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Remarks Announcing the Initiative to Alleviate the Credit Crunch

March 10, 1993

Thank you very much. Thank you very much, Secretary Bentsen, other members of the Cabinet and distinguished Members of the House and Senate of both parties, and the business men and women and the bankers who are here today.

I am in debt to many people in this room and throughout this country who raised to me in many ways, over the 16 months in which I was engaged in the campaign for the Presidency, the question of the credit crunch. From the beginnings of that campaign in New Hampshire, across the country to Illinois and Michigan, down to Florida, across to California, and in all points in between, I repeatedly ran into small-business men and women, I repeatedly met bankers themselves who said they wished that something could be done to open up credit again to creditworthy loans, to generate jobs in the private sector.

Today we are taking a step to speed the economic recovery that will increase jobs by increasing access to credit for the main engine of our economy, small and medium-sized businesses. At the same time, by strengthening our banking system, our plan will move us beyond the banking problems of the last decade. The initiative avoids the regulatory excess and duplication we've seen and focuses on real risks within our financial institutions and on fair lending, equal opportunity, and credit availability.

Every day, small business is a big part of all of our lives. It's the coffee shop on the corner, the florist down the street, the stationery store that carries office supplies, the dry cleaner, the contractor who will remodel a kitchen. Many are businesses with fewer than 100 employees. Many more employ fewer than 20 people. But they keep communities and neighborhoods vibrant and vital. They are the industry in a cottage, in a garage, in a spare bedroom. They are downtown in every town, and sometimes they grow into very large enterprises indeed.

Small business includes small farms, the agricultural community. Their contribution is evident every day on our tables. But it is much more. They are the cultivators of an essential part of our history, our heritage, our culture. Small business is also high tech, the industries of tomorrow, from computer software to communications, to biotechnology and environmental testing, all enterprises that create high-wage, high-skill jobs for Americans today, and they will be there tomorrow.

And small business has been the route to a better life for immigrants who set up a family business, for men and women who save as they work for others until they can venture off on their own. Often a small business is actually an outgrowth of the global economy. As larger firms downsize to remain competitive, they contract out to smaller firms. And many talented people who once worked for large companies are now going off on their own to seize opportunities in smaller enterprises, building businesses for themselves.

Owning one's own business is a cornerstone of the American dream, fortified by hard work, determination, and creativity. My first experience in life with business was in my grandfather's little grocery store. He was the symbol of hope and opportunity to many people with whom he dealt in many ways, 6 days a week at all hours of the day and night.

Today's small businesses are a barometer of the economic recovery. And as the strength of this recovery has been diluted by the inability to create jobs, it is clear that it's largely because small companies are still having a hard time. If you look at this chart here, you can see the number of small-business failures, just since 1985: 119,000 in '85–'86; 118,000 the next year; 111,000 in the next 2-year period; but in '91–'92, almost 185,000 small-business failures.

These businesses have been hit especially hard by the recession and by a problem not of their own making that can be summarized by two fearsome but now well-worn words: credit crunch. Small companies are simply unable in too many cases to get loans from banks. And I want to show this—they turned it, and I didn't see—if you look here, the growth in commercial and industrial loans, '85–'86, in billions of dollars; and the last 2 years, down to a negative $36 billion. Now, if these businesses can't begin or expand or

try new ventures, that means stagnation for our economy, lost opportunity, and sometimes ruin for entrepreneurs. Indeed, I've met business people in this country in the last year and a half who've never missed a payment on a loan and still had the loans canceled.

These problems are America's problems. When small businesses aren't prospering, they create fewer jobs, and that means fewer jobs for America. If you look at this last chart, you will see the real essence of why this has turned out to be, so far, a jobless recovery. In '85–'86, there was a positive change in small-business employment of 2.4 million; '87–'88, 2.8 million; '89–'90, 3.2 million; but down in '91–'92, 400,000. Now, in every year of the 1980's the Fortune 500 companies have reduced employment by several hundred thousand people a year in the United States. But all during the eighties that reduction was more than offset by the creation of new jobs in the small-business sector, until the last couple of years.

