SUBCOMMITTEE ON FINANCE AND TAX FIELD HEARING ON EXPLORING WAYS FOR SMALL BUSINESSES TO ACCESS CAPITAL

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES
HOUSE OF REPRESENTATIVES

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SUBCOMMITTEE ON FINANCE AND TAX FIELD HEARING ON EXPLORING WAYS FOR SMALL BUSINESSES TO ACCESS CAPITAL HELD IN SALEM, OREGON

Tuesday, August 4, 2009

U.S. House of Representatives,
Committee on Small Business,
Washington, DC.

The Subcommittee met, pursuant to call, at 8:00 a.m., in the Senate Hearing Room, Courthouse Square, 555 Court Street, N.E., Salem, Oregon, Hon. Kurt Schrader [chairman of the Subcommittee] presiding.

Present: Representative Schrader. Mr. SCHRADER. Well, we'll try and get started here almost on time. We're ahead of Washington, D.C., time already, because all the members that are attending are here. That would be me. Usually it takes a half hour to get this crew all together. Appreciate everyone coming and being in attendance. Great turnout. That's very, very good.

This hearing is about jump starting our credit market again, and identifying problems that small businessmen and women are facing in my state, Oregon. But I think we're probably very reflective of the issues that we're seeing around the country.

It's not a general type of public hearing, so we have invited testimony only. But if you have other issues you want our congressional office to talk about or respond to you on, please feel free to submit some information. Jon Pugsley is the lead staff person on this particular hearing. Be glad to take that information to try and get back to you, because there is a lot of issues going on in the country right now.

But as chair of the Subcommittee on Finance and Tax for the Small Business Committee in our United States Congress on the House side, I take real pleasure and appreciate the fact of everyone showing up today, and particularly our witnesses here. That's going to be really exciting. So I'm going to call the subcommittee meeting to order, and I can make a maybe not so brief statement, and then we'll get to our witnesses here and line out the rules of engagement, if you will.

Our nation's economy is built on the foundation of these small businessmen and women. Small firms are among the nation's largest suppliers and our most reliable job creators. Most Americans, myself included, get their first job through a small business. Not only do they serve as the basis for local commerce, but entrepreneurs also, as we know, contribute to local nonprofits, charity groups, churches, and other really worthy organizations.

Small businesses are nothing short of the glue that holds our communities together on a day-to-day basis. Here in Oregon is no different. Almost 98 percent of our state's employers can be classified as small businesses. Together they comprise close to 60 percent of the private sector jobs in our state.

Today, regardless of where a small business is located, here in Salem, Oregon, or across the country in Salem, Massachusetts, they all face a common challenge, and that's trying to access capital. But simply, when a family-owned food cannery in Keizer wants to expand its operations and hire more workers, it requires a loan.

When a high-tech entrepreneur wants to develop new markets, new products, he needs initial investments to get started. And when a construction company wants to purchase additional equipment, it takes capital. Investments like these will be what drive our economic recovery, not the government.

During today's hearings we will examine the challenges Oregon's businesses are experiencing and discuss how to help them. Like entrepreneurs around the country, Oregon businesses often find solutions through the Small Business Administration. Last fiscal year, through it's 7(a) and 504 programs the Small Business Administration helped almost 1,200 Oregon businesses get loans totaling $270 million.

That's money to help firms keep their lights on, the doors open, make the payroll, and hopefully hire some workers. The SBA's lending programs are especially important during economic downturns when credit is scarce. When the private capital markets don't meet small business's needs, these initiatives are meant to fill in the gaps and get credit flowing again.

Unfortunately, that doesn't seem to be happening that much this recession. Across the country 7(a) loans are down about 30 percent. Here in Oregon the drop-off has been particularly acute, off by about 37 percent. Today's hearing hopefully will explore some of the reasons for that.

The Recovery Act which Congress passed and the president signed into law in February has taken some steps to address these problems. By making loans less expensive for borrowers, by increasing the percentage of the loan that the SBA will guarantee, this new law is hoping to help facilitate private lending to small businesses. Since the passage of that act, Oregon businesses have received 232 loans, totaling over $53 million, but there is a long way to go.

The act also established a new ARC loan program, which has recently been put into play, in June I believe. It enables small businesses to take out interest-free loans of up to $35,000, bridge loans, in effect. And under the program small businesses will have five years to repay the loans, and the SBA guarantees 100 percent of the loan to entice the lender to make it.

Congress has done a lot in recent months to help businesses that are shedding employees and teetering on the edge of bankruptcy. My hope is that this program will actually help the small man and the small woman in their businesses. So far Oregon businesses have received $500,000 worth or ARC loans, and this program, as I said, was launched just in June. During this hearing I'd like to get some feedback on how well that program is working and what we can do to improve it.

When Congress reconvenes in September, I expect the Small Business Committee to begin consideration of legislation to help unfreeze our credit markets as a result of a lot of the testimony we're going to have here today. Last month our subcommittee kicked off that process. We had hearings in Washington, D.C. But you can only learn so much in Washington, D.C., and I thought it was important to get home and talk to all of you.

That's why I'm excited to talk to the local businesses here in Oregon about our capital needs. We want to know what's working, and more importantly what's not, what changes we can make to make the programs more effective. And so I'm looking forward to hearing from each and every one of you.

With that, we're going to go to the witnesses. We have basically three panels here. The first panel is going to talk a little bit about the problems, or a lot a bit about the problems that we're facing here. We're going to hear from the lenders a little bit in the second panel, because they also face problems and have opportunities.

And then the last panel in particular we're going to be trying to get at solutions. But certainly anyone at any time in this hearing that's testifying feel free to step up and give us some of the idea of the solutions that we could expect. And make sure you turn off your pagers. Sorry about that. The ground rules.

We'll move to testimony from the witnesses. You have only five minutes, I'm sorry, to make your statement. We'll try and give a little leniency. Since we're here in Oregon, we can do that. But I want to give everyone a chance to make their case, and I'd like to ask a few questions to kind of tease out some of the threads of what's going on.

We don't have any little timers—or do we have any timers here? So there is no clock here. There is a clock behind us. Tell you what I'll do. I might just kind of give you a heads up if you are getting to one minute. How is that? Is that all right?

I'll just kind of hold up one finger, because I don't want to disrupt your testimony. This finger (indicated). That means you have got one minute left. That way you can kind of get down to it here.

And who is going to be my timer, actually?Michael. Thank you very much. I'd like to recognize Michael Day has come out from Washington, D.C. He's actually the lead committee administrator for the Small Business Committee. So it's really an honor to have him out here and observing what's going on. He helps us look moderately intelligent when we draft our legislation, so it's very, very nice that he's taken the time out of his day to come here.

And then Ethan Pittleman, who is standing next to him, working with Jon Pugsley—where is Jon Pugsley? Jon Pugsley is in the back over there—are our two small business coordinators. Ethan does it in Washington, D.C., and Jon does it here. So those are your two local contacts when I'm not around. So I really appreciate all the work they have done here.

So with that, let's go to our first witness. It's going to be Mr. Harry DeWolf. He's here testifying on behalf of the Small Business Association. He's the district director of the Portland district office, which is responsible for the delivery of SBA's programs and services through most of Oregon and southern Washington.

Prior to joining the SBA in 2005, he served as president and chief of operations of AEC Technical Publications, which itself was a former SBA business. He also served for over twenty years in the U.S. Navy—thank you for your service, sir—as a supply officer, and he's a graduate of Oregon State University and is a regular speaker on the entrepreneurial leadership at Oregon's colleges and universities.

Mr. SCHRADER. I thank you for coming to Salem, and look forward to your testimony. Please proceed.

STATEMENT OF HARRY DEWOLF

Mr. DEWOLF. Thank you, Congressman. Congressman Schrader, thank you very much for inviting me to testify today. As the district director of the United States Small Business Administration's Portland district, I have the responsibility for the central and western 30 counties of Oregon and four southwest counties of Washington state. My staff of ten is working very hard with our banking partners, our 21 small business development centers, and six chapters of SCORE volunteers throughout our community, along with our community leaders, to assist the nearly 300,000 small businesses in the Oregon state.

With the assistance of our partners, I am very proud of the results we have been able to consistently achieve, even in these challenging economic times. To date, SBA has guaranteed 656 SBA loans, valued at $149 million in the Portland district. That's as of the end of July. Over fifty percent of these loans went to veterans, women, and minority small business owners, and 22 percent of the 656 went to our rural communities.

Thanks to the funding and program changes provided in the America Recovery and Reinvestment Act, or Recovery Act, the SBA has been working to unlock the small business lending market and get much needed capital flowing again to America's small businesses. Nationally and locally the results are growing in positive trends. Nationally, loan volume has increased more than 45 percent as of SBA has supported $7.4 billion in small business lending, with the approval of $5.4 billion in loans since February 17th.

Weekly loan volume is up 45 percent compared to the weeks preceding the Recovery Act. In Portland the loan volume has increased 40 percent during that same time period. And last month our district achieved the highest number of loans processed in a month since August of last year, with 89 loans valued at $23 million, all to Oregon small businesses.

Nationally, lenders are returning to SBA programs. From February 17 to July 17, more than 750 lenders that had not made a loan since October of 2008 made 7(a) loans. Of those, more than half had not made a loan since 2007. Broad support to small businesses, a significant share of loans supported by the Recovery Act funding has gone nationally 26 percent to rural, minority owned 20 percent, women owned 19 percent, and veteran owned 9 percent.

Our secondary markets have seen an uptake in the 7(a) loans. After months of reduced activity and lower premiums, the SBA 7(a) secondary market is picking up and premiums are beginning to recover. For example, nearly $360 million in 7(a) loans settled or were sold in the secondary market in June, lifting the secondary market closer to historic levels and providing lenders with additional liquidity in increased lending.

The ARC loan, or America Recovery Capital loans, are reaching small businesses. As of July 22, SBA has approved more than 700 ARC loans, totaling $22.8 million, and weekly loan approvals are consistently increasing nationally. In Portland, as of yesterday there have been 17 ARC loans made so far, totaling $575,000.

Some other SBA recovery programs, to date SBA have implemented programs from the nearly $730 million given to us from the SBA Recovery Act, including eliminating and reducing fees for borrowers on 7(a) loans and borrowers and lenders of the 504 loans, by raising the 90 percent guarantee on 7(a) loans from the original 75 and 85 percent, more than doubling the surety bond guarantee from $2 million to $5 million, a much needed increase, providing small business owners with another tool to help them compete for federal construction and service contracts.

Additional funding available from micro lending, the SBA has used fiscal year '09 budget funding for the micro loan program to increase Portland micro lending funds to $1.1 million, from original $115,000. We are also working very hard to expand our network on nonprofit micro lending intermediaries. We're providing refinancing opportunities for eligible expansion projects in the 504 program, expanding access to capital for small businesses by increasing funding levels of the SBIC program, and the SBA has implemented two new programs that complement the Recovery Act measures, expanding the 7(a) loan eligibility to more than 70,000 small businesses with a temporary alternative size standard; and finally, the offering of inventory financing for eligible automobile, recreational vehicle, boat, and other dealerships under the new dealer floor financing pilot program.

These are challenging times for everyone. These are also times of opportunity. Many business owners I speak to are taking this time to refine their business model, rewrite their business plan, streamline their business practices, get rid of old inventory, and sometimes change their businesses altogether.

Many of today's most successful companies were created and have thrived during some of the most economic downturns. The biotech and computer industry were created when the stock market was down nearly 50 percent and inflation was headed into double digits. In the early '80s mortgage rates were near 21 percent, yet E-trade, Sun, AutoDesk, Adobe, AE, and Semantic were created. These companies did not sit on the sidelines. Their founders saw needs and opportunities and filled them.

Mr. SCHRADER. You might want to wrap up, Mr. DeWolf.

Mr. DEWOLF. Companies such as McMenamins, Columbia Sportswear, Mo's Chowder, and DeMarini Sports are just a few Oregon companies the U.S. Small Business Administration has assisted, either through its loan guarantee programs or through its strong network of partnerships to provide counseling and training.

Thank you again, Congressman Schrader, for this opportunity. The Small Business Administration appreciates your leadership on the Small Business Committee, and we look forward to working with you and your staff to support the nation's small businesses.

Mr. SCHRADER. Thank you very much, and thank you for all the work you are doing. You are going to be busy, I've got a feeling, the next few years.

Mr. DEWOLF. It's been busy this year.

[The statement of Mr. DeWolf is included in the appendix.]

Mr. SCHRADER. Okay.

Our next witness is Ms. Sheryl Southwell. Ms. Southwell is here to testify on behalf of Specialty Polymers, Incorporated, which manufactures more than 250 different water-based polymers for house paints, wooden deck coatings, roof coatings, cement coatings, and wood glues.

Specialty Polymers is a family-owned small business based in Woodburn, Oregon, with another facility in Chester, South Carolina, so it's a national business. It was recognized by the Austin Family Business Association, a unit of Oregon State University's College of Business, as the family business of the year in 2004. Congratulations.

Sheryl is the second generation of Southwells to serve as president of Specialty Polymers, as her father, Raymond ran it for 35 years. Sheryl also recently was the executive board chair of the Strategic Economic Development Corporation, also known as SEDCOR, and currently serves on the board of the Woodburn Chamber of Commerce. We welcome you and thank you for coming.

STATEMENT OF SHERYL SOUTHWELL

Ms. SOUTHWELL. Thank you, Congressman. We are a manufacturer based in Woodburn, Oregon, and for more than 40 years we've been supplying water-based polymers to companies, like you mention, make products such as house paint, deck coatings, concrete coatings, as well as wood doors and windows. As the recession hit, our business was hit. Over the past two years we have had to cut, cut, and cut some more. At the beginning of 2007, we had 144 employees. As of today, we have 83.That is 61 people, 61 family wage manufacturing jobs that are gone.

And quite frankly, at this point in time I don't know when they are going to be back, if ever. We don't spend any money, any money unless it's absolutely necessary. I don't care if it is for raw materials, printing of literature, buying promotional products, taking a customer to dinner, or the cleaning of our office building, if it is not critical to our business, we don't do it.

There is absolutely nothing, zero, being spent on equipment. No pumps, no piping, no stainless steel mixing tubs. In addition, we've had to suspend donations to local agencies and causes that we've been supporting for years.And we know that the lost jobs have an impact on our community. We know that not buying goods and services from the local suppliers impacts our community. We know not being able to donate to local agencies impacts our community. But this is the reality of the economic climate today.

Business requires access to money. The news tells us daily, if not more often than that, of the challenges of the credit markets. It's hard to get and it's more expensive. We've worked closely with our bank, but it's cost us more money than it's cost us in the past. Several years ago we looked at getting an SBA loan to finance a particular project. This was done in conjunction with our bank. And I have to say it was a bit discouraging.

The SBA provided no solutions to manufacturing business that was our size. There were no options. Based on our size, the capital intensive nature of our business and the requirements, it made it impossible for us to secure such a loan. See, Specialty Polymers is classified as a small business, but we just don't seem to fit the profile of what the SBA was designed to serve.

As you mentioned in your announcement for this hearing, small business provides jobs to 57 out of every 100 working Oregonians. These small businesses are very personally committed to their communities. They buy from local suppliers. They pay taxes. They donate to the local charities and the local agencies. When small businesses suffer, it's our communities that suffer.

I know many small business owners, and I have to include myself in that group, feel that the bail-outs and the stimulus plan have passed them by. There was nothing in these plans to support small businesses or small businesses of our size. If we're going to work our way out of this recession, small business must be healthy, and there needs to be a clear understanding that small businesses come in different shapes and sizes. The SBA needs to be able to provide solutions for some of the bigger small businesses. Thank you.

[The statement of Ms. Southwell is included in the appendix.]

Mr. SCHRADER. Very good. Thank you. Very good testimony. You struck a good chord.

Well, let's go back to Jim Brunberg. Are you recovered enough to start, sir?

Mr. BRUNBERG. I apologize for my being late.

Mr. SCHRADER. No, no, no. We understand. It's tough to get around sometimes. The only good news I can say is it's better than Washington, D.C., traffic. I don't even own a car out there.

Mr. BRUNBERG. I can't blame the traffic, and I'm not familiar with formalities with which I should address the panel or whom I am addressing.

Mr. SCHRADER. You are actually addressing me.

Mr. BRUNBERG. Oh, hello.

Mr. SCHRADER. What I'll do is introduce you, and then you make your statement, and then after everyone on the first panel, we have three panels, makes their case, then I'd like to ask a few basic questions, actually, and we'll have the next panel come up. And then you are off the hook, then, at that point in time.

Mr. BRUNBERG. Okay. Thank you very much.

Mr. SCHRADER. So I'll just introduce Mr. Jim Brunberg. He's here to testify on behalf of Mississippi Studios, a popular night club and lounge based up in Portland. Since its founding in 2003, Mississippi Studios has brought such famous performers to its stage as the Indigo Girls, Willie Nelson, Huey Lewis—pretty good.

Jim is also a music performer who has traveled extensively, and somehow he found time to complete a law degree from Lewis & Clark. That's impressive. Mississippi Studios is also one of the first businesses in our state to receive an ARC loan from the SBA. That loan was created by the American Recovery Reinvestment Act, provides up to $35,000, zero interest, 100 percent SBA guarantee, for very short-term relief for small businesses.

I'm very interested in your testimony. Please proceed.

STATEMENT OF JIM BRUNBERG

Mr. BRUNBERG. Yeah, I'll try to be brief. I wrote this down to just sort of explain how the ARC loan helped us. I own and operate Mississippi Studios Concert Venue, a small business in North Portland, in the recently economically redeveloped historic Mississippi commercial district. I employ 18 people in the historically risky, volatile, yet culturally important arts industry. We underwent a seven-month renovation in 2008 in order to expand to an economically sustainable size.

Even though the big artists that you listed have played our venue, we were just an 85-seat, tiny, tiny place, sort of a living room concert series. But we would appeal, using my music business connections and the recording services that we offered, to pull in some of the larger artists. But mainly it was about bringing music into our community, which was pretty much devoid of that until 2003.

So we underwent this renovation and expansion and established a food and bar profit center that would hopefully support our main product, which was live music. But the timing of this expansion turned out to be unfortunate. The fuel crisis in the summer of 2008 caused building expenses, especially steel and cement, to almost double what they had been a few years earlier.

Other unforeseen building expenses included the necessity of having to move our water, sewer and sprinkler lines, all of which involved separate digs, street blockages, delays and extra fees paid to the city. Once we expanded and reopened in March 2009, the economy turned sour or was in the middle of a downturn, and we faced a dearth of available touring vans, patrons and sponsorship money, the three main components of success in the industry.

Although the spring months went fairly well, summer, the dark months for indoor music, literally came early and cast a longer, darker shadow on our business than we had anticipated. I tried in vain to capitalize our efforts to get through the summer, seeking traditional funds. While the hope of support from the PDC, the Portland Development Commission, presented a distant light at the end of the tunnel, immediate funds did not seem attainable to help us through the short term.

Albina Bank had procured us an SBA loan to fund the core of our construction budget, so naturally I searched there for some summer capital, and was at first turned down. But when the ARC program came about, I was informed that there might be some relief for small businesses suffering from the economic crunch. The ARC loan we received came just in time for us.

There was very little bureaucratic friction, and the paperwork seemed sensible and easy to understand. The loan funded quickly, and literally kept our doors open for the summer, kept my workers employed, and kept our business open as a magnet to the economically redeveloping neighborhood. That's it.

[The statement of Mr. Brunberg is included in the appendix.]

Mr. SCHRADER. Very good. Very good.

Thank you. You made it under the five minutes, too. You get an extra gold star for that. Well, thank you. Thank you very, very much. Good testimony.

Well, our next witness is Ms. Wilda Parks. She's here testifying on behalf of the North Clackamas County Chamber of Commerce, of which she is president and CEO for almost eleven years. That's very good. You are very nice to stay with us that long. She's previously served in California, in the Chamber of Management, where she completed the six-year program of the United States Chamber Institute of Organization Management in 1989.

She has also been recognized for her entrepreneurial leadership by numerous organizations. Wilda was awarded the Russell E. Petit Excellence in Leadership Award from the Western States Association Chamber of Commerce Executives, and was named one of the top ten business and professional women of the year in California Central Valley in 1966.

She also serves on numerous boards in Clackamas County, ranging from economic development, crime reduction, to conservation efforts. In her spare time—I don't see how you have any of that, but in your tiny bit of spare time she also founded the New Century Players, a Milwaukee area community theater group. Look forward to hearing all about it. Thank you.

STATEMENT OF WILDA PARKS

Ms. PARKS. Thank you. Thanks for the opportunity to speak today on behalf of small business in the metro area, and in fact in the state of Oregon. The North Clackamas County Chamber of Commerce represents over 600 member accounts, with over 26,500 employees in the North Clackamas area. Our main goal as the chamber of commerce is to ensure a strong local economy. Almost 70 percent of our membership, similar to many business associations in Oregon, is small business, with less than 25 employees. Only 7 percent of our membership have 500 or more employees.

There are many factors that, working in synergy, assist in the development of a strong local economy. As the backbone of the economy, small business plays an integral role in that development. But as small business struggles to meet the demands of today's world of competition, technology, shortages of qualified labor pools, and financing, the dangers to all aspects of our communities grows greater.

It's difficult for business to flourish while dealing with all these factors, and almost impossible if any one of them overrides the others. Without access to capital to meet payroll, purchase raw materials, or for a new warehouse where more jobs could be created, newer expanded office, or something as seemingly simple as a newer enhanced telephone system, small business withers; and, in turn, our local economy struggles more. The system falls apart.

This is a time when stepping up both the borrowing process and the opportunities are needed. With the rewriting of the Small Business Administration authorization bill, there is opportunity to redefine lending procedures while also seeking innovative ways for business to access funds they need.

A business person should not have to max out their personal credit card to be able to run their business successfully, nor use their life savings to expand a successful product line. We know that there are many programs available right now, both on the federal and the state level, but are they enough, and is this an opportunity now to see what else Congress can do to help with that.

According to "USA Today," four in ten small business owners are still not able to get the financing they need to run their business. That's a marked increase over nine months ago. Banks have not yet loosened the strings on loans, even when backed by SBA or state programs. In our chamber alone, I can tell you of a transit-oriented development product providing housing for a new breed of commuter who wants to live near where they can take transit to job sites that almost wasn't constructed because of a lack of financing.

After months of exhaustive efforts for a program that was fully approved and partially financed by state funds for transit development, this company was able to find out-of-state bank financing to secure this project. This one project will mean development and construction jobs, housing, a new way of life for dozens of residents and future residents, while it also helps meet our state and federal guidelines for reduction of emissions.

Another business, a health club, finally found financing for an expansion of their facility, adding new opportunities for healthier life style for residents of unincorporated Clackamas County. Then there is the cheesecake baker who uses her home kitchen to turn out hundreds of the most incredible cakes, and who currently is unable to get financing to open her store-front shop.

From manufacturers to warehousers who want to extend, to add machinery, add jobs, add technology, to the silkscreener and the life style coach who want something other than a home-based business, there is a need for additional financing opportunities.

