

# REPORT TO THE PRESIDENT SMALL BUSINESS FINANCING FORUM



U.S. DEPARTMENT OF THE TREASURY  
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# REPORT TO THE PRESIDENT

## SMALL BUSINESS FINANCING FORUM

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# REPORT TO THE PRESIDENT SMALL BUSINESS FINANCING FORUM

## INTRODUCTION

### ***Introduction to the Report***

Small businesses are the backbone of the American economy. They are leaders in innovation, critical engines of job growth and springboards to recovery. To play this important role, however, small businesses need access to financing.

This is why, as the President and his Administration have worked to help stabilize the nation's fragile financial markets, we have sought to ensure that small businesses across the country have tax relief and access to lending and other sources of capital. It is why Treasury and the Small Business Administration (SBA) have worked with Congress on a strategy of raising SBA guarantees, temporarily eliminating borrower fees and unlocking secondary markets – helping to give lenders the confidence they need to extend more credit. It is why the President asked Treasury and the SBA to convene entrepreneurs and small business owners, lenders, policymakers and regulators to assess additional ways to spur small business growth at the Small Business Financing Forum. And it is why the President today will personally lead a White House Forum on Jobs and Economic Growth in which small businesses will play a key role.

At the panels and the breakout groups convened as part of the Small Business Financing Forum – and in comments we received afterwards – participants were asked to present their recommendations concerning how financing could be made more available to small businesses to spur job creation and thereby strengthen the recovery. Many of the ideas listed in this report are not ones the Administration supports or agrees with, but we believe that the best policies are made when we engage in an open dialogue. As a result, we wanted to present for discussion the broad range of views set forth that pertained directly to access to credit or job creation. In addition, we have included as part of this report the remarks presented in our opening session by Federal Deposit Insurance Corporation Chairman Sheila Bair, Senate Committee on Small Business Chairwoman Mary Landrieu and House Committee on Small Business Chairwoman Nydia Velazquez, as well as by Secretary Geithner and Administrator Mills.

The Administration has already provided important lifelines to small businesses. We worked with Congress to provide targeted tax relief to small businesses, letting them write off more of their expenses and earn instant refunds on their taxes by “carrying back” their losses five years, instead of two. As part of the American Reinvestment and Recovery Act, the Administration temporarily raised guarantees and lowered fees for the SBA's flagship programs, helping to drive up average weekly loan volume nearly 80 percent compared to the weeks before the act was passed. We have helped revive securitization markets that were a critical source of credit for small businesses until the crisis, with the volume of loans sold on these markets nearly four times higher in October than in January. And we have set forth plans to provide low-cost capital to community banks that are committed to increasing their small business lending, and to providing additional resources for Community Development Financial Institutions that serve America's hardest-hit communities.

With financial institutions tightening lending standards in this recent economic crisis, the small businesses that depend on them for credit have been hit particularly hard. We remain committed to working with Congress and the small business and lending communities to do more to help ensure that much-needed credit is flowing in a responsible way so that small businesses can once again lead the country out of recession and back to prosperity. This report is being transmitted to the President as one step in ensuring that he has at his disposal the views of a wide array of small business owners, lenders and policymakers about how best to help America's small businesses recover and, with them, the nation.

# REPORT TO THE PRESIDENT SMALL BUSINESS FINANCING FORUM

## WHAT WE HEARD: IDEAS FROM FORUM PARTICIPANTS

Participants in the Small Business Financing Forum – small businesses, lenders, policymakers and regulators – suggested a range of ideas aimed at supporting access to credit and job creation for small businesses. Additional ideas were submitted by participants via e-mail in the days leading up to and following the conference. Without endorsing any of these specific proposals – which have different costs, benefits and implementation issues that are not addressed at length here – Treasury and the SBA have compiled the recommendations we received from conference participants as part of the Administration’s ongoing discussion of how to best support small businesses in driving job creation and economic recovery.

### **Expanding and Improving SBA Programs**

Conference participants offered suggestions to expand and improve SBA programs that serve small businesses. Ideas included expanding the scope, size and reach of existing SBA programs through increasing program limits, reaching out to new lenders and borrowers, streamlining processes and procedures and strengthening critical counseling and technical assistance programs. Specific ideas suggested by participants included:

#### **Extending SBA Recovery Act Programs**

- ◆ ***Extending Recovery Act Fee Elimination and 90 Percent Guarantees for SBA Loans:*** It was suggested that Recovery Act provisions waiving SBA fees and raising loan guarantees to 90 percent be funded and extended. Funding for these programs was exhausted in late November 2009. Some participants supported extending these provisions through fiscal year 2010, and others proposed dates in 2011.
- ◆ ***Making the Recovery Act Secondary Market Program for 504 First Mortgage Loans Permanent:*** It was suggested that the SBA secondary market facility authority be extended to increase bank participation in SBA’s 504 program.

#### **Expanding and Improving Existing SBA Programs**

- ◆ ***Adding Lenders to SBA programs:*** It was suggested that outreach efforts be expanded to recruit more lenders to participate in SBA programs directly and through intermediaries. Suggestions included making SBA programs more accessible for community banks and increasing lender training.
- ◆ ***Increasing Loan Sizes Across Programs:*** Consistent with some of the legislative proposals mentioned by Senate Committee on Small Business Chairwoman Mary Landrieu (D-La.), House Committee on Small Business Chairwoman Nydia Velazquez (D-N.Y.) and Sen. Sherrod Brown (D-Ohio), it was suggested that SBA loan sizes be increased. Specific proposals included increasing the maximum 7(a) loan size to \$5 million, with a corresponding increase in allowable guarantee authority, and increasing 504 loan sizes to \$4 million, with higher limits for public

policy and manufacturing purposes. Additionally, some conference participants suggested increasing SBAExpress loan sizes up to \$2 million; increasing SBA's American Recovery Capital (ARC) loan size from \$35,000 to \$100,000; and increasing the Microloan program to \$50,000 or \$65,000 as well as raising limits on direct loans to intermediaries from \$3.5 million to \$7 million.

- ◆ ***Increasing Eligibility Size Standards Along With Increased Loan Limits:*** It was suggested that eligibility size standards be increased, with simpler alternative standards for determining eligible borrowers, like those temporarily in place for the 7(a) program that focus on business net worth and net assets.
- ◆ ***Expanding Eligibility for SBA Programs to Nonprofits, Professionals and Building Developers:*** It was suggested that SBA programs be expanded to support financing for non-profit entities, professionals like doctors and dentists and buildings in which one tenant does not occupy at least 51 percent of the building.
- ◆ ***Reauthorizing the Small Business Innovation Research (SBIR) Program:*** It was suggested that the Small Business Innovation Research (SBIR) program be made permanent or extended for a minimum of six years with changes to address affiliation issues. Ideas for improvements included increasing the set-aside rate, developing an aggressive Phase III Commercialization program and reinstating Federal and State Technology Partnership (FAST) programs to support outreach to and training of prospective applicants.
- ◆ ***Permitting Refinancing of Existing Debt in the 504 Program:*** It was suggested that loan refinancing under the 504 program be permitted to facilitate more capital availability to businesses that have experienced depreciation in their real property values. Some participants suggested that this change could be made through a temporary program to address the present need for refinancing.
- ◆ ***Modifying Refinancing Guidelines in the 7(a) Program:*** It was suggested that further clarity and guidance be provided around existing procedures for 7(a) refinancing. Additionally, it was suggested that refinancing be allowed even if it does not provide an improvement in the interest rate, monthly payment amount or other terms, as required in current procedures. Specific proposals included allowing the loan term on a refinance to be tied to the available collateral rather than directly to the original use of proceeds or providing tiered guarantees that adjust over time as businesses stabilize.
- ◆ ***Adjusting Interest Rate Caps and Policies:*** It was suggested that SBA 7(a) lenders be permitted to set fixed interest rates for periods less than the full 25 years of a loan and to charge 7(a) prepayment penalties for fixed rate loans of 5 years or longer. Other suggestions included increasing the interest-rate cap on loans or eliminating pricing guidelines other than maximum allowable rates for all programs.
- ◆ ***Expanding Access to Credit for Dealers:*** It was suggested that action be taken to help auto, boat, and other dealers seeking to finance their inventory. Ideas for addressing this issue included strengthening SBA's Dealer Floorplan pilot program and identifying other expanded sources of credit.

- ◆ ***Lifting Buy-In Restrictions for Medical, Dental and Veterinary Practices:*** It was suggested that restrictions be lifted surrounding partial business buy-in by an associate in a medical, dental or veterinary practice.
- ◆ ***Eliminating Personal Resources and Credit Elsewhere Tests from 504 Program:*** It was suggested that the personal resources and credit elsewhere tests be eliminated from SBA's 504 program.
- ◆ ***Rethinking Loan Fees:*** It was suggested that SBA program fees could be restructured. Suggestions included assessing a flat percentage fee on all SBA loans regardless of size – rather than increasing the fee percentage as the loan amount increased – or making fees commensurate with the risk profile of the business entity being financed based on SBA's default and loss statistics.
- ◆ ***Re-Examining the Use of Credit Scores:*** It was suggested that SBA examine its policies to make sure the agency is not relying on personal credit scores for credit decisions, noting the recent fluctuation of credit scores and their usefulness as a predictor in credit analysis.
- ◆ ***Improving the Guarantee Purchase Process:*** It was suggested that guarantee purchase reviews be focused around material and economic defaults rather than paperwork and process issues. It was also suggested that the SBA Inspector General reviews of these decisions should not result in requests to banks for guarantee funds paid 2-3 years prior.
- ◆ ***Streamlining Regulations and Processes:*** It was suggested that SBA reduce paperwork and simplify loan approval and deferment processes as well as streamline program and oversight regulations.
- ◆ ***Expediting Small Business Investment Company (SBIC) Licensing:*** It was suggested that the process for licensing an SBIC – which can take over a year – be streamlined.
- ◆ ***Expanding Small Business Development Center (SBDC) Funding:*** It was suggested that support be increased for the SBA's SBDCs, which provide counseling, training, and technical assistance to small businesses. It was also suggested that university-based small business centers and county economic development centers be used to a greater degree to help small businesses access technical assistance.
- ◆ ***Providing Technical Assistance Grant Funds for SBICs:*** It was suggested that counseling and training funds be provided to SBICs that make investments in new programs or areas.
- ◆ ***Offering Incentives for Larger Businesses to Partner with Smaller Firms to Provide Back-End Support:*** It was suggested that programs be created to provide incentives for larger businesses to partner with smaller companies and provide back-end support.

- ◆ ***Making Microloan Technical Assistance Grants More Flexible:*** It was suggested that greater flexibility be provided for microloan technical assistance funds, including allowing new intermediaries to access these funds and allowing intermediaries to contract for a greater share of services.

## **New SBA Programs**

- ◆ ***Expanding Access to Working Capital Lines of Credit:*** Several options were suggested for expanding access to working capital lines of credit, including: (1) modeling a domestic working capital program off of the SBA international credit line, (2) expanding the existing CAPLines program by, for example, allowing banks to use internal asset-backed lending procedures and (3) raising guarantees in the SBAExpress program.
- ◆ ***Allowing SBA Lending Against Business Contracts:*** It was suggested that an SBA program be created to allow small businesses to take out loans against business contracts, possibly with a higher guarantee and higher interest rate cap, to account for the higher cost of funding and administering such loans.
- ◆ ***Guaranteeing Construction Bridge Notes:*** It was suggested that a new program be created to provide 75 percent guarantees on bridge notes made in conjunction with a construction 504 loan. This program could help address issues with 504 takeouts and could stimulate additional construction lending.
- ◆ ***Creating a New Intermediary Lending Program:*** It was suggested that a new SBA loan product be created to capitalize non-profit loan funds targeting small businesses that cannot access bank capital. Under one proposal, SBA would make low-interest loans to non-profit loan funds that would then use that money to make small loans to under-collateralized, start-up or expanding businesses.
- ◆ ***Providing Direct Loans Through SBA's Disaster Program:*** It was suggested that SBA's disaster lending program be temporarily expanded to include direct SBA loans to small businesses suffering substantial economic injury due to the credit crunch, if adequate resources are available to permit SBA to operationalize this program.

## **Using the Emergency Economic Stabilization Act (EESA) to Support Small Business Lending**

Participants in the conference suggested ways that Treasury could use funds provided under the Emergency Economic Stabilization Act (EESA) to support small business lending. Many of these ideas involved smaller banks and Community Development Financial Institutions (CDFIs). Specific ideas suggested by participants included:

- ◆ ***Using EESA Funds to Create a Facility to Support Small Business Lending:*** Senator Mark Warner (D-Virginia) discussed a proposal to use EESA funds to create a facility that banks could draw on to make new loans to small businesses. Under this proposal, banks would take some portion of losses on these loans and would be required to lend any funds they draw to small businesses within 12 to 18 months.
- ◆ ***Increasing Access to Credit for Manufacturers:*** Sen. Sherrod Brown (D-Ohio) discussed ideas to use EESA funds to increase access to credit among small and medium-sized manufacturers.
- ◆ ***Increasing the Maximum Investment in CDFIs:*** It was suggested that the maximum permitted investment under Treasury's recently announced program to provide low-cost capital to CDFIs be increased from 2 percent of risk-weighted assets to 5 percent of risk-weighted assets. In addition, it was suggested that eligibility standards for the program to provide low-cost capital for CDFIs could be adjusted to allow more banks to participate.
- ◆ ***Making CDFI Venture Capital Funds and Loan Funds Eligible for EESA Funds:*** It was suggested that EESA assistance be expanded to CDFI venture capital funds and loan funds, in addition to CDFI banks, thrifts and credit unions, which are already eligible.
- ◆ ***Expanding Eligibility for EESA Capital to All Credit Unions:*** It was suggested that Treasury make EESA capital available to all credit unions, not just CDFI credit unions.
- ◆ ***Providing Support for Working Capital Lines of Credit:*** It was suggested that EESA funds be used to provide support for lenders to extend or maintain working capital lines of credit to small businesses.
- ◆ ***Expanding the Term Asset-Backed Securities Loan Facility (TALF) Program and Extending Its Closing Date:*** It was suggested that TALF be expanded to non-bank small-business lenders and beyond SBA loans and AAA-rated securities. In addition, it was suggested that TALF be extended beyond its scheduled March 31, 2010 closing date.

