FINANCIAL AND ECONOMIC CHALLENGES FACING SMALL BUSINESSES

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FINANCIAL AND ECONOMIC CHALLENGES FACING SMALL BUSINESSES

Thursday, November 20, 2008

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 10:38 a.m., in Room 2360, Rayburn House Office Building, Hon. Nydia M. Velázquez [Chair of the Committee] Presiding.

Present: Representatives Velázquez, Shuler, Michaud, Cuellar, Clarke, Sestak, Chabot, Westmoreland, and Gohmert.

Chairwoman VELÁZQUEZ. This hearing of the Small Business Committee is now called to order. Despite actions taken by the Federal Government this September, the fallout from our Nation's financial crisis continues to grow. In the face of a collapsing housing market, tightening credit crunch and record unemployment, it is clear that the current course of action is neither stabilizing nor galvanizing the economy. This is particularly apparent within the struggling small business community. Rather than trickling down resources from the Treasury and the Federal Reserve are pulling and stagnating at the top.

As a result, small businesses from tech start-ups to convenience stores are bearing the brunt of severely restricted lending. In a report released last month, the Federal Reserve found that 75 percent of domestic banks have tightened their small business loan standards. On top of that, 90 percent of respondents said they have raised the cost of small business credit lines. At a time when large financial institutions are enjoying Treasury handouts, it will only make sense for small firms, the backbone of our economy, to receive comparable assistance. But unfortunately, even loans from the Small Business Administration are on the decline. In fact, SBA lending has dipped 50 percent in the last year.

In today's hearing, we will analyze the current conditions facing small firms and evaluate what actions the Treasury and the Federal Reserve have taken to address those circumstances. Regardless of continued declines, positive steps have been made through the Economic Recovery and Stabilization Act. The Federal Reserve's commercial paper facility, for example, has succeeded in partially easing the credit crunch. But unfortunately, the Fed missed a real opportunity to help small firms when it chose to limit this provision to big businesses.

As a result of that particular oversight, the small business credit markets are as frozen today as they were when the crisis began. To remedy this we ought to look for a concept similar to what the

FDIC is now doing for homeowners. Sheila Bair has outlined an innovative new plan for restructuring mortgages, and something similar might work for small business loans. Despite these instances of government ingenuity implementation of the recovery legislation has largely failed entrepreneurs.

For example, the Treasury's troubled asset relief program, or TARP, has done nothing to solve the small lending freeze. In fact, the banks benefiting from TARP have all but shut down lending operations. And while billions of dollars have been earmarked for big banks and AIG, thousands of small firms across the country have been forced to close their doors. Shutting small businesses out of stabilization efforts just isn't logical. Current legislation while not designed as a stimulus per se was intended to do more than simply steady the markets. It was expected to help jump-start the economy. Because small firms are proven drivers of economic growth it only makes sense to give them the tools they need to spark recovery. Our financial system is entering an era of unparalleled turmoil and confusion.

But amidst the upheaval, one thing has become abundantly clear, we cannot rely on the policies of the past. It has been said before that extraordinary times call for extraordinary measures. Well, these are certainly extraordinary times. If we are to match them to our measures then we must take a page from the entrepreneurs playbook. Through ingenuity and resourcefulness we can find innovative new ways to give small businesses and the rest of the economy the resources they need to get back on track.

With that I look forward to a frank discussion, an open discussion this morning, and thank the witnesses in advance for their testimony. With that I now yield to the ranking member, Mr. Chabot, for his opening statement.

Mr. CHABOT. Thank you, Madam Chairwoman. And I, first of all, want to note and congratulate you on being elevated to chairwoman of the Hispanic caucus.

Chairwoman VELÁZQUEZ. Thank you.

Mr. CHABOT. That just happened today so I wanted to say good luck and congratulations on that. And I want to thank you for holding this hearing. The issues that will be addressed in today's hearing are vital to the economy and the ability of current and future small business owners to lead us to a brighter economic future. When Congress adjourned early October, there was an expectation in some circles that the bill enacted by Congress would help resuscitate the economy. Those hopes and expectations have been dashed on the rocks of continuing economic turmoil. Despite promises of better times ahead after passage of the bailout consumer confidence remains low.

Many companies are laying off workers and three automobile manufacturers with a significant presence in my home State of Ohio, as well as many other States around the country, appear to be teetering on the abyss of failure. There is, no doubt, in these troubling times that solutions must be found to these financial problems. One glimmering light in these times is the agility, resourcefulness and drive of America's entrepreneurs. As larger enterprises lay off workers, small businesses will help to fill the gap, either through hiring of new employees or the creation of entirely new enterprises. But the ideas of America's entrepreneurs require something that has been in very short supply recently, and that is capital.

Today's hearing will focus on the current availability of capital for small business owners and possible solutions to increase liquidity in the small business lending markets. From all that I have been hearing, there is little available capital for small businesses. Banks are cutting back on credit for entrepreneurs, venture capital remains scarce and the safety net of SBA lending programs have seen dramatic reductions in loan approvals. If we are relying on small businesses to lead us out of the current economic situation, the absence of available capital is fraught with serious consequences.

During the debate on the financial rescue, there was an expectation that the funds injected into firms would then be loaned to firms requiring new capital. That has not occurred, and the members of this committee are certainly interested in knowing why that has not occurred. This should not be viewed as laying the basis for blame or recriminations; rather, it is necessary to ensure that Congress and future legislative action does not repeat the errors of the past.

I would be very interested in hearing from the witnesses any mistakes they may believe have been made. Further efforts to inject capital into the credit markets will increase the debt ceiling in Federal borrowing. As I noted in a previous hearing, small business owners cannot compete against the Federal Government in a market for debt capital. So any solution to the current liquidity crisis and the small business debt market must address the cost of capital to America's entrepreneurs. Simply making the capital available, which is no doubt important, will be of little use if the cost of such capital is so high that prudent small business owners will not take the risk of the higher debt payments, particularly in uncertain economic times. I would be very interested in suggestions on how the balance between further liquidity injections and balance those with the cost of debt capital for small business owners. No one can deny that recent weeks and months are placing a strain on the finances of all Americans, including America's small businesses. Solutions must be found that increase liquidity of small businesses without presenting them with unaffordable capital. Again, I thank the chairwoman for holding this hearing and I yield back my time.

Chairwoman VELÁZQUEZ. Thank you, ranking member. And before I introduce the witnesses I would like to take a minute to say that this committee has had a very productive 2 years, and that was largely thanks to your leadership, Mr. Ranking Member. While we may not have been seeing eye to eye on every policy, I always appreciated your input. I knew that it was motivated by what you deemed best for small business. Nine times out of ten we ended up with a better product as a result.

And of course, let us not forget how much, how much you taught me about ANWR. I now know more about that place than I ever dreamed or hoped to know. So I could go on and on about you, Steve, but I don't want these witnesses to think that they are going to get off easy. But seriously, it has been a pleasure getting to work with you and getting to know you. Thank you for your service, and you have a friend here in the House of Representatives.

Mr. CHABOT. Well, thank you very much, Madam Chairwoman. It has been a pleasure working with you. And I think we were able to work together in a bipartisan fashion for the good of the small business community across the country. And I consider you not only a colleague but a friend. And even though we are different parties and different philosophies relative to a lot of issues, we did work together, and our staffs did too. And I think we both have excellent staffs, and it has been a pleasure working with you.

Chairwoman VELÁZQUEZ. And now it is my pleasure to welcome the Honorable Randall S. Kroszner. Mr. Kroszner is a member of the Board of Governors of the Federal Reserve System. Dr. Kroszner took office on March 1, 2006, to fill an unexpired term ending January 31, 2008. Before joining the board, he served the Federal Reserve System in several roles, including visiting scholar at the Federal Reserve banks of New York, St. Louis, Kansas City and Minneapolis. The Federal Reserve System was founded by Congress in 1913 to provide the United States with a safer and stable monetary system. Welcome, sir.

STATEMENT OF HON. RANDALL KROSZNER, GOVERNOR, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. KROSZNER. Thank you very much. Chairwoman Velázquez, Ranking Member Chabot and Members of the Committee, I am very pleased to appear here on behalf of the Federal Reserve Board of Governors. My remarks will briefly address how the ongoing financial turmoil and weakening macroeconomy appear to be affecting small business credit. In addition, I will discuss how recent policy actions of the Federal Reserve, the Congress and other government agencies should assist small business going forward. To summarize, the information we have received indicates that over the last 6 months, it has become more difficult for small businesses to access credit. But that at the same time the demand from small businesses for credit has also declined. Commercial banks, the most common source of credit for small business, have generally both imposed more stringent credit standards and increased the interest rate spreads and fees.

In addition, deteriorating financial positions in both small businesses and the household sector are almost surely reducing the credit worthiness of many small businesses and thereby constraining their access to credit. That said, the information we have on the volume of small business loans suggests that credit is still generally available, albeit on significant stricter terms. Small businesses generally report that reduced demand for their products and services caused by a lower level of economic activity is a more serious concern than is the tightening credit supply conditions.

Importantly, there is some evidence that concern over access to credit is relatively stronger at larger businesses. I will now highlight a few specifics from the much more detailed written testimony that I have submitted to you. In the Board's most recent senior loan officer opinion survey on bank lending practices conducted in October that Madam Chairwoman had made reference to, a net 75 percent of domestic banks surveyed reported they had tightened standards applied when approving commercial and industrial loans to small businesses. But small businesses were not alone. Almost a net 85 percent of domestic banks reported having tightened credit standards on such loans to large and middle market firms. Importantly, the net fractions of banks reporting tighter lending standards and tighter price terms on loans and businesses of all sizes were very high by historical standards going back to 1990.

Business surveys such as the recent monthly surveys from the National Federation of Independent Businesses NFIB suggest that finance conditions for small business have deteriorated substantially over the past several months. That said, financing conditions have continued to be ranked as a top small business concern by only a modest fraction of small businesses; 5 percent in the October survey. Changes in the quantity of loans at banks also suggest that small businesses have generally maintained their access to bank credit, although new grants of credit tend to be subjected to stricter standards and terms.