Too many of our businesses are supporting their livelihood by maximizing their credit cards, paying large payments with exorbitant interest rates, and facing declining lines of credit. Not enough banks are yet willing to make loans to small business or even maintain their credit and loan agreements.

Dr. Thomas G. Jones, professor at Marylhurst University and Clackamas Community College, instructor for the Clackamas Small Business Development Center, and noted futurist, says, "Small business is a vital cog in the economic engine of the United States economy, and a vibrant source of innovation."

"But it's more than that. For millions of Americans, their small business feeds the soul, energizes the intellect and pays the rent. And even beyond those satisfying elements, small business provides a canvas for self-expression, a harbor for humanity in an increasing automated and impersonal world."

"However," Jones goes on to say, based on his research and abilities to understand the dynamics, "this will be the first time in economic history that small business is not leading us out of a recession." Due to the lack of access to financing and a lack of relief for toxic assets, the TART programs for small business, each small business deals with 16 other small businesses. It's a domino effect.

I submit to you, Congressman Schrader, we cannot permit this failure to happen. We cannot permit this spiral of loss. Congress has an opportunity now to write the future differently, and I urge you to take a lead in crafting a small business financing plan that provides opportunity for all and access to those who need it. Let's let small business lead us.

[The statement of Ms. Parks is included in the appendix.]

Mr. SCHRADER. Very good. Very, very good. I appreciate the testimony. And a lot of problems that we're facing right now—I guess I'd like to go to Ms. Southwell first, if it's all right.

You talked about the problems with your particular business and the size of your business and SBA not matching up exactly. What were some of the problems you faced and what would be some of the solutions, based on your experience?

Ms. SOUTHWELL. You are talking about the problem we faced back when we were looking at getting the loan?

Mr. SCHRADER. Yes.

Ms. SOUTHWELL. It was the size of the loan for the project, that we were looking at bringing out a new product line, and we needed some equipment to go with it, and the size of the loan needed to support that new equipment. It didn't fit within the profile of what the bank could work with the SBA. And I don't know the details of that part of it.

Mr. SCHRADER. Okay. Let me get back to you on that, because that's something that has been a thread in some of our other hearings in Washington, D.C., because there are some loan limits that you come up against. And the type of business, you are talking then because you are a capital business you have higher loan needs? Is that what you are referring to.

Ms. SOUTHWELL. Yes, you have got to go buy the equipment before you can start making the product and sell it. So it's the capital needed to go get equipment to set up a new line to make the product.

Mr. SCHRADER. Very good.

Harry, where do we go from here then? Based on what you have been seeing with the Recovery Act rolling out, we had some testimony here that despite the fact that fees have been reduced and we're guaranteeing up to 90 percent of these loans, that it's passing by some of the small businesses in our community. Do you have a sense of next steps, based on what you are seeing out there right now?

Mr. DEWOLF. Well, we're seeing some positive trends. Again, it's bank money, it's not federal funds that are creating the loans. We're doing the guarantees, and so the loans have to fit within the bank's profile of loans that they are looking at. Now, I would like to work with Ms. Southwell on what type of loan she was looking at, what bank it was, was it a 504, was it a 7(a).

Some of that's education on the bank's part, and we're doing a lot of effort to train the banks on what products fit the best. That's a continuous effort. I do see it is reduced. I mean the numbers show that it's—the loan volume is down, the loan dollars are down. 2007 we had an all-time high year, and since then it's basically gone the down slope.

So there is no single answer. I think the Recovery Act no loan fees, has helped tremendously. The subsidized program with the ARC loan paying the interest for the banks, there is still some tentativeness with the banks on the ARC loan. There is some unknown answers, unanswered questions.

Mr. SCHRADER. That's more from the government where to help you probably is their nervousness, I suspect.

Mr. DEWOLF. That's part of it. It's that 100 percent guarantee. It's too good to be true for some of the bank's process. The process is decent, it's normal for them, but the 100 percent guarantee is—they are a little iffy on that, if it's really going to work. And we expect those loans to have a higher default rate. We're not advertising that, but that's just going to be reality.

And some of the banks are very concerned on how that higher default rate will impact their numeric evaluation that we grade them on, and we're trying to persuade them and create a way of saying, no, these will be evaluated in a separate pool. So that's a lot of the hesitation.

Albina Bank, as Mr. Brunberg has said, is leading the pack in Oregon. Of the 17 ARC loans, they have done 15 of them. Wells Fargo is coming up, but they are slow to act, and their application is quite lengthy. They are using a national clearing house system. So my local, regional, and community banks are actually leading the pack in Oregon on SBA guaranteed lending.

Mr. SCHRADER. Very good.

Mr. DEWOLF. There is no single answer. It's interesting, it's important that people understand that this is bank money, and the banks are kind of stuck. They are stuck between the Treasury and the FDIC saying, you know, conserve capital; Treasury is saying lend, lend, lend. And everybody is saying—so they are stuck.

Mr. SCHRADER. We'll hear from them in a minute. Be very curious about their impression.

Mr. DEWOLF. It's a tough spot.

Mr. SCHRADER. So let's—Jim, with the ARC loan, it's a new loan. It sounded—you know, I'm just a small business guy. My veterinary clinic in—I'm a real small, small business. I'm the opposite of Sheryl here. I'm a real small business. I don't mean real, real, but small small. And the $35,000 would have been nice.

I remember getting my credit line canceled, actually, effectively a few years ago in one of the last recessions, and they converted to a loan, you know, and I had to pay myself down. It wasn't really helping me any. And there has been a lot of discussion that, you know, sometimes the SBA process has been a little bureaucratic, this, that, and the other thing.

How was your experience a little different, or was it, you know, very bureaucratic and difficult? How long did it actually take you to get this loan? You applied. How difficult was the form to read and get through?

Mr. BRUNBERG. Not difficult at all. Super simple. Yeah, I feel I'm a—you guys all have such keen financial minds in here, I have a feeling, because half of what you are saying I can't understand as a musician. But for me it was really easy to get this loan, yet I felt like I was making substantive promises to Albina that made them feel comfortable backing it up.

So it just sort of cut away a lot of the hundreds of pages of paperwork that had been involved in the previous loan, albeit that was a larger loan through the SBA. It just seemed like a very simple, straightforward offering of short-term capital. So for me it was just super simple. I don't think it took more than a week to fund. I think it was less than that.

Mr. SCHRADER. That's impressive. But it's my understanding for these loans you have to show that you have a pretty reasonable expectation of paying them back.You have to have some plan.

Mr. BRUNBERG. Yeah, and then it just has a—that as an individual I couldn't take money unless I had a plan to pay it back. Because I'm sure you feel that unless the animals were going stop getting sick, you would know that your clinic was going—you were going to continue to do business and that you recognized what you were going to use the funds for. It was a finite, dark hole that you needed to—the chasm was—there was a ledge on the other side you wanted to jump across, and these funds helped us to do that.

Mr. SCHRADER. Good, good. I wish you success there.

Wilda, you referenced in your testimony some of the state programs that are out there, the CAP program, the business development fund. Do you have a sense as to how they are working or stepped up? Or maybe go to Harry afterwards, if there is some interplay between the SBA and those particular programs.

Ms. PARKS. No, I don't. I know that when I talked to small businesses to prepare for this, you know, those were some of the programs that were mentioned. As you said, the CAP and the Business Retention Program, Business Development Fund and some others. So Oregon does have some abilities to work with small business, and also of course working with, you know, SBA.

In our office we're right next door to Small Business Development Center in Clackamas County. And when I asked a number of people going in and out of the Small Business Development Center and stuff, you know, what could happen, what could occur to help your business financially, the main thing that I heard was banks need to loosen up their funding ability.

And so I would say that it's the same kind of thing that was just recently said, that they have to trust that that is going to be an okay thing to do. And I'm not sure they trust that right now.

Mr. SCHRADER. Sure, sure.

Ms. PARKS. So it's building that trust and helping to ensure that those funds would be available.

Mr. SCHRADER. Very good.

Harry, comment on that? Are you familiar with those programs, and is there some relationship there going on?

Mr. DEWOLF. The state and the counties and cities have been creating some good programs. We're trying to educate the banking community. We just finished a 13 city joint lender training where we worked with the USDA Rural Program, State of Oregon Economic Community Development, PDC, and any local Economic Development folks. We go around throughout the state training the banks on what programs work for what situations, because the SBA is not everything to everybody, neither is the USDA, neither is the state.

But if the banks know where one program starts and where one program finishes, that helps. So we've been actively doing that. We've been doing that for three years now. We're the first in the country to do it. It takes a lot of planning and logistics to do that, but it's proven to be very, very successful. So we plan on doing that more.And this year we added on a public round table discussion about issues and elements that were involved in today's environment.

Mr. SCHRADER. Let our office get a copy of any findings that came out of that. I'd be very interested.

Mr. DEWOLF. Absolutely. Absolutely. It's a matter of lender education, public education. And some of the programs are news to me when I find out about them.There are just so many little niche industry incentives or tax credits or funding opportunities out there, it's pretty much a moving target for—at my level. I don't necessarily track or manage the state stuff.

Mr. SCHRADER. So the last question, I'm going to run through the entire panel on this one, is just a quick impression. It's a little bit of an unfair question, but—and we'll start with Wilda and go the other way here, and that's what penetration in the small business community do you think the SBA has? In other words, how many small businessmen and women, what percentage actually know they exist and are aware of some of the opportunities there? I'm just trying to get a sense.

Ms. PARKS. I wouldn't really have any sense of percentage, Kurt—or Congressman Schrader.

Mr. SCHRADER. That's fine. Kurt is fine.

Ms. PARKS. However, I do know that in our Chamber Of Commerce, we communicate with about 1,400 email addresses consistently, and we have articles in our newsletter and in our weekly broadcast email about SBA opportunities on a consistent basis. So we're doing everything we can to keep in front of it.

And then of course working with Small Business Development Center, a little bit different, but nonetheless, you know, the same family, next door, that enables us to get more information out. But we consistently, you know, tell people about it. I would hope that some nice large percentage of them are paying attention to that.

Mr. SCHRADER. And the answer is join your chamber so you can find out what's going on.

Ms. PARKS. That's true. Thank you very much.

Ms. SOUTHWELL. And read your emails, right.

Mr. SCHRADER. Read the emails. Ms. Southwell.

Ms. SOUTHWELL. I would say the awareness based on the communication that comes out, whether it's through the chamber or through some other agency or group that people are part of, I think maybe the awareness is there. I think the challenge is so many of us, especially in this environment, and I'll bet you had this happen (indicated), we're so, lean, everybody is running so lean, that the day-to-day business support and keeping things running really takes most of the working day, if not longer.

And so it's bringing that information to business owners, and whether it's the bank or whether it's—like usually they come to you when they run into a problem and they are looking like where can I go and help. It's getting some of that out there via maybe the banks or some method, so that there is some—you know, when there is a lot of numbers and names and acronyms for loans, it's a little overwhelming. So I think it's that communication and understanding of what, how the process works. But I'll tell you, most of us are running. I mean there is—

Mr. SCHRADER. You are busy.

Ms. SOUTHWELL. Yeah, yeah.

Mr. SCHRADER. Jim.

Mr. BRUNBERG. Ms. Southwell's points are, I'm sure, true for every small business owner, including yourself. I don't know how you find time to do this kind of stuff. But you put the time aside, I guess. The SBA, I was only made aware of their existence through Albina Bank. I knew what the SBA was as an abstract concept, but I didn't know how they administered their loans.

So it was through just meeting with private bankers that I learned about the SBA. And the PDC had told me to go to Umpqua and Albina to look for an SBA loan. So I'm not sure what the budget is for outreach. I live in a newly economically rejuvenated district area, that the whole North Mississippi, North Portland area has radically changed its socioeconomic structure over the last five years.

It's been one of the quickest changing neighborhoods in Portland. So there are a lot of small business owners who I'm sure are not aware of the SBA. I speak to them all the time. They say, ″How did you do it? Where did you find the money?″

And I'm, ″Well, I just kept hammering my bank, you know, and calling them every week, and they were really good about, you know, getting information to me.″

But it's hard to find—Mr. DeWolf's organization, Portland Small Business Administration Office, I'd love to learn more about what they do and tell my friends about them so they can clog your phone lines and ask you dumb questions like I would.

Mr. SCHRADER. Harry, comment? I mean I know you guys have been cut back dramatically over the last eight, ten years, or whatever, so that's part of it.

Mr. DEWOLF. In 2000 we had a staff of thirty. I have ten now. It's been challenging. As you know, I've been working diligently over the last four years since I've been with the agency to open a Southern Oregon office, to expand our reach. It's greatly underserved down in the Medford metro, south of Eugene area.

But we work very, very hard using technology. As far as our reach, it's not as deep and broad as I would like. Coming from outside the agency, I use what I would consider current technology to get the word out. We were the first in the country to use an E-newsletter that we send to all the chambers, all the media outlets, all community leaders, state and federal partners.

We have over 5,000 subscribers, and it's through a modern technology called Constant Contact. And that helps.We get the word out for that. We do local statewide public loan briefings to the general public. We have over 15,000 hits on our website that I keep up to date every week. It's very important to me. So there is—working through our small business development centers, they are our lifeline to the public.

They are in every community college throughout the state. There is 19 in Oregon, and I have two in southwest Washington. Without them we would be far less effective than we currently are, and we are not as effective as I would like to be. So with the state reducing the funding to SBDCs 50 percent, that will have an impact, a negative impact.

And from the state's—from my view of that, I think the state is very shortsighted on that, because they are going to lose small business creations, they are going lose the tax base, they are going to be paying more unemployment. It's very shortsighted, because the federal—I pay a million dollars to the SBDC program.

The state's requirement to that, to get the million dollars, is to match it. Before the 2010 budget was written out the state was doing a two-to-one match, which was quite noble, and now it's barely matched. And having a substantial cut, as they are going have, they will be reducing their locations probably down to close to 15. So I don't see every community college having an SBDC active, open office. And that's a shame. Without them, without SCORE, I couldn't do what we do.

Mr. SCHRADER. It's all about leverage.

Mr. DEWOLF. I would just be answering the phone and not getting out of the office. It's leveraging current assets.

Mr. SCHRADER. Yeah. Very good. Well, thank you all very much. Appreciate you coming and testifying and taking time out of your busy days, and we'll let you excuse yourselves and get the next panel up. Thank you so much, guys.

Mr. SCHRADER. All right. The next panel will come up front here, some of our lenders, give us some perspective on the lending side. They are feeling, I think, a bit squeezed. On the one hand, Congress and Treasury say lend, lend, lend; and the other hand, the regulators push back a little bit, saying well, now we want to make sure you have good balance sheets and we don't make this maelstrom even worse.

So it should be very interesting. I think even in our last panel we'll have some community banks give us a little perspective also, and hopefully have a lively discussion. We can learn quite a little bit.

Well, the same ground rules apply. Theoretically you have got about five minutes. As you saw, we were a little bit more lenient than we would be back East, but this is Oregon. So I want to make sure you get as much out as you can, but leave time for a little bit of questions. There is only two of you, so that should make it a tad easier. And appreciate your coming very, very much. Your perspective is going to be critical to freeing up our credit markets and making things happen.

Our first witness, if you will, is Mr. John Safstrom. He's here to testify on behalf of the Mid-Willamette Valley Council of Governments, where he serves as business finance manager. He has a lot of expertise. He previously served as credit and loan officer with the Farm Credit System, that I used when I started my veterinary clinic, frankly.

He also was production manager for Weyerhaeuser, supervising logger operations in Southern Oregon, and spent five years as a commercial fisherman. You have traveled.He's a graduate of Western Washington State University and Pacific Lutheran. And I'm looking forward to hearing your testimony. Please begin.

STATEMENT OF JOHN SAFSTROM

Mr. SAFSTROM. Well, thank you. I am the loan program manager at the Mid-Willamette Valley Council of Governments. I also serve as a senior loan officer for Cascades West Financial Services, the largest Oregon-based certified development company, also known as the CDC, that provides the SBA 504 loan program to businesses throughout Oregon, and a piece of Washington now, I guess.

I would like to thank Congressman Schrader for his continued support of the CDCs and the 504 program, as well as our regional loan programs. He helped establish one of the loan programs while he was a county commissioner at Clackamas County. Today I am very pleased to—

Mr. SCHRADER. That would be my lovely wife.

Mr. SAFSTROM. —provide a statement about a need to improve access to capital for small businesses. Our typical day is a test of our creativity—finding ways to work around regulatory limitations of the SBA and other federal and state loan programs to structure small business's financing proposals, and then getting banks to participate in them; all of that, added to the fact that our national economy is now in the middle of a credit crisis.

And, yes, we do have ideas on how to improve access to capital with the SBA 504—the SBA loan programs, more than the 504. Even as SBA has worked to implement new programs and fee reductions that were spoken about earlier with the 2009 stimulus bill, the SBA's program eligibility and underwriting policy, so critical to maximizing effectiveness, are drifting instead towards more conservative and restrictive interpretations.

For example, SBA moved to restrict 504 borrowers from accessing their personal home equity for funds to use in new 504 projects. NADCO, our Association of Certified Development Companies, has prevailed on SBA to reconsider this negative impact. We are hopeful that SBA will again allow business owners to inject capital in any way possible into their businesses. As we know working around entrepreneurs, they are all in at all times.

We believe that many small businesses need better access for loans and access to larger guaranteed loan amounts. The current restrictions can be addressed in these following ways: First, increase the maximum 504 to venture beyond its current limit of $1.5 million; second, allow borrowers to use both the maximum 504 and 7(a) loan limits; third, eliminate regulation that restricts business owners with higher net worth from participating in 504 loan projects; fourth, allow small businesses being acquired by new owners to make eligible fixed asset transfers through the sale of stock; fifth, SBA restricts assisting rural borrowers by applying outdated population parameters. We request that more current U.S. Department of Agriculture definitions of rural areas business be applied to SBA programs, increasing the availability of capital in rural areas; and, sixth, allow the 504 program to refinance existing conventional bank loans in the process, bringing equity and working capital, especially refinance bank loans to companies written with five-year call provisions.

This last suggested change comes from concerns that banks do fail or have substantially tightened their lending standards. In either case, performing loans to good companies are being called, forcing these historically good small businesses with performing loans into foreclosure and causing jobs to be lost. These companies chose this type of financing when commercial mortgage-backed security industry was active, and five years later they would have choices.

The reality now, capital markets are frozen and banks are restricting lending. Refinancing with the SBA 504 loan structure is a sustainable alternative. The company gets a fixed rate, lower-than-market rate of interest over ten or twenty years, and the bank loan is structured for the commercial-backed securities industry when that recovers.

It's a win-win for businesses and banks, and we support this time is of the essence SBA change.

Those are just a few of our ideas about access to capital. We have some other ideas about the costs that were mentioned earlier, and I can go into those now. Basically, there are three areas, the cost to borrowers; the cost to our CDC operation, such as Cascades West Financial Services that we are a part of; and the recovery on loans that are in liquidation.

SBA informed us that the 2010 budget increases the cost of the 504 Program to borrowers by 38.9 basis points per annum. This is due to the SBA's econometric subsidy model that includes the national employment rate and the forecast of defaulted loans.

We request that Congress appropriate sufficient funds to offset this fee for the next two years, while businesses grow healthy and get cash flow back, so they could pay these increased fees at a later date. Sorry. One more minute. All right. Speeding up.

The cost to our—one more sentence on that. It just doesn't seem right to in the stimulus package take, you know, fund cost, lower cost and everything, and eight months later raise these costs. It just doesn't seem right on that side. For the regulatory problems we're having with our CDC, a few years back SBA decided one type of structure of a model of a CDC fit all.

In our area three councils of governments provide all of the program management and all of the staff for a CDC. That was deemed not quite the right structure. We have had more regulatory hoops to jump through, and it has been a very substantial cost to our collaborative based model. In summary, I guess I would like to say working together we will be more creative and flexible, serving the needs of new industries and tearing down the walls for arcane and irrelevant and restrictive regulations, I hope.

And these unnecessary barriers are going to stifle our movement into the 21st century economy. I have many more things to say, but I guess that's all I can say now. And small businesses are nimble and very forward thinking, and they will lead us out of the recession. Thank you.

[The statement of Mr. Safstrom is included in the appendix.]

Mr. SCHRADER. Very good. Thank you for your comments. We have a new SBA director that I think is going to be very receptive, hopefully, especially in this economy. So you have very good ideas. You came in with some excellent, excellent ideas. Appreciate it.

Mr. SAFSTROM. I have more, too.

Mr. SCHRADER. Good. I'll submit them for the record if they are not already.

Mr. SAFSTROM. No, no, they are submitted, yeah.

Mr. SCHRADER. Okay. Good.

All right. Our next witness is Mr. Rick Hein, currently serving as president of Oregon State University Federal Credit Union. He has served on the OSU Federal Credit Union's leadership team since April 2000. Before joining OSU he worked at the credit union mutual group of Madison, Wisconsin, and also served a two-year stint as member of the board of directors for the California Center Credit Union. You are a credit union guy.

He is a graduate of Texas Christian University. He serves on numerous advisory boards and committees, including the Willamette Criminal Justice Court, the Corvallis Corporate Round Table, and the Boys and Girls Clubs of Corvallis. Thank you for doing all that. In 2005, he was selected as the Credit Union Association of Oregon advocate of the year. I look forward to hearing your testimony. Please begin.

STATEMENT OF RICK HEIN

Mr. HEIN. Thank you, Congressman Schrader. It's a pleasure to be here and to be invited and to represent the 83 credit unions of Oregon and the 1.4 million members.

America's small businesses are the engine of growth of our nation's economy. The effect of the sub prime mortgage crisis has spread to all types of lending, resulting in a decrease in availability of business credit. As Congress continues to consider ways to help the economy recover, Oregon credit unions support the elimination of the statutory cap on credit union member business loans.

Last week, representatives Paul Kanjorski and Ed Royce introduced HR 3380, the Promoting Lending in America Small Businesses Act, which would increase the credit union member business lending cap to 25 percent of a credit union's total assets, raise the de minimum threshold for a loan to be considered, a member business loan, to $250,000, and exempt loans made to nonprofit or religious organizations, as well as loans made to qualified underserved areas from the cap.

These changes to the current statutory restrictions on credit union member business lending will give credit unions currently serving the lending needs of their business-owning members the opportunity to help even more, and it will encourage credit unions that do not currently offer these loans to consider investing the necessary resources to do so. We look forward to its enactment.

The cap on credit union member business lending, currently at 12 and a quarter of total assets of the credit union, has no economic, safety and soundness, or historic rationale. The cap was enacted in 1998, and prior to 1998 there was no cap. After a decade it's time to remove this arbitrary restriction. Credit unions have been lending to their business-owning members for a century. Net charge-offs for credit union loans are lower than charge-off rates for business loans made by other financial institutions.

And at a time when lenders are withdrawing credit from America's small businesses, it makes economic sense to restore credit unions' full ability to lend to their business-owning members. The Federal Credit Union Act was passed 75 years ago to promote savings for provident purposes to balance the credit structure of the

United States. We have successfully been that balance for over 75 years, and the American consumer has an alternative for fair and equitable financing.