## **Tax Policy Ideas to Assist Small Businesses**

In several sessions, participants presented ideas concerning how tax policy might be used to encourage access to credit and job creation for small businesses. In particular, participants suggested providing tax incentives or making other changes to tax policy that would encourage lenders or investors to provide small businesses with greater access to capital. Specific ideas suggested by participants included:

- ◆ ***Creating a New Angel Capital Tax Credit Program:*** It was suggested that the tax benefits for angel investors should be improved to stimulate additional investment in innovative high-growth businesses. One proposed idea would enhance existing state programs and incentivize the creation of new programs by making available a federal tax credit to angel investors in those states that have or are willing to create an equivalent or more generous program.
- ◆ ***Establishing a “New Jobs Tax Credit” Focused on Small Businesses:*** It was suggested that a “New Jobs Tax Credit” be created for small businesses based on increases in payroll for 2010 over 2009, which would support cash flow to those companies poised to expand and hire new workers.
- ◆ ***Extending the 5-Year Net Operation Loss (NOL) Carryback Through 2010:*** It was suggested that the recent expansion of the NOL five-year carryback be extended through 2010 for small businesses and all community banks with assets of \$10 billion or less.
- ◆ ***Revising the Tax Equity and Fiscal Responsibility Act (TEFRA) Disallowance:*** It was suggested that the “TEFRA disallowance” be revised to permit S Corporation banks to deduct a greater portion of interest expense incurred to acquire tax-exempt obligations.
- ◆ ***Allowing New IRA Investments in Eligible S-Corp:*** It was suggested that new IRA investments be allowed in S-Corp banks, reforming a current law which only allows IRA shareholders to the extent that that stock was held on or before October 22, 2004.

## **Supporting Small Businesses in Underserved Markets**

Conference participants – especially in a panel session that focused on access to credit in distressed communities – described how small businesses and entrepreneurs in low-income and other disadvantaged communities often face challenges accessing credit that are even deeper than in other areas. Specific ideas suggested by participants included:

- ◆ ***Supporting Business Incubators in Economically Distressed Areas:*** Senator Sherrod Brown (D-Ohio) described a legislative proposal to provide additional Economic Development Administration funds to support business incubators in economically distressed areas. These incubators provide local small businesses with counseling on business strategies, assistance procuring financing and access to physical infrastructure, among other services.
- ◆ ***Reauthorizing and Increasing the New Markets Tax Credit (NMTC) Program:*** It was suggested that the NMTC program be reauthorized with additional allocation authority. In addition, it was suggested that NMTC investments could be used as an offset to the Alternative Minimum Tax.
- ◆ ***Making the NMTC Program More Accessible to Small Businesses:*** It was suggested that the NMTC program could be revised to be more effective in supporting investments in small businesses. For example, it was suggested that program regulations could be revised to provide safe harbor from the reinvestment and “substantially all” requirements for NMTC Qualified Low Income Community Investments (QLICIs) established for small business lending. This would be aimed at investments in operating businesses for machinery and equipment, working capital, and other lines of credit.
- ◆ ***Expanding the New Markets Venture Capital (NMVC) Fund Program:*** It was suggested that SBA’s NMVC Program could be expanded to provide businesses in low-income communities with access to venture capital financing and operational assistance. Suggestions included increasing the overline for NMVC investments and aligning it with the SBIC overline limit to ensure that NMVC companies can adequately capitalize their companies and maintain jobs.
- ◆ ***Enhancing Funding for the CDFI Fund’s Financial Assistance Program:*** It was suggested that additional capital be made available to CDFIs by increasing funding to the CDFI Fund’s Financial Assistance Program. The CDFI Fund’s Financial Assistance Program provides loans, equity investments, deposits and grants to CDFIs that can be used to finance capital reserves, loan loss reserves or operations.
- ◆ ***Adjusting the Regulatory Treatment of Certificate of Deposit Account Registry Service (CDARS) Deposits Held by CDFIs:*** It was suggested that regulatory pressure be lessened for CDFIs to reduce or divest Certificate of Deposit Account Registry Service (CDARS) deposits.
- ◆ ***Promoting Financing for Green Projects Among Community-Based Lenders:*** It was suggested that green financing could be promoted among community-development related lenders in the SBA and CDFI Fund networks – for example, through partnerships between the Department of Energy, the SBA, and the CDFI Fund.

- ◆ ***Creating a Loan Loss Reserve Fund for Small-Dollar Loans:*** It was suggested that a loan loss reserve fund for small dollar loans be created that would provide credit enhancement on loans made by CDFIs in underserved communities. Under such a proposal, the reserve fund would encourage larger banks to provide participating CDFIs with additional capital, which could be lent to small businesses.
- ◆ ***Allowing Certified Development Companies (CDCs) and Community Development Financial Institutions to Access Both SBA and Treasury programs:*** It was suggested that SBA and Treasury expand the ability of CDCs and CDFIs to access additional programs that support lending, so that CDFIs and other non-traditional lenders could participate in the SBA 7(a) lending program, and CDCs could participate in Treasury programs.
- ◆ ***Making the Pilot Community Express Program Permanent:*** It was suggested that the pilot Community Express program be made permanent. Community Express allows authorized SBA lenders to adopt streamlined loan procedures to provide financial and technical assistance to borrowers in underserved communities.
- ◆ ***Supporting Veterans as Small Business Owners:*** It was suggested that new programs be aimed at helping former service members become entrepreneurs, including tax incentives to help veterans start franchises and programs to help channel GI education benefits toward business ownership.

## **Expanding Access to Credit in Rural Areas**

Many participants – particularly in the breakout session co-hosted by Agriculture Secretary Tom Vilsack – discussed the challenges small farms and other rural businesses face in accessing credit. Conference participants suggested ideas to strengthen existing programs designed to increase rural lending, as well as to ensure that programs are targeted to more broadly reach rural areas. Specific ideas suggested by participants included:

- ◆ ***Providing Additional Funding for the Intermediary Relending Program (IRP):*** It was suggested that additional funding be provided for the IRP, a program administered by the U.S. Department of Agriculture (USDA). The IRP provides loans to private non-profit organizations and public entities to finance business facilities and community development projects in rural areas.
- ◆ ***Revitalizing the Rural Business Investment Program (RBIP):*** It was suggested that SBA and the USDA increase the number of Rural Business Investment Corporations (RBICs) licensed under the RBIP program. Currently, only a single RBIC is operational under the program. The RBIP provides support to licensed RBICs that demonstrate an ability to assist targeted rural areas through profit-oriented investments in rural enterprises and through hands-on technical assistance to rural enterprises.
- ◆ ***Facilitating Connections Between Urban Markets and Agricultural Producers:*** It was suggested that government efforts could facilitate greater connections between urban markets and agricultural producers and suppliers.
- ◆ ***Increasing Access to Funding for Rural and Native American CDFIs:*** It was suggested that a rural set-aside could be created within the CDFI Fund and that Native American set-asides could be increased. Participants also suggested that geographic targeting could be used to earmark funds for the rural regions of greatest need.
- ◆ ***Supporting Angel Investors in Rural Regions:*** It was suggested that federal tax credits could be created for angel investors that support rural businesses. In addition, it was suggested that the government could provide support for learning networks of individuals who wish to become supportive angel investors to rural entrepreneurs and small businesses.
- ◆ ***Providing Additional Funding for the USDA’s New Microenterprise Program:*** It was suggested that additional appropriations could be secured for the Department of Agriculture’s microenterprise program within the Farm Bill reauthorization.

## **Promoting Innovation, Exports, and Manufacturing for Small Businesses**

Conference participants presented ideas for targeted assistance to support small businesses that are engaged in innovation, exports, or manufacturing, noting the importance of these areas to economic growth and job creation. Specific ideas suggested by participants included:

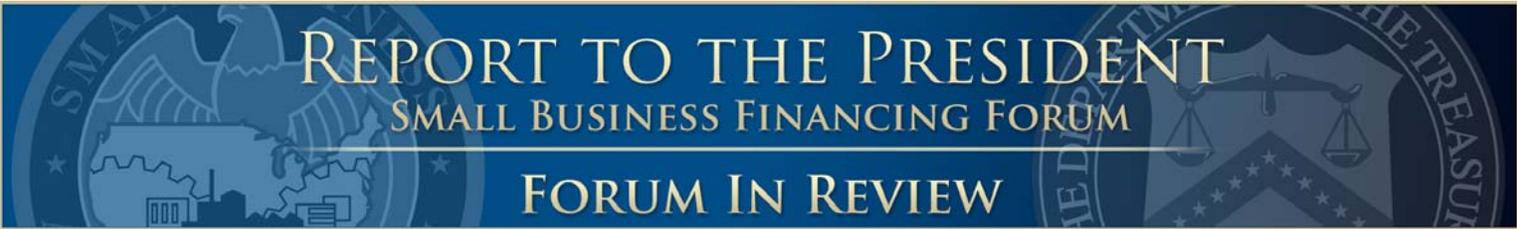
- ◆ ***Supporting Revolving Loan Funds for Manufacturers to Invest in Energy Efficiency:*** Senator Sherrod Brown (D-Ohio) described a legislative proposal to fund the establishment of revolving loan programs to assist small and medium-sized firms in retooling, expanding or establishing domestic clean energy manufacturing operations and improving energy efficiency.
- ◆ ***Providing Community Reinvestment Act (CRA) Credits, Tax Incentives, and Other Incentives for Lending to Small Business Exporters:*** It was suggested that increased CRA credits for banks or other incentives be offered to support lending to small business exporters. One suggestion was to develop a certification process to identify and support designated high-tech manufacturers as they seek to raise financing or investor equity.
- ◆ ***Creating and Expanding Federal Programs to Support Innovation:*** It was suggested that funding and support be expanded for programs like the Department of Commerce Technology Innovation Program and the National Science Foundation Partnership Innovation Program.
- ◆ ***Accelerating the Commercialization of Federally Funded Research:*** It was suggested that partnerships be created to facilitate the spread of intellectual property from research labs into the marketplace through support for proof-of-concept prototypes, market research and IP landscape examination, as well as state-based seed programs and cluster development strategies.
- ◆ ***Forging Public/Private Funding Partnerships With Experienced Venture Investors:*** It was suggested that federal funds could be used to provide matching investments with experienced venture capital investors. Under this proposal, public investments would be matched at a minimum rate of one-to-one by local, state, foundation, angel, or other private sources.
- ◆ ***Partnering With State and Local Seed and Early-Stage Investment Organizations:*** It was suggested that federal funds could be used to establish and strengthen state or regional independent seed and early-stage investment and development organizations. The suggested program could enable state-regulated entities with a proven track record of success to extend their investment activities in seed and early-stage enterprises, while encouraging states without such entities to establish them.

## **Increasing Liquidity for Lenders and Addressing Regulatory Issues**

Conference participants suggested a wide range of ideas for providing additional liquidity to lenders – including through regulatory changes – that might increase their ability to lend to small businesses. Specific ideas suggested by participants included:

- ◆ ***Reducing the Pro-cyclicality of Bank Regulation:*** It was suggested that regulators take a more flexible approach in assessing credit risk in addressing banks' extension of small business loans.
- ◆ ***Reducing Regulatory Penalties When Collateral Value Has Fallen But Borrowers Are Current on Interest Payments:*** It was suggested that banks should be allowed to avoid reclassifying certain loans as non-performing when the value of a borrower's assets fall, but the borrower continues to make timely payments.
- ◆ ***Allowing Community Banks Formed as S-Corps to Issue Preferred Stock:*** It was suggested that banks with S-Corp tax structures be permitted to issue preferred stock in order to improve access to capital.
- ◆ ***Raising the Cap on Credit Union Lending to Businesses:*** It was suggested that limits on credit union lending to businesses be raised from the current cap of 12.25 percent of a credit union's total assets.
- ◆ ***Creating a "Character Loan" Basket With Special Regulatory Treatment:*** It was suggested that banks be permitted to hold a small basket of "character loans" from borrowers who have a record of meeting obligations to the bank. These loans would be exempt from normal underwriting standards and not subject to examiner scrutiny as long the loans perform.
- ◆ ***Raising the Permissible Number of Shareholders for S-Corp Banks:*** It was suggested that the permissible number of shareholders for S-Corp banks be raised from its current cap of 100, with the aim of increasing the base of potential sources of capital for these lenders.
- ◆ ***Continuing To Provide Greater Clarity On The Treatment Of Commercial Real Estate and Small Business Loans:*** It was suggested that additional clarifications be provided on the treatment of commercial real estate and small business loans – along the lines of the recent guidance from Federal regulators on modifications of CRE loans.
- ◆ ***Creating a New Government Insurance Program for Classified Bank Assets:*** It was suggested that banks should be permitted by their regulator to buy insurance in the amount of the face value of a classified loan in exchange for payment of an insurance premium. Under the proposed program, if a bank pays the insurance premium, the bank would be provided Classified Asset Insurance and permitted to keep the classified asset on its balance sheet as a non-performing asset without writing it down for the period of the insurance term.