During the credit demand, the NFIB survey results are quite pessimistic. For example, the survey indicates that small business optimism dropped in October to its lowest level since the monthly surveys began in 1986. Some 23 percent of firms indicated that sales were their main concern. Results such as these when combined by other survey data suggest that demand concerns generally provide the most serious challenge currently facing businesses. Policymakers both in the United States and other countries have taken a series of extraordinary actions aimed at restoring market functioning, improving investor confidence and stimulating economic active. The benefits to small business from these actions will be largely indirect but nevertheless real.

For example, improving interbank funding markets and restoring public confidence in banks and other financial institutions benefits small businesses by lowering intermediaries and thereby small businesses lowering costs and increasing the volume of loans that banks can extend. Importantly, some of these policy actions will also directly benefit small businesses. For example, recent reductions in Federal funds rate should result in small businesses facing lower borrowing costs.

In addition, stronger economic activity from lower interest rates should result in small businesses enjoying increased demand for their products and services. Going forward the evolution of small business access to credit will be strongly influenced by the success of these and other recent policy actions. Given the current financial and economic environment the sizes and effects of the recent policies on both the economy and small business directly are highly uncertain.

For these reasons, the Federal Reserve will continue to monitor the financial markets and economic conditions and their affects on small business access to credit as part of their efforts to restore the health of the U.S. financial system and our economy. Thank you very much and I look forward to your questions.

Chairwoman VELÁZQUEZ. Thank you Dr. Kroszner.

[The statement of Mr. Kroszner is included in the appendix at page 38.]

Chairwoman VELÁZQUEZ. Our next witness is Mr. Karthik Ramanathan. Mr. Ramanathan is Acting Assistant Secretary For Financial Markets in the U.S. Department of Treasury. He serves as senior advisor to the Secretary, Deputy Secretary and Under Secretary on extensive matters. Mr. Ramanathan also serves as the senior member of the Treasury Financing Group. In addition, he oversees the Office of Debt Management and the Office of Government Financial Policy as well as the operation of the said commissions and board staff. While he started working at the Treasury Department in 2005, he began his current position in 2006. Welcome sir.

STATEMENT OF KARTHIK RAMANATHAN, ACTING ASSISTANT SECRETARY FOR FINANCIAL MARKETS, UNITED STATES DEPARTMENT OF TREASURY

Mr. RAMANATHAN. Thank you. Chairwoman Velázquez, Ranking Member Chabot and members of the Committee, thank you for this opportunity to testify this morning. Small businesses are crucial to the health of the U.S. economy. They provide the entrepreneurial talent that keeps the economy flexible and dynamic. Small businesses employ over half the U.S. work force and are estimated to generate 70 percent of all new jobs. Thank you for the opportunity to address this timely topic and stress the importance of this sector.

As the acting assistant secretary for financial markets, I serve as a senior advisor to the Secretary, Deputy Secretary and Under Secretary on broad matters related to domestic finance, financial markets, including the Federal debt. My office is also responsible for the issuance of over $5 trillion in annual debt and for overseeing the $10 trillion U.S. debt portfolio. As you know, the economy is currently working through a prolonged housing correction that has impacted credit markets and financial institutions. The downturn in the housing market, as well as financial and credit market pressures, have negatively impacted the real economy.

Small businesses and consumers have often felt the headwinds as employment, capital investment and consumption have declined. Community banks, thrifts and credit unions are vital components of the financial markets, and ensuring their health helps encourage the lending and borrowing activity that is critical for small businesses and consumers. To alleviate credit market strains, the Treasury, the Federal Reserve and the FDIC, along with our international counterparts, have taken unprecedented and extraordinary steps to address the current financial crisis, steps aimed at strengthening bank's balance sheets, easing strains in the interbank lending markets and provided needed liquidity. While the long-term economic prospects of the United States are solid the United States, as well as the global economy, faces considerable challenges in the near term. The slowdown has affected nearly every sector of the U.S. economy.

Small businesses have also felt these strains. And when small businesses suffer, the rest of the economy does as well. Let me just cite a few examples: Small businesses, in the retail and restaurant trade sector which represent 90 percent of all such firms, have been particularly affected by recent economic conditions. The retail sector is estimated to have lost over 250,000 jobs in the past year. The home construction industry where small businesses make up 80 percent of firms has also particularly been affected by declining home values and credit market conditions. Equipment manufacturers, so important for small businesses, have also reported large declines in new orders, capital spending and technology investment and are drying up as a result of the liquidity. These businesses are less able to obtain loans and even meet payrolls at times.

The global financial crisis and tightened credit market have made it harder for small businesses to borrow the money they need to meet their payrolls, create new jobs and invest in the future. As the son of a first generation Indian-American engineer who has been building electrical and power generators across the United States for the past 40 years I have a particular insight into the difficulties facing small business. I hear stories about orders for new equipment and contracts for new engineering investments slowing dramatically. This illustrates stories we are hearing firsthand and reading about in newspapers in which our committee is well aware.

To counter these difficulties, Treasury has applied the authorities Congress has provided to stabilize the financial system which will apply the flow of credit while protecting the taxpayer to the maximum extent possible. We have opened our capital purchase program to smaller community banks which interact on a day-to-day basis with small businesses. Importantly, many of these privately held institutions have strong long-lasting ties with local businesses in your communities. By providing capital to such institutions Treasury is directly assisting these small businesses so that they have an ability to make loans, mitigate funding pressures and promote growth locally.

In addition to providing capital directly to banks, we are also examining strategies to support access to credit outside the banking system. With the Federal Reserve, we are exploring the development of a liquidity facility for highly rated triple A asset backed facilities. Such a facility could lower costs at increased credit availability for consumers and small businesses, and I would be happy to talk about that. Addressing the need of securitization sector will help get lending going again, helping consumers and supporting the U.S. economy. It will take time for the measures we have taken to have their full impact on an economy in which many consumers and businesses are struggling, but we have seen some encouraging signs. Treasury is mindful of the challenges and difficulties affecting the small business community. We will continue to focus on stabilizing the overall financial markets and reestablishing the flow of credit so that small businesses, consumers and all Americans can more easily obtain credit. Thank you for this opportunity to appear today, and I will be happy to take your questions.

Chairwoman VELÁZQUEZ. Thank you very much Mr. Ramanathan.

[The statement of Mr. Ramanathan is included in the appendix at page 34.]

Chairwoman VELÁZQUEZ. I would like to address my first question to both of the gentlemen. The bailout has clearly been a massive financial expense for taxpayers. Since March, the Fed and

Treasury have lent, invested and guaranteed over $1 trillion to shore up the financial system. And you can see it there. Capital purchase program, $290 billion. Fed credit line to facilitate JP Morgan purchase of Bear Stearns, $30 billion. And the list goes on and on and on. Unfortunately, much of this money has found its way to large corporations, including JP Morgan, General Electric, Goldman Sachs, and has not yet made its way to small businesses, homeowners or consumers. Starting with Assistant Secretary Ramanathan, why has this massive bailout expense failed to reach Main Street?

Mr. RAMANATHAN. Thank you, Chairwoman Velázquez. I would be happy to answer that question. Let me step back and take a moment. Over the last 53 business days, we have seen Federal Home Loan Bank, Fannie Mae, Freddie Mac come under tremendous pressure, and we have stabilized them. We have seen Lehman Brothers go under. We have seen AIG have considerable strains, we have seen Merrill Lynch sold, we have Goldman Sachs and Morgan Stanley turn into bank holding companies, we have seen a tremendous shift in the financial markets. Moreover, banks in the UK, Ireland and France have also had considerable fails, so this isn't a local issue, it is fully global. The effects of these have had tremendous strains on small business. Let me start with what happened in September-October when markets froze. Commercial paper, which is the life blood of business, both small and large, froze. Companies like Dana Corp in Toledo or Goodyear in Akron, Deere in Illinois or Tribune in Chicago all had difficulty and all drew on their bank lines.

Chairwoman VELÁZQUEZ. Those are all big businesses. Can you talk to me about small businesses?

Mr. RAMANATHAN. Absolutely. But all these businesses are supported by many, many, many suppliers who are small businesses. So a failure in one of these companies or an inability to finance themselves would have had tremendous impacts across the system. Interbank lending seized. Banks didn't trust each other. They were concerned about credit quality. Money market funds. A run on a money market fund caused tremendous panic across the markets. And without halting that, we could have seen potential issues across the markets. Corporate credit issuance seized.

Chairwoman VELÁZQUEZ. Can you talk to me about a specific action taken by Treasury targeting small businesses?

Mr. RAMANATHAN. Absolutely. Let me mention our capital purchase program in which we are investing capital in big banks, as well as small banks and community banks. Our first nine banks that we invested in compose 55 percent of all deposits in the United States. As Governor Kroszner mentioned, 65 percent of small businesses get their funds from large commercial banks and other depository institutions. We opened our capital purchase program on Monday to private companies, privately held banks. We currently have over 1,000 applications from privately held banks who loan in their private districts. In terms of small firms, I would have come to a bank in—Mountain First Bank in Hendersonville, for example, where we should lend it $200 million, which will be lending to the local community.

Chairwoman VELÁZQUEZ. How much money do you have, a number as to how much money has been provided in credits to those small businesses? Because you mentioned that these big businesses and these big banks provide funding money for small banks or small businesses.

Mr. RAMANATHAN. Yes.

Chairwoman VELÁZQUEZ. 48 percent of small businesses get their financing from small community banks that have $1 billion and less in assets.

Mr. RAMANATHAN. Yes.

Chairwoman VELÁZQUEZ. Until very recently the Treasury has excluded most of these banks from participating in the capital purchase program which provides equity injection. This left only $60 billion left from the first installment of the TARP for the nearly 6,000 banks that were initially denied access. So are you concerned that there is not enough money funds for these institutions?

Mr. RAMANATHAN. As you recall, there are 8,400 eligible institutions, financial institutions. 1,800 are public, 3,400 are publicly held, 2,500 are S Corp and about 625 are mutual corporations. We began this program, this legislation on October 1st when we were granted authority. We went out to the market on October 14th with applications. And on November 14th we closed the first batch. We tried to build the core of the nine biggest banks with 55 percent of deposits initially to ensure that there was a strong financial base. This Monday, we opened the capital purchase program to thousands of banks, local and community. We had been funding them actively, and we believe there is tremendous amount of TARP capital left for these institutions. We look forward to them and encourage them to apply, and it is not on a first-come-first-serve-basis.