If there was no statutory cap on the amount of business lending a credit union could lend, the Credit Union National Association estimates that credit unions could make up to an addition $10 billion in business loans in just the first 12 months. This represents a significant economic stimulus that does not cost the tax payers a dime and does not expand the size of government.

According to the Credit Union National Association, at the end of 2008, 44 of Oregon's 83 credit unions reported outstanding balances from member business loans. The average member business loan granted in Oregon in 2008 was over $284,000, and the market share of lending for Oregon credit unions is just over 4.7 percent, compared to 95 percent for banking institutions.

Finally, Oregon credit unions have a total balance of $758 million in member business loans, compared to roughly $15.3 billion in total business loans for Oregon banking institutions. Credit unions are, by definition, locally-owned, controlled, with local decision-making and a strong service-oriented philosophy.

Member-owned credit unions are a natural choice for business owners faced with challenges getting access to credit. Today Congress has the opportunity to help small business owners by eliminating the credit union member business lending cap. Thank you for this opportunity to testify today.

[The statement of Mr. Hein is included in the appendix.]

Mr. SCHRADER. Very good, Mr. Hein. Thank you. Thank you very much. I appreciate the testimony.

Let's go to John right away, and give you a chance to talk a little bit about some of your other ideas that you got withheld in the official part of the testimony. If you want to hit on a few other points for a few minutes, please go ahead.

Mr. SAFSTROM. Okay. Another one that's a cost savings that will fit into what I talked about briefly was the increased cost to the program by the 38.9 basis points to the borrowers because of the default rate in the subsidy model.

And one thing to note, that the SBA 504 loan program has been off the subsidy until the stimulus package brought in funding certain fees that were before borne by both the CDCs, the Certified Development Companies, such as Cascades West. The banks pay a fee for the privilege of financing with us, and the borrowers pay a fee, and that was rolled into their interest rate matrix, you might say.

And for the folks who don't understand the 504 loan program, debentures are sold on Wall Street to insurance companies, banks, foreign governments, and everything else in the bigger spectrum of things. And then those funds are really lent to the borrower with a spread like a bank or a credit union would do. But those were just—those are statutory costs, and costs such as this subsidy fee impact would raise that effective interest rate to the borrower.

To drop that, one of the problems is the cost of collecting loans and recovery on these loans that are already out there. And Congress several years ago enacted—well, I guess—I don't know how to say this—got SBA to create a new regulation to take advantage of CDCs such as the one we work with, and the Council of Governments, that do collect loans routinely, to use our staff to do that service.

One of the problems is that they haven't done that. It's been a very, very limited effort; and when it's done, it's done with more of a—I don't know how to say this.You are told what to do. It's kind of a—you are dictated how to do it, what to do, and not be able to do the collection. The collection is done on a kind of a dynamic effort, and it's not something done from a central servicing place and then you tell somebody to do it.

It's done on the move. To speed that up, we would like have SBA use our services and also pay us for them.Right now we're not getting paid to do it, and so it's quite a drain on really our whole economic development effort to place staff time to do that.

And as another piece of that, we would like to have SBA actually have an accounting system where we can tell the borrower what their borrower balance is on any day; and also, in this electronic age, be able for the borrower, if they are in a defaulted loan and it's been repurchased back and all of these other things, that they can actually send a wire transfer in to pay their loan down or use an ACH.

That currently is a big issue, and it doesn't make any sense. And we feel that if the CDC that wrote the loan has to collect the loan and has to go through these processes, we would like to be able to use the current electronic age to help us, and actually tell the borrower, you know, what their balance is. Right now that's not possible. There is a disconnect between that.

I could go on and on with some more ideas, but those are the basic ones. We want to save costs, and we're looking to expand access to borrower's financing. And I have to say, the one around the—probably people miss some of the pieces that I put, but the one about purchasing a business through the transfer of stock, that has been prohibited by SBA.

There is this one line, "You shall not finance the purchase of stock." But if the stock is equal to the amount of the fixed asset that you are financing, why not allow that to happen. And we have had that situation here, and I cite that in the written testimony, that it would have been a very important financing option. And the other option that occurred—

Mr. SCHRADER. If I may, do you know why that was put in there? That predates my tenure in the Congress, obviously.

Mr. SAFSTROM. I would assume to stop certain transactions that were taking advantage of SBA or something like that. But there seems to be a way—there is a philosophy to restrict, versus open and look at the bigger picture. And each financing proposal is always different than the next one.

They are not all cookie cutters. You know, every entrepreneur has a different situation. Like the lady that was speaking about her polymer company, I mean we work those kind of situations out using sometimes a combination of loan programs, if not the SBA.

Mr. SCHRADER. So what other local governments, or how should the SBA work with local governments more? To put through the CDCs or are there other avenues that we could be engaged in.

Mr. SAFSTROM. Well, in the state of Oregon, all of the Oregon-based CDCs have loan programs similar to the ones that we provide. Maybe not quite as many, but similar. The rural development, IRP Program, the EDA revolving loan fund, that kind of thing. And you know, those are just the general categories. And they can work in partnership with the SBA loan. Up to 50 percent, no more than 50 percent federal financing. But in that scenario we could put 100 percent finance into small businesses after this.

Mr. SCHRADER. We are going to get some competition here, so I hope everyone can still hear, it sounds like. Rick, I guess to you, I mean Craig has been trying to get some of these loan limits lifted for quite sometime, and it's always been a little controversial.

And I don't want to rehash the old bank versus credit union debate here, but it does seem like—I guess my question to you is, what is the appetite in the credit unions, especially right now, when times are so bad and regulators both for credit unions and banks are cracking down a little bit—and, you know, frankly, being good financial managers, you guys want to make sure you stay solvent in this terrible time. What's the appetite for credit unions to really jump in and maybe do some of these small business loans that maybe don't even pencil out for banks, even when times are pretty good?

Mr. HEIN. Well, I think one of the advantages—

Mr. SCHRADER. Would you get to the mic a little bit? Pull it right up, given our competition.

Mr. HEIN. I think one of the advantages credit unions have had over the years, the past 75 years, is that we look at our members as part of the community. And then I'm sure the community banks have done the same thing, as well as the—

Mr. SCHRADER. That's true. The community banks are a little different sometimes, than more of the big Wells Fargo types.

Mr. HEIN. Right. And, well, I think the credit unions have a great appetite for helping the small business owners. Credit unions have gone out and looked even—and created micro loans for even smaller business owners, those that need, you know, a $3,000 loan. And they really have no collateral. They are just trying to figure a way to start their little business up.

Many credit unions have began those micro loans. What has really hampered some of the credit unions from getting into this type of line of business is the start-up cost of hiring personnel, making sure you have the expertise as required by the National Credit Union Administration, and getting everything ready so we can do things right.

One of the things I'd like to point out also is credit unions have been doing mortgage loans for years. We have no cap. Credit unions have been having credit cards.We have no cap. Credit unions have been doing consumer loans for automobiles and everything. We have no cap. But we have a cap on member business loans. Why is that different?

There really is not a huge difference there. We continue to follow safety and soundness guidelines. We're heavily regulated by the National Credit Union Administration, and we follow those guidelines as they are prescribed.

Mr. SCHRADER. Recently our Small Business Committee has been looking at new proposals to increase the outreach that we hear is critical here, but particularly with credit unions, trying to get credit unions more actively engaged in the SBA lending program like 7(a) and 504. Can you comment on the type of support and outreach that would be most effective, based on your experience.

Mr. HEIN. Well, from what I've learned regarding any type of government guaranteed loan, members come in, and they are really excited about the opportunity of getting a government insured loan through a financial institution, whether it's a credit union or even a community bank.

But one of the issues that they find out is that there is a huge amount of paperwork that they are going to have to participate in, and there is a lot of information that they are going to have to provide. And a lot of folks, when they realize that, it kind of turns them off. It's just, you know, I just can't go through all of this. I'm kind of looking for that service that I've received on my car loan and on my home loan, and now I'm going have to jump through a lot of hoops to just qualify for the loan.

Mr. SCHRADER. Okay. Very helpful.

Well, we've got a big third panel, so I'll let you gentlemen go. Thank you very, very much. Really appreciate the solutions.

We've got our third panel up with more solutions, hopefully. This is a bigger panel, so I'm going to be a little tougher on the time limits, guys, to make sure everyone gets a chance to talk, and maybe I'll get one or two questions in. Because we'll shut her down around ten, to respect everyone's time and efforts. Great panel, though. This is probably one of the core pieces of why we're here.

Mr. SCHRADER. Well, we'll start out with Ms. Kim Wilmes. Ms. Wilmes is here testifying on behalf of Metal Innovations, Incorporated, which she co-founded with her husband, Craig, in 1996. Metal Innovations is based in Aurora, and specializes in fixed-wing and aircraft structural repair, modification, parts manufacturing, and product development. Their clients include Alaska Air, FedEx Cessna Caravan Fleet, and SkyWest.

She is a native Oregonian, who previously served as executive director of the Pacific Northwest Aerospace Association, and she also sits on the Enterprise for Employment in Education board, taking an active interest in K-12 education and reform. Thank you very much for doing that. You are a very busy lady.

STATEMENT OF KIM WILMES

Ms. WILMES. Thank you, Congressman Schrader, for taking the time to listen to small business concerns regarding the difficulties that we are facing in today's economic environment.

Mr. SCHRADER. You are going to have to eat the microphone in case they start drilling again.

Ms. WILMES. Okay. The lack of importance placed on small business's contributions to our country's employment has been disheartening. Although many elected officials have spoken regarding small business concerns, the rubber has never met the road by providing any useful solutions to help alleviate the closed credit markets. Little, if nothing, has been done to provide economic stability to this critical piece of our country's economy, small business.

As a small business owner yourself, you understand the sacrifices that are made to follow your dreams, start a small business, create jobs, pay taxes, et cetera. Small business owners understand all too well what it's like to mortgage their home, sell a vehicle, cash in retirement, and extend credit in any way possible just to be able to have enough money to establish a business and follow a dream.

We as small businesses risk a lot to be useful contributors to society, which is very apparent in the number of jobs that we create and consistently provide. The numbers are laid out in black and white. As stated in an article located on the ″Oregon Labor Market Information System,″ on 6/23/2009, the U.S. Small Business Administration claims that 99.7 percent of all U.S. firms are small businesses, and that these firms have created between 60 and 80 percent of all new jobs over the past ten years.

So if this is the case, why has small business been almost completely overlooked through the allocations provided through the recovery plan? And even more critical, why have the banking difficulties for small business only half-heartedly been addressed? I was extremely concerned when I watched an interview on 7/27/2009 with Robert Gibbs. His words were directed towards the health care reform package: ″If we do nothing, millions of people are going to lose their health insurance. If we do nothing, millions of small businesses aren't going to be able to afford the coverage that they already provide. Some of them are going to have to lay people off.″

Let's stop right there. Health insurance coverage affordability is not going to cause me to lay people off. We currently and have always provided fully paid health insurance benefits for our employees and their families, and I have never considered laying off an employee due to the cost of health care insurance.

All this statement tells me is that the agenda focus is only based on the interest of the elected and not the true and immediate needs of their constituents, especially small businesses. We eventually need to address the health insurance costs; but if you truly want to help small business, the focus needs to be placed on opening up of the credit markets.

Let me provide you with a short example in the form of an equation. No credit for small business in the form of credit lines, expansion loans, refinances, et cetera, equals layoffs, equals business closures, equals who cares about health insurance costs. Pretty simple.

The only stab at helping small business has been addressed through increasing SBA guarantees and providing fee waivers. Sounds good on paper, but for those small businesses try to renew a loan, credit line, or access new credit, this solution is virtually useless to most due to the unrelenting credit market.

Much of the general population doesn't realize that to attain an SBA guarantee you must first have a bank that is willing to house the loan. Good luck in finding a bank to participate. They are few and far between.

Many of the companies being required to have SBA guarantees are only facing this requirement due to the bank's ability to take advantage of a system that will guarantee their risk at only 10 percent. What a luxury. I'd love to have someone give me hundreds of millions in TARP money and have someone else pick up 90 percent of the risk on my business decisions.

Here are a few examples of companies' experiences regarding funding difficulties that I have encountered over the past few months. You must also be aware that the banks mentioned in the following examples have received hundreds of millions in TARP funds. Our line of credit with Sterling Bank came due in October 2008. We were told in September that it would not be renewed. We began to do month to month renewals on our line of credit.

After four months of exhausting our resources and not finding any new banking options, Sterling decided that they could possibly renew our line of credit with a state guarantee and additional covenants. The covenants proposed would have caused us to close our businesses within a matter of days after signing. We had worked too hard and sacrificed too much to allow this to happen.

What was most upsetting is that we had always paid our loan pavements on time, had never defaulted on a bank loan, were posting record year-end profits, had several long-standing contracts, with our monthly short-term work load consistently equaling over $1.6 million in work in process, and were hiring, not laying off, employees.

After five months of interviewing 17 different lending institutions, we found a bank that was willing to work with us, and we feel very fortunate that we've established this relationship. And we did have to access a state guarantee for that, to complete the move. Most businesses have not been so lucky.

The scenario is being experienced by small businesses throughout our country. I've received several calls in recent weeks from companies in crisis due to the closed credit markets. A company that had been operating for over 40 years, unable to access refinancing for the commercial property housing their business, they were on a two-year renewal cycle.

Their current lending institution is not willing to renew the loan. If the loan is not renewed within one to two months they will be in default and lose everything. What will the result be? Complete closure, loss of commercial property, and job loss.

A very viable machining business that needs a couple hundred thousand dollars to increase their line of credit to facilitate a new contract, thus creating jobs, even with their impeccable credit history they were unable to access the increase and had to turn the contract away. What was the result? Loss of opportunity and jobs.

As you can see, it is not just one industry that's being affected by the closed credit market. It is affecting small business across the board. I have heard from numerous lenders that they are open for lending. Don't believe it. What banks are saying and what small businesses are experiencing are two different scenarios.

As a small business, we generally run very lean operations and take a personal interest in our employees and their well-being. We will sacrifice personal financial stability to assure that our employees receive their paychecks and can put food on their tables. We cannot afford to individually hire expensive lobbyists to promote our cause. We rely on our elected officials to make decisions that are in the best interest of the majority, including small business.

I'm asking for your help in opening the credit market for affordable and accessible financing options for small businesses. Please do not turn your back on all the small businesses that have sacrificed so much to provide employment opportunities for our citizens and to follow their dreams of owning their own business.

Thank you for your time.

[The statement of Ms. Wilmes is included in the appendix.]

Mr. SCHRADER. Very good. Very good. Nice job.

All right. Let's go to Mr. Harville. Tough act to follow. Mr. Harville is here to testify on behalf of SEDCOR, that does a lot of good work, where he serves as its retention-expansion manager. Since his arrival in our great state in 1987, he has served as the executive director of the Lincoln County Humane Society, director of the membership of the Newport Chamber of Commerce, and is executive director of the Woodburn Chamber of Commerce.

He has been nationally recognized for his work with both the commercial fishing industry, his work for Economic Development in the gold mines in Appalachia, and also serves on the Agribusiness Council of Oregon Board of Directors, the Advisory Board for Silverton Hospital network, the Economic Development Advisory Board for Dallas, and he also serves on my Small Business Advisory Board. Thank you, Nick. So look forward to your testimony. Please proceed.

STATEMENT OF NICK HARVILLE

Mr. HARVILLE. Thank you, Congressman. First, what is small business? In Oregon, 80 percent of the companies have less than ten employees. If, as in most federal programs, you use the SBA definition of small business, this region's largest employer with 500 employees is considered small. Thomas Jefferson said, "Were we directed from Washington when to sew and when to reap, we should soon want bread."

The current recession was triggered by a collapse of the housing market. This was aggravated by the revelation that the mortgage market had been distorted, which in turn led to practices in financial markets that brought down and endangered the existence of many prestigious financial institutions.

Trouble in banks then led to tight money, a general slowdown in the economy, lost jobs, and a worsening in the housing crisis that started the whole thing in the first place. Finding money in today's banking environment is a company's largest concern and challenge, and rightfully so.

Small businesses are constantly planning capital needs and investing time with lenders to plan financial needs. Today lenders won't even look at good deals, let alone anything that may be slightly out of the box. Unless you have all the cash required to launch or expand your business, one of the most challenging aspects of running a small business is locating resources to raise money. Raising capital is the most basic of all business activities.

But as many entrepreneurs quickly discover, raising capital may not be easy. In fact, it can be complex and a frustrating process. However, if you are informed and have planned effectively, raising money for your business will not be a painful experience. Whether your business needs funds due to unforeseen expenses or you are looking to expand, you will need to communicate with investors.

They are interested in the quantity of capital you need, your product, your company, your financials. And sometimes today that isn't enough. The most important things they look at are your business plan, management team, your track record, and your exit strategy. This information is critical to them so they can understand how they will get their money back.

But even with a government guarantee, they want only the cream deals. They have tightened even older companies' financial agility to reach new market opportunities to almost nothing. Orders back up because company A can't get an increase in their credit line, let alone a term loan. So company B sits waiting for things to loosen up again, which means that company C can't take the parts that company B needs to make sales to company A. The adverse effect ripples all the way down the supply chain.

Since October, the U.S. Treasury has been buying stock in banks around the country as part of the capital purchase program. Initially the program's money was to be used to prop up troubled banks. More recently, the Treasury has been buying stock in healthy banks, with the goal of encouraging those banks to turn around and lend out money to customers.

Despite that encouragement, lending is in gridlock. Most consumers know what the ″Wall Street Journal″ proved on July 27, 2009. The total number of loans held by 15 large U.S. banks shrank by 2.8 percent in the second quarter. All you have to do is talk to your friends and neighbors about lending, and you will find story after story about the difficulties getting a loan for a mortgage.

The numbers underscore the two related trends weighing on the economy. Financial institutions are clamping down on lending to conserve capital as a cushion against mounting loan offices. The loan demand is falling as companies shelve expansion plans and consumers trim spending to ride out the recession.

That combination is making it harder for the U.S. economy to rebound. Some analysts predict that the loan portfolios won't start growing until the second half of 2010. As firms continue to downsize, cut costs, reduce inventories, the nation's largest banks are reporting that demand for credit in commercial real estate market is well below normal levels, according to the U.S. Treasury Department monthly banking lending survey from the largest 21 recipients of government bail-out money from the capital purchase program.

After private investors grew reluctant last year about buying SBA loans from firms that finance them, these firms found themselves way down with old loans, which prevented them from funding new loans for small businesses. The recovery of the SBA credit markets has been a rare bright spot for small business lending.

While SBA loans remain a fraction of the overall credit issued to small businesses, these government-backed loans have been on the upswing since Congress approved the administration's $787 billion economic stimulus package in February. That legislation waived many of the fees that banks paid to the government for offering

SBA loans, and raised the public guarantee for the losses up to 90 percent.

In the July 27, 2009 daily finance, more than half of the new loans made by the banks in April and May were for refinancing mortgages and renewing credit to the businesses, not new loans. Some analysts don't expect to see loan portfolios grow until the second half of 2010.

Consumer spending has led us out of most of the recessions, but consumers can't help this time because credit is so tight. Trillions are being thrown at the problem, but we don't seem to be getting any bang for the buck except helping the banks to turn a profit. It's time to stop worrying about Wall Street profits and start worrying about Main Street in the new economic policies.

If we want to make SBA programs work, then let them be industry driven. Let industry, who are the borrowers, tell you what is wrong with the SBA system. They know what could be done to fix it, if policy makers will listen.

[The statement of Mr. Harville is included in the appendix.]

Mr. SCHRADER. Very good.

Our next witness is Mr. Terry Brandt. He's the executive director and board member of Albina Opportunities Corporation. I had the chance to visit with him the other day. He has over 30 years experience, specializing in commercial real estate development in the Portland metropolitan area, with project management consulting and entrepreneurial small business growth.

He's been active as a board member and advisor for a number of municipal task forces and committees and nonprofit organizations throughout his career that have supported community sustainability and small business development. I welcome you to the committee, Terry.

STATEMENT OF TERRY BRANDT

Mr. BRANDT. Thank you very much, Congressman. I am pleased to be here and appreciate the invitation to testify before the distinguished House Small Business Subcommittee on Finance and Tax. I am the executive director of Albina Opportunities Corporation, also known as AOC, a nonprofit lender with a mission to spur entrepreneurship and provide credit to women, minority, and disabled-owned businesses in low to moderate income communities and CRA qualified areas in the Portland area.

AOC desires to make loans to borrowers that have been traditionally underbanked and underserved in our communities. We leverage our loan funds by partnering with bank and non-bank lenders on specific loans. We provide the gap funding necessary to help mitigate loan risks to our participating lending partners on small business loans.

By subordinating our interest in our loan to the interest in the loan of a participating bank, AOC provides more security for the bank, and thereby increases the ability of the small business entrepreneur to obtain needed financing. The reason I am here testifying today is because events now occurring in the financial marketplace, as we have heard so far today, are having a detrimental affect on our ability to make small loans to qualified businesses to whom we would like to provide capital.

We have tried to find ways to fund loans in light of recent stricter bank loan underwriting standards; however, we are unable to make loans to credit-worthy small businesses when banks use blanket non-starter underwriting criteria that preclude any discussion at all. In addition, without a partnering bank or non-bank partner lender, AOC is not able to obtain an SBA guarantee for its qualifying loans.

Traditional bank lending resources have pulled back from the lending marketplace for a number of reasons, including increased borrower scrutiny and stricter loan underwriting criteria. AOC wants to continue to provide financing to businesses, and to do that it is important for us to find sources of loan capital and loan guarantees until the banks return to this market.

We believe the only source for such capital and guarantees may be the federal government. What happens to small business lending when banks collectively contract and traditional financing routes dry up? Lenders that adopt all or nothing restrictions and responses to problems do not consider the bulk of loans that can be effectively underwritten.

Their over response to perceived problems results in stifling the growth of good small businesses. Lender underperformance and lack of creativity will not solve the lending log jam. With the exception of the micro loan program, almost all the lending in the SBA's tool kit is done by banks. If for some reason these lenders simply cannot or will not lend money to small businesses, the predominant SBA 7(a) loan guarantee program will be significantly underutilized.

AOC has been challenged to find ways to establish partnerships with SBA-approved bank lenders, given many of the reasons previously stated. As an example of a recent response to this challenge, AOC has offered to mitigate the perceived risk in a prospective loan by agreeing to fully subordinate its position of its SBA loan guarantee to a lending partner.

In essence, by financing only the guaranteed portions of AOC's loans, a bank would receive a 100 percent guarantee from the SBA on any of its loans. At this time AOC has yet to find a bank or non-bank lender willing to partner on this loan. In addition, without a bank partner, AOC's ability to obtain an SBA loan guarantee is restricted, unless it could also be approved as a non-bank lender by the SBA.

AOC's small business lending program may be considered not too dissimilar to the SBA's dependence on bank and non-bank lenders to administer its loan guarantee program. Both organizations are dependent on its lending partners. Until banks return to this market, we will be unable to satisfy the demand for loans needed by our local small businesses.