- ◆ ***Enabling Income Verification for Underwriting and Improving Data Integrity for Lenders and Secondary Market Purchasers:*** It was suggested that lenders (and possibly secondary market buyers) should be permitted to verify incomes of borrowers on a consumer opt-in basis using federal and state government databases.
- ◆ ***Delaying Implementation of New Financial Accounting Standards:*** It was suggested that the implementation of FAS 166 be delayed so that additional research could be done on its potential impact on SBA programs and whether it might disrupt SBA secondary markets.
- ◆ ***Exempting Small Business Investment Corporations (SBICs) from SEC Registration:*** It was suggested that SBICs be made exempt from Securities and Exchange Commission (SEC) registration so that they are not regulated by both the SBA and SEC.
- ◆ ***Encouraging Banks and Other Institutional Investors to Invest in SBICs:*** It was suggested that Treasury and SBA engage in outreach and support regulatory clarity around CRA credit in order to encourage banks and large institutional investors to make investments in SBICs.
- ◆ ***Expediting Review for Peer-to-Peer (P2P) Lending:*** It was suggested that the SEC review process for P2P lending be accelerated and that the mandatory “quiet periods” of P2P firms seeking SEC registration be shortened.
- ◆ ***Strengthening Secondary Markets:*** Several ideas were suggested for strengthening secondary markets for small business loans, including providing a secondary market for real estate loans for small businesses; operating SBA secondary market programs without fees; and employing electronic marketplaces to reconfigure the securitization market.

The banner features a dark blue background with gold text. On the left, there is a circular seal with an eagle and the words 'SMALL BUSINESS FINANCING FORUM'. On the right, there is another circular seal with a scale of justice and the words 'THE TREASURY'. The main text is centered and reads: 'REPORT TO THE PRESIDENT', 'SMALL BUSINESS FINANCING FORUM', and 'FORUM IN REVIEW'.

# REPORT TO THE PRESIDENT

## SMALL BUSINESS FINANCING FORUM

### FORUM IN REVIEW

### ***Opening Session Remarks***

***Timothy F. Geithner, Secretary, U.S. Department of the Treasury***

Good morning. Thank you all for joining us.

Three weeks ago, the President announced a series of new initiatives to help support small businesses.

He also announced that Karen and I would be bringing together businesses, lenders, policy officials and legislators to make sure we are doing everything possible to get credit flowing to small businesses that are seeking to expand and create more jobs.

That's why we are here today, to explore ways we can strengthen our existing programs and to discuss new ideas.

America's small businesses are critical engines of job growth and have historically led us out of recessions. But to play that role they need access to credit.

Over the past ten months, we have stabilized the financial system and brought down the cost of borrowing for businesses and families. Companies across the country are now able again to raise equity and issue bonds. Credit terms are easing as markets that were once frozen are beginning to open up.

But this process is incomplete. Small businesses, in particular, are still facing a very challenging credit environment.

The basic cycle of financial crises is that credit is cheap and easy to get for a time. Banks relax their standards too much, leading to excess lending and leverage.

When the credit crisis hits, they slam on the brakes and shift into reverse. Banks pull back, not just from those companies that are more at risk of failure, but from all companies. This hurts the prudent and the responsible as well as those who simply borrowed more than they could afford.

Although the demand for credit necessarily falls in a recession, particularly one following a long period of excessive borrowing, the risk is that banks over-correct, forcing viable businesses to lay off workers, reduce wages, close factories, and defer investments.

Left to the market, this process can feed on itself.

A credit crunch can amplify the recession, slow recovery, and cause more businesses to fail and unemployment to rise, putting more pressure on banks to cut credit lines for fear of higher defaults.

If this seems unfair, unjust and counter-productive to economic recovery and job creation, it is.

That's why it's so important for governments to act aggressively to break financial panics, to make sure that banks are able to fund at reasonable rates and that the overall banking system has enough capital to provide credit. And that's why governments must provide temporary support for private demand and the spark for a recovery in economic growth.

Now, we know that small businesses are more vulnerable to the after effects of financial crises.

They are more reliant on banks and the types of credit that take the most time to come back. Large businesses get only 30 percent of their financing from banks, compared to 90 percent for small businesses. So when banks pull back, small businesses take the hardest hit.

Also, small businesses have fewer resources to tide them over.

They often start on a personal credit card – as many in this room can attest – and finance expansion, in part, by borrowing against their personal assets and property. But if their bank made a lot of risky loans to commercial real estate developers or less viable companies, their credit lines could be cut and applications for new loans turned down.

This is a very hard problem to solve. It's not something we can fix easily. It takes a coordinated mix of different strategies and policies. Let me briefly describe the critical elements of any successful response, alongside broader efforts to establish economic growth, and alongside the need to constantly evaluate our initiatives to make sure they are working as effectively as possible.

First, we need to provide direct help to small businesses. We've done that through the Recovery Act by establishing targeted tax relief to small businesses, allowing them to write off more of their expenses and to earn an instant refund on their taxes by 'carrying back' their losses five years instead of two. And we've done that by implementing higher guarantees and lower fees for Small Business Administration loans, greatly increasing SBA lending, which Karen will talk more about in a moment.

Second, we need to support those who support small businesses. That's why the President announced a new program last month to provide low-cost capital to community banks that submit a plan to increase their small business lending and to Community Development Financial Institutions that serve the hardest-hit communities.

And that's why the Recovery Act provided \$100 million in additional support for CDFIs and an additional \$3 billion in New Market Tax Credit investments to support small businesses as they spur growth in those struggling communities.

Third, we need to continue improving the health of securitization markets that provide key channels of credit for small businesses. Since the government launched the TALF program, new issuance of asset-backed securities, including loans that directly help small businesses, has averaged \$14 billion per month, compared to less than \$1 billion last fall. Spreads have come down substantially.

Fourth, we need to make sure supervisors are providing guidance to their examiners to counter the risk of overcorrection. It is a delicate balance and we need to get it right.

Fifth, we must support expanded exports including through programs like EXIM. And finally, we need our nation's banks to put the assistance the government provided to work and get back to the business of lending, helping companies raise capital and investing in the promise of American innovation. We need banks to be working with us, not against recovery.

The recovery in earnings across the banking system, which is a necessary part of putting out the financial fire that caused huge losses to the savings of Americans, is not because the surviving banks are particularly smart and clever. It's because the taxpayers of the United States and their elected representatives decided that to save the economy, we had to save the financial system.

All banks, strong and weak, benefitted from those actions. Banks bear some responsibility for the extent of the damage caused by the crisis. And you carry a substantial obligation to help our communities get back on their feet.

I encourage Members of Congress to work with us to create the conditions so that small banks in their communities, the banks that do the greatest percentage of their commercial lending to small businesses, participate in our efforts to promote small business lending. That means providing them with the confidence that if they take capital today from our new programs, they will not face a change in the rules tomorrow.

Let me close by saying that we are entering a new phase in our response to this crisis, moving from rescuing the economy towards repairing and rebuilding the foundation for future growth.

As the financial system has stabilized, banks have repaid the government more than \$70 billion. We have earned more than \$12 billion from those investments. And we are now in the process of winding down and terminating some of the extraordinary government programs put in place last fall.

But even with such progress, even with our economy growing again for the first time in a year, we continue to face a daunting set of challenges, underscored by an unemployment rate now above ten percent.

Without increased access to credit for American families and small businesses, growth will be weaker, companies will defer long term investments and we will not be able to create a recovery that is self-sustaining and led by private demand. That's why, as we wind down programs that help big banks, we are committed to doing more to help small businesses access the credit they need to grow and hire new workers.

We have taken positive steps in the past, and aim to take even more in the future. The President wants to hear the best ideas and this conference – feeding into his jobs forum – is a critical way to get those ideas from across America and make sure that our recovery is shared by all American working families.

Let me now turn it over to Karen.

*\*Remarks as prepared for delivery*



**REPORT TO THE PRESIDENT**  
**SMALL BUSINESS FINANCING FORUM**  
**FORUM IN REVIEW**

***Opening Session Remarks***

***Karen G. Mills, Administrator, Small Business Administration***

We all know that small businesses have been hit hard by the credit crisis that began just over a year ago. That's why the President asked us to bring together a cross-section of leaders in America's small business community. I want to thank all of you for being here.

Also, I know many of you are joining us online. Welcome to all of you. A special thanks to those who submitted hundreds of questions and comments for the online chat I held on Monday. Those comments have been invaluable in helping us frame today's discussion.

We all know the facts about small business. More than half of American workers either own or work for a small business. Small businesses create about 65% of the net new private sector jobs every year. And throughout our history, we've seen how our small businesses drive innovation and global competitiveness.

The SBA's mission is to aid, counsel, assist and protect the interests of these small businesses – and maximize their contribution to the U.S. economy. One of the most important ways we do that is by supporting access to capital, which is what we're talking about today.

The SBA works with nearly 5,000 banks, credit unions and non-depository lenders. We provide government-backed loans for small businesses that can't find financing in the marketplace. But last October, credit to small business froze, both in the conventional market and with SBA loans.

The good news is that the Recovery Act engineered a turnaround in SBA lending. Congress and the President temporarily reduced the fees and increased the federal guarantee in our two flagship loan programs – 7(a) and 504. That formula worked.

Since March, we have seen a weekly SBA loan volume increase of about 75% compared to the weeks before the Recovery Act. We've provided support for about \$14 billion in lending through 37,000 loans to small businesses. In fact, September was our highest monthly loan volume since 2007.

Also, more than 1,250 lenders have returned to making SBA loans since October 2008. More than half of these hadn't made an SBA loan since 2007. This provides more access points to capital throughout for small business owners throughout the U.S.

We're working with Congress to try to continue funding for the increased guarantee and fee reductions through mid-February.

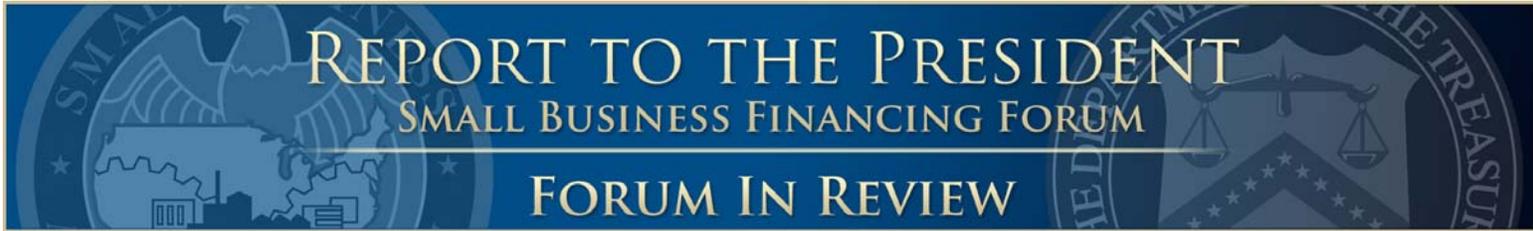
To build on the success, we're pleased that the President asked Congress to increase our loan caps from \$2 million to \$5 million. In recent years, our data shows that the demand has increased for these bigger loans. We want to meet that demand.

In addition, the President will be having a Forum on Jobs and Economic Growth next month. As Tim said, today is a precursor to that Forum, and it will help guide the dialogue for that event.

We're also excited that the President will be kicking off a "White House to Main Street" tour which will begin in Allentown, Pennsylvania, the day after the Jobs Forum. Overall, our goal is to put more resources in the hands of small business owners in order to create jobs and lead us out of recession.

We're going to hear from a number of groups in the panel sessions today. Then, this afternoon, we'll break out into groups to gather feedback from our audience. And in our closing Town Hall session, we will take questions directly from the audience.

*\*Remarks as prepared for delivery*



# REPORT TO THE PRESIDENT

## SMALL BUSINESS FINANCING FORUM

### FORUM IN REVIEW

#### ***Opening Session Remarks***

#### ***Sheila C. Bair, Chairman, Federal Deposit Insurance Corporation***

Good morning.

First let me commend Secretary Geithner and Administrator Mills for convening this forum on an issue vital to sustaining the economic recovery and putting Americans back to work.

FDIC-insured institutions are a major source of financing for small businesses.

Banks and thrifts that we insure supply over 60 percent of the credit used by small businesses to run and grow their businesses ... most is provided by community banks.

So we share the concerns raised by many in recent weeks for making commercial loans available to these Main Street businesses across the country.

We also know that this recession has had a major impact on the community institutions that traditionally lend to small business.

The number of problem institutions and bank failures has risen steadily as the effects of this recession – which began in the financial markets – have taken hold in many parts of the country.

As a result, credit availability has suffered.

This is due not only to tighter credit standards by lenders, but also due to an erosion of collateral values and the financial condition of borrowers.

Because the problems of small businesses and community banks are inter-connected, policies aimed at helping them need to work hand-in-hand.

#### **Supervisory guidance to promote lending and facilitate workouts**

So let me focus briefly on efforts that federal bank regulators, including the FDIC, are taking to encourage banks to continue making good loans and working with financially distressed borrowers through loan modifications and other cooperative efforts.

First, at the height of the financial market disruptions that took place last Fall, the federal banking agencies issued a joint statement to the banking industry on meeting the needs of creditworthy borrowers. That statement reinforced our view that banks should continue to support the economy by lending prudently.

The statement pointed out that in the wake financial crisis, that the economy would become even more dependent on bank credit, and that it would be in everyone's interest for banks to make lending a priority ... even while moving to strengthen their capital bases ... and restructure problem loans.

