

**Senate Democratic Policy Committee Hearing**

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

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Good morning Chairman Dorgan, Senator Durbin and other members of the Senate.

Thank you for the opportunity to testify before you today about the difficulties small businesses are having accessing credit and creating jobs. My name is Ivan Matsunaga and I am the President of Madi Ty, Inc., a certified Minority Business Enterprise corporation that owns and operates two Connie’s Pizza restaurants in Chicago.

In July 2008, I purchased the Connie’s Pizza operations at two high-traffic locations, Navy Pier and McCormick Place, in Chicago. Navy Pier is the #1 visitor attraction in Illinois and McCormick Place is the largest convention center in the United States. The purchase of these restaurants provided me with an opportunity to fulfill the American Dream. Having earned a bachelor’s degree from the Cornell University School of Hotel Administration, I had spent my entire career preparing to own a restaurant.

In 2007, after having worked for the family that owns Connie’s Pizza for 22 years, they approached me to see if I would be interested in purchasing their operations at Navy Pier and McCormick Place. After receiving a third-party business valuation on the two locations, I set out to finance the \$494,000 transaction. With a solid valuation in hand, along with an excellent personal credit history and a 10-year track record of profits at both locations, I engaged in discussions with several banks.

Finally, in June 2008, I was able to get a community bank, First Community Bank of Joliet, to finance my project, although that may be oversimplifying the arrangement. The

\$494,000 transaction was financed through \$320,000 in term loans and a personal Home Equity Line of Credit. I was only able to access the loans and line of credit by allowing the bank to hold primary creditor rights, not only to all my business assets, but all my personal assets as well. I had to collateralize the entire equity in my home, life insurance policies, investments, and asset accounts, even though their collective value was significantly in excess of the outstanding debt.

Since closing on the purchase of the two restaurants in July 2008, I have worked to steadily pay down the debt incurred to take on this opportunity. My restaurants are successful and generate approximately \$2.8 million in annual revenue. With a net business income in excess of 7 percent, I have significantly exceeded industry profit margins. I am an extremely safe investment! The success of my business gives me a great sense of accomplishment as I am able to provide a great dining experience while employing about 80 people.

Earlier this year, my landlord at McCormick Place informed me that in order to renew my current lease in January 2010, I would have to renovate and re-brand my restaurant. Working diligently with my designer, we are finalizing the plans for converting the Connie's Pizza restaurant at McCormick Place into Pazzini, a higher-end version of the Connie's brand. By completely reworking the guest flow and style of service, we will need to employ at least five additional full- and part-time employees.

Preliminary estimates place the cost of the renovation and re-branding at \$250,000 to \$300,000. The bulk of this cost would be for construction, which would begin immediately and create new construction jobs. In order to finance the renovation, I approached STC Capital Bank, but they declined. Ironically, I invested \$100,000 as an original investor in the bank in 2006. How perplexing is it that they would not reciprocate? What type of banking environment exists where they currently have \$100,000 of my money and yet they won't give me a loan? I

have also been turned down by two large Chicago banks, MB Financial and Northern Trust Bank, both of which received funding through the federal Troubled Asset Relief Program (TARP).

First Community Bank is reviewing the project and trying to figure out how to make the loan within the context of the current lending environment and credit crunch. First Community is trying to collateralize leasehold improvements and restaurant equipment, not the hard assets they typically use as collateral. Based on my discussions with fellow restaurant owners, with a few exceptions, banks do not seem willing to lend to restaurants at this time. While I remain hopeful, I am concerned that I will lose my McCormick Place lease.

My landlord also approached me with another very exciting opportunity: opening up a Subway shop in the new West Building at McCormick Place. This would require me to buy a Subway franchise, build out the space, and purchase the necessary equipment. Acquiring the \$200,000 loan to finance the operation would result in the creation of another 25 jobs -- above and beyond the construction jobs for the build-out. Although this is a fantastic opportunity, I am extremely anxious about the prospects for the Subway loan.

Currently, my primary concern is that my inability to access credit will cause me to lose my lease at McCormick Place. The reality is that the banks' refusal to lend money to my successful restaurant business will force me to close when my lease expires in January 2010. In turn, I would lose the revenue used to service my current bank debt. And if I lose my lease at McCormick Place, I would have to eliminate 55 jobs and lose the potential to add another 30 jobs. This is what keeps me up at night. And these job totals do not include the additional people who would be put to work to renovate my current location and build out the Subway restaurant.

Last week, I was very alarmed when I read in the newspaper that young African American males, who make up about 25 percent of my workforce, are experiencing a national unemployment rate of 34.5 percent. By accessing the capital to enhance my current operation and add a Subway restaurant, I can retain my current workers, hire new workers, and avoid becoming part of the problem of African American youth unemployment.

I realize that the financial crisis and credit crunch are complicated issues, but I am deeply concerned and frustrated by my predicament. If I had the conventional hard assets that banks are requiring to finance my business, I probably would not need to access capital. I have been told by every one of these banks that the process would be very simple if I owned the real estate where my restaurants are located. In my case, this would be ridiculous since owning Navy Pier or McCormick Place are not options.

I know that my situation is not unique. I am the recent former chairman of the Illinois Restaurant Association and a new director-elect of the National Restaurant Association. I have had numerous discussions with my peers who are frustrated by these same issues. Restaurateurs who put their passion and life's work into their ideas are willing to extend themselves financially to achieve their dreams. New projects to open and expand restaurants are not being funded and new positions that would have been created are never filled. The lack of working capital means that restaurant owners across the country are tightening their belts. Since labor expenses are typically the largest cost for restaurants and the only one that can be quickly adjusted, owners are reducing hours and eliminating jobs just to stay solvent.

The restaurant industry is the largest private sector employer in the country and can hire and train a workforce as quickly as any other industry. Many restauranteurs would start creating jobs today if they could access capital. If my bank were to approve my loan today, I, for one, would create jobs immediately. If I can perform my renovation work, I will employ dozens of construction workers in addition to creating 30 new restaurant jobs right away.

Thank you for your time this morning. Hopefully we can all work together to create jobs.