If you had to put in a sentence why this has been a jobless recovery, it's because small-business job creation hasn't offset big-business job losses. And that is the central challenge we face. As we take advantage of the incredible things going on now in the big- and small-business sector with productivity increases, with the aggregate indications that we're in an economic recovery, we have to look for ways, all of us together, to try to help to spur small business and medium-size business job growth so that we can put some jobs back into these impressive economic figures of the last quarter.

Nearly two-thirds of all of our workers are employed by small businesses. And as I said, millions of jobs in the last decade were created by them, even as larger employers were downsizing, contracting out, or moving employment offshore. We cannot afford not to try to resume this trend in the 1990's. We know that if we create a reliable and secure system of credit for America's small businesses, they'll create jobs for Americans and profits for themselves. That's why we have offered incentives like investment tax credits for small employers, the new business capital gains tax, urban enterprise zones, and a network of small business community development banks.

In our country you can become successful if you have a better idea that you can turn into reality. But that reality can only occur if credit is available, for most Americans. And we think we have a better idea for getting lenders and creditworthy borrowers together. What we propose does not involve any changes in legislation. These steps can be taken quickly because they have been agreed to already by the four Federal bank and thrift regulatory agencies: the Comptroller of the Currency, the Federal Reserve, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision. Today I'll outline the basics of the plan, but the four bank and thrift regulators are issuing a joint interagency policy statement today that sets out more of the details. It will be available to all of you, and most of you will understand it. [*Laughter*] I don't know if I left the implication that I didn't. [*Laughter*]

What we have done, first of all, is to reexamine our examination system, a system that bankers often felt has become too excessive in the wake of the banking and savings and loan failures of the eighties. With this plan our examiners will be directed to do what they do best and not to spend endless hours on pointless paperwork. It will strengthen our oversight by shifting our regulatory attention from unproductive and repetitive procedures, redirecting our resources to better use so that bank examiners will be able to seek out the real risks in today's environment. They'll go after bad loans and troubled banks. That means improved safety and soundness. But they will reduce the credit crunch because they will reduce attention to things that do not deserve them.

We will not, I will say again, we will not reduce attention to important regulation or to proper reserves for problem loans. The plan will not lower the capital requirements established in accordance with international standards. It will not cause a single bank to fail. And it will not cost the deposit insurance funds one dollar.

Through a proper allocation of our regulatory resources, we will be able to focus more on examination procedures to further meaningful compliance with the Community

Reinvestment Act and to promote fair opportunities for all of our people while reducing the hassles for all creditworthy loans.

Above all, borrowers can go to their banks expecting fair and equal treatment and a reasonable application process. Fairness is a goal for many good reasons, including the fact that women and other minorities have been very bullish for small business and for America. Female-owned companies now employ 11½ million Americans.

A side effect of the savings and loan disaster was a reaction that forced many banks into a thinking mode that didn't distinguish between a good risk and a bad risk where small businesses were concerned. They were afraid to. This was a problem, especially for community bankers who frequently had to decide whether they could loan money to other members in their own community. Even if a banker could personally vouch that an applicant was a person of good character with an unblemished credit record and a good business track record, a loan might still be turned down because the banker felt his hands were tied by tight restrictions.

So while we ask bankers to give the small-business men and women credit, we'll give the bankers some credit too, as they consider loans to small and medium-size companies in their own communities and neighborhoods. They'll be encouraged to use their judgment to determine whether a borrower is creditworthy. And we're telling bankers that as long as their institutions and their practices are sound, they shouldn't be afraid of the regulator. If they disagree with a decision by a regulator, they'll now have a recourse, a workable and prompt appeals process.

To bankers across the Nation we say, you are a pillar of our neighborhoods and communities. We know the demands of rebounding from the last decade have often been painful for many of you. Your comeback has been nothing short of amazing. But there is more work to do. And we need you to get it done. And if it gets done, there will be something to show for it, the kind of broad-based economic growth that benefits all of us.

And we further say to bankers across the land that if you make sensible loans, the Government should not come down on you. That's why we're taking this action today. We want bankers to get back into the business of lending money, and we're going to work with them to make it happen.