A couple weeks ago, regulators again called attention to credit distress and credit availability with a new policy statement for handling commercial real estate loan workouts.

This latest guidance encourages banks to continue making good loans to commercial real estate borrowers — most of which are small businesses — and to work with borrowers that are having difficulties because of economic conditions.

It emphasizes that restructured loans will not be subject to adverse classification by examiners solely because the value of the underlying collateral has declined.

### **Examiners to take a balanced approach**

In fact, institutions are encouraged to implement prudent loan workout arrangements based on an updated picture of the borrower's financial condition ... and examiners are instructed to take a balanced approach in assessing an institution's risk management practices for workouts.

The guidance gives specific examples that reflect different ways that bankers may decide to work with borrowers, including some illustrations of loan modifications and restructurings that can pass muster under accepted accounting principles.

The FDIC is also conducting training for our examiners to make sure that they are accurately applying the provisions of the guidance in the field.

We feel that this measure – which facilitates responsible workouts for existing loans – can go a long way towards addressing the economic dislocations that are hurting small business borrowers and their lenders.

These are solid loan workouts that are based on the documented financial capacity of the borrower and long-term prospects of the underlying project.

### **Restoring the financial health of the banking industry**

Over the longer-term, it will be essential for FDIC-insured lenders to recognize losses and strengthen their balance sheets so they will be in a better position to extend credit as loan demand picks up in the economic recovery.

Banks and thrifts are well along in this process, but they're not done yet. The industry set aside \$128 billion for loan losses in the first half of this year, but still managed to increase total equity capital by \$113 billion, or about 9 percent. This is progress.

Capital supports lending. And moving bad loans off the balance sheet enables banks to make new loans to creditworthy borrowers.

Recognizing losses is hard on the industry's bottom line. FDIC-insured institutions lost \$3.7 billion in the second quarter.

And while we won't make third quarter results public until next week, we expect that credit losses will continue to hold down industry earnings.

The FDIC's job in this cleanup is to resolve failed banks at the lowest possible cost and with the least possible disruption to the economy.

A bank failure is a non-event to insured depositors. No one has ever lost a penny of insured deposits in the failure of an FDIC-insured institution, and no one ever will.

On the borrower side, in the vast majority of cases, the FDIC arranges the acquisition of a failed bank by a stronger institution, thereby minimizing disruptions to borrowers as well.

**Conclusion: better days ahead for community banks and small businesses**

Let me be direct, there are no quick fixes here...only careful, hard work to craft policies that avoid making the problem worse now and that lay the foundation for a sounder and healthier financial industry in the future.

I think that as we emerge from this recession, the new loan workout guidance will be seen as a particularly useful tool in helping to minimize the fallout of falling property values on bank borrowers.

We support the Administration's proposals to expand the Small Business Administration loan programs, to cut taxes for small businesses, and to make low-cost capital available to small business lenders.

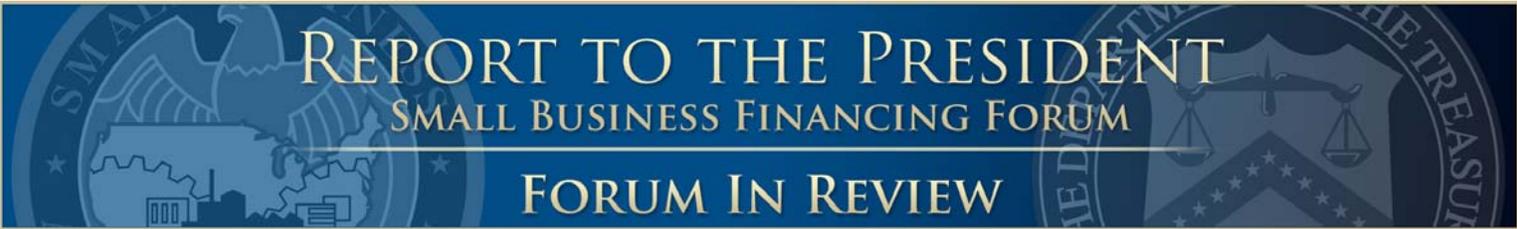
These proposals are concrete steps to address the very real problems facing Main Street in a recession that was largely created on Wall Street.

Creating the jobs that we need in this recovery will require that both banks and small businesses work through their problems so they can prosper once again.

Despite the challenges, I am confident that with responsible, proactive policies that tackle these problems head on, that we'll begin to see clear signs of renewed prosperity in the new year.

Thank you.

*\*Remarks as prepared for delivery*



# REPORT TO THE PRESIDENT

## SMALL BUSINESS FINANCING FORUM

### FORUM IN REVIEW

#### ***Opening Session Remarks***

#### ***Mary Landrieu, Chairwoman U.S. Senate Committee on Small Business & Entrepreneurship***

Thank you very much, Administrator Mills for your leadership in this effort. You're running one of the most important administrations given the challenges before the nation, and I am proud to support you in your efforts, and Mr. Secretary, and Ms. Bair, thank you for what you are doing as well. And actually, for pulling together this great gathering, now that we have successfully stabilized Wall Street, it is my strong view that it is now time to jumpstart Main Street, and that's what today is about.

It is about focusing on strategic initiatives led by this Administration, supported by hopefully a broad base of members in Congress to focus on job creation, and the small businesses throughout America in small towns and medium-sized towns, close to places that we all Members of Congress live can lead us out of this recession, and are prepared to do so with the right help and right support from the Federal government, from state government, and from local governments. This is not the time to be shy, this is a time to be bold, and be deliberate, be careful, but be bold.

I've had conversations with small businesses in towns throughout Louisiana from New Iberia to Houma, to Delhi. If you're familiar with Louisiana, that's from the South, very tip of Louisiana, to the Northern, rural areas and they all want to do their part, but they need guidance, a framework, and strong support. Just a couple things briefly -- one, I'm pleased that the SBA is leading the effort to extend the capital, access to capital to 33,000 small businesses by helping expand the loan guarantees from 75 to 95% through the 7(a) loans and to try to extend that for the next year, if possible.

I also think strategic partnerships with the community banks throughout America could be very, very smart, and the Secretary spoke about opportunities to do that.

A stronger reliance on university-based small business centers. We have hundreds of small business centers strategically placed throughout American universities, large and small, that are poised with the right kind of support to lean forward, to explore opportunities with the state's economic development departments that are all up and running, trying the best they can to create jobs in their states, also their many counties, mostly large counties, medium-sized, because small counties, of course, in parishes in Louisiana don't always have the resources, but in a larger county in America, their staff is ready, poised, leaning forward, just needing some support.

I have to say, Mr. Secretary, I think we need a careful review of policies regarding credit card lending to small business. We've made some changes to consumer lending through reforms of credit cards. I hope that we will look at the practices that small businesses now have to face trying to borrow money through credit cards, which you know is a growing place where small businesses get capital, not just their regular standard lending through banks.

And finally to support the small business administration and I know that probably Administrator Mills can't always advocate on behalf of herself, so let me do it for her. This is a small agency, Mr. Secretary, but it is a powerful agency, it can be powerful, and if given the right tools and support by this Administration which I believe is on the right track to do that, I think they can really help us to, again, focus our efforts on Main Street, on job creation, on the small businesses that will lead this nation out of a recession.

Finally, I'll say before turning it over to my counterpart in the House, that the opportunity and leadership the President of the United States has given us to transform a healthcare system and to transform an energy regime or paradigm in this country and the world, in some ways, gives small businesses unprecedented opportunities in the area of health and energy as we look forward. So there is a lot of blue sky out there, Mr. Secretary. We've just got to get the right strategic plan in place. I'm proud to be a part of it. I thank you very much.

*\*Transcribed remarks*



# REPORT TO THE PRESIDENT

## SMALL BUSINESS FINANCING FORUM

### FORUM IN REVIEW

#### ***Opening Session Remarks***

***Nydia Velázquez, Chairwoman  
U.S. House Committee on Small Business***

Thank You, Administrator Mills, Secretary Geithner, Chairwoman Bair, Senator Landrieu. Thanks to all of you. This is what it is all about. I am just tired of hearing people say that small businesses are an afterthought, that they are quite often overlooked. We know the important role that small businesses play in creating the jobs that we need.

So this forum is a timely one. Until we get credit flowing again to small businesses, they will not create the jobs we need for sustained economic growth. Access to capital, I always say, is access to opportunity. Senator Landrieu just referenced the energy bill, the green economy, but opportunities will only be there if we provide access to credit. And today, too many small businesses simply cannot tap into that opportunity.

From day one of the 111th Congress, our Committee's top priority has been helping small businesses secure financing. Working with the Administration, Congress has made progress in this regard. The Recovery Act, as mentioned before, resulted in loan volumes jumping by 70% since February. However, loan volume remains 50% lower than two years ago.

Nonetheless, I have always made clear that the Recovery Act was the beginning, not the end, of our efforts to address the small business credit crunch. Late last month, we passed the Small Business Financing and Investment Act. This legislation will support \$44 billion in lending and investment for small businesses annually, helping create or save 1.3 million jobs every year. At its core this bill is about expanding financing options for businesses.

Too many small firms do not have a real choice when it comes to securing credit. By encouraging more and more lenders to participate, this bill offers a greater array of choices for entrepreneurs when seeking a loan. More choice means competition. More competition means more loans. Over the long term, this means more affordable loans, with a larger part of the profits going towards job creation. Still, part of today's discussion should look at what can be done in the immediate short-term to address credit issues. In looking for creative ways to get capital into the hands of small businesses, one avenue has been TARP funds, with limited success. I would be interested in knowing your thoughts on why previous attempts to help small businesses through TARP have had only minimal success. Going forward, what should we be mindful of to make sure future efforts are not hampered.

During today's discussion, it is important to remember that we all share the same goal: getting lenders to lend. I have heard from a number of lenders in my district and across the country that they are

worried about receiving, in a timely fashion, guarantees for 7(a) loans. I would be interested to hear your thoughts on ways to cut red tape to insure guarantees are paid profitably, and whether this will keep more lenders in the program. These guarantees shouldn't be used to hedge a bet on a loan that would have otherwise been made. Rather, they should encourage lenders to make loans they would not normally make. Small banks and credit unions are facing unprecedented challenges. Yet this institution does the lion's share of small business lending. We need to look for ways to channel more resources to help smaller institutions.

The SBA has the authority to take these types of steps immediately, providing a quick shot in the arm to the small business lending market. I recognize there is a diverse range of ideas on how to cut the Gordian knot preventing capital from flowing. The merits of those ideas will receive much attention today. But what is promising is the level of commitment we all share for this goal -- from President Obama, to Secretary Geithner, Administrator Mills, Chairwoman Bair, Senator Landrieu, to me.

In the coming weeks I promise to continue working with all of you to resolve this issue. After all, we can talk about everything we want, but if we don't get, and we don't provide the tools that small businesses need to continue to do what they do best, job creation in America, we will have not been able to accomplish our goal. Thank you.

*\*Transcribed remarks*

# REPORT TO THE PRESIDENT

## SMALL BUSINESS FINANCING FORUM

### FORUM IN REVIEW

#### **Forum Program**

**9:00AM – 9:10AM**

#### **WELCOME**

- *Treasury Secretary Timothy F. Geithner*
- *Small Business Administrator Karen G. Mills*

**9:10AM– 9:30AM**

#### **OPENING REMARKS**

- *FDIC Chairman Sheila Bair*
- *Senator Mary Landrieu (D –LA)*
- *Representative Nydia Velázquez (D- NY)*

**9:30AM – 10:30AM**

#### **SESSION 1: VOICES OF SMALL BUSINESS**

##### **Moderators:**

- *Treasury Secretary Timothy F. Geithner*
- *Small Business Administrator Karen G. Mills*

##### **Participants:**

- *Charles Baker, MCB Lighting Solutions*
- *Kevin Galvin, Connecticut Commercial Maintenance*
- *Lani Hay, Lanmark Technologies*
- *Mike Tie, Paramount Building Solutions*
- *William Ortiz-Cartagena, Gentle Parking*
- *Susan Walvius, Sheex, South Carolina*
- *Andy Cabral, Dunkin Donuts Franchisee*

**10:30AM – 11:30AM**

#### **SESSION 2: THE LENDERS' PERSPECTIVE**

##### **Moderators:**

- *Small Business Administrator Karen G. Mills*
- *Treasury Secretary Timothy F. Geithner*

##### **Participants:**

- *Senator Mark Warner (D-VA)*
- *Kevin Watters, EVP JP Morgan*
- *David J. Rader, EVP SBA Lending Wells Fargo*
- *Steve Steinour, CEO Huntington Bank*

- *Bessie Swann, Wheeler Creek Community Development Corporation*
- *Cynthia Blankenship, Bank of the West*

**11:30AM – 11:45AM**

**SHORT CONFERENCE BREAK**

**11:45AM – 12:45PM**

**SESSION 3: CHALLENGES FOR UNDERSERVED MARKETS AND INDUSTRIES**

**Moderators:**

- *Small Business Administrator Karen G. Mills*
- *Treasury Secretary Timothy F. Geithner*

**Participants:**

- *Senator Sherrod Brown (D-OH)*
- *Congresswoman Maxine Waters (D-CA)*
- *Ron Phillips, CEO of Coastal and Chairman of NMTC Coalition*
- *Jean Wojtowicz, Indiana Statewide CDC*
- *Ray Moncrief, Kentucky Highlands*
- *Bill Bynum, CDFI Advisory Board, and CEO Enterprise Corporation of the Delta*
- *Deloris Sims, Legacy Bank*