To mitigate these problems, we offer two recommendations. One, utilize the Troubled Asset Relief Program, TARP, to enhance lending through banks or through organizations like AOC. TARP is not going to quickly or meaningfully stimulate the small business sector, and the economy isn't going recover until small businesses begin to expand again.

TARP isn't stimulating small business lending.Most TARP money was given to banks, which in turn didn't provide most of the money for small business lending. Many banks used TARP funds to repair their balance sheets rather than extend new credit. There is a need for TARP funds, to increase liquidity, to enable community financial institutions, to build lending capacity, to meet increasing loan demand, and fill financing gaps resulting from banks' retrenchment.

Access to treasury rate financing for business is critical and could be responsibly implemented through proven delivery systems of community financial institutions by earmarking some TARP funds for small business loans, either through banks or community financial institutions like AOC.

Section 103 of the TARP legislation states, ″In exercising the authorities granted in this act, the secretary shall take into consideration ensuring that all financial institutions are eligible to participate in the program without discrimination based on size, geography, form of organization, or the size, type, and number of assets eligible for purchase under this act.″

Mr. SCHRADER. You will have to wrap up, Mr. Brandt.

Mr. BRANDT. Recommendation two, utilize the SBA non-bank lending licensing capability to enhance the opportunity for small businesses to gain access to the SBA loan guarantee program. Thank you for your consideration of these recommendations. I'd be happy to answer any questions.

[The statement of Mr. Brandt is included in the appendix.]*

Mr. SCHRADER. Very, very good testimony. Sorry I had to cut you off there a little bit. But we have your written record, and I like the recommendations.

Well, let's go to Mr. Compton. Mr. Compton is president and chairman of Pioneer Trust Bank, in Salem, Oregon, one of the state's oldest banks, and the only locally-owned national bank in Marion County. Mr. Compton is a native Oregonian, graduated from South Salem High School and Oregon State University, stayed in his community, which I appreciate.

He's the third generation of Comptons to have served as president of Pioneer Trust, following his grandfather, H. V. And his father, Stuart. Mr. Compton also serves on the board of directors and is treasurer of the Oregon Law Foundation.

I welcome you to the committee, Mr. Compton.

STATEMENT OF RANDY COMPTON

Mr. COMPTON. Thank you, Congressman Schrader. And I'm also here with Mr. Nass from our office, as well, so we're doing this together. Hearing the testimony—excuse me, I have a frog in my voice, obviously. You know, we've been—Pioneer Trust Bank has been around since 1924. We cater to the small businesses. That's what we're all about. Listening to the testimony previously I think almost made me feel like I need to apply to the Federal Witness Protection Program.

But, you know, quite honestly, we certainly understand and respect the words that have been spoken today, because we don't necessarily disagree with the information at all. We are a small business as well. We employ 62 full-time equivalent employees. We're also a traditional bank. By meaning a traditional bank, we take deposits from the local businesses and the local customers, and then we turn around and lend them to the community.

So from that respect we support the local businesses, and we keep these loans. These loans are on our books. As a matter of fact, in the last year our loan portfolio is actually up seven and a half percent over last year. And we're probably one of the few banks that does that. But we do like to keep our loans.

We have kept a strong capital base, we've kept liquidity, and we do that to meet the needs for the community and for our customers. We agree that this is very important for community banks to do this. And what's happened over the last year or so, and actually it's gone on for quite some time, is the leveraging of the financial system.

There is this tremendous need for Wall Street that banks needed to increase profits to take the risks that they felt were out there, and we honestly did not agree with that philosophy, and we did not follow it. We made sure that we had sufficient resources on hand to take care of our community and take care of our customers; therefore, we didn't participate.

In any event, we did not take any TARP money. We will not take any TARP money. We stand independent of these plans. As a matter of fact, we were talking about this, and my predecessor prior to me had done one SBA loan; and he showed me the file when I was about Steve's age, and it was about this thick (indicated). And he looked at me, and he said, ″My advice is, if it's good enough to keep in our portfolio, it's good enough to stay there.″ And that's what we've done.

We've have a few that we've have an opportunity to work with Mr. Safstrom at the Mid-Willamette Valley Council of Governments. But I also think it's important, and one of the reasons why I asked Steve to come here, is—and thank you for allowing this to happen—is because when I was his age, I went through some pretty severe—

Mr. SCHRADER. You are making us sound very old here.

Mr. COMPTON. Well, I appreciate that.

Mr. SCHRADER. We're not that old, Randy. Come on.

Mr. COMPTON. It's that Hair Club for men, stuff like that, everything you read. No, but, you know, I've been through a few of these cycles. I understand and feel the need. Our responsibility as a bank is to, notwithstanding being involved with the community and being a member of the community, but to provide the credit needs for everybody in this community that we can take care of.

You can't take care of everybody. We're a small business. Our total assets are about $265 million. You know, in a bank that's been around since 1924, one would think that you would have billions and billions; but, you know, we love Salem, we're here in Salem, we get outside of Salem and I'm lost, so we make sure that we take care of the needs, and that's what we've been doing since then.

But, you know, we encourage people to deposit their funds with the community banks, because we turn around and relend it within the community. At least that's what we do, because, you know, where else are we going to go? We're not in New York. We're not in Washington. We're not in California. We're just in Salem.

So, you know, we work with our customers. And these times, which are very traumatic for everybody, and we've heard it all today, we want to make sure that we work with our customers. We do not leave our customers out in the dark. We want to make sure that they are well taken care of. If they have a need and they have a situation, we work through it.

We work with them. We sit down. Steve goes out, visits the offices of the people that he deals with, but he needs to hear and see this as well. I've heard it. I've seen it. I understand it. That's what made our bank the bank it is today. But for the future and for future management, we need to have folks like Steve hear these types of conversations, these meetings, participate, be a part of it, and learn from it, because that ultimately will make us a better, stronger bank for the future, to be able to meet the further needs and the future needs of this community.

And I'll just have Steve say a few minutes, since I, as he will testify, take most of the time anyway.

[The statement of Mr. Compton is included in the appendix.]

Mr. SCHRADER. Well, you did pretty good.

Let me just introduce Steve a little bit. And I appreciate there is a difference between the community banks that have always had prudent lending standards versus these big investment banks that got in the game, and I think unfortunately. So not all banks are created equal, and thank goodness for the work you guys have done for generations in the community. And we all, I think, recognize that.

Mr. Steven Nass is also here to testify on behalf of Pioneer Trust Bank, where he serves as assistant vice president. Mr. Nass is a native Oregonian, graduated from Willamette University in 2001 with a degree in economics.He's worked for Pioneer for the last eight years, risen from commercial loan officer to vice president. That's very impressive.

He was a four-year starter on Willamette's football team. That's pretty impressive. Played my son's Linfield team. He's active in numerous men's sports leagues in Salem, and also serves as a member of Salem Rotary. In addition he's a wish granter for the Make A Wish Foundation. Thank you for that very, very much. And please proceed.

STATEMENT OF STEPHEN P. NASS

Mr. NASS. Thank you, Congressman Schrader. I'll keep it fairly brief. You know, I've had the pleasure of working for Pioneer Trust Bank, as Randy mentioned, a small business itself, well capitalized, well managed. I am a small business lender. I'm out there making loans, trying to find good loans. Although these days I seem to spend more time collecting than actually making, which is frustrating.

But the bank has given me flexibility to modify, extend, do whatever we can to get additional access to capital for these small businesses that need it. It's a tough time. They just need to get through it, work on their plans. And as a bank, we've chosen not to use a lot of SBA lending, because we feel we lose that flexibility. We feel that we lose that ability to really get down in the trenches and help these small businesses.

And then I think with the restrictions on whether it's paperwork or whether it's fees or whether it's just the inability to even get your account balanced if you want to refinance, you know, as John Safstrom mentioned earlier, those are the things that we will feel as a bank we're able to offer non-standard loan products.

And I don't want to confuse anybody. I'm not talking about exotic stuff here. I'm talking about simple, straightforward loans that meet the customer's unique needs, because I guarantee there is 100 customers and they have 100 different ways to run their business. They are going to need 100 different loans, and that's what we're all about down at Pioneer Trust Bank.

[The statement of Mr. Nass is included in the appendix.]

Mr. SCHRADER. Very good. Thank you very, very much. And I think the one-on-one that your bank and other small community banks, you get to know the person. I used to know, way back when I started my veterinary business, and even when I started the farm I could go in and actually talk to a loan officer face to face, and you could size the measure of the man or woman in front of you and figure out if they are going to, you know, make good. It's an unfortunate change that's occurred over the last fifteen, twenty years.

Well, last, but not least, let's go to Mr. Rasmussen. James Rasmussen is CEO and president of Modern Building Systems, a modular manufacturing business started by his father in 1971. Modular Building Systems provides turn-key building solutions for single and multi-story buildings. Mr. Rasmussen also serves on the executive leadership council and the board of the Salem Chamber of Commerce.

He's a past board member of Modular Building Institute, which is the National Association for Commercial Mobile and Modular Companies. Jim is a graduate of Oregon State University, been married to his wife Colleen for 22 years, and has two daughters, Erin and Kaitland. Thank you for taking time today.

STATEMENT OF JIM RASMUSSEN

Mr. RASMUSSEN. Thank you, Congressman Schrader, for allowing me to come up and speak for the Subcommittee on Finance and Tax. Modern continues to do well in this down economy. We are not going to set any records this year, of course, and had to let a few people go over the last year. But looking over the last five years, our employment base is actually up from averages. We are also starting to see ERA funds flow to small businesses like my own company, as we are the recipient of a contract in the Hanford area, so we appreciate that.

Our business has not had a problem accessing capital so far in this market. I hope that stays the same. Matter of fact, right during the economic meltdown we were getting a loan in Sacramento, which was kind of the epicenter of the national meltdown for industrial property, to fuel our continued expansion where we lease buildings to various clientele.

What I see, knowing a number of banks, we do choose to bank with a community bank, but what we see is that banks are being just more careful. I don't believe that the capital markets are closed. Proof of lending for bare land in Sacramento would be good proof of that. The capital markets aren't closed. They are just more difficult than what they had been. My belief is that the underwriters were not probably doing as good a job as they should.

They were looking more at volume than they were at the underlying assets and balance sheets of companies. I also believe that banking is one of the most heavily regulated industries that exist, and it makes one wonder what the federal regulators were doing when you have the CEO of a former and nonexistent bank, Washington Mutual, on record as saying a thin file is a good file.

And to me that's what creates a bubble real estate economy, which kind of was the precursor for our poor overall economy that exists today. Now, you know, the federal regulators and FDIC banks are all being overly careful, probably, and that's what small businesses like myself are starting to feel.

TART money, I feel that it was a moderate success, and that it didn't allow—or it caused the bank system to stabilize. And, you know, we were in real fear of our banking system falling apart just six months ago, and we can't forget that. And I think that the Fed probably did a pretty good job in setting that system up to allow banks to take over other banks.

And you will notice that quite a number of banks have already paid back their TART money. Many Americans don't realize that TART money wasn't a loan. It was a purchase of preferred stock in those banks at a rate of 5 percent interest, which I would characterize as a wholesale rate.

What I saw is that caused the bank's average, you know, fund rates that they could charge their money, to go up, thereby raising consumer and business loan rates. As far as the SBA is concerned, Modern, over 38 years, we've really never used any of their programs. We looked at a 7(a) loan in 1992. Just too cumbersome. Found another way to do the financing of that project.

We have used the U.S. Export Assistance Center that helps small businesses and large businesses alike export to foreign countries. We've got buildings in Japan, China, all over the place, and I've found the U.S. Export Center to be very effective and extremely helpful.

So that said, they are part of SBA. Most of their other programs, though, we really don't use. The SBDCs I think are helpful, in that they help small businesses. If you are a widget maker and not necessarily a guy that knows how to write a business plan so that the Pioneer Trust Bank will provide the funding for that idea, they probably do a pretty good job. But for the amount of money that goes into that system, I think that the chambers of commerce and the Salem Economic Development Corporations of the world probably would be more efficient in the delivery of those services.

My feeling about a recipe for improving access to the capital markets is to just ease the regulatory environment to create an environment where companies feel like they are willing to take risks; and not just companies, but inventors and business people in general. That's what does create wealth in this country, and successful ideas in turn create jobs.

The other is to lower taxes. When you lower taxes, what happens is people will generally work a little bit harder, because they feel like the dollar is staying in their back pocket. And that's what gives them the incentive to go out and take those risks, to go, you know, live their dream, whatever their business opportunity is. And at the end of the day you don't feel like you are working through May to be able to just pay your tax bill.

And so I guess that said, my recipe for improving the economy is lower the tax rate and provide a level playing field for companies that are competing globally.

[The statement of Mr. Rasmussen is included in the appendix.]

Mr. SCHRADER. Very good. Very good.Thank you. Thank you. We probably don't have a lot of—we don't have any time, really, to ask any questions. I apologize to the panel for that. But a very good panel first to last, and hitting on a variety of different themes, some different points of view. It certainly seems like we can streamline things in SBA quite a little bit, provide, I think, some ongoing consistency in the programs, maybe even a few reductions, which would require some appropriations, which we can explore when we get back to Washington, D.C.

A lot of other really great, you know, comments here. My goal usually in these hearings is to listen to folks that are on the ground, not make this a top down, we know what's best for you approach, because you guys are in the trenches every day, and see if we can incorporate some of your suggestions, get you some of the legislation that we'll hopefully be putting back out in September or October, hopefully, after we get back from my so-called recess.

At this point I'll ask unanimous consent that members have five days to submit a statement and any other supporting materials they want for the record. Ms. Wilmes did a great job. Thank you very, very much on that.

Without objection, so ordered, and really appreciate everyone's attendance. At this point the meeting is adjourned.

[Whereupon, at 10:00 a.m., the subcommittee was adjourned.]

Testimony to Congressman Kurt Schrader(D-OR-5)
Harry DeWolf District Director, Portland District Office
Aug 4, 2009

Congressman Schrader, Thank you for inviting me to testify today. As the District Director of the United States Small Business Administration's Portland District I have responsibility for the central and western 30 counties of Oregon and 4 southwest counties of Washington. My staff of ten is working very hard with our banking partners, 21 Small Business Development Centers (SBDC's) and 6 Chapters of SCORE volunteers and also our community leaders to assist the nearly 300,000 small businesses in the state.

With the assistance of our partners, I am very proud of the results we have been able to consistently achieve even in these challenging economic times.

To date, SBA has guaranteed 632 SBA loans valued at $143 million in the Portland District. Over 50% of these loans went to veterans, women, and minority small business owners. And 22% went to our rural communities.

Thanks to the funding and program changes provided in the American Recovery and Reinvestment Act (Recovery Act) the SBA has been working to unlock the small business lending market and get much needed capital flowing again to America's small businesses.

Nationally and locally the results are showing positive trends:

- **Nationally Loan Volume Has Increased More than 45 Percent:** As of July 17, SBA has supported $7.4 billion in small business lending[1] with the approval of $5.4 billion[2] in loans since Feb. 17. Weekly volume is up over 45% compared to the weeks preceding the Recovery Act.

- **In Portland loan volume has increased 40% during the same time period.**

Nationally

- **Lenders Are Returning to SBA Programs:** From Feb. 17 to July 17, more than 750 lenders that had not made a loan since Oct. 2008 made 7(a) loans. Of those, more than half had not made a loan since at least 2007.

- **Broad Support to Small Businesses:** A significant share of loans supported by Recovery Act funding has gone to rural (26 percent), minority-owned (20 percent), women-owned (19 percent), and veteran-owned (9 percent) businesses.[3]

- **Secondary Markets Uptick with 7(a) Loans:** After months of reduced activity and lower premiums, the SBA 7(a) secondary market is picking up and premiums are beginning to recover. For example, nearly $360 million in 7(a) loans settled in June, lifting the secondary market closer to historical levels and providing lenders with additional liquidity to increase lending.

- **ARC Loans Reaching Small Businesses:** As of July 22, SBA has approved more than 700 ARC loans totaling $22.8 million, and weekly loan approvals are consistently increasing.

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[1] Gross loan approval value. Typically, due to cancellations and loan amount reductions, 15–20% of gross approvals are not disbursed.
[2] Includes estimate of 504 third-party first mortgages (calculated as 125% of SBA 504 debenture portion due to the typical "50/40" split between the third-party and SBA portions of a 504 loan)
[3] Demographic data is self-reported on loan applications; categories are not mutually exclusive.
[4] Temporary authorization under the Recovery Act.
[5] Temporary authorization under the Recovery Act.

- **In Portland there have been 12 ARC loans made so far, totaling $420,000**

Other SBA Recovery Programs:

To date, SBA has implemented programs for nearly all of the $730 million in SBA Recovery Act funding, including:

- **Eliminating and reducing fees** for borrowers on 7(a) loans and for borrowers and lenders on 504 loans.[4]
- **Raising to 90 percent the guarantee on 7(a) loans** from 75 percent and 85 percent depending on the size of loan.[5]
- **More than doubling the surety bond guarantee** from $2 million to $5 million, providing small businesses with another tool to help them compete for federal construction and service contracts.[5]
- **Additional funds available for Micro lending.** The SBA has used FY 2009 budget funding for the miroloan program to increase Portland microlending funds to $1.1 million. We are also working to expand our network of nonprofit microlending intermediary partners, and will begin using Recovery Act Microlending funds shortly.
- **Providing refinancing opportunities** for certain eligible expansion projects in SBA's 504 loan program.
- **Expanding access to investment capital** for small businesses by increasing funding levels for SBA-licensed Small Business Investment Companies.

The SBA has also implemented two new programs that complement the Recovery Act measures and increase access to capital for small businesses by:

- **Expanding 7(a) loan eligibility to more than 70,000 small businesses** through a temporary alternate size standard.
- **Offering inventory financing** for eligible auto, RV, boat and other dealerships under the new Dealer Floor Plan Financing pilot program.

These are challenging times for everyone. These are also times of opportunity. Many business owners I speak to are taking this time to refine their business model, rewrite their business plan, streamline their business practices, get rid of old inventory that had stockpiled, and sometimes change their business all together.

Many of today's most successful companies were created and have survived during much more severe downturns. Innovation thrives during difficult times. A large number of Fortune 500 corporatiốns started during the Great Depression of 1930's, such as Texas Instruments, Hewlett Packard, 20th Century Fox and United Technologies. During the oil shock & stock market crash of 1973-1976, Microsoft, Genentech and Apple were started. The biotech and personal computer industries were created when the stock market was down nearly 50% and inflation was headed into double digits. In the early 80's mortgage rates were nearly 21%, yet E*Trade, Sun, Autodesk, Adobe, EA and Symantec were created. Theses companies did not sit on the sideline; their founders saw needs and opportunities and filled them. Companies such as McMenamins, Columbia Sportswear, Mo's Chowder, and Demarini Sports are just a few of Oregon companies the US Small Business Administration has assisted either through its loan guarantee programs or through its strong network of partnerships to provide counseling and training.

Thank you again Congressman Schrader for this opportunity. The Small Business Administration appreciates your leadership on the Small Business Committee and we look forward to working with you to support the nation's small businesses.

[5] Temporary authorization under the Recovery Act.

Testimony, August 4, 2009

I own and operate Mississippi Studios Concert Venue, a small business in North Portland, in the recently economically redeveloped Historic Mississippi Commercial District. I employ eighteen people in a historically risky, volatile, yet culturally important arts industry.

We underwent a seven-month renovation in 2008 in order to expand to an economically sustainable size (from 2200 to 4200 square feet) and establish a food & bar profit center that would support our main product, live music. The timing of this expansion turned out to be unfortunate: the fuel crisis of the summer of 2008 caused building expenses (especially steel and cement) to almost twice what they had been only a few years earlier.

Other unforeseen building expenses included the necessity of having to move our water, sewer, and sprinkler lines, all of which involved separate digs, street blockages, delays, and extra fees to the city.

Once we were expanded and reopened (March, 2009), the economy turned sour and we faced a dirth of available touring bands, patrons, and sponsorship money, the three main components of success in the industry. Although the spring months went fairly well, summer (the dark months for indoor music) literally came early and cast a longer, darker shadow on our business than we had anticipated.

I tried in vain to capitalize our efforts to get through the summer , seeking traditional funds. While the hope of support from the PDC presented a distant light at the end of the tunnel, immediate funds did not seem attainable to help us through the short term.

Albina bank had procured us an SBA loan to fund the core of our construction budget, so naturally I searched there for some summer capital, and at first was turned down. But when the ARC program came about, I was informed that there might be some relief for small businesses suffering from the economic crunch.

The ARC loan we received came just in time for us. There was very little bureaucratic friction, and the paperwork seemed sensible and easy to understand. The loan funded quickly and literally kept our doors open for the summer, kept my workers employed, and kept our business open as a magnet to the economically redeveloping neighborhood.

Jim Brunberg, owner Mississippi Studios

jim@mississippistudios.com 503.421.9165

Sheryl Southwell Testimony
Subcommittee on Finance and Tax Hearing of 8/4/09

We are a manufacturer based in Woodburn, Oregon. For more than 40 years we have been supplying water based polymers to companies that make products such as paint, deck coatings, concrete coatings, as well as wood doors and windows. As the recession hit, our business was hit.

Over the past two years we have had to cut, cut and cut some more. At the beginning of 2007 we had 144 employees, as of today we have 83 – that is 61 people – 61 family wage manufacturing jobs that are gone. And quite frankly I am not sure when, if ever, they will come back.

We don't spend any money unless it is absolutely necessary – I don't care if it is for raw materials, printing literature, buying promotional products, taking a customer to dinner, or the cleaning of our office building. If it is not critical to our business, we don't do it. There is absolutely nothing – zero – being spent on equipment; no pumps, no piping, no stainless steel mixing tubs. We have had to suspend donations to local agencies and causes that we have supported for many years.

We know that the lost jobs impact our community. We know that not buying goods and services from local suppliers impacts our community. We know not being able to donate to local agencies impacts our community. But this is the reality the economic climate today.

Business requires access to money. The news tells us daily the challenges of the credit markets. It is harder to get, and more expensive. We have worked closely with our bank, but it has cost us more money than in the past.

Several years ago, we looked at an SBA loan to help finance a particular project. This was done in conjunction with our bank. It was discouraging – the SBA provided no solutions to a manufacturing business our size. There we no options for us – our size, the capital intensive nature of our business, coupled with the burdensome requirements made it impossible. Specialty Polymers is classified as a small business, but we did not seem to fit the profile the SBA was designed to serve.

As Congressman Schrader indicated in his announcement for this hearing, small business provides jobs to 57 out of every 100 Oregonians. These small businesses are personally committed to their communities. They buy from local suppliers, they pay taxes, they donate to local agencies. Our employees spend their money in our local cities and towns. When small businesses suffer, it greatly impacts the community.

I know many small business owners; myself included feel that the bail outs and the stimulus plan has passed them by. There was nothing in these plans to support small businesses. If we are going to work our way out of this recession, small business has to be healthy. And there needs to be a clear understanding that small businesses come in all shapes and sizes. The SBA needs to be able to provide solutions for the "bigger" small businesses.