Chairwoman VELÁZQUEZ. My question is the $60 billion that are left that will deal with the 6,000 small banks that are out there, plus everything else, do you think that that will be enough?

Mr. RAMANATHAN. We believe that that is enough.

Chairwoman VELÁZQUEZ. So you are telling us today that that will be sufficient money to deal with all the banks that are out there that has not gotten any help to this point, up to this point, and that we are going to get credit going trickling down to small businesses?

Mr. RAMANATHAN. And what I would say to that is this: Banks can apply to their regulator, their Federal regulator; the OTS, the OCC, the FDIC, or the Federal Reserve. There is a process which they go through. And if they are approved by the regulators it comes to Treasury for our decision to provide capital or not. We look forward to providing capital to these institutions which are viable and which make a tremendous impact on local communities. One of the items to note is every dollar that is invested in these local community banks go a much further way in providing lending to smaller—

Chairwoman VELÁZQUEZ. So why are you waiting so long? Because let me tell you something, you know. We all know that in order to stabilize our economy and to get this economy growing, what do we need to do? Create jobs. It is not JP Morgan or Merrill Lynch or none of the big corporations that weren't creating jobs.

Small businesses are the ones. They should have been the first ones to get the financial support and the money, the capital infusion that they needed.

Mr. Kroszner, last month we held a hearing with several small business owners in this committee. They discussed that the Treasury and Fed's action were not reaching Main Street America. In fact, if you take today's papers, any paper, you are going to see stories there about small businesses complaining that they cannot get the credit that they need, the capital that they need. So one business that was here testifying, which has survived the Great Depression, announced that it was closing its door altogether because of the inability to secure financing. We keep hearing how the Fed's and Treasury's actions aren't working. But why then are so many small businesses unable to secure the capital they need to survive? Sir, time is running out for them. What are you telling them?

Mr. KROSZNER. This is very, very important, because the economy is facing significant challenges. Small business and large business are facing a much lower demand than they have in the past. We have seen the economy does not have the robustness that it has had in the past. That means that demand is much lower for the goods and services that are produced by the Nation's work force and by the Nation's both small and large businesses. And so it is extremely important that we try to make sure that credit worthy borrowers still have access to credit. And this is one of the reasons why we very much look carefully at the surveys from senior loan officers asking about the changes in credit terms to small and large business.

As I mentioned, significant increases in tightening, or increases in the standards and terms. We ask for about small business versus large business. It has been happening, as I had noted, for both small and large business. This is a real challenge for businesses to get credit in these difficult times. And so it is very important for us to work to make sure that credit is available. And I think a number of the actions that we have undertaken to try to provide confidence to the banking system generally and provide greater liquidity to that system will help to make the banks more stable and more able to lend.

Chairwoman VELÁZQUEZ. Well, let's discuss the Fed's commercial paper facility that has been in operation for the last 3 weeks now. Clearly, this facility was created for large corporations that issue this type of debt. General Electric, American Express, Ford, Chrysler and GM are some of the companies using this facility. Why hasn't the Fed create a facility to provide similar support to the small business financing market?

Mr. KROSZNER. Well, first, I think by providing some relief in these markets, providing some alternative to bank borrowing by the larger banks that helps to put more capacity available by the banks for smaller businesses. Because as you noted, Madam Chairwoman, the small business do not issue commercial paper, only large firms do so. The credit that AmEx is getting, that General Motors and others are getting, is helpful to support consumer lending in these areas. So it is getting to consumers.

Chairwoman VELÁZQUEZ. My frustration, sir, is why haven't you taken any action to great a vehicle that is specifically dealing with the reality that small businesses are not getting the financing that they need? With this new commercial paper facility you are taking new risk. Why can't can you expand a facility that you have to include, for example, the 7(a) and 504 that are already backed by full faith and credit of the Federal Government? Why can't you do that?

Mr. KROSZNER. And so we have focused first on the commercial paper facility to provide credit to the system. And we are trying to make sure to provide credit throughout the system. As I mentioned earlier, and mentioned in the testimony, that both small banks and big banks are very important providers of credit to small business. As you all know, that is the primary place that small business get their credit. And if you define small business credit as loans under $1 million and define large banks as those with over $1 billion, roughly two-thirds of small business lending actually comes from large banks and the other third comes from smaller banks.

So by trying to provide more ability for banks to lend by having greater capacity for them to lend, greater liquidity and that they don't have to lend to large banks, they can then do what is very valuable for small business to do and lend to small business.

Chairwoman VELÁZQUEZ. I know that the committee staff has been working and having discussion with the Fed, including providing your agency firsthand accounts of the severe problems in small business financing market. If the Fed were to permit nonprimary broker/dealers to have access to a Federal lending facility, it could increase lawmaking to small firms. Would you make a commitment today to pursue this proposal?

Mr. KROSZNER. Well, we are certainly looking at a wide variety of different proposals. I can't make any particular commitments here. But as you know we have ongoing discussions on a variety of different facilities.

Chairwoman VELÁZQUEZ. Well, it is the same story this week before the Financial Services Committee with Secretary Paulson and Mr. Bernanke dealing with the issue of restructuring mortgage foreclosures. You continue to examine strategies. As I said that day, people are struggling, they are losing their homes. Small businesses are struggling and they are losing their businesses. We do not need for you to continue to study. We need actions this week. Mr. Chabot.

Mr. CHABOT. Thank you, Madam Chairwoman. Mr. Kroszner, there has clearly been a tremendous amount of government involvement in all kinds of private sector entities in the last few months. Is it possible to go too far in that direction in trying to correct the current economic situation and the challenges that we face and thereby potentially adding additional and unforeseen problems later? Could we make it worse by getting this far involved or are we too far down the road now?

Mr. KROSZNER. That is a very important question to make sure we are responding to the challenges, the real changes that both you as ranking member, Madam Chairwoman, have mentioned that are being experienced in the small business sector and throughout the entire economy. And so I think it is very important to be active and proactive right now. But we do have to be mindful of the programs that we put out to make sure that they help to restore market functioning in the short term to immediate term to support true market functioning as we go forward. So I think we are very mindful of that in the design of the different programs.

Mr. CHABOT. Thank you. Mr. Ramanathan, could you point to any instance in which the injections of capital to banks have generated substantial amounts of new lending to small businesses?

Mr. RAMANATHAN. Let me take a step back and again mention, it was just about 25 or 30 business days ago—and I say business days casually because we have been working night and day on this, over weekends, you name it, to ensure that the core banking system is operating. Because without the core banking system the impact to small business, to consumers, to employment are tremendous. And without bank lending and without the major banks, whether this is a Main Street or a Wall Street issue it is not, it is our issue. And so strengthening that center core, ensuring their balance sheets are strong will rebuild confidence. And once that confidence is restored, we will see lending occur.

We have seen, despite some of the comments that lending has not occurred, there has been lending that has been occurring. Recently this morning a major bank announced that is up 15 percent in the last just two months. So there is confidence building, but the loans are going to be made on a prudent and sound basis. I would expect, and Governor Kroszner is probably better aware of some of these issues, but the way in which liquidity will filter down to the system will occur but it will take time.

And I come back to a point, and perhaps earlier I didn't have a chance to discuss this, but we have taken extraordinary actions, aggressive actions to ensure that the stability of the financial market, that it stays intact. Before we attack specific problems of specific sectors we need to make sure that companies can pay their payrolls, that you can get cash at your ATM machines, that your checks can be cashed and that your payrolls can be met. The commercial paper facility was a major impact in terms of protecting and ensuring that banks can lend and that companies can lend and meet their payrolls. Interbank lending guaranteeing a bank's debt for 3 years had a tremendous impact in ensuring that liquidity flew through the system. The AIG stabilization which took place that is a significantly systemic institution had tremendous repercussions by focusing on it and ensuring that it made sure it was stabilized.

And when I talk about the money market fund guarantee, I don't take this lightly. Within a couple days, the U.S. Treasury came up with a solution to stop what could have been a $200 billion or $500 billion run in money market funds which impacts every single one of us. We are very interested in making sure that the financial system stays intact, as are our counter-parties abroad. And we do believe when you talk about LIBOR, which has been talked about quite a bit, it is an exotic term, but LIBOR, London Interbank Offered Rates, are present in every mortgage term sheet, in every mortgage contract out there. That is how you base your benchmarks for loans. That loan was at about 5-1/2 percent at a peak earlier this year just about 4 weeks ago. It is at close to 2 percent now. We have made tremendous strides. While we look at the equity markets going up and down, there is a lot going on behind the scenes that we may not recognize immediately.

Mr. CHABOT. Thank you. Madam Chairwoman, because we have so many members here, I will yield back and let them question.

Chairwoman VELÁZQUEZ. Thank you. Mr. Sestak.

Mr. SESTAK. If I could—I am sorry I missed your comments. I wanted to wait to see how the vote came out on Waxman-Dingell. My question, I guess, has to do with the Chairman's comment that a lot of people are losing their homes. And I do appreciate your comments about LIBOR. Actually, I think it actually hit 6.2 percent for a while and 50 percent of all credit cards, all credit cards are tied to LIBOR, and 50 percent of all arms. And that is what I am interested in, is the small businesses and the, let us say, loans, mortgages. My take on this issue that we are in is you have to start to fix the lending problem.

The first week in October was the first time in the U.S. history of this Nation, no bond was ever issued for a whole week. So I understand what you are talking about at this macro level, we have got to fix the lending problem. But my take on this is that with 85,000 homes going into foreclosure in October, a 25 percent increase from a year ago, and 3 million homes are in default at an annualized rate, that the bills we have is that trying to stop this foreclosure problem is really the long rail that you have to have for the economy.

And by stabilizing the housing market, you will finally stabilize the economy. You have lending going, but this cycle of foreclosures that house prices stop, people got out, no one is buying homes. My take on the bills that have passed here, the FHA reform, although we had hoped 500,000 people might take advantage of it, you know where we wrote it down, to say to date appraisal is 90 percent of today's market value, probably only 200,000 people are going to take advantage of that, or small mortgage brokers or whoever owns the—and I understand we have kind of nationalized the Fannie and Freddie, so we can make some credit more available so that would help.