**12:45PM – 1:00PM**

**PARTICIPANTS MOVE FROM CASH ROOM TO BREAKOUTS**

**1:00PM – 2:00PM**

**SESSION 4: BREAKOUT GROUPS**

- *Secretary of Agriculture Tom Vilsack & Grady Hedgespeth, SBA Director of Financial Assistance*
- *Herb Allison, Assistant Secretary for Financial Stability & Sara Lipscomb, SBA General Counsel*
- *George Madison, Treasury General Counsel & Eric Zarnikow, SBA Associate Administrator*
- *Lee Sachs, Counselor to the Treasury Secretary & Sean Green, SBA Associate Administrator*
- *Matt Kabaker, Senior Advisor to the Treasury Secretary & Ginger Lew, Senior Advisor to the National Economic Council*

**2:00PM - 2:15PM**

**PARTICIPANTS MOVE FROM BREAKOUT ROOMS TO CASH ROOM**

**2:15PM – 3:00PM**

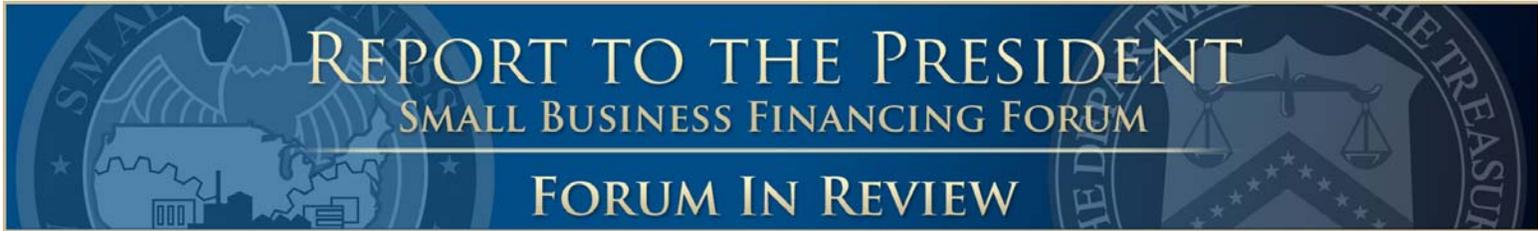
**SESSION 5: LOOKING AHEAD: IDEAS FOR THE FORUM ON JOBS  
AND ECONOMIC GROWTH AND BEYOND**

**Moderator:**

- *Gene B. Sperling , Counselor to the Treasury Secretary*

**Participants:**

- *Treasury Secretary Timothy F. Geithner*  
*Small Business Administrator Karen G. Mills*



**REPORT TO THE PRESIDENT**  
**SMALL BUSINESS FINANCING FORUM**  
**FORUM IN REVIEW**

***Participants List***

***Alice Albright***

Export-Import Bank

***Herbert Allison***

U.S. Department of the Treasury

***Christian Anderson***

Citigroup

***John Asbury***

Regions Bank

***Sheila Bair***

Chairman, Federal Deposit Insurance Corporation

***Charles Baker***

MCB Lighting and Electrical

***Meina Banh***

Office of Congressman Honda

***Melissa Bean***

Congresswoman (D-IL 8th District)

***Fred Becker***

National Association of Federal Credit Unions

***Robert Michael Beene***

National Association of Self Employed

***Lori Chillingworth***

Zions First National Bank

***Greg Clarkson***

BBVA Compass Bank

***Charles Cleary***

Self-Help Ventures Fund

***Rich Bendis***

National Association of SEED and Venture Funds

***Lelaine Bigelow***

Office of Congresswoman Chu

***Cynthia Blankenship***

Bank of the West

***Dorothy Bridges***

City First Bank

***Tol Broome***

BB&T Bank

***Sherrod Brown***

Senator (D-OH)

***Bill Bynum***

Enterprise Corp of Delta

***Andy Cabral***

Dunking Donuts Franchisee

***Anne Cannon***

Office of the Speaker of the House of Representatives

***Kurt Chilcott***

CDC Small Business Finance Corporation

***Giovanni Coratolo***

U.S. Chamber of Commerce

***Chris Crawford***

National Association of Development Companies

**Charles DeBow**

U.S. Black Chamber of Commerce

**John Delaney**

Capital Source

**Cornelius Eason**

Workforce Connections

**Louis Escareno**

Louis R. Escareno, PC

**Connie Evans**

Association for Enterprise Opportunity

**Diane Farrell**

Export-Import Bank Board Member

**Steven D. Fritts**

Federal Deposit Insurance Corporation

**Kevin Galvin**

Connecticut Commercial Maintenance

**Donna Gambrell**

CDFI Fund, Department of the Treasury

**Terry Gardiner**

Small Business Majority

**Timothy F. Geithner**

Secretary, U.S. Department of the Treasury

**Alicia Glen**

Goldman Sachs

**Michael Grant**

National Bankers Association

**Donet Graves**

Progress Through Business

**Sean Green**

Small Business Administration

**Douglas Greenhaus**

National Auto Dealers Association

**James Gutierrez**

Progreso Financiero

**Scott Hauge**

Small Business of California

**Lani Hay**

Landmark Technology

**Grady Hedespeth**

Small Business Administration

**Bill Holt**

Sun Trust Bank

**Mariana Huberman**

UPS Store Franchisee

**David Ickert**

Air Tractor

**Jeannine Jacokes**

Community Development Bankers Association

**Matthew Kabaker**

U.S. Department of the Treasury

**Barbara Kasoff**

Women Impacting Public Policy

**Samuel Ko**

Philos Technologies

**Robert Kottler**

Capital One

**Marilyn Landis**

Basic Business Concepts

**Mary Landrieu**

Senator (D-LA)

**Aaron Marchut Lavallee**

U.S. Department of Agriculture

**Ginger Lew**

White House National Economic Council

***Teresa Lewis***

Office of Small and Disadvantaged Business,  
U.S. Department of the Treasury

***Sara Lipscomb***

Small Business Administration

***George Madison***

U.S. Department of the Treasury

***John Magill***

Credit Union National Association

***James "Chip" Mahan***

Live Oak Bank

***Michelle Marciniak***

Sheex, LLC

***Debbie Matz***

National Credit Union Administration

***John McAdams***

Export-Import Bank

***Brad McConnell***

Office of Senator Durbin

***Todd McCracken***

National Small Business Association

***Susan McKnight***

Quality Flow Inc.

***Mike Melton***

Taco Bell and Five Guys Franchisee

***Paul Merski***

Independent Community Bankers of America

***Karen G. Mills***

Administrator, Small Business Administration

***Ray Moncrief***

Kentucky Highlands Investment Corporation

***Lesia Bates Moss***

Seedco Financial

***Brian Moynihan***

Bank of America

***William Ortiz-Cartagena***

Gentle Parking

***Lynn Ozer***

Susquehanna Bank

***Brett Palmer***

National Association of Small Business  
Investment

***Javier Palomarez***

Hispanic Chamber of Commerce

***Ron Phillips***

Coastal Enterprises

***Gael Pullen***

Xela Empresa DBA and McDonald's

***David J. Rader***

Wells Fargo

***RoseAnn Rosenthal***

Ben Franklin Technologies Partners

***Bill Rys***

National Federation of Independent Business

***Lee Sachs***

U.S. Department of the Treasury

***Jeffrey Schmidt***

PNC Bank

***Lynn Schubert***

Surety and Fidelity Association of America

***Ellen Seidman***

Shorebank

**Mark Sekula**  
Randolph-Brooks Federal Credit Union

**Matt Shay**  
International Franchise Association

**Rosalie Sheehy Cates**  
Montana Community Development Corporation

**Bob Siewert**  
American Bankers Association

**Damon Silvers**  
AFL-CIO

**Deloris Sims**  
Legacy Bank

**Charles "Chuck" Snyder**  
National Cooperative Bank

**Susan Sobott**  
American Express

**Gene B. Sperling**  
U.S. Department of the Treasury

**Steve Steinour**  
Huntington Bank

**Bessie Swann**  
Wheeler Creek Community Development Corporation

**Mike Tie**  
Paramount Building Solutions

**Nydia Velázquez**  
Congresswoman (D-NY 12th District)

**Tom Vilsack**  
Secretary, U.S. Department of Agriculture

**Susan Katherine**  
Walvius Sheex, LLC

**Mark Warner**  
Senator (D-VA)

**Maxine Waters**  
Congresswoman (D-CA 35th District)

**Kevin Watters**  
JP Morgan Chase

**Eric Weaver**  
Opportunity Fund

**Mark Wetjen**  
Office of the Senate Majority Leader

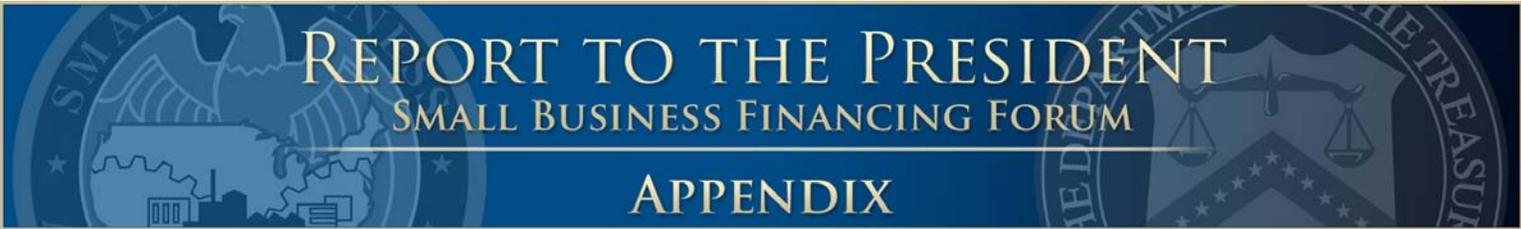
**Barry Wides**  
Office of the Comptroller of the Currency

**Tony Wilkinson**  
National Association of Guaranteed Lenders

**Jean Wojtowicz**  
Indiana Statewide CDC

**Eric Zarnikow**  
Small Business Administration

*\*As of November 17, 2009*



# REPORT TO THE PRESIDENT

## SMALL BUSINESS FINANCING FORUM

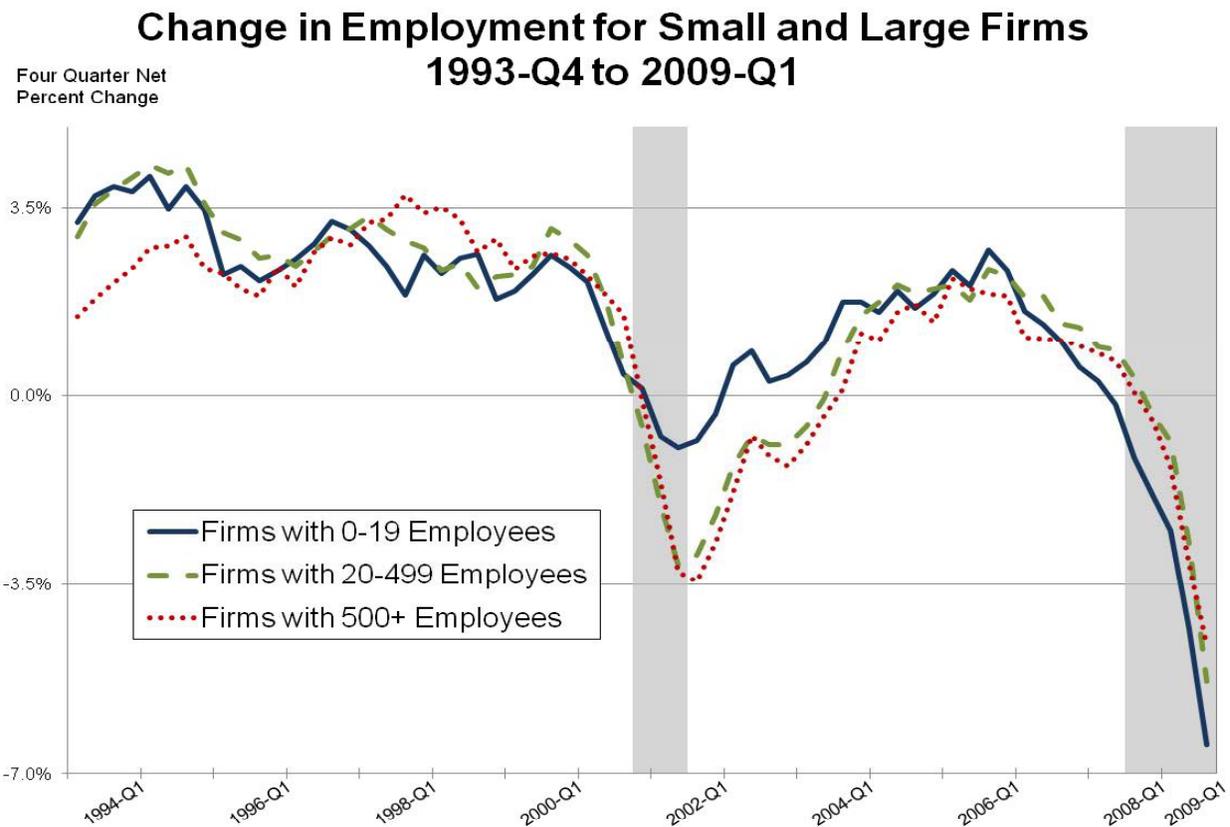
### APPENDIX

#### ***Presentation on the State of Small Business Lending***

SBA and Treasury staff prepared the following charts to illustrate the impact of the ongoing small business credit crunch. The data show that the credit channels small businesses rely on for financing – including bank loans, home mortgage loans, and credit cards – have all become strained due to the financial crisis. While financial conditions have improved in recent months and the tightening of lending standards has slowed, the ongoing disruption in these credit channels continues to make it difficult for small businesses to access capital.