We're also making clear that taking collateral as part of a business loan should not be so burdensome or costly to discourage borrowers or lenders from making sound credit decisions. Often the only collateral a would-be borrower can offer is real estate. Of course, we learned the hard way in the eighties that we had to be careful where loans involving commercial real estate are concerned. But care has been confused with regulatory excess that has been too much of a burden for everyone. The changes we propose will strike a balance so that we can have both safety and credit availability.

These changes will also address the paper crunch in getting a small business loan. It simply shouldn't be as burdensome to get a $25,000 loan as it is to get a $25 million loan. It makes no sense for a small or medium-sized business borrower, or for an individual for that matter, to be required in every case to produce a pile of paper like this one—pretty thick—when a loan can be made safely in many cases, particularly by banks who have demonstrated judgment in their business practices, with merely a promissory note and a financial statement and possibly a short credit application like this.

So under the current system, the paperwork—and I expect every one of you to come back and show me your measured envelopes here. We've got to prove that the difference is what we're asserting it is today. [*Laughter*] Under the current system, the paperwork is often daunting to the applicant and discourages banks from making smaller loans. Streamlining the process will make it easier to free up credit without compromising security. This is action that everyone, conscientious regulators, community-conscious banks, and growing businesses, can embrace.

With this approach we want to marry the ingredients for a thriving business climate. Right now banks are healthier than they've been in years; 1990 was a record year for bank profitability. And these profits have

been used to put banks in the strongest position they've been in, in a quarter of a century. At the same time, interest rates have gone down. Just 3 years ago the average interest rate on a small-business loan was 12 percent. So far the average is 8 percent. The climate for business ventures has been made even sunnier by economic growth that we've seen in the last quarter. That's a byproduct of the optimism for the growth that we are pressing for now with all the economic initiatives that are before the Congress and the country.

So both supply and demand for business loans are there. And would-be small-business owners are right to feel they have the wind at their backs. Now that we have banks in the strongest positions they've been in in a quarter century, they ought to be able to give us the strongest economic boost we've had for small business in a quarter century. Until now the problem has been that everyone has had to face a 10-foot wall called the credit crunch. This action that this administration is taking today should take a big chunk out of that wall. The result should be a flow of billions of dollars of economic stimulus that doesn't cost the American taxpayers one red cent. The payoff will be in new jobs and in reversing the charts that I have shown you today.

At the same time, by encouraging new small-business ventures, we'll be laying the groundwork for a smarter work force that can compete more effectively in the global economy. Getting financing to these businesses is absolutely essential to the future growth of America. We'll see the benefits, and so will our children.

This administration is firmly and unequivocally committed to the private sector as the engine of economic growth in America. We have no illusions, no abstractions, no preoccupations; we know that this is what works in this country. In America we put people first, first by having a prosperous economy founded on a thriving private sector. What's good for America is good for business, and we are determined to make the climate for business and for growth better and better and better, beginning today where so many of you have told me for so long we ought to begin, with a real assault on the credit crunch.

Thank you very much.

NOTE: The President spoke at 1:43 p.m. in the East Room at the White House.

Exchange With Reporters Prior to a Meeting With California State Legislators

March 10, 1993

Health Care Task Force

Q. Mr. President, can your health care task force proceed in public?

The President. Well, I understand we got a ruling from the judge today.

Q. The judge ruled that the meetings have to be open.

The President. He's ruled that they had to have some open meetings, but in the briefing I got was that he ruled that some of the assertions that were made were absolutely unconstitutional. The briefing that I got was that we got a very good ruling from the judge today.

Military Base Closings

Q. Are the bases going to close in California, sir?

The President. I don't know. We don't know what's going to happen. I don't know what—you all have published lists. I've not seen the lists. You know how it works: The base closing commission has to make a recommendation. Then they give it to me, and I have to evaluate whether I think it's right or not. And then, after that, after those two things are reconciled, the Congress gets to vote up or down on it. So I don't know what's going to happen.

NOTE: The exchange began at 2:45 p.m., in the State Dining Room at the White House. A tape was not available for verification of the content of this exchange.