Testimony of:

Ms. Wilda Parks
Director
North Clackamas Chamber of Commerce

Thank you for the opportunity to speak today on behalf of small business in the Metro area, and State of Oregon.

The North Clackamas County Chamber of Commerce represents over 600 member accounts with over 26,500 employees in the North Clackamas area.

Our main goal as a Chamber of Commerce is to ensure a strong local economy. Almost 70 percent of our membership, similar to many business associations in Oregon, is small businesses, with less than 25 employees. Only seven percent of our members have 500 or more employees.

There are many factors that, working in synergy, assist in the development of a strong local economy. As the backbone of the economy, small business plays an integral role in that development. But, as small business struggles to meet the demands of today's world of competition, technology, shortages of qualified labor pools and financing, the dangers to all aspects of our communities grows greater. It's difficult for business to flourish while dealing with all those factors, and almost impossible if any one of them overrides the others. Without access to capital, to meet payroll, purchase raw materials, or for a new warehouse where more jobs would be created, new or expanded office, or something as seemingly simple as a new or enhanced telephone system, small business withers, and, in turn, the local economy struggles more. The system falls apart.

This is a time when stepping up both the borrowing process and the opportunities are needed. With the rewriting of the Small Business Administration Authorization Bill there is opportunity to redefine lending procedures while also seeking innovative ways for business to access funds they need. A business person should not have to max out their personal credit card to be able to run their business successfully, nor use their life savings to expand a successful product line.

Lending institutions need more ability to provide loans with an assurance that their repayment is secure. The Small Business Administration (SBA) loan program through America's Recovery Capital (ARC) program is an example of how to achieve the goal of financing business. But, does it do enough and will it be in place long enough to make a difference?

According to a recent article by Mark E. Battersby in the Costco Connection, these loans give small business some temporary relief. The loan amounts are only up to $35,000 and are meant for short-term relief. And, they are not for start-us, but rather, for those with immediate financial concerns.

There are state programs in Oregon; the Capital Access Program, Business Retention Program, Business Development Fund and others, but do they provide enough access and target the right businesses? Now is a time when your research on the Federal levels can also assist programs and decisions made at the state and local levels.

According to USA Today, four in 10 small business owners are still not able to get the financing they need to run their businesses. That's a marked increase over nine months ago. Banks have not yet loosened the strings on loans, even when backed by SBA or state programs.

In our Chamber alone I can tell you of a Transit Oriented Development, providing housing for the new breed of commuter who will take public transit to job sites, that almost wasn't constructed because of the lack of financing. After months of exhaustive efforts, for a program fully approved and partially financed by state funds for transit development, this company was able to find out of state bank financing to secure this project. This one project will mean development and construction jobs, housing, a new way of life for dozens of residents and future residents, while it also helps meet our state and federal guidelines for reduction of emissions.

Another business, a health club, finally found financing for an expansion of their facility; adding new opportunities for healthier lifestyle for residents of unincorporated Clackamas County.

There's the cheesecake baker who uses her home kitchen to turn out hundreds of the most incredible cakes, and is currently unable to get financing to open her store front shop.

From manufacturers and ware-housers, who want to expand, add machinery, add jobs, add technology to the silk-screener and the life style coach who want something other than a home based business, there is a need for additional financing opportunities.

Too many of our businesses are supporting their livelihood by maximizing their credit cards, paying large payments with exorbitant interest rates and facing declining lines of credit. Not enough banks are yet willing to make loans to small business or even maintain lines of credit and loan agreements.

Dr. Thomas G. Jones, professor at Marylhurst University and Clackamas Community College, instructor for the Clackamas Small Business Development Center, and noted futurist, says "Small business is a vital cog in the economic engine of the United States economy and a vibrant source of innovation. But it is much more than that. For millions of Americans, their small business feeds the soul, energizes the intellect, and pays the rent. But even beyond those satisfying elements, small business provides a canvas for self-expression and a harbor of humanity in an increasingly automated and impersonal world."

However, Jones also goes on to say, based on his research and abilities to understand the dynamics of small business, "This will be the first time in economic history that small business is **not leading** us out of a recession, primarily due to its lack of access to financing and the lack of relief for toxic assets for small business."

On average, each small business has sixteen other small businesses they deal with. When one business fails the dominos continue to fall, to depths we cannot imagine. When one business lays off ten people their loss of income is magnified tens of hundreds of times over. Dr Jones notes, "While the global economy is in trouble the global village must endure." A strong local economy must focus on all aspects of business, not just jobs, but all ways in which business interacts with each other to be successful.

I submit to you Congressman Schrader, we cannot permit failure to happen. We cannot permit the spiral of loss. Congress has an opportunity now to write the future differently, and I urge you to take a lead in crafting a small business financing plan that provides opportunity for all and access to those who need it. Let's let small business lead us.

STATEMENT

by

Mid Willamette Valley Council of Governments

on

The Small Business Administration

504 Loan Guaranty Program

Expanding Small Business Access to Capital

Submitted to the

SUBCOMMITTEE ON FINANCE & TAXATION

COMMITTEE ON SMALL BUSINESS

UNITED STATES

HOUSE OF REPRESENTATIVES

by

John F. Safstrom
Loan Program Manager
Mid Willamette Valley Council of Governments
August 4, 2009 Salem, Oregon

Mid Willamette Valley Council of Government is pleased to provide a statement to the House of Representatives Subcommittee on Finance and Taxation about our proposals to improve access to capital by small businesses.

The Mid-Willamette Valley Council of Governments is a voluntary association of local governments in Marion, Polk and Yamhill Counties that provides a number of key development services to cities and counties – such as land use planning, regional economic development planning, public infrastructure development assistance, as well as a variety of small business finance programs to business regionally and statewide.

The COG is organized as a public agency and is governed by a board of 19 local elected officials. Many of the programs of the COG are overseen by various policy boards often made up of both elected officials and business leaders.

In 1983, and in cooperative effort between MWV COG and two neighboring Councils of Governments, Cascades West Financial Services, Inc. (Certified Development Company) was founded **to provide the US Small Business Administration's 503/504 loan programs.** Currently Cascades West is the largest Oregon based CDC with a portfolio of $77.7 million and 186 SBA 504 loans.

Cascades West Financial Services is a member of NADCO, a membership organization representing the Certified Development Companies (CDCs) responsible for the delivery of the SBA 504 program. NADCO has 260 CDCs and more than 200 affiliate members, who provided more than 98% of all SBA 504 financing to small businesses during 2008. NADCO is Cascades West Financial Services link with SBA and Congress to work on issues and concerns with the SBA programs. Cascade West Financial Services and the other CDCs share a mission of community and economic development achieved through the delivery of the SBA 504 and other economic development programs and services that are customized to the needs of their respective communities.

CDCs work closely with SBA and their lending partners (generally banks and federal credit unions) to deliver what is certainly the largest and most successful federal economic development finance program in history (over two million jobs, $44 billion in authorized 504 loans and the leveraging of over $50 billion in private investment since 1986).

We would like to thank Chairman Schrader and the entire Sub-committee, for continued support of small business in America and the 504 program.

We believe our proposed changes will improve the 504 program in order to increase access to long term capital by small businesses, during and following this recession.

Reduce 504 Program Costs for Small Businesses:

SBA informed us that its 2010 budget increases the cost of the 504 program by 38.9 basis points per annum. **This is due to at least two factors in the SBA's "econometric" subsidy model: the national** unemployment rate and the forecast of the 504 default rate.

These factors are impacted by the current recession, their real effect is expected to be short-lived, so we ask the Committee to consider requesting an appropriation sufficient to offset this fee increase for the next two years as small businesses return to a growth mode and improve their cash flow to pay increased program fees. We request this be taken up as soon as possible in order to negate the impact of this subsidy fee increase on our borrowers for FY 2010. It does not seem right in this economy to give small businesses fee relief from the Stimulus Bill in February 2009 and turn around and increase their cost of borrowing in October 2009.

Background:
Since FY 1997, the 504 program has been at zero subsidy; that is to say, fees paid by small business borrowers, CDCs and first mortgage lenders have covered the entire cost of the program. Until passage of the stimulus bill in February of this year, no taxpayer funds have been appropriated for the program in over ten years. While our CDC industry association requested a more detailed discussion with **SBA's subsidy experts, an analysis of the OMB Federal Credit Supplement reveals that SBA is** projecting that loan defaults for 504 will increase from 3.5% for FY 09 to over 7.3% for FY 2010. Together with the unemployment rate increase, these two factors may well account for the majority of the fee increases over the next two years.

We are concerned about this forecast of the program default rate. Surveys of our CDC industry association membership and information on bank credit underwriting lead us to a very different conclusion than the SBA has drawn for this critical factor. In fact, both bank's **AND SBA's own** underwriting of 504 loans have become far more conservative duri**ng this recession. The "credit box"** has become much tighter, and only the strongest small businesses are now qualifying for new loans. Further, with most businesses more carefully husbanding their cash, demand for fixed plant expansion is coming from only the stronger small businesses. Finally, appraisers have become much more conservative in their valuations of commercial real estate, making expansion capital of any kind much more difficult to obtain.

Combining all these factors, it is clear that the FY10 loans we make to small businesses may be among the best and most conservatively underwritten in the twenty-two year history of 504 lending. Our industry association strongly believes that loan defaults for the 2010 loans will substantially <u>decline</u>, not go up, as now forec**asted by SBA's subsidy modelers.**

If nothing is done by Congress, the result will be identical to what occurred in FY 1997 when OMB grossly overestimated the defaults and cost thousands of small businesses millions in inflated guarantee fees. In FY 2010 we will see borrowers paying unnecessarily high program fees at the worst time: when they need access to affordable 504 loan capital so they can preserve their cash for working capital to undertake their company expansion and create jobs. With inflated guarantee fees for both FY 2010 and 2011, almost 20,000 small businesses will pay millions in extra fees to SBA over the entire twenty years of their 504 loans. The 504 program will become less and less effective for small businesses creating new jobs.

The only way to restore the fairness of this subsidy process is for Congress to step in and appropriate sufficient federal funds to offset these fees. We request this be taken up as soon as possible in order to negate the impact of this subsidy fee on our borrowers for FY 2010.

<u>Reach Out to More Small Businesses With New Capital:</u>

The Congress and the Obama administration have worked hard to put more fixed asset and working capital in the hands of small businesses hard pressed by this recession. Our thanks to both for taking a leadership role by adding key programs to the stimulus bill earlier this year that are beginning to impact capital access and job creation.

The 504 program loan eligibility and underwriting policies set forth by SBA that are so critical to maximize the effectiveness of these programs were drifting towards more conservative interpretations on numerous issues. We support a number of recommendations to truly expand the availability of 504 funding to more small businesses. These include:

Increase the maximum 504 loan size: We request that the limit for a regular 504 loan be increased from $1.5 million to at least $3.0 million, and the limit for critical public policy loans go from $2.0 million to at least $4.0 million. Commercial real estate construction costs have increased substantially in the last five years, and the program benefit must keep up with these costs for small businesses.

Allow use of home equity lines of credit for owner 504 equity access: SBA had moved to restrict 504 borrowers from using proceeds of their home equity lines of credit for their cash injections into their 504 projects, a practice used for over twenty years with no documented increase in credit risk. While this new SOP change has been temporarily placed in abeyance, we are seeking a more permanent solution to this issue. We request that this option for use of borrower's home equity lines be continued through legislated guidance to SBA. In our experience most growing earlier stage businesses use home equity lines of credit for a source of business working capital, down payments on equipment and any and all other business uses. In a very real sense business owners are "all-in" with sources of financing. SBA restricting use of a home equity loan does not fit the reality of the entrepreneur.

Assist businesses in low income areas: We request that the benefits of the public policy loan limits be made available to small businesses located in low income areas, to include those that would be eligible for new markets tax credits. Many traditional lenders have moved away from making loans in these areas due to perceived added risk. More capital must flow to these small businesses that create jobs in areas of low income and extremely high unemployment. This is a core mission of the 504 program.

Combine the benefits of certain public policy goals: Small businesses owned jointly by minorities, women, or veterans (all now individually public policy qualified) should be able to qualify for a **"combined" benefit if they own at least 50% of the business, rather than the current regulatory** restriction of 51%. This will enable many more small firms to obtain added capital.

Maximize both 504 and 7(a) loan eligibility for a borrower: Small businesses typically need added working capital when building a new larger 504 project, yet this is frequently restricted under current SBA regulations. Particularly in this credit crisis, we must make this capital available for inventories, salaries and business operating expenses, in ADDITION to the funds for the building construction.

Uniform leasing policy: Small businesses should be able to lease out 50% of their space, whether it is newly constructed or an existing building, for both the 504 and 7(a) programs, and this will actually reduce credit risk while providing added potential expansion space for these growing firms well into the future. This change is especially important in rural communities where a doctor or a dentist may not be able at first to use the entire space.

Acquisition of stock: Some small businesses being acquired by new owners should be allowed to make the fixed asset transfer through a stock sale, so long as the assets are 504 eligible. Our experience is that this change allows a business acquisition be constructively structured—fix assets financed with long term debt and reasonable payment schedule, rather than a "patch-work" of conventional short term financing with large payments. Frame this 504 program change to a real situation we had two years ago with a management teams' purchase of a family business—the competing buyer would sell the current contracts in place, move the equipment to China, while laying off 30 to 50 employees in a small rural town; the SBA 504 application was denied as ineligible because the purchase agreement transferred the company stock to the buyers when they purchased the fixed assets. SBA deemed the transaction was a purchase of stock, not a fixed asset purchase. So the local back went ahead with a variety of short term loans and risky schedule of repayments—today the business is a weaker working capital position and a slow economy.

Definition of "rural" areas: SBA continues to apply outdated population parameters to rural areas, which restricts 504 from assisting rural borrowers through public policy loans. We request that the **more current USDA definitions of "rural" areas be applied to SBA programs to increase the** availability of capital in these areas.

Allow Refinancing of Conventional Bank Loans: Allow the 504 program to be available to refinance existing conventional bank loans, especially loans with 5 year call provisions, in the process freeing equity and working capital.

This last suggested change comes from concerns that as the banks for these companies fail or substantially tighten their lending standards; performing loans to good companies are being called, forcing historically good small businesses with performing loans into foreclosure and causing jobs to be lost. These companies chose this type conventional financing when commercial mortgage backed securities industry was active, now the capital markets are frozen and banks are restricting lending. Refinancing with the SBA 504 loan structure is a sustainable alternative—the company gets a fixed rate, lower than market rate of interest, over 10 or 20 years and the bank has a loan structured for the commercial mortgage backed securities industry when these capital markets recover. We support this win-win for businesses and banks. Now we need a **"time is of the essence"** SBA regulatory change.

Control and Reduce Loan Losses for the 504 Program:

Loan defaults and losses have increased for 504, as for all other commercial lending – both public and private – during this recession. It is imperative for changes to be made to control these losses in the future. We make the following recommendations to address this goal:

CDC responsibilities for loan liquidation and recovery: **SBA's limited liquidation staff is being** overwhelmed with loan defaults, which is leading to higher loss rates for 504. In turn, this will result in higher subsidy costs and fees for future borrowers. We urge Congress to enable qualified CDCs to perform liquidation and recovery work, and require that SBA simply compensate CDCs for staff liquidation work from the certain increased recovery amounts, as their own regulations require (which have not been funded by the Administration).

Additional equity injections: To reduce debt service costs, some borrowers would like to have smaller private bank first mortgages (always at a higher cost to the borrowers **than the federal government's** second position) and larger 504 second mortgages. We request that the requirements for bank participants be more flexible to reduce overall project debt costs, which will enable borrowers to save cash for working capital, and almost certainly result in lower delinquencies and loan defaults.

Collection and accounting for defaulted 504 loans: We request that accounting for defaulted 504 loans, as well as new secondary work-out **loans with borrowers, be continued at the program's** efficient and highly automated Central Servicing Agent. This will result in timely, accurate loan accounting and portfolio servicing, and enable CDCs to service these notes more rapidly and effectively. This will both reduce costs for SBA and increase overall recoveries from 504 defaults.

Make SBA Programs More Relevant and Productive:

Loan volume for both the 504 and 7(a) guarantee programs has improved since passage of the stimulus act, but many of those benefits are just now being implemented by the SBA. However, in spite of the stimulus bill, both programs are still down as much as 40% from their highest levels two years ago.

A substantial part of this volume loss is clearly due to this historic recession with small businesses pulling back on demand for long term capital. But part may also be due to SBA, and even our own lending industries, failing to fully respond in innovative new ways to the ever-changing needs of small business financing. As we have seen with our inability to convert equity to working capital, and the **ever more conservative policies on loan programs, it is possible that SBA's programs are becoming** less relevant as small businesses are pushed to find other, and often more expensive, means of funding their growth and job creation.

Each of these guarantee programs is over twenty years old, and an environment of restrictive and potentially unnecessary regulations has evolved within the Federal bureaucracy. With this new administration, and the fresh thinking from senior policymakers it is attracting, this is an opportunity to break out of some of **the old program's structure and bureaucracy. We see the chance to work with this** new leadership team, and with the new Congress to expand the reach of the many benefits of both 504 and 7(a) to more borrowers with different capital needs in new and leading edge industries that will be the job creators for the next fifty years.

In order **to begin a "re-thinking" of the program, its ability to serve small business, and an expansion** of its benefits, we believe that there must finally be established the organizational parameters and control guidelines for Certified Development Companies that deliver the 504 program to the nation. The very definitions of our industry and its financing services should not be left to the sometimes arbitrary **evolution of regulations that are designed to control the "lowest common denominator" of the** program.

Our CDC industry association carefully evaluated the existing industry structure and concluded that there is a need for codification of key facets of the industry and key program components. We request consideration of the following recommendations to firmly establish guidelines for our industry:

Certified Development Company structure: **Low cost program delivery is at the core of 504's benefits** for small business borrowers. As SBA and our industry seek to grow the delivery organizations for 504, the program should continue to be delivered by not-for-profit, community-based organizations that are focused on economic development in their local areas. We strongly support NADCO's series of recommendations that address this goal, and through codification, make it an absolute requirement for all new CDCs. Some of these recommendations mirror beneficial SBA rules, while others are **completely new requirements that will maintain the advantages of today's low cost delivery of 504.**

For over 20 years the staffs of our COG, Lane and Cascades West COG's provided CDC management, 504 loan marketing, loan underwriting, loan closing and loan servicing with a low cost, collaborative, and unique delivery model. SBA changed the CDC operations regulations, dictated one type of operational structure for all, disregarding **CDC's collaborative** community based operating model. The resulting costs to our CDC were unnecessarily borne, potentially crippling and are ongoing until SBA regulatory changes are made. We are not alone as there are other similar community based models also impacted by these regulations. The proposed changes in the SBA reauthorization bill to allow our CDC to go back to our successful operating model. We cannot emphasis how important this one change is to our low cost delivery of economic development lending to small business borrowers.

CDC management and ethical structure: With the recent corporate **"implosions"** in the financial services industries that led to many of the reasons for this credit crisis, we support NADCO that there must be codified requirements for the ethical and service standards of the CDC industry. CDCs have a long history of focus on community benefits, rather than the profit goals of traditional private lenders. In order to maintain this focus, we urge that our recommendations be implemented to maintain these standards for the benefit of our future borrowers.

Multi-state service by CDCs: Some of the current industry structure has evolved on a haphazard basis **without careful consideration of small business needs in individual communities. "One size" does not** fit all communities, and the expansion of CDC services must be carefully structured. Our industry association makes a series of recommendations to enable Congress to provide definitive guidance for the future. For example Oregon has 5 Oregon community based CDCs; and now 3 large out of state CDCs that are not community based. At the very least, the recommended changes state the money made in the state by the large out-state-CDCs must be used in the state for economic development, which does not happen currently.

504 Debenture definition and clarification: The key component of the 504 program benefits is access to the capital markets **for long term loan funding. Our low cost of debt is derived from the program's** long term consistency of its funding **security structure. Our security's portfolio performance has led to** investment attractiveness by a very broad segment of major corporate investors and financial institutions, based both in the U. S. and overseas. This belief in our consistent performance and portfolio structure has directly led to lower interest rates for many years. For example, in spite of this credit crisis, our July 2009 interest rate for our borrowers was the second lowest in the twenty-three year history of 504. So even as Fortune 500 corporations are having trouble finding funds at ANY cost, **the 504 program continues to function as the "window to Wall Street" for thous**ands of small businesses; providing funds on long terms and at the lowest possible cost.

The consistency of the funding security, known as the Development Company Participation Certificate, must be maintained in the future, regardless of the political changes that occur from **administration changes. Modification of our security's terms will result in increase**d interest costs for our borrowers. We support NADCO's request that Congress maintain the stability of our funding mechanism by codifying the payment schedules of principle and interest for our securities. This will **remove the potential uncertainty of the borrower's payment streams, maintain the low interest rates,** and insure long term access to the credit markets.

CONCLUSIONS:

For many years, 504 has been an extremely cost effective capital access program for thousands of growing small businesses that are the core job creators of the American economy. The program was in such demand that for several years its growth rate exceeded 20% each year. As the country slid into recession, many small business owners decided they could not take a risk of continued growth of their firms, so they stopped borrowing all but the necessary working capital to maintain their existing operations.

It is anticipated that "the dam is about to break". That is to say, many small businesses are concluding that an economic turnaround is beginning to happen. You can see it in the growth of the investment markets. We can see it in the calls we get about the loan program. Our "pipeline" of loan projects is beginning to come back.

The 504 program is over twenty-two years old, in its basic form. But the need for long term capital has not changed in those years, and 504 remains as relevant and important as the day it came out. We are not proposing a radical change of direction for 504, but an incremental update and upgrade of a very successful capital access program that for over ten years has cost the taxpayer nothing.

The proposed changes make 504 an improved source of capital at just the right time for our economy, as small businesses begin to ask for long term fixed asset and plant expansion funding. With these changes, and rapid implementation by SBA, 504 will be just the right program at just the critical time for small businesses. We ask Congress to pass these recommendations, and work with SBA and our industry association (NADCO) to help restore the American dream of business ownership and entrepreneurship.

Thank you for your support.

CREDIT UNION ASSOCIATION
of Oregon

Testimony of Rick Hein
President/CEO of OSU FCU, Corvallis, Oregon
Representing the Credit Union Association of Oregon

Congressman Schrader and Members of the Committee, my name is Rick Hein, and I am the President/CEO of OSU Federal Credit Union located in Corvallis, Oregon. We are a full-services, not-for-profit financial cooperative offering a variety of products and services to our members, including a full line of services for small businesses. OSU Federal serves 61,000 members in Benton, Linn, Lincoln, Marion, and Polk counties. Our dedication to service goes well beyond financial solutions—it extends to our communities in which we live and serve, as we pursue stewardship to our environment, leadership in volunteerism and philanthropy, and outreach to improve financial literacy.