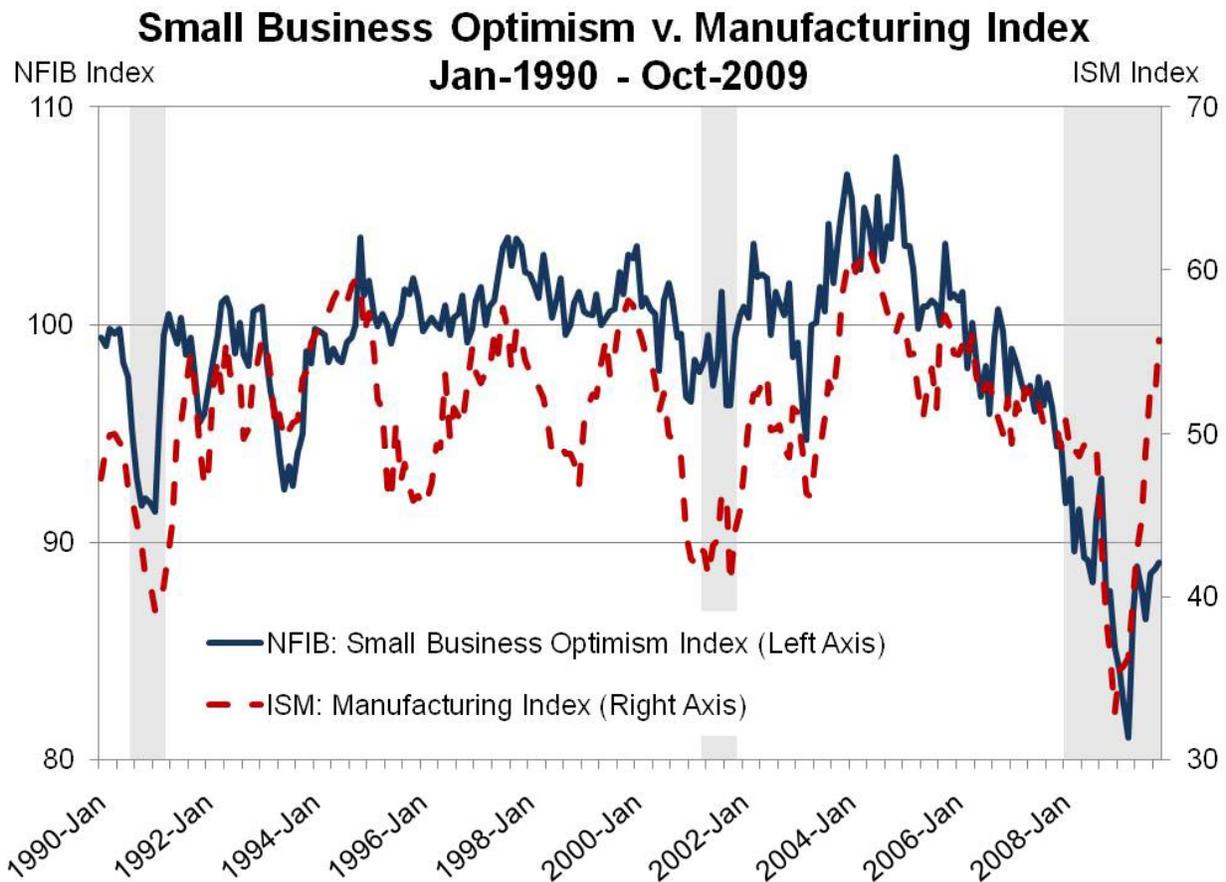
## Small Business Job Losses Are Larger Than in the 2001 Recession

- Very small businesses (fewer than 20 employees) lost fewer jobs and recovered faster than large businesses during the 2001 recession.
- In contrast, very small businesses are losing more jobs than are large businesses in the current recession.
- This highlights that the smallest businesses, including many start-ups are especially being affected.



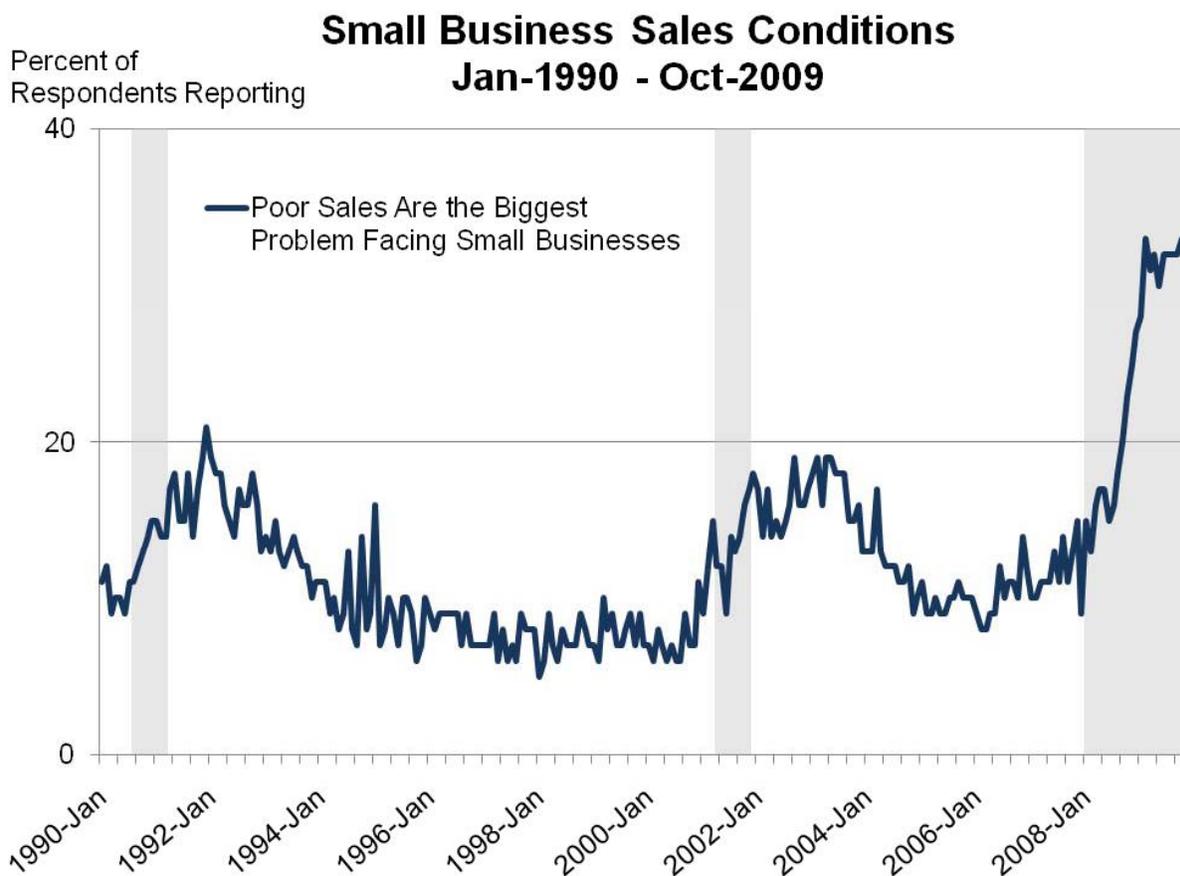
## Small Business Optimism Is Recovering Slowly

- Small businesses have lead the economy out of past recessions.
- However, in the current recession, the NFIB Small Business Optimism Index remains far lower relative to its long-term average than a comparable index of manufacturing production.



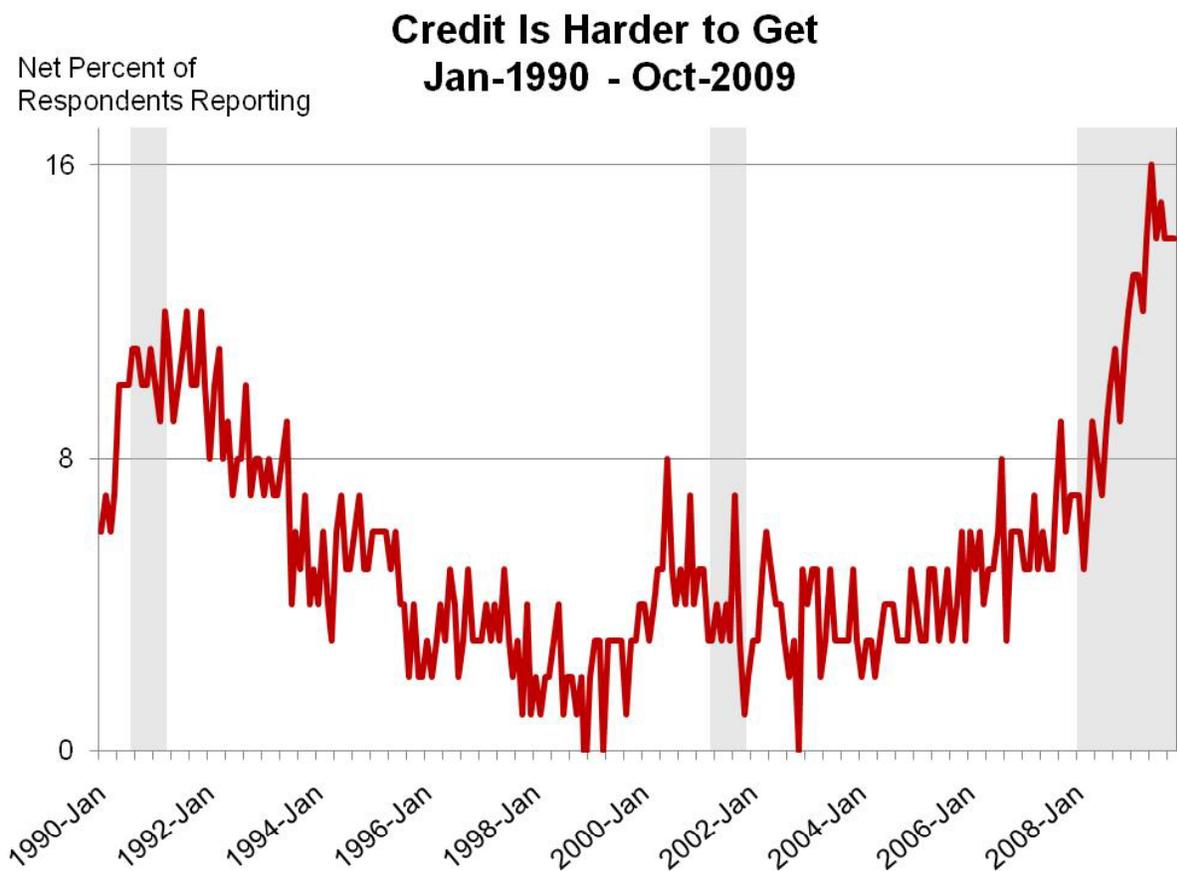
## Poor Sales is the Most Important Problem Facing Small Businesses

- Over 30 percent of small businesses surveyed by the NFIB cite poor sales as their single most important problem.
- This underscores how aggregate demand is affecting small business viability.



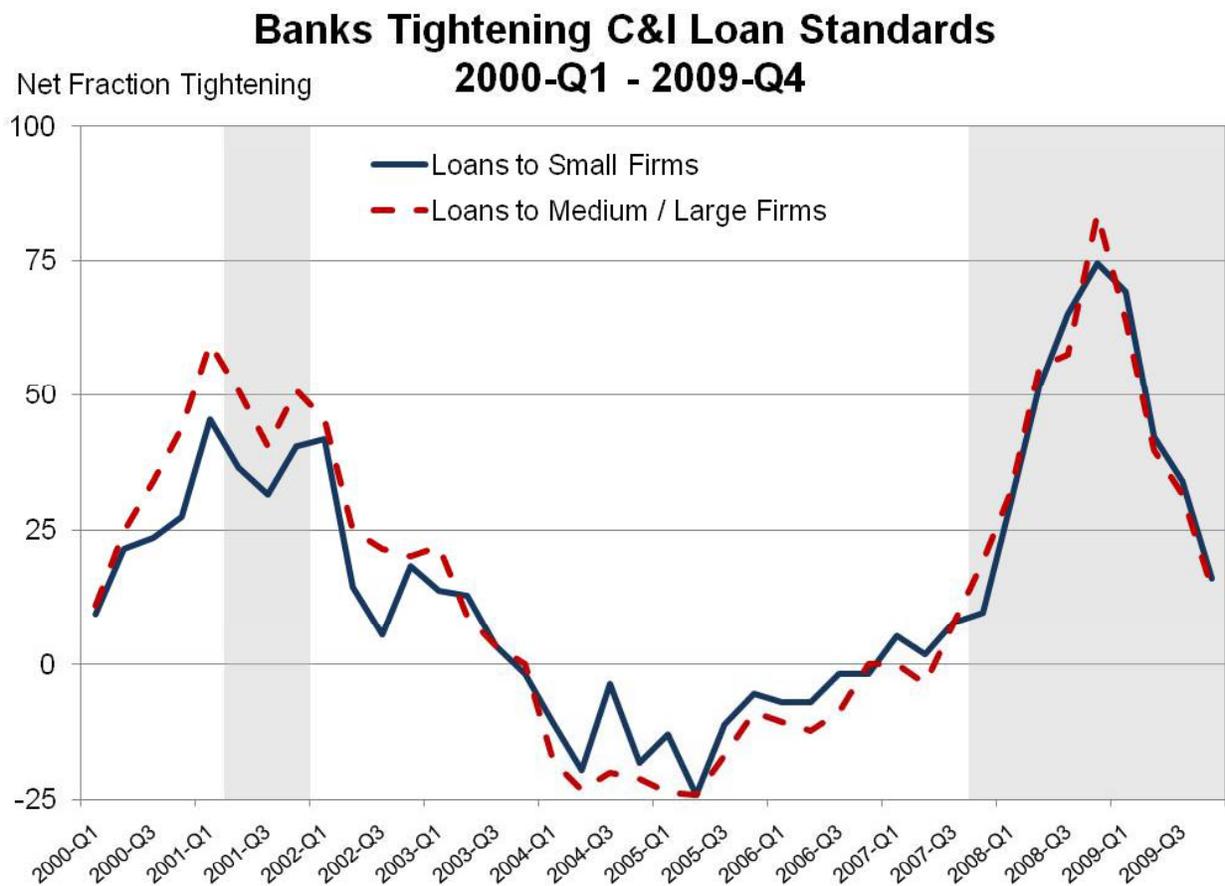
## Small Businesses Reporting Credit Harder to Get Has Come Down, But Still Too High

- The net percentage of small businesses reporting credit is hard to get has come down since May, but is still larger than in either the 1991 or 2001 recession.