But my take on it is much more needs to be done in this housing area, which will go a long way toward small businesses. And I would be interested first in Treasury's comment on that and yours, because there has been this debate in the administration. I think the FDIC has talked about it, maybe I have the wrong agency. But my take is this is really an area that has so much to do with small businesses and communities and school taxes as we stop having blighted neighborhoods. But until we address this issue, which I don't think we have done in a comprehensive way, we are really going to have a rail going out there that is not joined up to stabilizing this overall economy. Could you comment on that?

Mr. RAMANATHAN. Yes, I would be pleased to. Your point, sir, very valid regarding the fact that this economic downturn is being prolonged by what is going on in the housing market. We have had 2 years now approximately of housing market declines.

Mr. SESTAK. Two years of?

Mr. RAMANATHAN. Of housing price declines approximately. Since last year, Treasury has attempted to tackle this issue on a number of fronts. When we discuss HOPE NOW, a volunteer program, it has helped 2 1/2 million Americans to date, that is not a small number. And we would expect 200,000 more per month going forward. We have put Fannie and Freddie Mac, as you mentioned, into conservatorship, the FHFA has. And at the same time, we have offered confidence in that market.

Mr. SESTAK. I know what we have done. My question is we have 85,000 foreclosures last month, a 25 percent increase over a year ago, despite all your efforts and Congress'. What needs to be done?

Mr. RAMANATHAN. We have—I would say this: The recent actions by the GSEs, as well as several major banks to have streamlined modifications is a very good step in the right direction following on the examples that the FDIC put in place with IndyMac. We are going to see the fruits of those type of actions in the near future. When we see the private sector taking over some of the practices that the public sector has implemented that is a very good sign, and I think that is going to spread as well.

Mr. SESTAK. So basically you are okay with status quo, yes or no?

Mr. RAMANATHAN. No. I think at this point we are, as Secretary Paulson mentioned, we are exploring all of our operations. We are very interested in Sheila Bair's plan. We need to discuss that further. But as I said, we are never satisfied with the status quo.

Mr. SESTAK. Sir, could you answer the same question, because we are at our 32-month, consecutive month, despite all the great actions by Congress and the executive branch, of where each of the months has been greater in foreclosures than the same corresponding month a year earlier. Could you tell me if you kind of feel good about the present plans we have going on in view of that every month it is getting worse?

Mr. KROSZNER. This is an incredible challenge, and I have done a lot with the Fed to travel around the country to see the on-the-ground challenges in a lot of different districts. In Cincinnati, for example, I was there with the uptown coalition and saw the incredible challenges in these neighborhoods. So what you talk about is very real. These are not just large statistics, but these are really affecting individual homeowners. And I do think that we can definitely be doing more.

Mr. SESTAK. What would that be?

Mr. KROSZNER. Well, I think we have just had some new proposals from Hope For Homeowners, and the approaches that they are taking there that may involve some principle write-downs, I think those were just announced in the last few days, and so I think they have some potential to be helpful. I think we do need to do more streamline—

Mr. SESTAK. That was the legislation that we had passed, if I am correct, back with the Fannie and Freddie and all they did was implement the procedures. You know, they went from 90 percent and they said, by the way, if you make more than $100,000 some now it is 96 percent, that is just implementation of the same rules, that is nothing new.

Chairwoman VELÁZQUEZ. The time is expired. If the gentleman will yield for one second. Ms. Bair from FDIC she has a proposal on the table that is a drop in the bucket, $25 billion. While you are studying what the next proposal is going to be she has a plan. Why can't you take on that plan? Why can't you support that plan?

Mr. KROSZNER. Well, I think the Chairman described earlier this week, we have been in very much a lot of discussions with the

FDIC and the other agencies to come up with a most effective plan. I think he had noted there are some design issues that still have to be worked out.

Chairwoman VELÁZQUEZ. How long do you think it is going to take for you to come up with a real plan that will tackle the issue of foreclosures?

Mr. KROSZNER. Well, we are trying to tackle them in a variety of ways. I can't give you a specific timetable but we are working expeditiously.

Chairwoman VELÁZQUEZ. Mr. Westmoreland.

Mr. WESTMORELAND. Thank you, Madam Chairwoman. I want to thank you for having this hearing. And let me say I don't really know where to start from having talked to my small business people and my small bankers, but you two gentlemen need to get out more. And you need to take Mr. Bernanke and Mr. Paulson with you. And you need to walk around some town squares. I invite you to Newnan, Grantville, Thomaston, Barnesville, to get to talk to people, because from what I hear you saying, you think this is working. And I can tell you right now that the majority of my constituents don't think it is working.

We were told by Secretary Paulson this is something that had to be done immediately on September 19th. 17 days later is when it passed. We said did you look at any alternatives? No. Do you know that this will work? No. Now, those are two answers that I think were truthful. But now we are looking at other alternatives. Things are going in a different direction. This thing is changing on the fly, yet some of these things were never looked at prior to.

And let me tell you about some of the things that is going on in the real world. What is going on in the real world is that I have got bankers that I met with at different events that tell me that the only way that they want some cash from the TARP program is so they can buy smaller banks. I am not seeing any relief from the smaller banks. I have community bankers calling me every day. We need to look at some things that we can help immediately with them. We need to look at the mark to market. And I know there was some proposal in the bill, or at least the SEC said they were going to look at it. You should be demanding the mark to market. Because what is happening, if you think the home foreclosure rate is bad right now, you take the builders and the developers that have had relationships with these small banks, and we have every different type of regulator come in from these—we need to consolidate those regulators. Because they have come in and say, look, you need to get this guy to put in more capital. If they put in more capital, they are going too lose all the other properties. This thing is going to snowball. It is going to become enormous.

You have got to look at some things other than giving these big banks cash to make this system work. And you can do that partly with your regulators and you can do it partly with the mark to market. There are a lot of things that you can do immediately to help these situations. For some reason, we have a government and we have agencies that think that the only way that they can help is to throw money at something. Well, you are throwing money in the wrong places. You need to get out and you need to talk to the real world and find out exactly what is going on. People are hurting out there. These foreclosures are great, but we are not doing anything for immediate relief on them. We are not doing anything for immediate relief on the small businesses. I want to ask you, do you think that this money that you are giving to these banks should be used to acquire other banks rather than freeing up credit? Because the one story I heard continuously about the bailout was this traffic jam on the expressway. And until they got that wreck cleared out of the way the small business loan was behind it, the credit card bill was behind it. And the credit flow couldn't get cleared until this wreck was cleared. The wreck has been cleared. The credit flow is not there. And the purpose of creating this highway, opening this highway to get the credit going back and forth, seems to be detoured, redirected. We are now looking at auto loans, credit cards and other things rather than looking at this small business. And what has happened is rather than the credit being freed up, the detour has come for now this money to be used to buy smaller banks. I want to hear what you think about that and if you found out that some of these banks were taking this money just to buy competitors and smaller banks is that the purpose that you originally, either one of you or your bosses, originally intended for this money to do?

Mr. RAMANATHAN. Thank you for that question. Regarding the capital purchase program, which is what you are referring to in terms of capital injections in banks, I need to, I guess, step back again and say 31 business days ago, we started these injections, and they have reached over 60 percent of the deposits in this country. We have 3,400 banks in line now, small banks, first come first serve—not first come first serve. Any of them can apply. Applications are there. We are ready to provide funding to them if they ask.

Mr. WESTMORELAND. For credit or for purchasing other banks?

Mr. RAMANATHAN. For credit and providing loans to them. Now, the plan of the TARP was to, and remains. To stabilize the financial system. If a bank can make loans it is healthier, can get this capital and become a healthier bank with its balance sheets, with confidence rebuilding, that is a very good sign. If it can help the entire community by making a smaller purchase, that is a good sign to help stabilize the system. You don't want one bank to do well and one bank to fail. We think that is something that would not be beneficial to a community.

Regarding some of the other items you discussed, whether it is credit cards or auto loans, one of the points that Secretary Paulson made last week was a proposal, and that we are working on closely with the Federal Reserve, regarding securitization markets. And this a very important market which has seized up and has caused tremendous pressures to small business and banks. And let me just explain it very quickly. When auto loans and student loans and small business loans and credit card loans aren't being originated, that is, banks cannot make these loans, cannot package them and resell them, they are all good loans, they are guaranteed by the government, many of them, and they are still not being purchased because there is no securitization market functioning right now, that is a problem. And so while we think the clog is unclogged, it is not unclogged. We are still going through this process right now.

We have a way to go. And we do believe—again, in this, I guess, day and age when we look at minute-by-minute stock ticks it has been 31 days and banks are lending on the top end and, they will be flowing to the bottom end.

And I mention this again, we have close to 4,000 potential applications that can come in the next 3 weeks. We intend to go through them and we intend to ensure that small banks, community banks, thrifts have access to capital that they need that can be made as loans to small businesses. And I sincerely believe that.

Chairwoman VELÁZQUEZ. The time is expired. Mr. Shuler.

Mr. SHULER. Thank you Madam Chair. I couldn't agree more with my colleague from Georgia. It is time that we get off of Capitol Hill and we get into our small communities. I come from a region where the tourism business was very strong, our number one industry, that promotes the economy in our area to see the Great Smokey Mountain National Park, the Blue Ridge Parkway. The problem that a lot of my small businesses are having now is during the off season, if you will, through the wintertime when we don't have the tourism, they are usually dependent and relying upon these lines of credits to be able to pull their businesses through the shortfalls in the wintertime until the spring, the summer and the fall picks back up, what is being done?

Let me give you a little bit of a history. A lot of these lines of credits now are being called. They haven't been tapping into them for the last 9 months, therefore, the banks just said let us just go ahead and call those banks. Now they don't have access to these lines of credits. We saw a slowdown because of the gas prices. We saw a slowdown in our region based upon the tourism industry.

So we saw about a 20 percent decline of the overall visiting of the parks, therefore we seen a lot of that in our small businesses. Their bank statements, their K-1s are certainly different this year than they were a year or two years ago. What is being done to ensure that these small businesses can have these lines of credits through the tough times in order to they can get back on pace once the economy picks back up or and in our particular situation the season picks up?