America's small businesses are the engine of growth of our nation's economy. The effects of the subprime mortgage crisis have spread to all types of lending, resulting in a decrease in the availability of business credit. As Congress continues to consider ways to help the economy recover, Oregon credit unions support the elimination of the statutory cap on credit union member business lending (MBL).

Last week, Representatives Paul Kanjorski and Ed Royce introduced H.R. 3380, the Promoting Lending to America's Small Businesses Act," which would increase the credit union member business lending cap to 25% of a credit union's total assets, raise the "de minimis" threshold for a loan to be considered a "member business loan" to $250,000, and exempt loans made to non-profit religious organizations as well as loans made in qualified underserved areas from the cap. These changes to the current statutory restrictions on credit union member business lending will give credit unions currently serving the lending needs of their business-owning members the opportunity to help even more, and it will encourage credit unions that do not currently offer these loans to consider investing the necessary resources to do so. We look forward to its enactment.

The cap on credit union member business lending (currently 12.25% of the total assets of the credit union) has no economic, safety and soundness, or historical rationale. The cap was enacted in 1998; and after a decade, it is time to remove this arbitrary restriction. Credit unions have been lending to their business-owning members for a century. Net charge-off rates for credit union business loans are lower than charge-off rates for business loans made by banks. And, at a time when some lenders are withdrawing credit from America's small businesses, it makes economic sense to restore credit unions' full ability to lend to their business-owning members.

If there was no statutory cap on the amount of business lending a credit union could lend, the Credit Union National Association estimates that credit unions could make up to an additional $10 billion in business loans in the first 12 months. This represents significant economic stimulus that does not cost the taxpayers a dime and does not expand the size of government.

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AMERICA'S CREDIT UNIONS

Eliminating or expanding the limit on credit union member business lending would expand business lending access to many credit union members, thus helping local communities and the economy. While we support strong regulatory oversight of member business lending, there is no safety and soundness rationale for restricting credit union member business loans as the law currently does. There is however, a significant economic reason to permit credit unions to lend without statutory restriction, as they were able to do prior to 1998: America's small businesses need the access to credit. As the financial crisis has worsened, it has become more difficult for small businesses to get loans from banks or maintain the lines of credit they have had with their bank for many years.

If Congress increases the MBL limits, it will make it possible for some inactive credit unions to enter the market and begin offering MBLs. One problem with the current 12.25% limit is that it prevents some credit unions from obtaining a portfolio size and generating income sufficient to support the up-front investment in expertise and overhead associated with expanding into this market.

A higher limit would alleviate some of that pressure. Second, some credit unions currently approaching the 12.25% limit would feel less constrained about increasing their efforts. Expanding access should help to maintain small business access to credit and should help to ensure that economic growth remains robust. Increased business lending activity would be accomplished through growth in business services and through portfolio adjustments. Existing consumer services would not be affected. In fact, the portfolio and revenue diversity afforded by increased business lending often helps credit unions strengthen services to their consumer members. Expanding the credit union business lending limit would increase the options available to small business, and it would make loans available to many businesses, especially very small businesses that currently are unable to obtain credit.

Oregon Business Lending

According to the Credit Union National Association's (CUNA) Department of Economics and Statistics, at the end of 2008, 44 of Oregon's 83 credit unions reported outstanding balances of member business loans (MBLs). The average member business loan granted at an Oregon credit union in 2008 was $284,624, and the market share of business lending for Oregon credit unions is 4.73% compared to 95.27% for banking institutions. Finally, Oregon credit unions have a total balance of $758 million in member business loans compared to roughly $15.3 billion in total business loans for Oregon banking institutions.

Conclusion

Credit unions are, by definition, locally owned and controlled with local decision-making and a strong service-oriented philosophy. Member-owned credit unions are a natural choice for business owners faced with challenges getting access to credit.

We hope that Congress will eliminate the statutory business lending cap entirely, and provide our Regulator with the authority to permit a credit union to engage in business lending above current limit if safety and soundness considerations are met. This is economic stimulus that would not cost the taxpayers a dime, and would not increase the size of government. We also support revising the statutory floor on what constitutes an MBL from the current $50,000 to a more realistic level of at least $250,000.

For many credit unions, however, the current 12.25% member business loan (MBL) limit effectively bars entry into the business-lending arena because the startup costs exceed their ability to cover those costs with a small portfolio. Expansion would thus allow more credit unions to generate the level of income needed to cover startup costs and would expand business lending access to many credit union members.

A growing list of small business and public policy groups agree that now is the time to eliminate the statutory credit union business lending cap, including the Americans for Tax Reform, the Competitive Enterprise Institute, the Ford Motor Minority Dealer Association, the League of United Latin American Citizens, the Manufactured Housing Institute, the National Association of Mortgage Brokers, the National Cooperative Business Association, the National Cooperative Grocers Association, the National Farmers Union, the National Small Business Association, the NCB Capital Impact, and the National Association of Professional Insurance Agents.

Today, Congress has the opportunity to help small business owners by eliminating the credit union member business lending cap. Thank you for the opportunity to testify today.

Credit Union Business Lending Profile

	Oregon	U.S. Totals
Number of CUs offering MBLs	44	2,026
Percent of total CUs	53%	24%
Average Size of MBL granted	$285,000	$193,000
Total MBLs outstanding (millions)	$758	$33,000
MBLs as a % of Assets	5.3%	4.0%
Market share of CU & bank business loans		
CU Market share	4.7%	1.1%
Bank market share	95.3%	98.9%
Recent growth rates (12 months ending March 2009)		
Growth Rates in MBLs outstanding	14%	16%
Bank commercial & industrial (C&I) loans	-2%	-3%
Asset quality (1st quarter 2009 annualized)		
MBL net chargeoff rate	0.1%	0.4%
Bank C&I net chargeoff rate	2.37%	1.32%

Sources: FDIC, NCUA, CUNA E&S.

Testimony of:

Ms. Kim Wilmes
CEO
Metal Innovations, Inc
Aurora, OR

Testimony: Kim Wilmes, CEO Metal Innovations Inc. 7/31/2009
My Name is Kim Wilmes and I am CEO and co-owner of Metal Innovations Inc. Located at 22255 Yellow Gate Lane NE at the Aurora State Airport in Aurora, OR. We are a small certified women-owned business and FAA certified repair station specializing in fixed wing and rotor wing sheet metal and composite structural repair, modification, parts manufacturing, and product development for corporate, air carrier, air cargo, and heavy lift helicopter operators.

Thank you Congressman Schrader for taking the time to listen to a small business's concerns regarding the difficulties that we are facing in today's economic environment.

The lack of importance placed on small business's contributions to our countries employment has been disheartening. Although, many elected officials have spoken regarding small business concerns the rubber has never met the road by providing any useful solutions to help alleviate the closed credit markets. Little if nothing has been done to provide economic stability to this critical piece of our countries economy, small business. As a small business owner yourself you understand the sacrifices that are made to follow your dreams, start a small business, create jobs, pay taxes, etc. Small business owners understand all too well what it is like to mortgage their home, sell a vehicle, cash in retirement, and extend credit in any way possible, just to be able have enough money to establish a business and follow a dream. We as small businesses risk a lot to be useful contributors to society which is very apparent in the number of jobs that we create and consistently provide. The numbers are laid out in black and white. As Stated in an article located on the Oregon Labor Market Information System published 6/23/2009 titled Oregon's Small Businesses "The U.S. Small Business Administration claims that 99.7 percent of all U.S. firms are small businesses, and that these firms have created between 60 and 80 percent of all new jobs over the past ten years. " So if this is the case why has small business been almost completely overlooked through the allocations provided through the recovery plan. And even more critical why have the banking difficulties for small business only half heartedly been addressed?

I was extremely concerned when I watched an interview on 7/27/2009 with Robert Gibbs. His words were directed toward the health care reform package "If we do nothing, millions of people are going to lose their health insurance. If we do nothing, millions of small businesses aren't going to be able to afford the coverage that they already provide. Some of them are going to have to lay people off." Let's stop right there, health insurance coverage affordability is not going cause me to lay people off. We currently and have always provided fully paid health insurance benefits for our employees and their families. I have never considered laying off an employee due to the cost of health care insurance. All this statement tells me is that the agenda focus is only based on the interests of the elected and not the true and immediate needs of their constituents, especially small business. We eventually need to address health care costs but, if you truly want to help small business the focus needs to be placed on opening up the credit markets. Let me provide you with a short example in the form of an equation: No credit for small business in the form of credit lines, expansion loans, refinances, etc. = layoffs = business closure = who cares about health care costs. Pretty simple.

The only stab at helping small business has been addressed through increasing SBA guarantees and providing fee waivers. Sounds good on paper, but for those small businesses' trying renew a loan, credit line, or access new credit this solution is virtually useless to most due to the unrelenting credit market. Much of the general population does not realize that to attain an SBA guarantee you must first have a bank that is willing to house the loan. Good luck in finding a bank to participate; they are few and far between. Many of the companies being required to have SBA guarantees are only facing this requirement due to the banks ability to take advantage of a system that will guarantee their risk at only 10%. . What a luxury, I would love to have someone give me hundreds of millions of dollars (ex. TARP) and have someone else pick up 90% of the risk on my business decisions.

Here are a few examples of company's experiences regarding funding difficulties that I have encountered over the past several months. You must also be aware that all of the banks mentioned in the following examples have received $100's of millions in TARP funds.

- Our line of credit with Sterling Bank came due in October 2008. We were told in September that it would not be renewed. We began to do month to month renewals on our line of credit. Let me add that Sterling bank was less than cordial and caused us undo stress during the transition and might I add received over $200 million in TARP funds. After 4 months of exhausting our resources and not finding any new banking options Sterling decided that they could possibly renew our line of credit with a state guarantee and additional covenants. The convents proposed by Sterling would have caused us to close our business within a matter of days after signing. We had worked too hard and sacrificed too much to allow this to happen. What was most upsetting is that we had always paid our loan payments on time, had never defaulted on a bank loan, were posting record year end profits, had several long standing contracts along with our monthly short term work load that consistently equaled over $1.6 million in work in process, and were hiring not laying off employees. After 5 months of interviewing 17 different lending institutions we finally found a bank that was willing to work with us. We feel extremely fortunate to have established this new banking relationship in today's climate and we did have to access guarantees to complete the move. Most businesses have not been so lucky. This scenario is being experienced by small business through out the country. I have received several calls in recent weeks from companies in crisis due to closed credit markets. Some examples include:

- A company that has been operating for over 40 years unable to access refinancing for the commercial property housing their business. They were on a two year renewal cycle and their current lending institution is not willing to renew the loan. If the loan is not renewed within one to two months they will be in default and lose everything. What will the result be: complete closure, loss of commercial property, and job loss

- A very viable small machining business that needed a couple hundred thousand dollars increase to their line of credit to facilitate a new contract and thus create jobs. Even with their impeccable credit history they were unable to access the increase and had to turn the contract away. What was the result: layoffs.

- A company that has new innovative green technology that needed a small increase to their line of credit for product advance. They were denied. What was the result: layoffs

- A profitable agricultural company that would like to expand their facility and take advantage of the lower building costs and market share opportunities and cannot access an expansion loan. What was the result: proposed layoffs

- A wood products company that was profitable and had over 100 employees and cannot find a lender to carry their line of credit. When the line came up for renewal the bank began holding deposits and drastically cut credit line accessibility. What was the result: substantial layoffs and possible closure

- A small family run hardware store that can not access a credit line renewal: What will the result be: complete closure and personal financial ruin

As you can see, it is not just one industry that is being affected by the closed credit market; it is affecting small businesses across the board. I have heard from numerous lenders that they are open for lending, don't believe it. What the banks are saying and what the small businesses are experiencing are two entirely different scenarios. Look at the numbers, in a CNN Money article dated 1/6/2009 titles "Sharp drop in small business loans" It stated that "In the first quarter of its 2009 fiscal year, which ended 12/31/2008, the SBA's 7 (a) program backed 8996 loans. That is a 57% drop from the 20859 loans the SBA backed in the first quarter of 2008, and a 62% drop from 2007's first quarter total. The total dollar value of loans processed by the SBA also plummeted to $1.94 billion, down 40% from last year's $3.24 billion."

As a Small business we generally run very lean operations and take a personal interest in our employees and their well being. We will sacrifice personal financial stability to assure that our employees receive their paychecks and can put food on their tables. We cannot afford to individually hire expensive lobbyists to promote our cause. We rely on our elected officials to make decisions that are in the best interest of the majority, including small business. I am asking for your help in opening the credit market for affordable and accessible financing options for small business. Please do not turn your back on all of the small businesses that have sacrificed so much to provide employment opportunities for our citizens and follow their dreams of owning their own business. Thank you for your time and interest in hearing my concerns.

Testimony of:

Mr. Nick Harville
Business Retention and Expansion Manager
SEDCOR
Salem, OR

First, what is a "small business?" In Oregon, 80% of the companies have less than 10 employees. If, as in most federal programs, you use the SBA definition of "small business", this region's largest employer with 500 employees is considered small.

Thomas Jefferson said: "Were we directed from Washington when to sow and when to reap, we should soon want bread."

The current recession was triggered by a collapse in the housing market. This was aggravated by the revelation that the mortgage market had been distorted, which in turn led to practices in financial markets that brought down, or endangered the existence of many prestigious financial institutions. Trouble in banks then led to tight money, a general slowdown in the economy, lost jobs and a worsening of the housing crisis that started the whole mess in the first place.

Finding money in today's banking environment is a company's biggest concern and challenge, and rightfully so. Small businesses are constantly planning capital needs and investing time with lenders to plan financial needs. Here are several ways for you to pave the way toward obtaining the financing you need. Today, lenders won't even look at "good" deals, let alone anything may be the slightest bit out of the box.

Unless you have all of the cash required to launch or expand your business, one of the most challenging aspects of running a small business is locating resources to raise money. Raising capital is the most basic of all business activities. But, as many entrepreneurs quickly discover, raising capital may not be easy; in fact, it can be a complex and frustrating process. However, if you are informed and have planned effectively, raising money for your business will not be a painful experience.

Whether your business needs funds due to unforeseen expenses, or you're looking to expand, you will need to communicate to investors. They are interested in the quantity of capital you need, your product, your company, and your financials. And sometimes today that isn't enough. The most important things they look for are your business plan, management team, your track record, and your exit strategy. This information is critical to them so they understand how they will get their money back. But even with a government guarantee, they want only the "cream" of deals. They have tightened even older companies financial agility to reach new market opportunities to almost nothing. Orders back up because company A can't get an increase in their credit line let alone get a term loan, so Company B sits waiting for things to "loosen up" again. Which means that Company C can't make the parts Company B needs to make sales to Company A, The adverse effect ripples all the way down the supply chain.

Since October, the U.S. Treasury has been buying stock in banks around the country as part of the Capital Purchase Program. Initially, the program's money was to be used to prop up troubled banks. More recently, the Treasury has been buying stock in healthy banks, with the goal of encouraging those banks to turn around and lend out that money to customers. Despite that encouragement, lending is in gridlock.

Most consumers know what The Wall Street Journal proved on, July 27, 2009: The total number of loans held by 15 large U.S. banks shrank by 2.8 percent in the second quarter. All you have to do is talk to friends and neighbors about lending and you'll find story after story about difficulties getting a loan or mortgage.

The numbers underscore two related trends weighing on the economy. Financial institutions are clamping down on lending to conserve capital as a cushion against mounting loan losses. And loan demand is falling as companies shelve expansion plans and consumers trim spending to ride out the recession.

That combination is making it harder for the U.S. economy to rebound, and some analysts predict that loan portfolios won't start growing until the second half of 2010.

As firms continue to downsize, cut costs and reduce inventories, the nation's largest banks are reporting that demand for credit in the commercial real estate market is well below normal levels, according to the U.S. Treasury Department's monthly bank lending survey from the largest 21 recipients of government bailout money through the Capital Purchase Program.

After private investors grew reluctant last year about buying SBA loans from the firms that finance them, these firms found themselves weighed down with old loans, which prevented them from funding new loans for small businesses.

The recovery of the SBA credit markets has been a rare bright spot for small business lending. While SBA loans remain a fraction of the overall credit issued to small businesses, these government-backed loans have been on the upswing since Congress approved the administration's $787 billion economic stimulus package in February. That legislation waived many of the fees that banks pay to the government for offering SBA loans and raised the public guarantee on any loan losses to 90 percent.

From the July 27, 2009 Daily Finance -

"More than half of the new loans made by banks in April and May were for refinancing mortgages and renewing credit to business, not new loans. Some analysts don't expect to see loan portfolios grow until the second half of 2010."

So you have to ask again: What happened to the TARP funds that were supposed to be spent on stimulating the economy?

While everyone knows it didn't go toward stimulating the economy, Ben Bernanke was cryptic on where exactly it did go in his town hall forum this weekend, "I don't expect to see another TARP program because at this point the money isn't being used for financial stabilization but for other things."

Banks have been using TARP funds that were supposed to ultimately increase lending to instead merge with other banks or for their investment banking or trading activities. Four of the bailed out banks -- Bank of America, Citigroup, JP Morgan Chase and Goldman Sachs -- reported a total of $13.6 billion in profits in the second quarter, just a year after they lost a combined $20.8 billion. So all that TARP did was rejuvenate the big banks and ignore the financial needs of the rest of the population. The banks do not have to report how they spend the funds and they certainly haven't been using the funds to make new loans.

For example, one large TARP bailout recipient --- reported its loan portfolio fell 3.6 percent in the second quarter. The bank blamed the decrease on higher loan losses and lower loan demand as borrowers paid off outstanding debts. I wonder have much of the lower demand is because the bank lowered the available credit on those borrowers? Bank of America and other major banks have been aggressively lowering available credit on equity lines and credit cards.

But when you look back at the language when TARP was passed, you can see it was intended to stabilize the financial markets. The only thing said about lending was, "With time, strengthening our financial institutions and markets will allow credit to begin flowing again, supporting economic growth."

Consumer spending has led us out of most recessions, but consumers can't help this time because credit is so tight.

Trillions are being thrown at the problem, but don't seem to be getting any bang for the buck, except helping the banks to turn a profit. It's time to stop worrying about Wall Street profits and start worrying about Main Street in any new economic policies."

Testimony of Terry L. Brandt, Executive Director of Albina Opportunities Corporation
Before the
US House of Representatives Committee on Small Business, Subcommittee on Finance and Tax
August 4, 2009

Mr. Chairman, my name is Terry Brandt. I am pleased to be here today, and appreciate the invitation to testify before the distinguished House Small Business Subcommittee on Finance and Tax.

Introduction

I am the Executive Director for Albina Opportunities Corporation (AOC), a non-profit lender with a mission to spur entrepreneurship and provide credit to women-, minority-, immigrant- and disabled-owned businesses in low to moderate income communities and CRA qualified areas in the Portland area. AOC desires to make loans to borrowers that have been traditionally under-banked and under-served in our communities.

We have raised our initial capital through local community partners including individuals, foundations, and corporations . These funds are used to make loans to small business entrepreneurs. Our loan sizes range from $10,000 to a maximum of $200,000. We leverage our loan funds by partnering with bank and non-bank lenders on specific loans. We provide the "gap" funding necessary to help mitigate loan risk to our participating lending partners on small business loans. By subordinating our interest in our loan to the interest and loan of a participating bank or other lender, AOC provides more security for the bank and thereby increases the ability of the entrepreneur to obtain needed financing. Initial underwriting and loan servicing is also provided by our partnering bank and non-bank lenders which allows us to keep our overhead expenses low.

We creatively use a variety of alternative forms of loan security, closely monitor the performance of each loan and provide high-level business advisory services to our borrowers to insure they succeed and that our loan is repaid. We are also investigating ways to network through the internet to engage in Peer-to-Peer (P2P) lending opportunities and in August intend to apply to be certified as a Community Development Financial Institution (CDFI). AOC considers CDFI business lending an important tool to restart commercial finance in our community.

Issues

The reason I am testifying today is because events now occurring in the financial marketplace are having a detrimental effect on our ability to make small business loans to qualified businesses to whom we would like to provide capital. We do not make loans without participation by local area banks, thereby leveraging our limited capital to make small business loans.

We have tried to find ways to fund loans in light of recent stricter bank loan underwriting standards. Some level of agreement is needed between AOC and its lending partner to use AOC as a means to provide the gap financing needed to mitigate the bank's perceived risk to make these small business loans. We are unable to make loans to credit worthy small businesses when banks use blanket non-starter underwriting criteria that preclude any discussion at all. In addition, without a partnering bank or non-bank lender, AOC is not able to obtain an SBA guarantee for its qualifying loans.

Traditional bank lending resources have pulled back from the lending marketplace for a number of reasons, including increased borrower scrutiny and stricter loan underwriting criteria.

Recently the Wall Street Journal reported that the White House was searching for ways to help small business by unlocking frozen credit. Shortly thereafter CIT, the largest small business lender in the U.S., fought for its survival. Funds just aren't getting to small businesses. This has had the predictable result of a large increase in applications to AOC for loans from credit worthy small businesses that are being turned away by their regular banks. Other small non-profit community lending partners are also experiencing a similar increased rate of inquiries. The current demand for *qualified* loans far exceeds the supply of lending options available.

AOC wants to continue to provide financing to businesses and to do that, it is important for us to find sources of loan capital and loan guarantees until the banks return to this market. We believe the only source for such capital and guarantees may be the federal government.

My testimony today outlines recommended ways to increase liquidity of community financial institutions so they can continue to lend and keep pace with increasing loan demand.

Background

According to an October 2008 Senior Loan Officer opinion survey issued by the Federal Reserve Board, nearly 75% of lenders say they have tightened their credit standards for approving applications for small business loans. Since the date of this report, credit standards have tightened further. There appears to be a current disconnect between the political will to get banks back into the lending business and the level of increased regulation that stifles lending. Bank examiners are now lowering bank ratings as a result of increased regulation and even suggest that they should not be lending, but saving money for possible increased future reserve requirements. Further, bank discussions indicate that examiners have gone so far as to suggest off the record, that there are really no good loans to make that are worth the risk of making them in this economic climate.

This has caused banks to reorganize their underwriting departments and to increase underwriting requirements to such a degree that no small business loans are occurring. Underwriting changes include:

1. Increased Debt Service Coverage Ratios (DSCR)
2. Stiff collateral requirements
3. Changes in term, rate, fees to accommodate perceived added risk
4. Additional bank statements for all liquid or semi-liquid assets listed on the personal financial statement
5. Minimum credit scores for approval have been raised.

In addition, many banks indicate that it costs them too much to book small loans under $500,000 and they can't make any money from the restricted interest rates and fees allowed by Small Business Administration (SBA) guarantees. All of this is happening while banks also clamp down on other small business funding channels like credit cards, credit lines and non-SBA loans.

Upon being appointed to head the SBA, Karen Gordon Mills stated *"there are over 26 million small businesses in this country and they create 70% of the new jobs. This means that to find our way out of the current economic crisis, we have to find ways to help small businesses stay in operation and even expand."* In addition, it is estimated that over 50% of the national GDP is driven by small business. In Oregon, there are more than 90,000 small business employers representing almost 98% of the state's employers and nearly 60% of its private sector workforce. Obviously, maintaining the health and vitality of small business is critical to the overall health of our economy.