## Fewer Banks Are Tightening Loan Standards, But Challenges for Small Businesses Remain

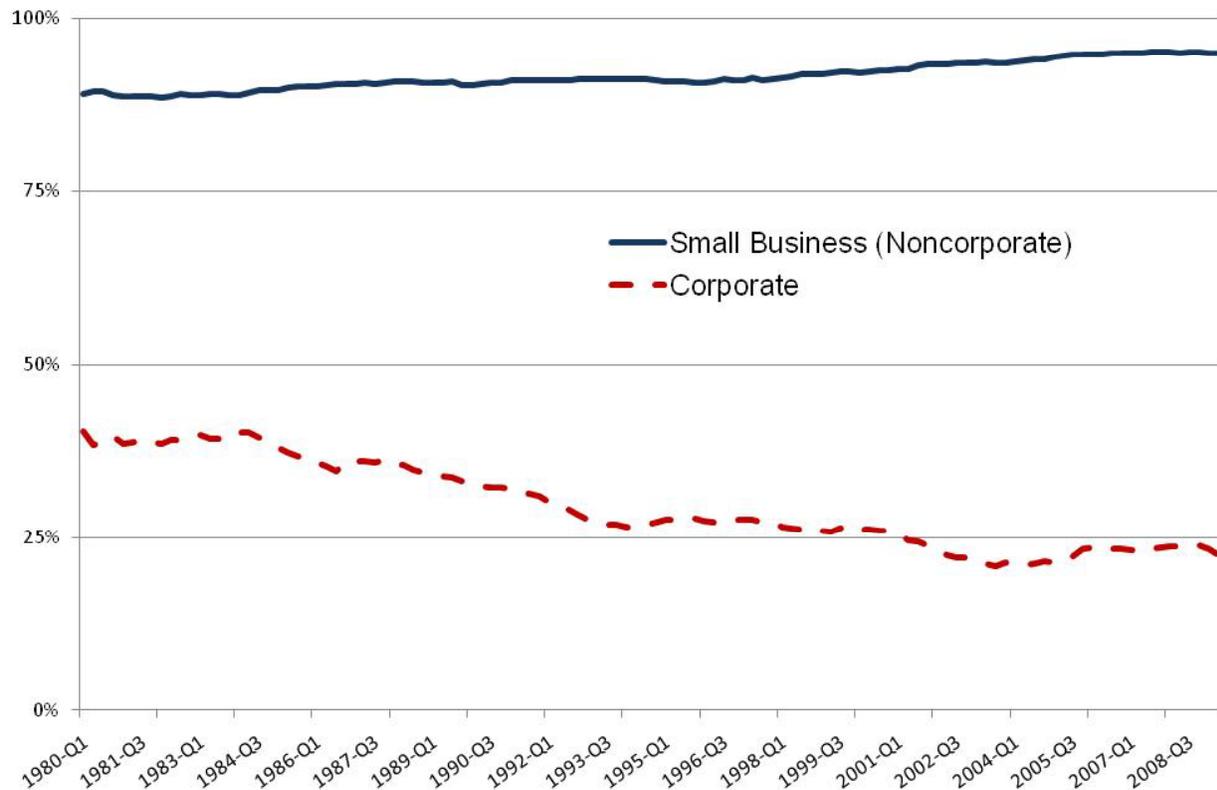
- In the latest Senior Loan Officer Opinion Survey, 16 percent of banks report that they are continuing to tighten loan standards for small businesses. The pace of tightening has slowed considerably, as about 75 percent reported tightening standards in October 2008.
- Loan standards for large businesses have tightened at a similar pace.



## Small Businesses Are More Dependent on Bank Lending

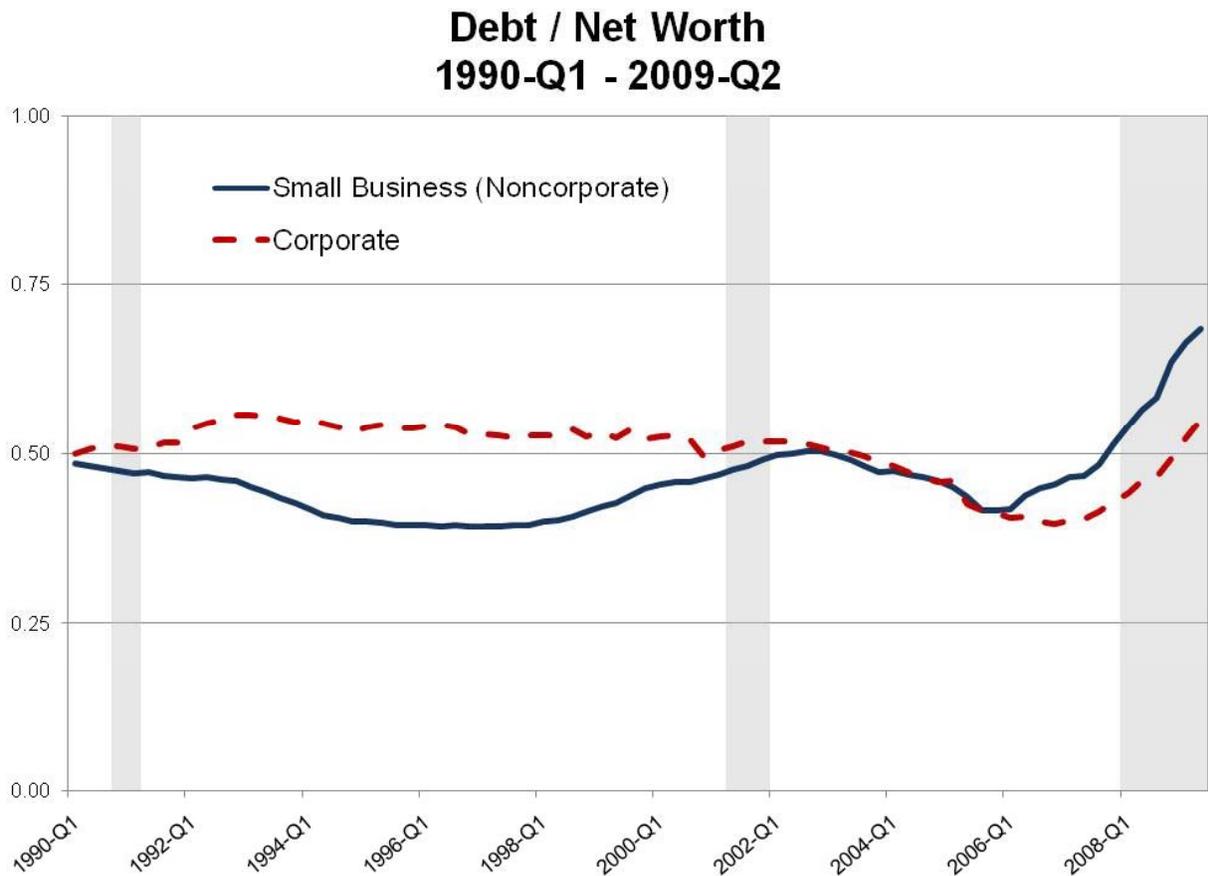
- Large businesses receive 30 percent of their funding from banks, while small businesses receive over 90 percent of their funding from banks.
- Small businesses do not have access to the corporate bond market or the commercial paper market. Thus, the recent recovery in these two markets has not helped small businesses.

**Percent of Funding from Banks  
1980-Q1 - 2009-Q2**



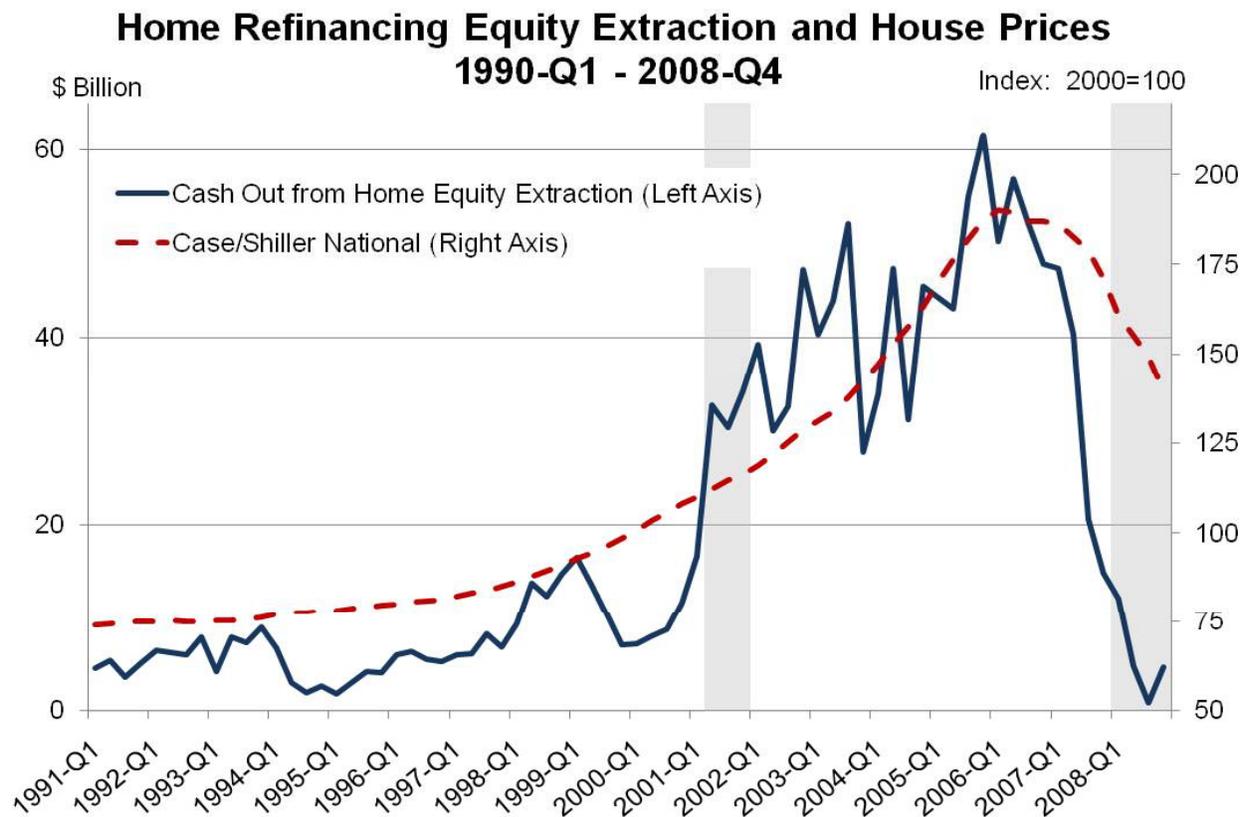
# Small Businesses Have More Debt than Large Businesses

- In recent years, small businesses have accumulated more debt relative to their net worth than large businesses.



# Home Equity Extraction is No Longer Available for Owner's Investment

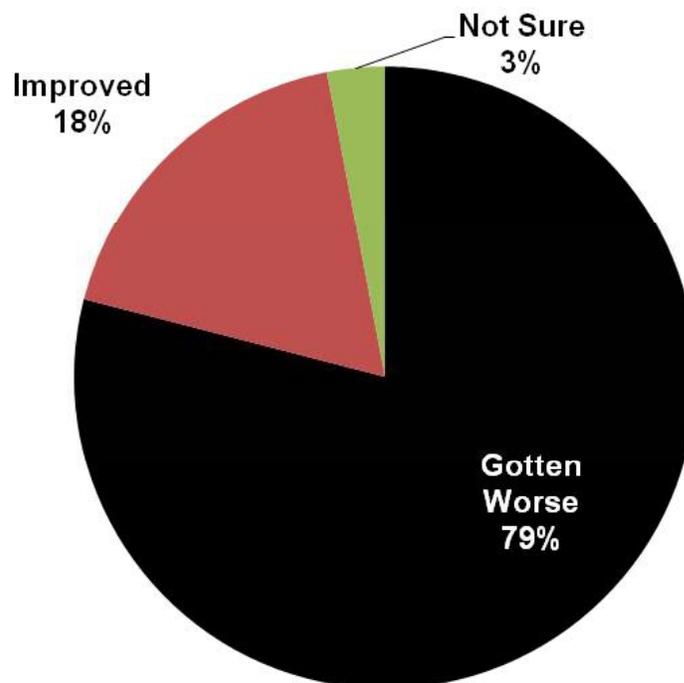
- Many small businesses rely on the owner's investment for start-up financing. During the housing bubble, owners often refinanced their homes to extract equity and fund their start-ups.
- However, due to the fall in housing prices, homeowners are no longer extracting equity from their homes and this source of financing is no longer available to fund small businesses.