Mr. RAMANATHAN. Once again, that was a very good question because it brings up a number of topics that are related.

You know, I mentioned earlier Mountain First Bank in Henderson, North Carolina—I believe that is in your district—where we recently granted $200 million to a small bank with 165 employees. It has been there for quite a while. We believe these types of loans are going to filter down to the community, and we are actively looking to make those types of investments.

Let me also step back and mention, back in February and March, Congress, along with Secretary Paulson and the administration, passed a $168 billion stimulus program. While at the time that was viewed as small or perhaps early, given the high energy prices and given what happened to gas, it was particularly timely, in some ways preventing us from earlier potential problems. Every $1 drop in gas prices equals roughly $100 billion in additional stimulus. So I would imagine this will also filter down to small businesses.

When we look at other companies like, again, in your district, I believe it is Thermo Fisher and BorgWarner, and there are a lot of other smaller firms out there who depend not just on tourism but other industry or businesses, we want to make sure they can meet payroll, they can get loans, and they can make sure that they function on a day-to-day basis. These capital investments will help that.

And once again, I mention again, 31 days since we have been out there doing this. It will reach many, many firms in your district and others.

Mr. KROSZNER. I agree very much that it is very important to get out, and I have been trying to do that as much as possible. I have been to a variety of cities around the country—Cincinnati, Cleveland, Atlanta, Boston, Philadelphia, and quite a few others—where they are facing tremendous challenges in the housing markets and for small businesses. And so I think it is extremely important to try to provide the macroeconomic support so that there is sufficient demand for the small businesses.

You had mentioned that your area has a lot of tourism and that tourism demand has been going down. Unfortunately, demand has been going down in a lot of different areas. And so, perhaps one of the most effective tools that the Federal Reserve has is monetary policy to try to provide some stimulus to the economy or at least some offset to the reduction in demand.

And, as you well know, we began cutting interest rates more than a year ago and aggressively did that in January of this year and have done so again over the last 2 months.

So I think, as a complement to the specifics of trying to restore confidence in the banking system, provide liquidity to the system so that the banks have the wherewithal to be able to lend. Providing that sort of macroeconomic support is extremely important.

Mr. SHULER. Madam Chair, I know I have just a couple of seconds.

So how long can I tell my small businesses and my community banks they are going to see relief? And we are talking about business days here. How many more business days is it going to be before I can tell my small businesses, "Hey"—it is a trust factor. And that is the reason I didn't vote for the bailout, I didn't trust it. And now they are not trusting the system, as well.

How many days are we looking at?

Mr. RAMANATHAN. I can guarantee you that civil workers and ourselves and our staffs are working night and day to ensure that we get through the applications that are coming through all of your districts, to ensure that they get the credit they need. I can't put a date and I won't speculate on a date for it. But, again, as the bank in your district has noted, we do act and we will act aggressively.

Chairwoman VELÁZQUEZ. I guess, Mr. Shuler, that we all should feel very good about the fact that the bank in your district, a small bank in your district, got $200 million, while the biggest bank got $290 billion.

And my frustration here is still there are 6,000 community banks, small banks out there that have not seen any money at all. And they are struggling because they lack liquidity at this point, since it is not trickling down like you promised us.

I will recognize now Mr. Gohmert.

Mr. GOHMERT. Thank you, Madam Chair. And I also appreciate you having the hearing, and appreciate you all coming up here to the Hill.

We, of course, back in the late days of September, saw and heard plenty from Secretary Paulson and Chair Bernanke.

But anyway, I would like to identify myself with the comments of my colleagues. I think it sounds like we are very bipartisan in our feelings on this.

But I would hope that the Treasury Department—of course, you know, your days of this—the leadership in this Treasury Department are coming to an end. But I hope there has been some valuable lessons learned.

For example, when the Secretary of the Treasury comes out and says, in private conference with Members of Congress, when he knows information is going to go out and says publicly, "Gee, we are about to have a stock market crash, a depression, this terrible economy," it becomes a self-fulfilling prophecy. It does. And I hope that people will learn from the mistakes.

Our economy in east Texas, much of it rural, I was constantly checking with home builders. We never overbuild. We didn't have the explosion in growth, so homes were modestly priced, and home builders were still going good until the crying out from the Fed, but especially the Secretary of the Treasury, who should have known better. You can't go in a theater and scream "fire," and especially you can't go in a theater, lock the doors, and say, "If you don't give me $700 billion, you are all going to go up in flames." You can't scare a volatile market like that.

Because what has happened now, in my banks, where they had plenty of money, they are hesitant to loan it, because they want to see if Secretary Paulson knew what he was talking about when he says, "We are in big trouble. Oh, it is going to be bad." So everybody has frozen their credit.

We have people who were going—September was not a bad month for car sales in my district until Secretary Paulson goes out and scares people, and they begin to say, "Gee, maybe we had better not buy a car right now." Builders were saying after Paulson went public, then they got calls saying, "We are going to hold up building right now because the Secretary says we are in for a big depression unless you give him $700 billion."

And I know it may have been a shock to some like Secretary Paulson and the administration that people actually believed him because of some of the past things that have been said and done and occurred, but people did. They said, "We better wait and see if he knows what he is talking about." You can't scare the stock market like that.

And then we had people coming up here, economists, saying, "Well, gee, fix the mark-to-market rule and you don't have to lose these banks," and then the Treasury Secretary telling us, "Gee, once these banks start falling, it is going to be dominos; you can't stop them." Well, there is self-fulfilling prophecy in that.

But the other thing, I hope there was a lesson learned. And I would like to think that there was nothing in the way of mens rea behind the comments. But when the Secretary of the Treasury says, "We are in an emergency situation, but we are going to stand good for every dollar in money market accounts; and over here in the most solid area, not the investment bank, but the community commercial banks, you are only going to be good for $100,000 that the government stands behind," he surely knew what was going to happen: the huge run he created on the most solid part of my economy in east Texas and in much of the Nation, who were not involved in the MBSes and some of these other things. But he caused a huge run on my banks, where people who had more than $100,000 came in, took it down to the $100,000 level, and then transferred it to Mr. Paulson's former or current friends on Wall Street in the money markets.

He surely had to know that, when he came out screaming "fire" and said, "But we are going to have a safe haven in money markets, but only good to $100,000 in the banks," he would cause a run on banks. I hope future administrations understand that is not something we can do.

And I realize my time is running short. But I would like to ask, now that some damage has substantially been done, I believe, by some of the pronouncements—and, by the way, I have two bills I have filed today. I don't know if they will get to the floor, but I would like to cut off the last $350 billion of authority that Secretary Paulson has and just—and my bill is not a resolution, just "you can't spend any more."

One of them, I hope, would get bipartisan support because I am open to using it for infrastructure, because the Constitution says we post roads in Congress, build it for—whatever. And another says, we will use the private market concepts of encouraging things, encouraging investment.

And then, also, a bill dropped today that takes President-Elect Obama at his word, and it says if you make less than $250,000 and you go buy a car in the next 6 months, you get a $1,500 tax credit.

If I could just ask, is there anything immediately that would be done with the money that the Treasury has in the slush fund that would go toward SBA loans immediately?

Mr. RAMANATHAN. Thank you for the comments. But, yes—

Mr. GOHMERT. I am not sure it is what you wanted to hear, but it sure is on my heart. And it is not just emotional, it is in my head and heart.

Mr. RAMANATHAN. I appreciate it. And, as I said, in Tyler, I know there are a lot of issues going on, and you have your frustrations, and you shared them with us as well.

With the SBA market, the Small Business Administration loans, as you know, the way this works is a lender makes a loan to a small business; the lender's loan is then guaranteed roughly up to 80 percent by the Federal Government.

As Governor Kroszner mentioned, demand for such loans has actually decreased as the economy has gone lower. At the same time, the cost has gone up, because the securitization markets have frozen up.

So one of the items that was mentioned that could be potentially very helpful is using part of the funds in the Troubled Asset Relief Plan that could be used as a securitization vehicle. What does this mean?

Chairwoman VELÁZQUEZ. And what about, sir, if I may, including pools of small business loans?

Mr. RAMANATHAN. Yes, that is what I was getting to.

Chairwoman VELÁZQUEZ. Okay. We have been proposing that for the longest now.

Mr. RAMANATHAN. Yes, and now we have the authority to actually—

Chairwoman VELÁZQUEZ. No, you always had the authority—don't—you had the authority, sir.

Mr. RAMANATHAN. The Small Business Administration is different from Treasury. We—

Chairwoman VELÁZQUEZ. The Secretary of the Treasury has the authority to include small business loans within the definition of troubled assets.

Mr. RAMANATHAN. Correct. And we are working with the Fed, creating a program that will promote the securitization of these products—not just these products, auto loans, credit card loans, student loans.

Let me take a step back. Student loan markets—student loans are 97 percent guaranteed by the Federal Government, and no one is buying them right now.

Chairwoman VELÁZQUEZ. Sir, time has expired, but let me ask, when are we going to see that?

Mr. RAMANATHAN. We are working on it, and when the—as I stated, we are working on it expeditiously. So when we roll it out, it will be well-functioning and it actually impacts the most individuals out there.

Mr. GOHMERT. Madam Chair—

Chairwoman VELÁZQUEZ. Since September, we have been discussing this issue with you, and you still continue to further discuss it and examine it?

Mr. GOHMERT. Madam Chair, if I might mention to you and in case there is anybody here who has not read the authority that Secretary Paulson has, that authority is what scared me about the bill, is so broad. I don't think Congress has ever since 1787, the new constitution, given that much authority. If he wanted to put money in the SBA, he could put it there, he can put it in foreign banks, he can buy whatever he wants to. If he wants this program to go, right now he has an incredible amount of authority to do that. And if anybody is not aware of that, including the Secretary, he needs to read the "dad-gum" bill, because he has that kind of authority.

Thank you, Madam Chair.

Chairwoman VELÁZQUEZ. Time has expired.

Ms. Clarke?

Ms. CLARKE. Thank you very much, Madam Chairwoman and Ranking Member Chabot, for holding this very timely and important hearing.

Thank you, gentlemen, for coming and bringing as much information as you can.