What happens to small business lending when banks collectively contract and traditional financing routes dry up? Lenders that adopt all or nothing restrictions and responses to problems do not consider the bulk of loans that can be effectively underwritten. Their over-response to perceived problems results in stifling the growth of good small businesses. Lender under-performance and lack of creativity will not solve the lending log jam.

With the exception of the Micro-Loan Program, almost all the lending in the SBA's tool kit is done by banks. When confronted with current financial complexities, small businesses can't get loans, not because their ventures are considered too risky, but because the capital markets themselves are in crisis. And the SBA's programs are too dependent on banks and a few non-bank lenders to provide much help. If, for some reason, these lenders simply cannot or will not lend money to small businesses, the predominant SBA 7(a) loan guarantee program will be significantly underutilized.

AOC has been challenged to find ways to establish partnerships with SBA approved bank lenders given many of the reasons previously stated. As an example of a recent response to this challenge, AOC has offered to mitigate the perceived risk in a prospective loan by agreeing to fully subordinate its portion of its SBA loan guarantee to its lending partner. In other words, for an approved SBA guaranteed loan, AOC would be willing to allow its bank partner to receive up to 100% of the SBA guaranteed portion of a qualified small business loan as security for its level of participation. By financing only the guaranteed portions of AOC's loans, a bank would receive in essence a 100% guarantee from the SBA on any of its loans. At this time, AOC has yet to find a bank or non-bank lender willing to partner on this loan. In addition, without a bank partner, AOC's ability to obtain a loan guarantee is restricted unless it could also be approved as a non-bank lender by the SBA. As an approved SBA non-bank lender, AOC could directly enhance its loan security and provide more stability to its current community of investment partners.

To make matters more troublesome, non-bank lenders have also pulled back due, in large part, to a lack of access to capital and perceived credit risk. Soon after becoming Treasury Secretary, Timothy Geithner observed that before the credit crisis more than half of all small-business lending was funded through the shadow-banking system of non-bank lenders--not through insured deposits. The so-called shadow banking system for small business includes commercial finance companies, leasing companies, credit unions, credit card companies, receivable factors, economic development programs and even life insurance firms. .

The SBA does have a handful of non-bank financial institutions among its approved lenders. Non-bank lenders are not subject to the same regulations as banks covering things like underwriting standards and portfolio management, and sometimes their business models can generate other problems. The SBA has recently published a new set of lender oversight regulations that may help to address some of those problems. However, one hopes the regulations are effective without being sufficiently burdensome to drive these non-bank lenders away from the SBA altogether. They provide an important safety net for situations in which banks are unavailable to small businesses.

Moving Forward

AOC's small business lending problem may be considered not too dissimilar to the SBA's dependence on bank and non-bank lenders to administer its loan guarantee program. Both organizations are dependent on its lending partners. In order to provide debt financing for AOC's qualified borrowers it is necessary to find a stable source of lending capital. Until banks return to this market, we will be unable to satisfy the demand for loans needed by our local small businesses.

SBA programs are required to serve only borrowers unable to secure loans from another source. AOC's increasing numbers of inquiries can certainly satisfy this requirement. SBA loans can also be offered with longer terms than conventional loans, allowing borrowers, who commonly lack sufficient net operating income (NOI), to meet DSCR requirements. AOC is receiving loan requests from long running small businesses that are experiencing temporary drops in their NOI due to the ripple effects of the historic downturn in the world economy. They need oxygen to survive and will once again thrive if given some financial breathing room.

Recommendations

Utilize the Troubled Asset Relief Program (TARP) to Enhance Lending through banks or through organizations like AOC

TARP is not going to quickly or meaningfully stimulate the small-business sector, and the economy isn't going to recover until small businesses begin to expand again. TARP isn't stimulating small-business lending. Most TARP money was given to banks, which in turn didn't provide most of the money for small-business lending. Many banks used TARP funds to repair their balance sheets rather than extend new credit.

There is a need for TARP funds to increase liquidity to enable community financial institutions to build lending capacity to meet increasing loan demand and fill financing gaps resulting from banks' retrenchment. Access to

Treasury-rate financing for businesses is critical and could be responsibly implemented through proven delivery systems of community financial institutions by ear-marking some TARP funds for small business loans either through banks or community financial institutions like AOC. However, as reliance on banks to insure the trickle down of TARP funds to small businesses is not now working: perhaps some TARP funds could be ear-marked for community financial institutions to loan to small businesses.

Section 103 of the TARP legislation states, in exercising the authorities granted in this Act, the Secretary shall take into consideration - *ensuring that all financial institutions are eligible to participate in the program, without discrimination based on size, geography, form of organization, or the size, type, and number of assets eligible for purchase under this Act.* We believe that investments in organizations like ours are consistent with the purposes of the TARP legislation.

Utilize the SBA Non-Bank Lending licensing capability to enhance the opportunity for small businesses to gain access to SBA loan guarantees

The last non-bank lender to receive a new "Section 7A" license was during the Reagan Administration. The SBA should be encouraged to license non-bank lenders, and to update and modernize the 7A program. In the past, SBA programs have been unfortunately cut back year-after-year and are now almost totally dependent upon banks. The SBA lending industry is a shadow of what it could be.

AOC and similar community based lending organizations need access to capital to make loans. If approved as a new licensed SBA guaranteed loan lending organization, AOC would be able to structure and price its own participations with its lending partners whether they be bank or non-bank. This would expand its ability to attract additional capital from a variety of sources including the growing P2P lending markets. A review of SBA programs with an eye towards inclusive lender eligibility, including non-bank participants, could renew the SBA and add capital to the market.

Thank you for your consideration of these recommendations. I would be happy to answer any questions that you might have for me. Again, I appreciate the opportunity to testify here today on such an important topic.

Terry L. Brandt
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ACTIONS FOR IMPROVEMENT REGARDING CAPITAL ACCESS AND LENDING THROUGH SBA

August 4, 2009 8 am until 10 am

Randy Compton, President, CEO, and Chairperson of the Board, Pioneer Trust Bank, NA
Steve Nass, Assistant Vice President and Commercial Loan Officer, Pioneer Trust Bank, NA

We would like to thank Congressman Schrader for inviting us to this hearing today. It is a pleasure to be here. It is our understanding Congress is in recess. Growing up, recess was always an activity we enjoyed but it never involved work so we all appreciate you taking your recess break to listen to our thoughts. We would also like to thank Jon Pugsley for organizing the panel discussion. We feel this topic is very important, especially today, in light of events of the past year. Small businesses are the back bone of our economy. They employ the majority of our labor force. Our bank is a small business. It is the small businesses that provided entrepreneurship and creativity that has made the United States the envy and most emulated society in the history of the world.

Today, we would like to focus on how we got here and where do we go forward. We will include the lessons learned and how to improve our systems for capital access including the SBA, from a small business banking perspective. In order to implement actions for improvement, you have to understand what happened. Our country has been faced with an unprecedented series of events that has placed small businesses at risk. Access to capital and loans are critical for all businesses but especially small businesses. Pioneer Trust Bank has served the financial needs of small companies since 1924. We have grown with Salem and have branches only in Salem. This past year has been very difficult for almost everyone. Our economy has seen several bubbles, or excesses, which individually were devastating on their own right, but collectively has brought us to near financial disaster. The dotcom or NASDAQ bubble, the real estate bubble, the stock market bubble, and the oil/commodities price bubble, each have raised and then dramatically lowered net worth's of individuals and businesses. We will focus on the real estate bubble.

The real estate bubble was, in a large part, caused by leveraging in the banking and shadow banking system. The shadow banking systems are the brokerage and investment companies who have been competing with traditional banks but are not regulated, or have marginal regulation. In the 1990's, conventional real estate loan underwriting standards were reduced to include higher debt to income ratios to qualify, and lower to no down payments, so more Americans could achieve the American Dream of home ownership. Banks were encouraged by the Community Reinvestment Act (CRA) to provide creative ways for individuals to be able to get into owner occupied housing. We increased our loan to deposit ratio to satisfy CRA but this put at risk safety and soundness due to leveraging. Government Sponsored Entities (GSE) such as FHLMC/Freddie Mac and FNMA/Fannie Mae did the same. The Federal Home Loan Bank (FHLB) system provided banks with the leveraged liquidity as the rapid pace of loan growth far exceeded the banks ability to raise core deposits and capital. Brokered deposits also filled this niche for bank liquidity. The search for higher yields and greed in some cases fuelled this growth engine virtually unregulated. Investment banks packaged up and sold loans to more hungry investors who wanted these yields which were deemed "AAA" rated. Once the bubble burst, real estate prices started to tumble, people could not afford to make the payments, loans came due and could not be paid back and were not renewed, and even some loans were contracted to have higher interest rates and payment schedules later in spite of lower interest rates. This was a form of real estate "Ponzi" scheme where consumers were relying on the continued inflation of housing values to pay for their living standards and to make the payments they otherwise could not afford.

Financially, the regulators came in and told the banks to shape up. Bank capital was eroding rapidly as losses mounted and collateral margins dropped dramatically. The banking system was now deleveraging. They were forced to call in loans, writing down loans, and charging off loans. Small businesses were now feeling the pinch as the banks were trying to raise liquidity. Small businesses benefitted and thrived prior to the deleveraging as consumers spent the equity in their houses, which we called ATM machines it was happening so fast. As home values dropped, consumers could not take any more funds from their homes, spending started to dry up, and the domino effect from business to business took place where orders slowed, personnel were laid off, and unemployment became rampant to levels not seen in decades. Stock markets dropped correspondently as earnings and forecasted earnings were lowered. Retirement plans and 401-k values decreased taking the consumer demand down with it. The consumer stopped spending and realized they needed to save more. Consumption was down and savings up but that does not help small businesses today, especially since banks have not seen much of this increase in savings through core deposits. As regulators continued the pressure on the banking system to deleverage, small businesses now were in a full squeeze as they were denied the access to needed capital and liquidity to survive during these times. Even businesses that were cautious and had capital saw this erode as few were prepared for this length of a downturn. Regulators placed banks in a difficult position. We had a dual mandate; preserve and attract capital, increase our allowances for loan and lease loss reserves but, at the same time, keep lending and deleverage. This does not work. They want us and encourage us to work with our borrowers. We agree and have always implemented this philosophy. In the same light, we have to classify these loans which are work outs and we get criticized for having them on our books. We agree there needs to be transparency but there also needs to be some leniency to work through loan problems without being penalized or severely criticized.

Pioneer Trust Bank has not participated with SBA. We refer the requests to other agencies such as John Safstrom at the Mid-Willamette Valley Council of Governments here in Salem. We decided many years ago to provide sufficient capital and liquidity to meet the needs of our customers and have been managed accordingly. We have not been leveraged. The SBA has been and needs to continue to be the bridge for many banks to help them through these times. Unfortunately, the SBA has been, in our opinion, bureaucratic and therefore has no appeal to our bank. Other banks and agencies have specialized loan officers to make these loans. This should change and the SBA should be a vehicle for all banks to utilize, not specialized loan officers.

Lending is a risky business. We understand and accept this. There are no guarantees. We have gone through good times and not so good times. Banks should build up capital and allowances for loan losses during the good times. Some businesses and banks have been defined as too big to fail. This is wrong. This is against capitalism and as a result, we have failed our basic principles. There was no structure in place to prevent these potentially catastrophic banking and shadow banking failures. The shadow banking system needs to be regulated. The banking system is already burdened with regulations. The regulations and guidance were not evenly enforced or followed. Our bank is a national bank and is regulated by the Office of the Comptroller of the Currency (OCC). Our experience tells us the OCC was on top of this problem. Their field crews gave us best practices and guidance. We felt prepared and understood the risks of today. In good times, some regulators appeared to be not as concerned about safety and soundness as evidenced by the concentration of credit in some areas with respect to construction and land development loans and now commercial real estate loans. Yet in bad times they are all over the banks with Cease and Desist orders. They need to be consistent. The problems did not surface overnight. Some banks did not have diversified portfolios. Other banks took on too much risk.

Where was the oversight? Again, the policies and regulations were already in place. Now banks are faced with new and increasingly more regulations from law makers. In their attempt to make these new regulations clearer for the borrower or consumer, those individuals and businesses end up not understanding the new regulations and the cost of borrowing increases adding insult to injury. The paperwork needed for a loan is burdensome and complicated. You cannot possibly save the consumer from every trick or gimmick out there. Let the buyer beware. Government overreacts because the public overreacts. Let calmer voices and reasoning prevail. The songwriter and singer Jimmy Buffet once wrote that a tattoo is a permanent reminder of a temporary feeling. The banks get tattooed frequently. Make credit and terms less complicated and easy to understand. There are so many compliance requirements today and the consumer signs their name so many times they get finger cramps. We go over all these forms with them and they take copies back, but some still do not understand.

As previously stated, the banks are already highly regulated. The shadow banking system is not. For small business and the SBA to continue to grow and thrive we need to enforce the regulations already in place and stop burdening the system with ridiculous and wasteful new proposals which ultimately costs the consumer and small business. We all want the flow of capital and loans. We are encouraged to do this but also warned to be careful. Once again, a dual mandate. What can you do to help small business and give them access to capital? Start by making markets open again and give banks the freedom and ability to conduct business without excessive regulations, burdens, and costs. Streamline the process and have banks work with the SBA and GSE's as a partnership. Give us the tools and flexibility we need but don't give us volumes of regulations we have to follow in order to comply. The consumer is protected. They need to be educated and informed. We spend hours upon hours with them on every transaction. Each loan we do is fully customized to the consumers' and small business' needs. This is what a bank should and does do. If the SBA would use this model and be in partnership with the banks, plus being flexible instead of rigid, it will work much better.

The Government, the Federal Reserve System, and Regulators should do their part with oversight of the financial, banking, and shadow banking systems, using existing regulations and best practices. The best way to provide access to capital through the SBA, the banking system, or any other entity is to make sure free markets continue to flow, watch for bubble signs, smooth the highs and the lows of the business cycles, use the available monetary and fiscal tools available, and make sure the safeguards are in place to oversee the banks and the shadow banking system.

We want to thank you for your valuable time and consideration.

Respectfully submitted July 30, 2009 by Randy Compton and Steve Nass

Testimony of:

Mr. Jim Rasmussen
President
Modern Building Systems
Aumsville, OR

Actions for Improvement relating to access to capital and the SBA Subcommittee on Finance and Tax

The U.S. Small Business Administration (SBA) was created in 1953 as an independent agency of the federal government to aid, counsel, assist and protect the interests of small business concerns, to preserve free competitive enterprise and to maintain and strengthen the overall economy of our nation. We recognize that small business is critical to our economic recovery and strength, to building America's future, and to helping the United States compete in today's global marketplace. Although SBA has grown and evolved in the years since it was established in 1953, the bottom line mission remains the same. The SBA helps Americans start, build and grow businesses.

But are they sticking to their mission? What can be done to improve access to capital for small business?

US Export Assistance Centers do a good job. SBA surety program helps small businesses get started. However, the SBDC's do not seem to get a lot done, and the 8a program has the appearances of abuse in the program, not to mention it is reverse discrimination. If the US ever wants to become a tolerant, inclusive, nation of individuals, preference programs need to be tossed aside.

The SBA loan guarantee programs sound to be cumbersome, and not extensively used in the NW as a percentage of all loans produced. The reasons are probably that they are not effectively marketed, and the fact that the paperwork is too cumbersome. There are currently 889 pages in the current manual. Something that started out simple, has gotten too complicated over time. More uniformity between the programs needs to be adopted, and make the rules simple. Consider that at the end of the day, if most banks think it is going to be a bad loan, then in high probability, it will be a bad loan. But, in certain cases, an SBA loan could be a valuable tool to use, and a lot of loan deals are completed over the course of a year.

My company has first hand experience with filling out forms for the 7a loan guarantee program, and halfway through the process, decided the hassle was not worth the effort involved, and found another way to finance the real estate. We also have very positive experience working with the US Export Assistance program, when we were doing projects in Asia. Other than that, the SBA has been fairly irrelevant to Modern over the last 38 years.

We have not found a problem with accessing the capital markets, and in fact got a good loan for industrial property in Sacramento, Ca during the middle of the meltdown. My thought is that the banks are just being more careful, and opportunistic with their underwriting, and pricing of loans. Prior to the so called crisis, underwriters were doing a poor job, as were the federal regulators, and created a bubble real estate economy, thereby creating a crash so to speak. In time, the market will settle down, and borrowing, and real estate values will settle down and return to normal.

The recipe for a healthy capital market is to give incentives to banks and other financial institutions, to make loans. To do that would be to lower the tax rates, not raise them.

Make sure the Federal Reserve Bank has the tools to do their job, and keep money flowing in the market. Make sure the dollar is not over devalued, so that foreign capital stays in the US, rather than in other currencies to help keep interest rates low. Finally, make sure there are not so many banking regulations, that the process dissuade banks from doing what they wanted to do in the first place, make loans from their deposits and turn a healthy profit for their investors.

The current feelings among business owners is that the environment for business, as impacted by the government, with all of it's regulations, and restrictions, has more to do the ability of a business to attract capital, provide jobs, and to grow, than setting up the latest idea, or program intended to help businesses. American businesses need a playing field where they can be competitive, successful, and wanted, in their own community.

I caution the government to do too much intervention as that causes the markets to over react with unintended consequences. Thomas Jefferson said it very well, "He who governs least, governs best". We must maintain, and promote a free market economy, as pointed out by George Gilder ""A successful economy depends on the proliferation of the rich, on creating a large class of risk-taking men who are willing to shun the easy channels of a comfortable life in order to create new enterprise, win huge profits, and invest them again." That is how to improve access to capital and improve an economy, promote the entrepreneur risk takers, who create wealth.

B.K. Mulligan's
A Sports Bar
Lincoln City, OR 97367
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July 30, 2009

Jon Pugsley and Representative Schrader:

My wife and I are small business owners in Lincoln City, Oregon. Being in the hospitality business (restaurant) we rely heavily on tourism for survival. Having 16 employees, we have 16 local families relying on us. We want to share with you an example which indicates that our local business banking partner, Wells Fargo, is non supportive of distressed small business.

The economic impact to our business started in the spring/summer of 2008 with increased gas prices and continued to decline with the stock market, unemployment and the real estate collapse.

We have been unable to access required capital to help us advertise and make improvements to compete for the reduced amount of tourism business available in our community this summer as a result of the economic environment. Banks of course, have no interest in loaning money to struggling businesses.

Our most recent experience indicates that no one cares to support small struggling businesses. Two weeks ago we spent a week filling out paperwork to apply for the recently setup SBA program (ARC) providing money for struggling small businesses. The intent of this program is to provide funds to struggling small business by taking away the risk from banks in order to free up capital. The government guarantees the loan 100% to the banks and pays the banks interest, providing interest free money (up to $35,000) to small business over a 5 year term. This program is part of the Economic Recovery Act.

Qualifications were that you had to be distressed by experiencing at least a 20% reduction in revenue or increased costs, you had to be a functioning business and you had to be current or no more than 90 days behind in your payables. You had to show in a 24 month cash flow projection how you would use the money and that you would be able to pay it back.

We met all the qualifications and felt the money would help us compete this summer and hang on through the upcoming winter and allow us to survive long term. We applied through our local bank, Wells Fargo. The application was handled by some department in Minneapolis, Minnesota which has no knowledge of our small tourism city and how we are being affected. There was not any local involvement or contact to understand the situation we are facing. We received a form letter back a few days ago stating that since we were distressed, they were not certain we would be able to pay back the loan.

Wells Fargo has no risk, and is apparently disregarding the governments wishes that this money be used to help out distressed business. If they do not feel comfortable loaning the money to distressed business and only loan it to solid companies, either no one is going to get the funds or companies that do not need it are going to get it.

This is a catch 22 – meeting the requirements for the loan means you are going to have a poor looking set of financial statements, unfortunately the bank sees this as a risk not a qualification. Wells Fargo, as an approved SBA lender is intended to be a resource to access this money, not be an obstacle to receiving it. We can not even get the financial assistance that the government has set aside for people like us.

Sincerely,

Gary Shevik

HALLMARK PROPERTIES INC.

August 3, 2009

Kurt Schrader Member of Congress
1419 Longworth Building
Washington DC 20515

Dear Representative Schrader

As per your letter I am preparing testimony for your upcoming Small Business Committee hearing. As requested I am herein detailing my small business financing experience for you to consider in refining lending procedures.

In December 2008 I contacted my primary lender Washington Mutual (WaMu). We had been carrying the business losses for over 18 months. Having cut expenses and exhausting virtually all our retirement and savings I contacted WaMu. I asked for a forbearance or deferment of payments for 6 months. We cold see the markets should strengthen by then.

In 2003 we purchased the building for $650,000. Since then we reduced the balance over $80,000. Our Tax Assessor Market Value in December was over $850,000. We owed WaMu about $298,000 and we had a secondary loan with the SBA of about $220,000. With that equity we felt we could secure interim financing. However, since we are in the real estate industry we were declined for any and all loans.

In January WaMu sent me a Pre-Negotiations Agreement which implied they would meet and discuss and negotiate with me a resolution and that they would act in good faith and fair dealing. They did none of that. They only kept silent and acted behind the scene to destroy my business and take my property without warning or reasonable notification.

Once I submitted the multitude of documents they requested I never heard from them again except when they requested contact information for the SBA loan. I later learned through the SBA that WaMu had started to foreclosure without ever discussing anything with me or contacting or notifying me in any way. They also did not give the SBA the 30 day written secondary lender notice as required by law.

I had to hire a bankruptcy attorney because WaMu's actions would have caused my commercial line of credit and the SBA loan due. On April 1, 2009 I closed enough sales to bring the 4 delinquent payments current, ($9,378.09) plus the April 10, 2009 payment with late fee ($2,372.77). We sent this amount per our attorney's instructions. After we made this payment we learned there would be over $15,000 in additional charges. That would have been enough to cover over 6 months of payments.

During this time WaMu was being absorbed by JP Morgan Chase Bank. After I mailed the payments in I finally had contact with WaMu (Chase). They were returning our checks per a November 28, 2009 Delinquency Notice. That payment was made in December prior to our Pre-Negotiation Agreement. It was our first missed payment.

We asked Chase to itemize what we had to pay to cure the default. Chase sent us figures on April 7, 2009 but it did not show an amount for attorney and legal fees. Later our attorney informed us that those fess were over $4,500. I have twice asked Chase to confirm in writing what I paid for and they have been totally ignored my request.

I do not feel that their attorney fees are correct because the attorney never filed anything. Also, we were charged $5,362.50 for an in-house appraisal done by one of WaMu's employees. When I bought the building 6 years ago the professional appraisal was only $900. I could get any number of commercial appraisers to do it for $1200 or less.

Chase made every effort to destroy our business and bankrupt me and did not work in Good Faith and Fair Dealing. They never notified us or the SBA. They never told us how much it would take to cure the default, we had to ask them and it was not complete when they finally replied. They never sent me a statement showing what their attorney did, nor explained per my requests why the appraisal was 4 times the market rate.

