at a pet food store called Mud Bay. They specialize in natural foods for cats and dogs. In 1999, they had \$1 million in revenues and 15 employees. Today, after 4 SBA loans at key moments in their growth, they now have \$24 million in revenues and 170 employees. It's a great success story.

As you know, the SBA works with several-thousand banks each year. We guarantee a large portion of each loan, sharing risk to help lenders give SBA loans to entrepreneurs and small business owners.

Mud Bay's most recent SBA loan was made possible by the Recovery Act, which allowed us to raise the guarantee to 90% and reduce our fees in our top two loan programs – 7(a) and 504. That's how Mud Bay got \$200,000 in working capital from Columbia Bank to hire more workers.

There have been literally thousands of stories like this over the past 16 months. Over 69,000 SBA Recovery loans have been made with the help of the increased guarantee and waived fees.

This shows the commitment of a pro-business, pro-growth Administration, and – on top of that – taxpayers get an excellent bang for the buck. We've turned about \$680 million taxpayer dollars into more than \$30 billion in lending support. And borrowers are reporting that they're saving and creating hundreds of thousands of jobs as a result of these loans.

That's the good news.

The bad news is – the Recovery loans are so popular that we ran out of money about a month ago. As a result, our most recent data shows that SBA lending has dropped by about 60% in the past few weeks. The President has consistently called on Congress to extend these loans through this fiscal year, and our message is clear: Now is not the time to pull back on Recovery loans for small businesses.

Good, creditworthy businesses still need these loans to grow and create jobs. In fact, over 500 are waiting in a queue right now for the possibility of getting the higher guaranty and waived fees.

And our lenders here today agree. In the 40 outreach events that led up to today's forum, SBA lenders cited the Recovery Act in helping sustain their levels of small business lending.

In fact, over 1,300 lenders have already come back to the SBA who hadn't provided our loans since 2007. We want to build on that.

But extending the SBA's Recovery loans through this year is just one of many targeted steps we need to take as part of the President's Small Business Jobs Plan...

For example, many small businesses need more working capital to restock shelves. Some of them are seeing an uptick in demand. They're looking to the SBA for help with loans that can be turned around quickly, such as our Express loans. Right now, Express loans are capped at \$350,000. We want to raise that, temporarily, to \$1 million.

Also, many owner-occupied small businesses have their own commercial real estate mortgages that need to be refinanced in the next year or two. Again, these aren't necessarily small businesses that are struggling. Many are turning profits. We need these healthy small firms to keep their doors open and keep creating jobs... That's why we want to temporarily open SBA's 504 program to allow for refinancing.

And we're also calling for very important permanent changes to SBA's top lending programs. For many years, the cap on SBA loans in our top two programs has sat at about \$2 million. The problem is, many small business owners simply need more: manufacturers who need specialized equipment... small exporters gearing up for that first big order from abroad... franchisees who can bring jobs to a growing neighborhood... small firms who are scaling up to compete for a federal contract. Let's give them what they need to create the jobs America needs... Let's increase the maximum size on SBA loans from \$2 million to \$5 million (While we're at it – let's increase microloans from \$35,000 to \$50,000).

But SBA loans, alone, can't fill all the gaps in small business credit that still exist.

Other public-private partnerships can help, too. The proposed Small Business Lending Fund is the most important example of this. The Fund will provide low-cost capital to the "Main Street banks" down the street – not the big guys. These banks didn't contribute to the financial meltdown, although many of them suffered greatly from it. And the Fund is set up in a smart way: If the Main Street bank goes beyond their 2009 small business lending levels, their interest rate can be as low as 1%.

The fund is for \$30 billion, but the CBO estimates the cost of the program over 10 years to be only about \$3 billion, because the money gets returned. And we know that lenders have the potential to create a multiplier effect – leveraging these funds several times over. (Some say this could be up to \$300 billion.)

This Fund and the SBA program expansions and enhancements have great potential to create a one-two punch that will bolster small business lending in the short term.

And they share some key principles: Let's build on what works. Let's do this quickly and effectively. And let's give taxpayers the biggest bang for their buck.

So we've talked about how we can immediately address gaps in credit....

And my last point today is that we also need to address the gaps in data.

In order to continue to monitor and ensure the health of small business lending over the long-term, we need timely, meaningful, and actionable data.

Right now, we're working very closely with regulators – as well as the private sector –to tackle this issue. Currently, there are very few existing data sets available to help us paint a clear picture (and there is also a lack of consistency in reporting).

Some reports only show data for loans outstanding under \$1 million, and they only do that once a year. Other reports show small business loan originations, but only from the big banks, and, again, only once a year.

Now is the time to fix this problem. I'm glad there is a panel this afternoon that will address this topic.

With better data, we'll be able to more accurately show what causes increases and drops in small business lending. We'll be able to answer questions like: How much of the drop in lending can be attributed to tightened lending standards? How much has demand for loans from small business owners decreased? And how do these factors interact and interplay to affect the level of small business lending as a whole?

On the demand side... we're looking for better information such as loan applicant characteristics and value of credit requests.

And on the supply side: We're looking for more data on loan origination – not just balance sheets, which don't reflect the true level of small business lending. We're looking for quarterly data – not annual – so that we can be more nimble in meeting the shifting needs of small businesses. We're looking for data that is segmented by loan size so that we can track whether small businesses need smaller or bigger loans. And we need data that will illuminate whether underserved markets are getting access to capital to strengthen their local economies.

This data will help create the best possible policies and programs that adapt to changes in the economy. And I'm not just talking about the SBA or federal agencies.

This data will also help banks, credit unions, CDCs, CDFIs and others as they make decisions surrounding their small business loan portfolios and plans for the future.

We'll have a better picture of what's happening in the market... what's working in the field... and most importantly: We'll be empowered to make the right decisions that put more resources in the hands of entrepreneurs and small business owners.

And I should point out that we're keeping in mind that we shouldn't put an undue burden on lenders or other regulators to gather this valuable data.

So, we'll continue to work with Congress and all of you to find the right solution to this problem.

Truly, we must all work more closely than ever before to address the needs of small business financing.

Now more than ever, entrepreneurs and small business owners need us to reopen the doors to capital.

They've done the hard work to reinvent themselves in a tough economy. Many of them are gearing up to expand and hire more workers. And they're ready to once again lead us out of recession, as they've done time-and-time again throughout American history.

They're up to the challenges that lay before them. The question is: "Are we?"

Thank you all for being here today, and for showing that the answer to that question is a resounding "Yes."

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