I have to tell you that I was elected in the 110th session, and, since I have been here, I have heard of the creation of so many programs to help small businesses that have yet to be implemented. So, you know, it is very hard for us to sit still and hear about the dynamic taking place within the Treasury of creating a program and not having a timetable, not coming with clarity about how it is going to be implemented and when it is going to be implemented, particularly in a time of crisis, with all due respect.

As we all know and we are too keenly aware, small businesses remain the linchpin of the U.S. economy because they are the foundation of our country's job markets and an essential element of job creation, providing close to 80 percent of employment opportunities for Americans. According to the Commerce Department's Minority Business Development Agency, about 3 percent of all minority-owned businesses generate more than $1 million in revenues annually.

Unfortunately, the financial crisis has created a catalyst for much broader and complex economic problems. At the same time, the Federal Reserve has reported that domestic banks said that they tightened their lending standards for small business loans over the previous 3 months in July and said they were charging more for these loans.

I am from New York City. This uncertainty, created by home price declines and financial market stress, has been detrimental for New York's economy. And jobs leveled off in New York City, and little has changed since that time. Our emergency economic recovery plan has not stabilized the financial markets the way that Treasury Secretary Paulson and President Bush had hoped. Despite the $700 billion recovery plan for financial institutions, which was supposed to encourage commercial banks to start lending again, getting a loan these days is still extremely difficult, even for those with immaculate credit ratings.

In order to improve these economic trends, we must continue to implement sound policies that are expedient and timely. That goes to the whole question of creating policy and implementing it. And I am just, kind of, frustrated by the fact that I have just heard about so many programs and none of them have been implemented. And if perhaps we had looked at expediting them earlier on, perhaps there would be some fluidity within our markets at this time.

But I am particularly concerned about women- and minority-owned business. What has been the impact of the current financial and credit market dislocation over small businesses, particularly women- and minority-owned business, the most vulnerable of the entrepreneurial ecosystem?

Mr. KROSZNER. Thank you very much.

This is something, of course, that is extremely, extremely important, to make sure that all entrepreneurs, women- and minority-owned business entrepreneurs, make sure that they have access to credit. So that is something that is very important. And they have been very much affected, as we have been discussing the small-business owners have been affected.

From our 2002 survey of business owners for African American- and female-owned businesses, personal or family assets tend to contribute about as much to the capital needs of the start-up of businesses as did business loans. So the challenges in the housing markets are extremely important for this segment of entrepreneurs.

The survey also documents that African American- and female-owned businesses tend to rely both on personal and business credit cards. And so that is why trying to make sure that people do have access to credit, trying to stabilize the markets to provide a sound liquid financial system that can provide lending, can provide some stability to the housing market is extremely important, because these are businesses that are very much affected by the macroeconomic turmoil we are facing.

Ms. CLARKE. It is great to know that you, sort of, have a handle on, you know, what the problem is. And I think what we are trying to get here are, you know, what are the mitigation factors taking place as we speak that are going to assist these business owners? And we are not getting that from you.

And I think that some of what you are hearing today—I want to know, is there evidence that the current credit and financial crisis related to the mortgage markets is disproportionately affecting minority- and women-owned businesses? Have you seen the evidence of it? Are there numbers coming in to you so that you are clear on the extent of the impact?

Mr. KROSZNER. We are certainly looking at exactly these kinds of issues and gathering data at the local level throughout the Federal Reserve system to try to asses exactly these kinds of issues.

As I noted from our earlier surveys, they suggest that women- and African American-owned businesses tend to rely more heavily on using their housing. And, obviously, housing having such a challenge suggests that, even though we don't have the final data in, that these groups of entrepreneurs are affected very much.

Ms. CLARKE. So are there mitigative measures that are in the pipeline or that are ready to be deployed, knowing that this particular sector has relied on that methodology of entrepreneurship? Are we doing anything currently to mitigate the impact and the blow to their ability to continue to operate in our system?

Mr. KROSZNER. That is something that is very important, and so what we are trying to do is, by providing confidence in the financial system, by providing liquidity in the financial system, that that will allow borrowing to take place, to the extent that they do borrow. And we are certainly trying to work on a variety of loss-mitigation and foreclosure-mitigation techniques, working very closely with industry. We have Hope for Homeowners. We have the HOPE NOW Project.

Ms. CLARKE. I understand that. But we know that these groups have historically not been able to go the traditional route for financing for their businesses. That has been a longstanding challenge, historically. Why are we looking at those measures now, when we know that is the X factor for those businesses? They can't and have not been able to access the traditional lending institutions, as the majority has.

Is there something being done to focus on these businesses specific to the nuances of how they access financing?

We know how they access financing. It is not the traditional route. And what you are working on right now is freeing up those banks that have historically not lent to these businesses.

Mr. KROSZNER. Well, it is very important to try to continue to have credit provided so that people who use credit cards—as I mentioned, a lot of financing comes through business and personal credit cards—make sure that that market operates as well as it can, because that is certainly very important for providing credit to these important groups of entrepreneurs.

And also the personal assets in housing is very important. And so the variety of foreclosure-mitigation programs and loan-modification programs will be focused exactly on these groups that rely most heavily on that rather than rely on traditional bank lending.

Chairwoman VELÁZQUEZ. Time has expired.

Ms. CLARKE. Thank you very much, Madam Chair.

Chairwoman VELÁZQUEZ. Mr. Michaud?

Mr. MICHAUD. Thanks very much, Madam Chair and Mr. Ranking Member, for having this hearing.

And I want to thank our panelists.

I have a couple of questions.

When you look at freeing up credit to help small businesses, have you looked at credit unions. For instance, they are subject to a cap on the amount of loans that they can give to businesses to 12.25 percent, yet they do have the resources to give loans out.

Have you looked at that area to free up credit for businesses? And, if not, why not?

Mr. RAMANATHAN. I think that is a question for the regulator, actually. We are working, though, with the 2,500 S-Corps out there, as well as the 625 mutuals—

Mr. MICHAUD. Do you think it is a good idea? I mean, if you are trying to get credit to businesses—

Mr. RAMANATHAN. I think it is a good idea to give credit to businesses. I can't opine on what the correct ratios should be.

Mr. MICHAUD. I mean, do you think it is a good idea that they are limited by regulation or statutes to a cap. Increasing the cap, whatever the number is, whether it is 15 or 20, why wouldn't that be a good idea?

Mr. RAMANATHAN. As I said, I think it is a good idea to lend to business. I don't know how all of that works, but I can look at that and get back to you.

Mr. MICHAUD. Okay.

Mr. KROSZNER. And so, again, it is a complex set of different regulations that interact, with some safety and soundness issues and also credit provision issues. And so, to discuss the specifics of it, I would need to get back to you on that.

But I very much agree that lending to credit worthy borrowers is exactly what the Federal regulatory agencies want the banks to do and are encouraging them to do.

Mr. MICHAUD. My second question, I have heard from constituents that when you look at the interest rates on some credit cards they are as high as 35 percent? Do you think that you ought to look at what they are actually charging for interest rates on credit cards?

It is important to have credit, but here again you don't want the gouging that currently appears to be happening. I would like both of you to comment on the high interest rates with which some credit card companies are gouging their customers.

Mr. KROSZNER. Well, as I think you know, we at the Federal Reserve have put out a significant set of regulations, or proposed regulations I should say, using their unfair and deceptive acts and practices authority, as well as changes in disclosure regulation, to try to address a variety of issues in the credit card market.

And we continue to gather data and monitor that market very carefully. And we hope to be proposing those new rules—we are finalizing those rules before the end of the year.

Mr. MICHAUD. Does the Treasury have any comment on that?

Mr. RAMANATHAN. Well, I think, regarding credit cards and higher rates, what we are seeing here—I mention, again, we are still in the midst of a crisis. We are still seeing pressures on rates in certain sectors and a freezing of credit in certain markets.

And what Secretary Paulson mentioned last week regarding the securitization markets and the roughly $1 trillion of nonmortgage-related assets out there that are affected, amongst them are credit cards.

As credit card securitization is frozen up, rates do rise. It is the same for student loans, auto loans, SBA loans. If we can help impact that market, unfreeze some of that credit through some of our actions, it will benefit, and it will benefit in terms of credit card rates.

Mr. MICHAUD. You had mentioned that a lot, when you look at the market, has to do with confidence. And we heard earlier about the affect on the confidence of the Treasury Secretary coming out with his remarks—I mean, that does not instill confidence in the market or, quite frankly, confidence that I have in the Secretary of the Treasury. It is just the reverse; the same way with Bernanke. You do not go on television and say, "If you don't pass something by X date, then we are going to have a meltdown in the market." That is just inexcusable, and it does not instill confidence. Actually, to me, it is incompetence on the part of both of those individuals.

What are you doing to encourage the Securities and Exchange Commission to look at the mark-to-marketing rules? What is happening in that particular area?

Mr. RAMANATHAN. With regards to the SEC, I won't speak for them, but I know they are exploring the issue and how it is going to work.

With regards to confidence, I come back to, again, a point about what was occurring in September and October, where no corporate debt was issued—

Mr. MICHAUD. Well, I don't need you to defend the Secretary. I mean, that is my personal opinion and the opinion of alot of Members of Congress, about his actions.

On the mark to marketing, the Federal Reserve, what are you doing to encourage them to move forward in that particular area, if you think they should?

Mr. KROSZNER. Well, certainly there are studies that are going on, I think one that was required through some legislation to be looking at that. And so we provide whatever technical support is necessary to be able to get the right answer.

Mr. MICHAUD. I see my time has expired. I just would encourage you to do more, because the confidence is not there, and it is still not there. And until we have confidence in those who are running these programs, the market is going to—you are going to see it continue doing what it is doing.

Chairwoman VELÁZQUEZ. Mr. Cuellar?

Mr. CUELLAR. Thank you, Madam Chair.

I thank both of you all for being here with us.

I would like to focus on the smaller banks, community banks, the independent banks. I have a lot of those in my congressional district. And I think you have some stats on everybody here, so if you can start looking at District 28, if you have those numbers.

But I am interested in the small, independent community banks, because they, on a day-to-day basis, they do interact with the small businesses. So they do have that direct impact with the small businesses.