## Credit Card Terms Have Become Tougher for Small Businesses

- Small business owners also rely on credit cards as a primary source of financing.
- Small businesses report that over the past five years the terms on their credit cards have become increasingly tight.
  - 63 percent report that their interest rate has increased and 41 percent report that their credit limit has been reduced.

### Reported Change in Credit Card Terms

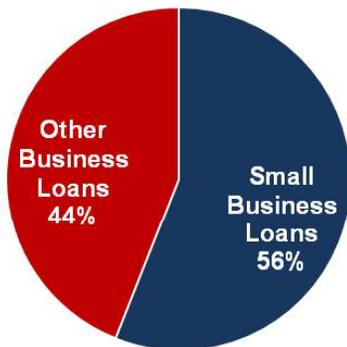


## Small Banks Lend to Small Businesses

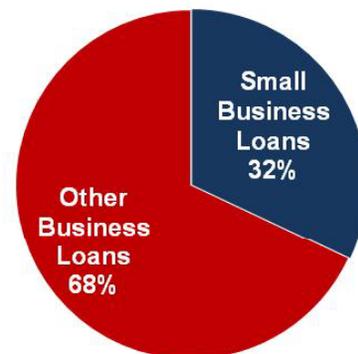
- According to data from FDIC Call Reports, over 50 percent of all small business loans are made by banks with assets less than \$1 billion.
- The FDIC definition of small business loans likely understates the total amount of loans to small businesses, as many small businesses receive loans with principal amounts greater than \$1 million.
- Small and medium banks (assets <\$10 billion) make over 50 percent of all small business loans.

### Lending to Small Businesses by Bank Size

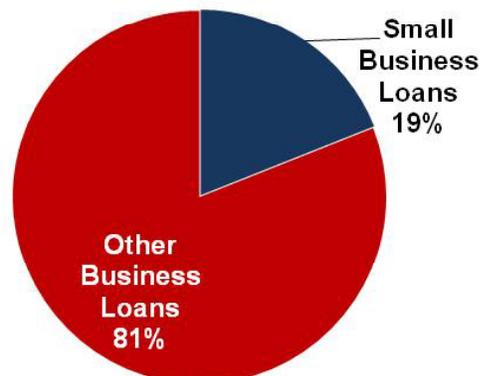
Banks with <\$1 billion in Assets



Banks with \$1 - 10 billion in Assets



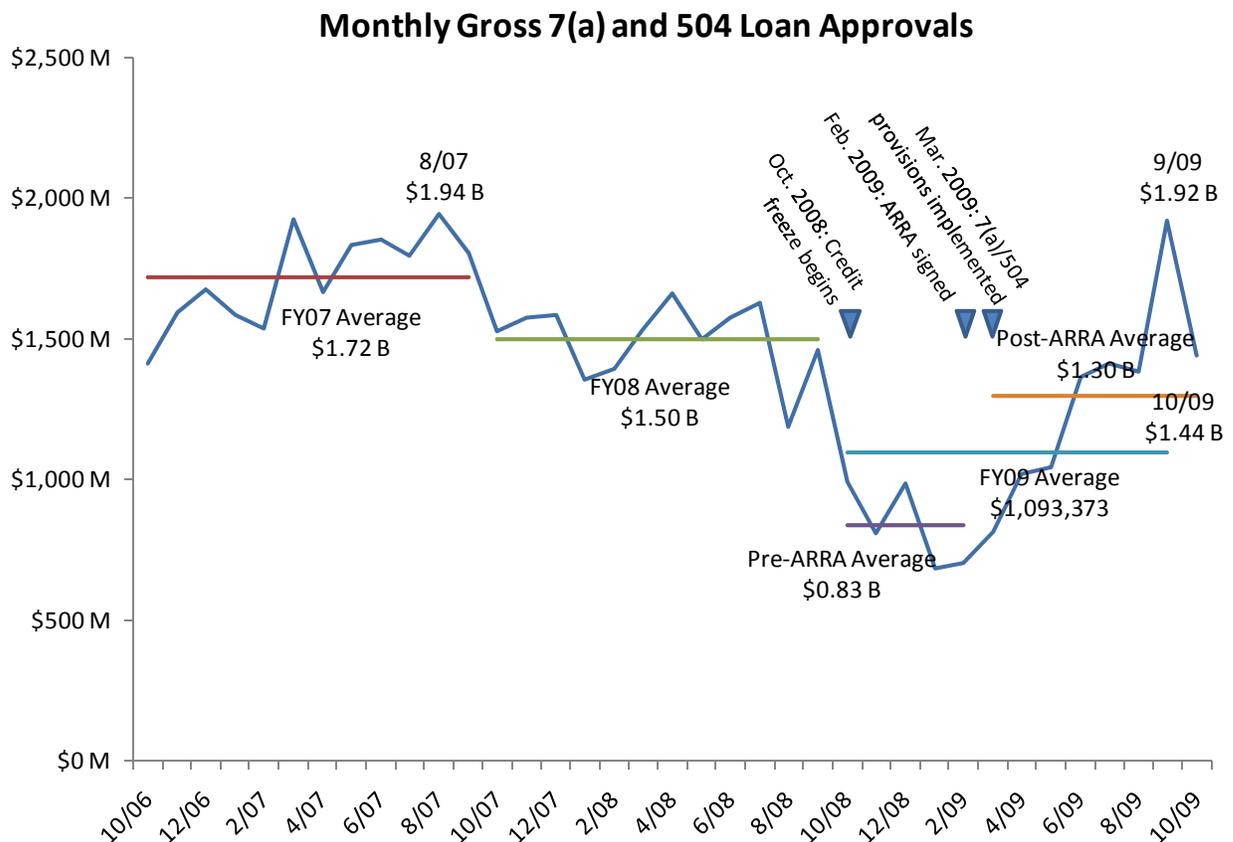
Banks with >\$10 billion in Assets



*Note:* Commercial loans under \$1 million used as proxy for small business lending.

# The SBA Has Seen a Rebound in Lending With the Recovery Act

- While credit markets remained tight, simple tools in the Recovery Act, including fee relief and 90% guarantees, helped to bring volume back to pre-crisis levels.
- SBA has supported \$14.7 billion in lending to small businesses. Since the signing of ARRA, weekly loan dollar volumes have risen 79% in the 7(a) and 504 programs, compared to the weeks preceding ARRA's passage.
- The SBA has also seen **increased secondary market participation**, and an increase in **new and returning lenders** in the program.



Source: SBA Data

# REPORT TO THE PRESIDENT

## SMALL BUSINESS FINANCING FORUM

### APPENDIX

#### ***Administration Accomplishments on Small Business***

***Released on November 18, 2009***

Today's Small Business Financing Forum marks another step in the Obama Administration's commitment to ensuring small businesses can play a crucial role in leading job growth and recovery. As they search for the best ideas and strategies to bring to the President, Treasury Secretary Tim Geithner and Small Business Administrator Karen Mills will build on the measures the Obama Administration has already taken to help small businesses expand through increased access to credit and new tax cuts as part of the American Recovery and Reinvestment Act.

#### **Obama Administration's Actions to Support Small Business**

##### **I. Improving Access to Credit**

- Increasing SBA Weekly Loan Volume by More Than 75 Percent Through Higher Loan Guarantees, Fee Eliminations and Efforts to Unfreeze the Secondary Market
- Putting in Place New Reporting Requirements for Small Business Lending
- Setting Out New Steps to Further Increase Lending to Small Businesses Through Larger SBA Loan Sizes and Low-Cost Capital to Community Banks and CDFIs

##### **II. Cutting Taxes for Small Businesses**

- Extension of Enhanced Small Business Expensing
- Five-Year Carryback of Net Operating Losses
- Exclusion of Small Business Capital Gains
- Estimated Tax Payment Relief

##### **III. Supporting Small Businesses Through Contracting Programs**

- 26.7 Percent of Recovery Act Contracts Have Gone To Small Businesses

#### **I. Administration Efforts to Improve Access to Credit**

- **Since the Transition, Treasury and SBA Have Worked Together to Increase Access to Credit for Small Businesses:**
  - **Recovery Act Provisions Raised Loan Guarantees and Reduced Fees for SBA Programs:**  
As part of the Recovery Act, the Administration increased the maximum guarantee on 7(a) loans to 90 percent and temporarily eliminated borrower fees for the 7(a) program and both borrower and lender fees for 504 loans.

- ***Treasury Worked With SBA to Introduce Programs to Unlock Secondary Markets:*** On March 16, Treasury and SBA announced a new initiative to make direct purchases of securities backed by 7(a) loans on the secondary market. In response to concerns that TALF as originally designed would not have any impact on SBA secondary markets, Treasury and SBA also worked with the Federal Reserve to improve the terms under the program for securities backed by SBA-guaranteed loans.
- ***Additional SBA Efforts to Improve Access to Credit:*** SBA has taken other efforts to increase access to credit, including:
  - ***Expanding 7(a) Loan Eligibility to More Than 70,000 Businesses Through Alternate Size Standards***
  - ***Supporting \$30 Million in Inventory Financing for Auto, RV and Boat Dealerships Under a New Dealer Floor Plan Financing Pilot Program***
  - ***Approving More Than 4,000 ARC Loans Totaling \$130 Million to Viable Businesses***
- ***SBA Weekly Loan Volume Is Up More Than 75 Percent Since the Beginning of the Year:*** Compared to the beginning of the year – before the Recovery Act provisions were implemented and the secondary market initiative was announced – average weekly SBA loan volume for the 7(a) and 504 programs is up 79 percent. Since February, more than 900 lenders have made SBA loans that had not done so since 2007.
- ***Secondary Markets Have Recovered:*** In January 2009, the total volume of loans settled from lenders to broker-dealers on the secondary market for SBA loans had fallen to just \$85.9 million. From May to October, however, the average monthly volume settled to broker-dealers was \$344 million – above pre-crisis levels. Market participants have publicly cited the TALF program – which has financed more than \$1 billion in purchases of SBA securities – and the announcement of a secondary market purchase program under the Financial Stability Plan as helping to unfreeze the markets, providing lenders with the promise of increased liquidity if they make new loans.
- ***New Reporting Requirements for Small Business Lending:*** Since June, Treasury’s monthly lending survey, which tracks the 22 largest institutions receiving TARP funds, has included data on small business lending, allowing the Administration to better monitor the impact of the Financial Stability Plan on small businesses. In addition, Treasury is working with the bank supervisors to require all banks to report their small business lending in their quarterly call reports, rather than simply once a year, beginning in the first quarter of 2010.
- ***Treasury and SBA Have Announced Steps to Go Further:***
  - ***New Programs Under the Financial Stability Plan to Increase Small Business Lending:*** Last month, the President announced two new programs under the Financial Stability Plan designed to increase access to credit for small businesses. These programs –for

which Treasury is preparing final terms – will support institutions that do a disproportionate share of their lending to small businesses through:

- An initiative that provides lower-cost capital to community banks that submit a plan to increase small business lending
- A program to support Community Development Financial Institutions lending to small businesses in the hardest-hit rural and urban communities
- ***Increasing the Cap on SBA Loans:*** The Administration has called for increasing the maximum size of 7(a) loans to \$5 million and increasing the maximum 504 loan guarantee from \$2 million to \$5 million for standard borrowers and \$4 million to \$5.5 million for manufacturers. Increasing the maximum SBA loan size will allow more small businesses to get the credit they need to grow their businesses and hire additional workers.

## II. **Cutting Taxes for Small Businesses**

In its efforts to support an economic recovery, the Administration has enacted tax cuts for small businesses, providing them with a boost to their cash flow that can help them support an economic recovery:

- **Extension of Enhanced Small Business Expensing:** The Recovery Act allows small businesses to immediately write off up to \$250,000 of qualified investment in 2009, providing an immediate tax incentive to invest and create jobs. This provision is estimated to cut small business taxes by more than \$1 billion in 2009 and 2010.
- **Five-Year Carryback of Net Operating Losses:** The Recovery Act allows small businesses to carry back 2008 net operating losses (NOLs) for up to five years, as opposed to two years under prior law. This longer carry back period gives small businesses that experienced losses in 2008 the ability to get immediate refunds of income taxes they paid in earlier years and is estimated to give back \$4.7 billion to small businesses in 2009. The unemployment insurance bill signed by the President on November 6 extended this provision by a year as part of a broader expansion of the provision to more businesses.
- **Exclusion of Small Business Capital Gains:** The Recovery Act encourages investment in small businesses by excluding from taxation 75 percent of the capital gains for investors in small businesses that hold their investments for five years. The President's Budget proposes to completely eliminate the capital gains tax on this small business stock.
- **Estimated Tax Payment Relief:** The Recovery Act provides immediate tax relief for small businesses by reducing their liability for estimated tax payment by about \$275 million in 2009.

### III. Supporting Small Businesses Through Contracting Programs

- **Recovery Act Contracts Are Getting Into The Hands Of Small Businesses:** SBA is responsible for ensuring that 23 percent of all federal government contracts go to small businesses. As of November 9, 2009, 26.7 percent of federal agency Recovery Act contracting dollars have gone into the hands of small businesses.
- **The SBA Is Taking Steps To Support Disadvantaged Small Businesses In Government Contracting:** Vice President Biden, SBA and the Department of Commerce are co-leading a Stakeholder Outreach Initiative to promote Recovery Act contracting outreach for small and disadvantaged businesses.