

Opening Statement
Senator Byron L. Dorgan
Chairman, Democratic Policy Committee

**“Removing Barriers to Job Creation:
Are Banks Lending to Small Businesses That Are Ready to Hire?”**

Wednesday, December 2, 2009
10:30 a.m. to 12:00 p.m.
628 Dirksen Senate Office Building

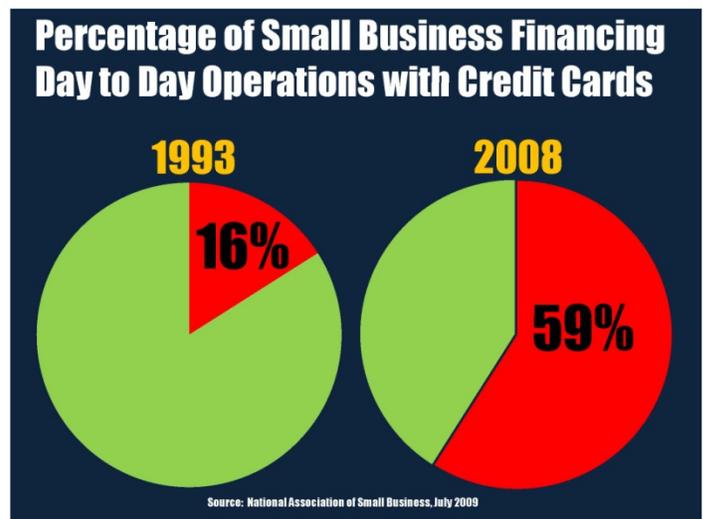
Today we are holding the first in a series of hearings that will explore how to accelerate the creation of new jobs in America.

The Senate is currently grappling with the issue of health care reform, and this is undoubtedly a very important matter. But this Administration has also inherited a huge financial mess, and the unemployment rate now exceeds 10 percent. For Americans who are out of work, there is no more immediate, burning question than, “Where do I find a job?”

There is no government program that can substitute for a good job that pays well. A key function of government, however, is to create conditions that help businesses grow and hire new workers. That is particularly true of small businesses, which have created nearly two-thirds of all new jobs over the last 15 years.

But let me give you an alarming statistic. In 1993, only about 16 percent of small businesses relied on credit cards to finance their day-to-day operations. This made sense, because credit cards are one of the most expensive ways of obtaining financing.

But according to the National Association of Small Business, by April of this year, nearly **60 percent** of America’s small businesses used credit cards to help finance their day-to-day operations. This essentially means that these small businesses can’t get credit any other way. And a business that is relying heavily on credit cards to stay afloat is very unlikely to be thinking about hiring new employees.



How did we get to this point?

Last year, our country was gripped by a financial crisis the likes of which had not been experienced since the Great Depression. Major banks were in peril of going under, and they dramatically scaled back their lending. Many small businesses, which depended on a steady and reliable flow of credit to finance their operations, suddenly had that life blood choked off.

In the middle of that financial crisis, the Bush Administration asked and received authority to use up to \$700 billion in taxpayer dollars to keep these major banks from going under, and to put them on a footing where they could resume lending businesses large and small.

In fact, when he asked for the money, then-Secretary of the Treasury Hank Paulson said that *“our purpose is to increase the confidence of our banks, so that they will deploy, not hoard, the capital.”*

Once the TARP funds had been authorized, Secretary Paulson injected these funds directly into the banks.

But according to a Treasury Department report released in mid-November, the 22 banks that have receiving the most funding through TARP program have actually cut their collective small business loan balances by \$10.5 billion over the last six months.

In fact, the Federal Deposit Insurance Corp. reported ~~this last~~ month that U.S. bank loans fell by \$210 billion – the biggest drop since the FDIC started keeping records in 1984.

“Our purpose is to increase the confidence of our banks, so that they will deploy, not hoard, the capital.”

Treasury Secretary Hank Paulson

October 2008

CNNMoney.com

SMALL BUSINESS LOANS: \$10 BILLION EVAPORATES

Reports to the Treasury confirm what small business owners have known all year: Banks are cutting back on Main Street lending

By Catherine Clifford
November 17, 2009

NEW YORK (CNNMoney.com) — Eight months after President Obama began prodding the nation's banks to increase their small business lending, the loan numbers continue to move in the opposite direction.