The irony is I was seeking to discuss with them a remedy. What I was asking for was modest in comparison to what they had just received from the Federal Government. I was trying to work with them and they were unwilling to work with me.

You can see my request was not unreasonable. I asked for 6 months and was able to cure everything in five, plus pay an additional $15,000 in penalties and excessive fees. It is a terrible thing when banks make more money on penalties and fees than they collect in loan payments. Plus, had I been able to pay the loan off I would have had to pay a pre-payment penalty, which is required on almost all commercial loans.

I didn't ask to be bailed out. I just asked for a modest amount of time and they kept me in the dark and made a huge profit in doing so. Please consider this when making reforms to increased access to capital and spur economic growth.

I want to add that during all this the SBA representatives demonstrated diligence and care for my success and helped in many ways to assist me and keep me informed. They worked with me to get me through this crisis and granted me a 7 month deferment.

I'm sorry I was not able to get this to you prior to the meeting but you may be able to use the information in formulating your policies in dealing with small business credit issues.

Respectfully

David J. Christoff

David J. Christoff
Owner/Principal Broker

Lee Judson
Manger and Owner's Rep
Motel 6 Lincoln City and Seaside

My name is Lee Judson and I am pleased that there will be some airing of the need for better access to funds and any stimuli that can happen on the coast. We all are aware of the cyclic nature of our business and how dependent we are on the tourism and construction dollars.
I don't think any of us can truly predict the depth of this trough or the length of time that it will take to recover from this economic "set back" We do know that we will recover but we don't know when or how quickly.
With that in mind most of us have been and will be cutting our expenses in any way possible. I will be carrying less staff through the winter, normally I can afford to run at a loss for a few months to ensure my core employees have year around work, this year I don't think I will have that luxury. We are all confident that we will be coming out of this and we will return to more profitability. I would like to see the businesses (with decent balance sheets and equity) have better access to credit lines so that we are not forced to lay off as many people this winter (and maybe next winter) if the recovery is slow and the coast lags in that recovery.
The true price that will be paid if all of the lodging facilities have to lay off a higher number of people this winter will be felt throughout the cities, towns and up and down the coast. If we don't have the access to funds we may not be able to do the routine maintenance and improvements that keep our properties from degrading. These reinvestment dollars allow us to provide a quality experience for the guest that travels to our towns and cities and also those dollars allow us to put craftsmen to work in the winter. I don't think any of us wants a hand out-maybe a low interest rate-we just want the support of the lenders to help us weather the storm and give the lenders a place to put the stimulus money to work, saving jobs as was stated as a goal of the program by President Obama.
If we don't get some support for this industry, I feel that there will be a percentage of establishments that will not survive. The vitality of these coastal towns and cities is what draws the tourists to visit us; if this is damaged by a blight the whole economy of the coast could suffer for years

Thank you for your time,

Lee Judson

Oregon Microenterprise Network (OMEN)

Helping Oregon's Smallest Businesses Succeed

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Telephone: 503/546-9913 Fax: 503/808-9031
Website: www.oregon-microbiz.org

•Alliance of Portland Business Associations
•AVITA & Associates
•Baker County
•Bureau of Housing and Community Development (BHCD)
•California Association for Microenterprise Opportunity (CAMEO)
•CASA of Oregon
•CASH Oregon
•Chemeketa SBDC-MERIT Program
•City of Maupin
•Clackamas County
•Columbia Gorge Community College SBDC
•Confederated Tribes of the Warm Springs Reservation
•Food Innovation Center
•Food Roots – Tillamook County
•Hacienda CDC
•Key Bank
•Lake County Development Corporation (LCDC)
•Linn-Benton Community College SBDC
•McMinnville Downtown Association
•Micro Enterprise Services of Oregon
•Northeast Oregon Economic Development District (NEOEDD)
•Oregon Cascades West Council of Gov'ts.
•Oregon Coast Community College SBDC
•Oregon Country Fair
•Oregon Economic and Community Development Department (OECDD)
•Oregon Native American Business & Entrepreneurial Network (ONABEN)
•Oregon Opportunity Network
•O.U.R. Federal Credit Union
•Partnership to End Poverty
•Polk Community Development Corp.
•Portland Business Alliance
•Portland Community College SBDC
•PSU-Business Outreach Program
•Rogue Community College SBDC
•Rose Community Development
•Rural Development Initiatives
•ShoreBank Enterprise Cascadia
•Southern Oregon Regional Economic Development (SOREDI)
•Sterling Savings Bank
•Treasure Valley Community College SBDC
•Trillium Artisans
•US Bank
•Umpqua Community College SBDC
•Umpqua CDC
•Washington Mutual
•Washington State Microenterprise Assoc.
•Wells Fargo
•Willamette Neighborhood Housing Services
•Wy'East Resource Development Council

July 30th, 2009

Small Business Committee, Subcommittee on Finance and Tax
Public Comments
From: Valerie Plummer, OMEN Executive Director

Representative Schrader and Members of the Committee:
One behalf of the Oregon Microenterprise Network, its member organizations and entrepreneurs across the state, I wish to thank you for taking the time to address the issues that face small businesses in today's economy.

The Oregon Microenterprise Network (OMEN) started in 1998 as a statewide nonprofit network of organizations and programs that support, strengthen, and grow Oregon's small businesses. OMEN's mission is **to increase opportunities for economically and geographically disadvantaged entrepreneurs and communities by building the capacity and quality of Oregon's microenterprise and entrepreneur development service providers**. OMEN's network encompasses over 70 organizations including microenterprise development organizations, small business development centers, lenders, economic development organizations, state and local government agencies, business associations, chambers of commerce and other community members. OMEN partners with a variety of organizations and programs to ensure the widest range of coverage for small business development services to entrepreneurs statewide. Last year alone, over 12,000 entrepreneurs received services from OMEN and its member organizations, resulting in the creation of 2,067 jobs. OMEN's core services include programs that provide access to markets, access to credit and best practices training for small business development organizations statewide.

One out of every six Oregon private sector employee works for a microenterprise (a small business with five or fewer employees) and over 85% of all businesses in Oregon are microenterprises. Small businesses play a key role in creating new jobs, especially for the individuals and communities that are hardest hit by current economic forces. At the same time, state support for microenterprise development services has been slashed for both Small Business Development Centers and Targeted Service Providers. In the last Biennium, the state investment of $1.5 million to the TSPs resulted in over $10 million in total documented leverage. The state budget for the next Biennium reduces the budget for SBDCs by over 50% and reduces the TSP budget to zero. Without these funds:

- Business will be unable to find assistance in securing private capital to grow and create jobs.
- The 113 businesses served by the Lake County Development Corporation will no longer have a business consultant available to them
- The 218 businesses served in Wallowa County will not have personalized technical assistance available to them so they can stay in business and add employees

- The 116 businesses served with market research so they can grow into traded sector businesses and sell goods and services outside of Oregon will no longer have that service available to them.

The following entrepreneur stories illustrate examples of success:

Mira Fannin—Sweet Skins Clothing:
Sweet Skins, a minority- and women-owned clothing company in Eugene, is the vision of designer and mother of three, Mira Fannin. Her clothing combines classic simplicity with the latest in ecologically sound fibers and conscious manufacturing standards. Mira started her company five years ago, selling her creations at the Eugene Saturday Market. As the demand for her clothing increased, she needed support and expertise to grow her business. She sought advice from e-Dev, formerly Lane MicroBusiness, through business classes and counseling services, as well as the Individual Development Account (IDA) program, of which Mira is a graduate. Mira envisioned selling her unique items in boutiques nationwide and online, but that required access to capital. E-Dev teamed up with OMEN to provide her with a small business loan through OMEN's CapitalLink program. CapitalLink serves rural entrepreneurs who wouldn't otherwise have access to the credit necessary for business startup and expansion. Mira used these funds to purchase supplies to grow her business and is now successfully selling online, as well as at her new clothing boutique in Eugene.

Through the support of e-Dev and OMEN, Mira's company is rapidly expanding. Mira employs and contracts with several women who assist her in the design and construction of Sweet Skins clothing in her sewing studio, a converted garage in Eugene.

Eleza Faison, AJ on the Rails:
In 2007, Eleza Faison, woman and minority owner of "AJ Java" coffee shops, expanded on her business success to open a downtown location called "AJ on the Rails" near the Portland light rail downtown, offering full-scale restaurant and catering services with an emphasis on American/Soul Food. An accomplished business owner, Eleza has opened three locations in six years and sells her freshly roasted coffee to various Portland-area grocery stores. To promote her new restaurant location, Eleza accessed the OMEN MarketLink program through Microenterprise Services of Oregon (MESO). Looking to begin a breakfast and lunch catering service as part of AJ on the Rails, MarketLink provided Eleza with a list of businesses in a one-mile radius of her establishment that contained the business name, location, number of employees and contact name. Eleza utilized this research to design a catering menu especially for these businesses and designated an employee to drop off menus while making local deliveries to generate more business. This and other tools that Eleza gained from working with MESO and OMEN have been implemented and contribute to her ongoing business success.

The Small Business Committee can do much to positively offset the challenges created by reductions in State funding support. On a federal level, the Association for Enterprise Opportunity (AEO), the national trade association for microenterprise development organizations, has requested that PRIME be funded at $15 million (see chart below for details on other funding priorities). Now is the time for robust funding for this and other programs that assist small business owners in rebuilding our economy by creating and sustaining jobs in local communities. This is a crucial time for services to be restored, supported and increased. In addition to funding PRIME at this level, OMEN makes the following recommendations:

A. Increase investment in start-ups and support for small business

- Level the playing field for small businesses to compete with larger and off-shore companies through increased investment in small businesses and the organizations that exist to serve them. Small businesses in Oregon account for over 86% of businesses and 18% of employment in Oregon but garner minimal support, in contrast to larger firms that receive proportionally greater investment and focus. While traditional business recruitment strategies have value, we cannot miss the strategic investment in locally owned small businesses, especially in the current economic downturn. The SBA Microloan program contributes to this greater good. See CFED's testimony (attached) for suggested revisions to the SBA microloan program.
- Establish a Small Business Advisory Council to further develop strategies for boosting the "pipeline" of business formation and business success through technical assistance, education/training, policy support and access to capital and access to markets. The spectrum of businesses from start-up to large companies need to be fully supported at all levels of development.

- Clusters matter, but are not the only strategy for economic development, particularly in rural areas. A range of strategies needs to be developed to fit the rural-urban divide in Oregon's economic strategy. Oregon's economic sustainability depends on a comprehensive economic development plan from the state that includes such rural areas.
- Increase support for underserved entrepreneurs, including women and minorities.
- Economic development needs a systematic and sustained approach with capable partners at the local, regional, state and federal levels.

Program	Requested by AEO & OMEN	Recommended by Obama Administration	Recommended by the House	Recommended by the Senate	FY 2009	Approved FY 2010
SBA Microloan	Lending: $50 million Tech. Assistance: $24 Million	Lending: $20 million Tech. Assistance: $20 Million	Lending: $25 million Tech. Assistance: $10 Million	Lending: $3 million Tech. Assistance: $22 Million	Lending: $21 million Tech. Assistance: $20 Million	TBA
PRIME	$15 million	$3.21 million	$8 million	$5.5 million	$5 million	TBA
Women's Business Centers	$30 million	$13.1 million	$14 million	$14.3 million	$13.75 million	TBA

Representative Schrader and members of the committee, thank you for taking time today to hear about the needs of small business owners in Oregon. We look forward to working with you in the future on these important issues.

Sincerely,

Valerie Plummer

Valerie Plummer
Executive Director

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Written Testimony of

Carol E. Wayman

Federal Policy Director, CFED

Submitted to the House Small Business Committee

Finance & Tax Subcommittee Hearing on
"Legislative Proposals to Reform the SBA's Capital Access Programs"

July 23, 2009
2360 Rayburn House Office Building

Thank you Chairman Schrader, Ranking Member Buchanan and members of the Subcommittee for the opportunity to testify on behalf of the Corporation for Enterprise Development (CFED) regarding improvements to the SBA Microloan Program. We would also like to thank Chairwoman Velázquez for her continued leadership on microenterprise. She has demonstrated an ardent commitment to ensure that low-income entrepreneurs are not excluded from accessing capital for their small businesses. Lastly, we would like to thank the Administration for recognizing the economic importance of microenterprise and the SBA Microloan Program.

Microenterprise is a critical component of our nation's economy. According to CFED's Assets and Opportunity Scorecard, there are 24,905,573 microenterprises in the United States in 2006 (most recent census data); 16.5% of the labor force owns a microenterprise. According to the Federal Reserve, 3% of families in the lowest income quintile own a business asset. Microenterprise is supported at the federal and state level: approximately 33 states provide funding for microenterprise.

CFED, the Corporation for Enterprise Development, is a nonpartisan national nonprofit organization that celebrates our 30th anniversary this year. We collaborate with diverse partners across the field of microenterprise, including the Association for Enterprise Opportunity, the Center for Rural Affairs, Aspen Institute's FIELD program, State Microenterprise Associations such as the Oregon Microenterprise Network, SBA Microloan Intermediaries and other microenterprise practitioners. CFED also chairs the Microenterprise Anti-Poverty Coalition (MAP), and is a leader in promoting the expansion of economic opportunity to include all people. We strongly believe that this will bring greater social equity, alleviate poverty and lead to a more sustainable and inclusive economy.

Our mission is to bring together community practice, public policy and private markets in new and effective ways. We combine the innovation of a think tank with the "on-the-ground" insight of practitioners to:

- Identify ideas that make the economy work for everyone. We focus on communities that have traditionally been excluded from or limited by the mainstream economy. We conduct rigorous research, seeking ideas that have potential for practical application.

- We also work with economic development practitioners to pilot programs and provide funding to design and modify effective strategies to be successful in different cultures, regions and economic conditions.

- Lastly, we develop and advocate for federal and state policies that move the nation toward a more equitable and inclusive economy. We publish reports, convene working groups and provide information to help partners participate in the policymaking process.

Along with homeownership and continuing education, CFED focuses on microenterprise as a key asset-building tool for low-income entrepreneurs. We strongly support the SBA Microloan Program, which provides capital, training and technical assistance to disadvantaged entrepreneurs.

The Microloan Program was first authorized as a demonstration program in 1991, with the goal of reaching microentrepreneurs that were being served neither by mainstream financial institutions nor SBA's credit programs. Research and reporting by the Aspen Institute shows that approximately 10 million microentrepreneurs experience difficulty accessing capital from traditional lenders, and that half of these entrepreneurs are women.

Our current economic realities are undoubtedly pushing these numbers even higher, as job losses, tight credit markets and stringent readings of consumer credit reports make accessing business capital all the more difficult. Low-income entrepreneurs, minorities and women especially experience difficulty in obtaining business financing; even when they are highly skilled service workers, they do not have the business experience or training to make them mainstream credit-worthy.

The ultimate goal of the SBA Microloan Program is to provide resources for entrepreneurs who are ready to go from business curious to business capable, move into the financial mainstream and create jobs. A study of 25 microenterprise programs by the Aspen Institute found that the number of jobs (not including the owner) at the businesses assisted more than doubled after these businesses received microenterprise services.

Despite historically strong bipartisan support in Congress, the Microloan Program suffered years of neglect under the previous Administration. During this time, the program was continually targeted for elimination, severely understaffed, had no Standard Operating Procedure, did not collect or report on outcomes-based data and made public very limited information. In addition, funding was cut so severely that as early as 2003, the SBA Office of the Inspector General noted that these cuts made it nearly impossible to expand the field of Microloan Intermediaries.

We very much look forward to working with the Subcommittee and the Administration to improve this important program, and ensure that it reaches its full potential. We believe that the draft legislation under discussion today provides an excellent start to this discussion. Many of the reforms contained in today's draft bill have been requested for years by Microloan Intermediaries. It is our hope that these provisions will provide a long overdue update to the Microloan Program.

First, we are pleased to see that the Subcommittee has included language that allows Microloan Intermediaries to offer more flexible credit terms to entrepreneurs. This will allow Intermediaries to develop responsible financial products that meet the specific needs of their borrowers. This is especially true for entrepreneurs that provide seasonal services, and those whose business needs fluctuate according to other markers. For example, a home air conditioning repair service will typically experience a spike in demand during the hot summer months and might request a small revolving line of credit that would meet their cash flow needs more adequately than a three-year loan. Ultimately, our goal is for these entrepreneurs to benefit from responsible innovations in microlending.

Second, we agree with the Subcommittee and the Administration that increased program participation is necessary to meet the needs of underserved low-income entrepreneurs. We welcome language that expands eligibility requirements for prospective Microloan Intermediaries. We agree that SBA should have discretion to determine the type of experience necessary to become an Intermediary.

Third, we are pleased to see that the Subcommittee recommends increasing the cap on borrowing by Intermediaries, and increasing the maximum loan size of an SBA Microloan. Many of the highest-performing, most capable Intermediaries in the Microloan Program have met their loan limit, and are unable to make additional Microloans despite heavy demand. Increasing the cap from $3.5 million to $7 million will provide a much-needed injection of capital for these Intermediaries. We suggest that SBA be given the option to increase the cap further, to $10 million, for Intermediaries that meet certain criteria to be determined by SBA. We are also pleased to see an increase in the maximum loan that an Intermediary can make to a borrower, from $35,000 to $50,000. While the majority of Microloans are very small, and the average Microloan hovers around $13,000, this increase reflects a key market reality: the investor return on a $50,000 loan is deemed too small for most mainstream financial institutions. We believe that this change will enhance an Intermediary's ability to meet the capital needs of qualified microborrowers.

Lastly, we are happy to see that the Subcommittee proposes an increase in the percentage of technical assistance grants that may be used for providing information and technical assistance to prospective borrowers, as well as the increase in percentage that Microloan Intermediaries can use for third-party technical assistance.

We also recommend that the Subcommittee consider more extensive changes to the Microloan Program in the near future. After years of neglect, it is possible that further reforms may need to be implemented to optimize program performance. We suggest the following revisions:

- Lowering the loan loss reserve requirement: the required 15% loan loss reserve fund that Intermediaries must maintain results in unnecessary levels of passive capital. The SBA Microloan Program has made loans that no bank would dare take on, and yet has the lowest default rate of any SBA lending program, even as it operates without a guarantee. In fact, for FY 2009, the Microloan program is projected to have a default rate (net of recoveries) of 0.37 percent. Contrast that with the assumption for 7(a) at 3.42 %, or the CDC program at 1.79 %. While SBA regulations allow this requirement to be lowered to 10%, we are dismayed that this is the only SBA lending program that requires a loan loss reserve fund. This limitation forces the SBA to lower its risk on its best-performing program, even while it provides guarantees of 80% and higher through its other loan programs. Data collected by the Aspen Institute on 37 microenterprise lenders showed that in 2007, the median loan loss rate was 3.6%. The average loan loss rate was 5.8%, and only three of the 37 lenders had loss rates above 10%.

- Allowing for the one-time use of SBA Microloan loan dollars for Microloan Intermediary capital improvement projects: the market crash and recession have created an untenable environment for accessing capital. Many Intermediaries find themselves with rising demand and the need to expand or improve facilities to meet the demand. Enabling Intermediaries to borrow loan funds to improve their own facilities creates jobs and strengthens the economy at this time without any loss in access to funding for entrepreneurs.

- Expansion of operations: the advent of highly capable, highly successful microlenders in the United States leads us to ask the SBA and the Subcommittee to study closely whether it is time to eliminate the requirement that Intermediaries not be allowed to operate in more than one state. To this end, we believe that the Microloan Program can balance economies of scale with a sharp focus on community training and technical assistance needs. In fact, some microlenders already operate in more than one state, but this restriction means that they must use their Microloan dollars in some or part of the regions they serve. Permitting multi-state use of Microloan dollars will facilitate regional economic development, something that is much needed in many parts of the nation.

- SBA reporting requirements: unfortunately, very little information is available on the Microloan Program. This drought of data makes it difficult for the microenterprise field to focus on areas of improvement and efficiency. We would ideally like to see yearly SBA reporting requirements, include such information as individual loans made and loan dollar volume per Intermediary, as well as other key information such as credit score and jobs created related to borrower success.

I would like to thank the Subcommittee once again for the opportunity to testify today. CFED looks forward to partnering with Congress and the Administration to enable low-income entrepreneurs to start and grow businesses to achieve financial self reliance in vibrant communities. I look forward to answering any questions that you may have.

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08/03/09

Honorable Kurt Schrader
U.S. House of Representative
Washington, DC 20515

Ref: August 4th, 2009 hearing
Field Hearing
Small Business Subcommittee on Finance and Tax

Dear Representative Schrader,

Pursuant to your request for written testimony regarding experiences and the challenges small businesses are facing along with their experiences. I have a banking, leasing and business owner background and offer the following for consideration.

I have seen the government react with such extreme in an attempt to save the financial industry from itself that it has created a new system. One that is based on fear and not sound banking and business principles / relationships. Don't get me wrong the banks and our appointed officials (by the loosening of the sound banking regulations previously held) greed and lack of sound fiscal oversight created the problem. Now overnight we have gone back to a more conservative (old way) of banking, which is good, however with an added slap down on any bank taking any type of measured risk. The only good loan now, is one so overprotected that its next to impossible to obtain and any wise business person would never agree to. Sure banks have money to loan (just ask any of them!) however, not if there is a risk of the governmental oversight not agreeing 100% with every decision made to make that loan. What bank would risk in today's economy not doing everything possible to garner the feds approval? None that have survived.

Let me give you two specific examples. First case is for property that would have the bank in a better than 60% equity position with good cash reserves to back it. They wanted at the last minute a personal guarantee from my company (I'm not the only owner). This would be like you having stock in GE, where some of your income comes from and the bank wanting GE to personally guarantee your loan. So I'm now just paying cash. Seems a little absurd to me! Second is the addition of a building to this property. The bank has again requested the companies guarantee. This is despite me personally willing to pledge more collateral (other commercial property) than the value of the building I want to build. In the end the bank would be in a 90% plus equity position. I assure you as they have me its not a credibility or cash flow / ability to pay issue. They have stated that at any other time in history it would be a no brainier for the bank. But now they are just over cautious due to the government's oversight and requirements for they want to see as many guarantees as one can have so that when audited they are not second-guessed. I will now shop this project with the SBA and other banks, however I don't have high hopes. "Unless there is one of reason to deal with, I will just have to wait until other resources are available". This lack of the markets ability to provide reasonably obtainable financing (for solid companies) is resulting in a loss of jobs. It also stymies my company's ability to grow in Salem, OR. Our hiring of additional staff and spending of resources will now take place at our Missouri office instead of here in Oregon as originally planned.

Now you and I know, one hand will play the other to get what they want (Banks vs. Government). However as long as the banks are operating in fear (real or not) of the government instead of with it, we will not move beyond this recession quickly. In the mean time jobs are lost and businesses are stymied due to the lack of economic opportunity this creates.

I will be attending your hearing on August 4th, 2009 at the Senate Hearing Room in Salem, OR. If you would like to discuss this further you can reach me at the numbers below.

Sincerely,

Micheal A. Smith
President
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