But as you all have expanded, I guess you call it, the Capital Purchase Program to the smaller banks, we have been in contact with your office, with the Department of Treasury, and we understand there is about 46 small banks who are all in the same situation where there is a timetable involved with the shareholders' means that they need to have.

And what my bankers are complaining about, and one in particular in my district, is saying, "Look, supposedly there is a crisis, and the Secretary has said this, and they want us to move quickly. We put in our application, but all of a sudden everything stops, and we haven't been able to do this." We called, and I will say, your department, and they keep saying, we can't give you a timetable. And then we have to face our constituents, our bank presidents, and tell them, "I can't get you an answer." "Well, what do you mean you can't get us an answer?" "I can't get you an answer. The Department won't give us an answer."

What status do you have on those small community banks that want to participate, that want to lend to small businesses? How fast can we move that particular program to the smaller banks?

Mr. RAMANATHAN. As I said, this is very important to us here at Treasury. Having been involved in this, I see the flow of applications. And one of the important things to notice, from October 14th to November 14th, we opened this to public banks, and we received a number of applications, many which we have already gone through and vetted. They have gone through the regulators, the primary regulators; then they are sent to us. We vet them, and we provide capital if necessary.

Regarding the smaller banks, the privately held banks, again, there are roughly 3,400, a number in your district, as well. That application process went up on Monday, just 3 days ago. It is open for another month. It is not on a first-come, first-served basis. Anyone can apply. And we have adequate capital to provide to them.

We have gone through and we expect thousands of applications over the next couple weeks, which we will be working on night and day. And when I say that, I say that seriously. We will be working on them. We are going through them as fast as we can. So are the regulatory agencies, who are stretched right now to the limits. Civil workers are working night and day, as well, to make sure these are processed, sent to us. We are working night and day with our staff to make sure they are processed out.

Chairwoman VELÁZQUEZ. Will the gentleman yield for a second?

Mr. CUELLAR. Yes.

Chairwoman VELÁZQUEZ. Can you tell me how long it takes once an application goes in, small community banks or independent banks, how long it takes, the whole process?

Mr. RAMANATHAN. I can't cite a specific example, but the process works in a very simple manner. A community bank goes through their local Federal regulator, which is one of four items: the OTS, the FDIC, the Federal Reserve, or the OCC. They review the application and decide whether they should move this forward to our committee or whether they should deny it. It is all done confidentially, so there is no stigma attached, which is what we want. We review those, process them. It goes through our staff, and then it is either approved or disapproved.

Chairwoman VELÁZQUEZ. But—

Mr. RAMANATHAN. I guess to give you an idea, 107 applications went out roughly in 31 days. We are moving as fast as we can in this process.

Chairwoman VELÁZQUEZ. But, given previous applications that you processed already, can you give us a timetable, in terms of how long the process takes? How does it—

Mr. RAMANATHAN. It moves very quickly. To the best of our ability and, again, vetting and going through the regulators—and, again, it has to go through the regulators—

Chairwoman VELÁZQUEZ. Does it move as quickly as it moves for the 10 biggest banks?

Mr. RAMANATHAN. It moves very quickly.

Chairwoman VELÁZQUEZ. Thank you for yielding.

Mr. CUELLAR. Thank you.

Do you have—at least if you can help us, so we can be able to relate something. Could you designate somebody in your office—and we get Congressional Affairs, I understand that. And they keep telling us the same thing, "Can't do it, can't get you the information." Could you designate, at least to the members here, somebody that we can call so we can get an answer?

And I understand, you know, we are all overworked, and I understand all of the time constraints and the pressure. I understand that. But, at the same time, we have to be able to relay some information to our community banks. So could you all designate somebody that we could talk to?

Mr. RAMANATHAN. We will try to do that, yes.

Mr. CUELLAR. But I am okay with Congressional Affairs, but I need somebody that can tell me something more than, "We will get back to you."

Mr. RAMANATHAN. Okay.

Mr. CUELLAR. Thank you, Madam Chair.

Chairwoman VELÁZQUEZ. And the Chair recognizes Mr. Westmoreland.

Mr. WESTMORELAND. Thank you, Madam Chair.

The mortgage-backed securities was supposedly the wreck on the expressway. And the auto loans and the student loans and the small business loans and the credit card was behind the wreck. And we were going to clear this wreck out to get these things moving again. But it seems to me like now we are just going to leave the wreck there and reroute the traffic that is behind it. Because what I hear you saying is that is kind of what the plan the Secretary has got now.

Mr. RAMANATHAN. That is not the plan. We have $250 billion allocated to the Capital Purchase Program, of which we have disbursed $158 billion. We continue and we expect to disburse the rest to local community banks, banks across the Nation, both small and large, to ensure that credit flows.

Since the passage of the legislation, as you have noted and your committee has noted, things have deteriorated significantly. Washington Mutual failed. Wachovia nearly failed. A number of other institutions were pushed to the brink.

We did our best to ensure that the financial system remained intact. And I continue to emphasize this: Your ATM machines continue to work. Your checking accounts, you can still draw on them. You still get your payrolls. That is the type of financial stability we have provided.

We are still in the middle of this, and there will be problems along the way. We mentioned securitization as another way to help consumers and small businesses, and we are going to look at that very closely.

Mr. WESTMORELAND. But these toxic loans, they were supposedly the cause of all this, and yet there has been, I feel like, very little done to help that situation.

But I do have a list of questions from some of the banks that are on the courthouse squares in some of these small towns that I represent.

And, Madam Chair, I would like to submit those to the witnesses, if I could, and expect an answer to those that I can get back to my constituents on. Because I don't have time ask all of those questions to you.

Chairwoman VELÁZQUEZ. Without objection, so ordered.

Mr. WESTMORELAND. And with the other—you know, I just want to make sure that—let me just ask: Is anything being done to consolidate the amount of regulators and the different regulators that go into banks today that is causing some of the problems? Is there anything under way right now to consolidate these regulators?

Mr. KROSZNER. Well, that would be something that Congress would have to do. Congress has given the authorities to different regulators to regulate different aspects of a different institution or regulate different institutions. And so that would have to be a change that Congress would make if there is going to be a change in the regulatory structure.

Mr. WESTMORELAND. Okay. And, Madam Chair, I would love to look into that, to see if we can't do something to that.

And so, but we are looking at mark to market?

Mr. KROSZNER. I believe that there is a study that the legislation required the Securities and Exchange Commission to do. And, as I said, we are providing whatever technical support we can to help them to have the data to be able to get to the right answer.

Mr. WESTMORELAND. You know, when I was in business, a small-business guy, you would call somebody and the only answer they would give you is, "Let me check on that for you," we called them "the checkers." I feel like I am dealing with "the studiers" today, in that everything that we ask either one of you, you are studying it.

We need to get some advanced studies here and get these things out as soon as possible, because studying this situation is causing a lot of people a lot of grief. And so I hope that you can study these things as fast as you can to get some immediate help to small business, which is the backbone, as you may know, to our economy.

Thank you, Madam Chair.

Chairwoman VELÁZQUEZ. Thank you.

Ranking Member, you don't have any more questions?

Well, let me take this opportunity again to thank you all. And I hope that you understand we are not here questioning your commitment, but, at least on my end, I am here questioning your priorities. I hope that we are going to hear from you soon—the SBA loan facility, to unfreeze the SBA secondary market that you mentioned before. And as soon as we come back, we will be reaching out to you, or you will be reaching out to us, to see that something has been done.

And, with that, I ask unanimous consent—I hope that you get the message here, gentlemen. We are not pleased with your actions. And we need to have actions taken targeting small businesses, small banks, and that you work as fast and quick as you did with the 10 largest banks in our Nation.

Small community banks, independent banks, they must play a role in stabilizing the markets. And they are the ones in our communities that are lending to small businesses, who, at the end, are the ones creating the jobs that will get this economy growing again—not the largest bank, not the big corporation, those small institutions in our community.

With that, I ask unanimous consent that members will have 5 days to submit a statement and supporting materials for the record. Without objection, so ordered.

This hearing is now adjourned.

[Whereupon, at 12:12 p.m., the committee was adjourned.]

NYDIA M. VELAZQUEZ, NEW YORK
CHAIRWOMAN

STEVE CHABOT, OHIO
RANKING MEMBER

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6315

STATEMENT
Of the Honorable Nydia M. Velázquez, Chairwoman
United States House of Representatives, Committee on Small Business
Full Committee Hearing: "Financial and Economic Challenges Facing Small Businesses"
Thursday, November 20, 2008, 10 a.m.

Despite action taken by the Federal Government this September, the fallout from our nation's financial crisis continues to grow. In the face of a collapsing housing market, tightening credit crunch and record unemployment, it is clear that the current course of action is neither stabilizing *nor* galvanizing the economy. This is particularly apparent within the struggling small business community.

Rather than trickling down, resources from the Treasury and the Federal Reserve are pooling--and stagnating--at the top. As a result, small businesses from tech startups to convenience stores are bearing the brunt of severely restricted lending. In a report released last month, the Federal Reserve found that 75 percent of domestic banks have tightened their small business loan standards. On top of that, 90 percent of respondents said they have upped the costs of small business credit lines. At a time when large financial institutions are enjoying Treasury handouts, it would only make sense for small firms--the backbone of our economy-- to receive comparable assistance. But unfortunately, even loans from the Small Business Administration are on the decline. In fact, SBA lending has dipped 50 percent in the last year.

In today's hearing, we will analyze the current conditions facing small firms, and evaluate what actions the Treasury and the Federal Reserve have taken to address those circumstances.

Regardless of continued declines, positive steps have been made through the Economic Recovery and Stabilization Act. The Federal Reserve's Commercial Paper Facility, for example, has succeeded in partially easing the credit crunch. But unfortunately, the Fed missed a real opportunity to help small firms when it chose to limit this provision to big businesses. As a result of that particular oversight, the small business credit markets are as frozen today as they were when the crisis began. To remedy this, we ought to look for a concept similar to what the FDIC is now doing for homeowners. Sheila Bair has outlined an innovative new plan for restructuring mortgages, and something similar might work for small business loans.