The 22 banks that got the most help from the Treasury's bailout programs cut their small business loan balances by a collective \$10.5 billion over the past six months, according to a report released

Three of the banks that reported a sharp April drop in small business lending

Over the last six months, the banks have cut their small business lending

The bank's small business loan balances fell by \$1.5 billion over the past six months

Some banks have cut their small business loan balances by more than 50% over the past six months

But other banks have increased their small business lending

JPMorgan announced this year that it has been cut off from the Treasury's bailout programs

JPMorgan spokesman Tom Kelly said the bank will ramp up its lending as the economy improves. The bank is already starting to see healthier

better-qualified applicants, he said. "Some of the businesses are better than they were six months ago."

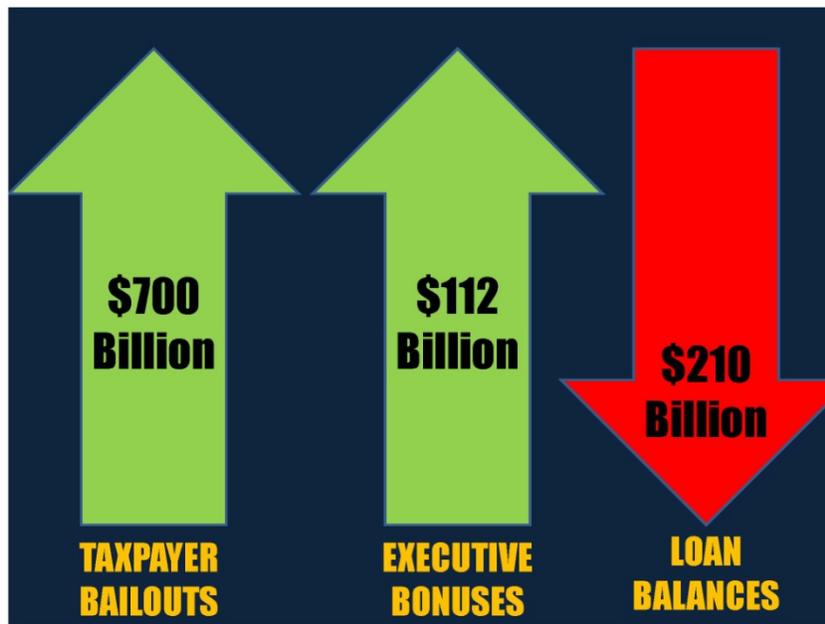
He also pointed to JPMorgan's recent move to hire additional small business specialists. "We are going to have 325 more bankers talking to customers, so that means there is going to be more applicants for loans," Kelly said. "We have 325 more people knocking on doors."

“The 22 banks that got the most help from the Treasury's bailout programs cut their small business loan balances by a collective \$10.5 billion over the past six months.”

AuburnAT.com, as well as a collection of online stores. First they applied at the bank for a loan targeting businesses in underutilized urban areas, but were denied because their sales exceeded the cap for the loan. So they applied with the bank for a Small Business Administration-backed 7(a) loan, but were again rejected.

What's especially outrageous is that a lot of these banks are announcing that they will pay tens of billions of dollars in bonuses to their executives, at the same time that they are cutting back lending.- The six biggest banks in the country, all of which are TARP recipients, are reportedly planning to pay their executives \$112 billion in bonuses in 2009.

So, in sum, this is the situation we are facing with our banks, especially the largest banks:



Clearly, there is something wrong with this picture.

I, for one, had serious reservations about the TARP program from the beginning. One of those reservations was precisely that there was no guarantee that in exchange for being rescued, banks would resume lending. That was why I opposed that program in the Senate.

But regardless of whether one supported or opposed the TARP program, we should all be equally insistent that any financial institution that has been bailed out should in turn work to help solve this credit crunch.

Our country has a lot of profitable, creditworthy small-business owners. They stand ready to create new jobs right away, and the only ingredient that is missing is affordable credit to expand.

We will hear from three of those small-business owners today.

| Alicia Lingenfelter is the co-owner of 4-D Equipment and Services, a successful small business in Dallas, Texas that leases trucks to haul concrete.

Ivan Matsunaga owns two Connie's Pizza restaurants in Chicago, Illinois, both of which are profitable, successful businesses.

Barbara Biller is the co-owner of Intellitech, a small manufacturer in Westminister, Maryland that makes liquid filling machinery for the biotech and pharmaceutical industries. The company has grown since starting manufacturing operations in 2000.

Finally, we will hear from a well-respected economist, Mark Zandi, who will discuss some of the policy solutions that could fix the credit problem for small businesses. Dr. Zandi is the chief economist and co-founder of Moody's Economy.com, where he directs the company's research and consulting activities.