Despite these instances of government ingenuity, implementation of the Recovery legislation has largely failed entrepreneurs. For example, the Treasury's Troubled Asset Relief Program, or TARP, has done nothing to thaw the small business lending freeze. In fact, the banks benefiting from TARP have all but shut down lending operations. And while billions of dollars have been earmarked for big banks and AIG, thousands of small firms across the country have been forced to close their doors.

Shutting small businesses out of stabilization efforts just isn't logical. Current legislation, while not designed as a stimulus per se, was intended to do more than simply steady the markets-- it was expected to help jumpstart the economy. Because small firms are proven drivers of economic growth, it only makes sense to give them the tools they need to spark a recovery.

Our financial system is entering an era of unparalleled turmoil and confusion. But amidst the upheaval, one thing has become abundantly clear--we cannot rely on the policies of the past. It has been said before that extraordinary times call for extraordinary measures. Well, these are certainly extraordinary times. If we are to match them to our measures, then we must take a page from the entrepreneurs' playbook. Through ingenuity and resourcefulness, we can find innovative new ways to give small businesses--and the rest of the economy-- the resources they need to get back on track.

BAILOUT MEASURE	DOLLAR AMOUNT
Capital Purchase Program	$290 billion (source: Washington Post, 11/19/08)
Fed credit line to facilitate JP Morgan purchase of Bear Stearns	$30 billion (source: New York Times, 3/17/08)
Freddie Mac and Fannie Mae rescue	$200 billion (source: CNN, 9/7/08)
AIG assistance from Fed and Treasury	$150 billion (source: New York Times, 11/11/08)
Commercial Paper Purchases by the Fed	$250 billion (source: Testimony of Chairman Bernanke before House Financial Services Committee, 11/18/08)
Money market related loans by the Fed	$540 billion (source: USA Today 10/22/08)
Fed-guaranteed advances for Lehman through JP Morgan	$138 billion (source: Bloomberg, 9/16/08)
TOTAL	$1.6 Trillion

Statement of Rep. Jason Altmire
Committee on Small Business Hearing
"Review of recent Federal Efforts to Improve
Credit Conditions for Small Businesses"
November 20, 2008

Thank you, Chairwoman Velazquez, for holding this important hearing on recent efforts to improve economic conditions for small businesses. Despite the action taken by Congress in September, small businesses continue to suffer from frozen credit markets, and increasing costs. The National Federation of Independent Business Index of Small Business Optimism fell by 5.4 percent in October. This is the third-lowest level in 35 years. As the backbone of our economy, the longer we allow small businesses to struggle, the longer our economy will suffer.

I look forward to hearing from our witnesses today to hear how the government has been assisting small businesses and how they intend to rectify the continued problems small businesses are facings. Thank you again, Madam Chairwoman, for holding this hearing. It is extremely important that we continue to fight for the small business owners and employees during these tough economic times.

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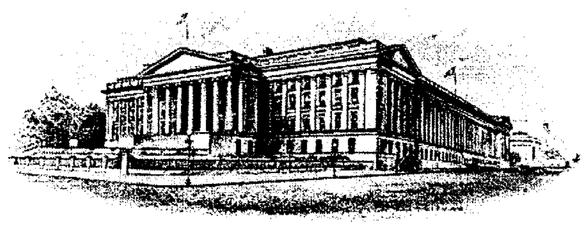

U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

EMBARGOED UNTIL 10 a.m. (EST), November 20, 2008
CONTACT Jennifer Zuccarelli (202) 622-2960

ACTING ASSISTANT SECRETARY FOR FINANCIAL MARKETS
KARTHIK RAMANATHAN
TESTIMONY BEFORE THE HOUSE SMALL BUSINESS COMMITTEE

WASHINGTON - Chairwoman Velázquez, Ranking Member Chabot, and Members of the Committee, thank you for this opportunity to testify this morning on the recent financial market and economic conditions, Treasury's actions in implementing the Emergency Economic Stabilization Act (EESA), and how these actions will assist small businesses and entrepreneurs in leading the economic recovery in the United States.

Small businesses are crucial to the health of the U.S. economy – they provide the entrepreneurial talent that keeps the economy flexible and dynamic. Small businesses employ over half the workforce in the United States, and are estimated to generate seventy percent of all new jobs. Given the current economic challenges we are facing, I am pleased to be here to address this timely topic and to emphasize the importance of this sector for the growth of the American economy.

As the Acting Assistant Secretary for Financial Markets, I serve as the senior adviser to the Secretary, Deputy Secretary, and Under Secretary on broad matters related to domestic finance, financial markets, federal, state, and local finance, including the Federal debt, and Federal Government credit policies. My office is also responsible for the issuance of over $5 trillion in annual debt and for overseeing the $10 trillion U.S. Treasury debt portfolio.

As you know, the economy is currently working through a prolonged housing correction that began over two years ago, and has in turn impacted credit markets and financial institutions. The downturn in the housing market as well as financial and credit market pressures have negatively impacted the real economy. Small businesses and consumers have also felt these headwinds as employment, capital investment, and consumption have declined.

The financial challenges we currently face have been caused to a great degree by a decline in the value of mortgage assets and continuing uncertainty about their value in the future. The depreciation of these assets on highly levered bank balance sheets has resulted in an undercapitalized banking sector, and uncertainty surrounding the value of these assets makes banks reluctant to lend to one another, which in turn affects credit availability for consumers and businesses. Community banks, thrifts, and credit unions are vital components of the financial market, and ensuring their health helps to encourage the lending and borrowing activity that is critical for small businesses and consumers. Therefore, it is imperative that we, as policy-makers, promote a healthy financial sector as we confront these challenges.

As the housing correction progresses and home prices stabilize, the turmoil in the financial markets will also subside, allowing credit once again to flow more smoothly through the economy. In the meantime, to alleviate credit market strains, the Treasury, the Federal Reserve, and the FDIC, along with our international counterparts, have taken unprecedented and extraordinary steps to address the current financial crisis— steps aimed at strengthening bank balance sheets, easing strains in interbank lending and short-term funding markets, and providing needed liquidity. Both U.S.-based and international bodies remain committed to restoring and enhancing the strength of the global financial architecture.

While the long-term economic prospects of the United States are solid, the United States – as well as the global economy – faces considerable near term challenges. The slowdown in economic activity and consumer discretionary spending has affected nearly every sector of the U.S. economy. Small businesses have also felt these strains, and when small businesses suffer, the rest of the economy does as well. Small businesses make a substantial and stable contribution to our economic growth, consistently producing about one-half of private nonfarm GDP. If small business cannot meet their capital needs, they will be unable to fulfill their usual role in driving economic recovery.

Let me cite just a few examples. Small businesses in the retail and restaurant trade sector, which represent 90 percent of all such firms, have been particularly affected by recent economic conditions. The retail sector is estimated to have lost over 250,000 jobs in the past year. The home construction industry, where small businesses make up 80 percent of firms, has also been particularly affected by declining home values and credit market conditions.

Equipment manufacturers have also reported large declines in new orders, capital spending and technology upgrades have slowed significantly, and the drying up of liquidity has made these businesses less able to obtain loans and even meet payrolls. The global financial crisis and tight credit markets have made it harder for small businesses to borrow the money they need to meet their payrolls, create new jobs, and invest in the future.

As the son of a first generation Indian-American engineer who has been building electricity and power generators across the United States for the past 40 years, I have a particular insight into the difficulties facing small business. I hear stories about orders for new equipment and contracts for new investments slowing dramatically over the past twelve months. This illustrates stories from small business across the country we are hearing first hand and reading about in newspapers.

At Treasury, we know that much of this lack of confidence arises from concerns of suppliers and manufacturers about the availability of credit to fund and grow their business. While this is just one example of the implications of reduced credit, I am sure that your Committee has heard other similar stories. These anecdotes aggregate into a worrisome trend that we understand that we must address.

To counter these difficulties, Treasury has applied the authorities Congress provided in October to stabilize the financial system, which will promote the flow of credit, while protecting the taxpayer to the maximum extent possible. Our actions have focused on ensuring adequate capital to financial institutions in order to stabilize markets, promote increased lending, and foster improved growth and job creation.

The focus of the recently enacted legislation on assisting general bank capitalization has been part of a coordinated international effort. This assistance is helping our financial institutions to manage the illiquid assets on their balance sheets and to attract private capital. In addition, we have broadened the Capital Purchase Program to smaller community banks which interact on a day-to-day basis with small businesses. Importantly, many of these privately held institutions have strong, long lasting ties with local businesses. By providing capital to such institutions, Treasury is directly assisting small businesses so that they have the ability to make loans, mitigate funding pressures, and promote growth locally,

These actions, in turn, will provide stability to markets and restore our financial institutions' ability to provide capital flows to the consumers and businesses that rely on stable funding to support their normal economic activity. Strengthening balance sheets of the financial sector will directly benefit small businesses.

In addition to providing capital directly to banks, we are also examining strategies to support access to credit outside the banking system, such as credit card receivables, which are very important for consumers and small businesses. This market is currently in distress – costs of funding have skyrocketed and new issue activity has come to a halt.

Today, the illiquidity in the asset-backed securitization market is affecting the availability of car loans, student loans, and credit cards. With the Federal Reserve, we are exploring the development of a liquidity facility for highly-rated AAA asset-backed securities. Such a facility could lower costs and increase credit availability for consumers and small businesses. Addressing the needs of the securitization sector will help get lending going again, helping consumers and supporting the U.S. economy.

It will take time for the measures we have taken to have their full impact on an economy in which many consumers and businesses are struggling. But in recent days, we have seen some encouraging signs. The market for lending between banks has loosened considerably, and the Federal Reserve's efforts to stabilize the commercial paper market have provided businesses with an urgently needed source of financing for day-to-day operations.

To conclude, Treasury is very mindful of the challenges and difficulties affecting the small business community. With this pressure in mind, we will continue to focus on stabilizing the overall financial markets, strengthen the banking system, and reestablish the flow of credit so that small business, consumers, and all Americans can more easily obtain credit, and thus grow and expand their businesses.

Thank you for the opportunity to appear today. I will be happy to take your questions.

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Statement of

Randall S. Kroszner

Member

Board of Governors of the Federal Reserve System

before the

Committee on Small Business

U.S. House of Representatives

November 20, 2008

Chairwoman Velázquez, Ranking Member Chabot, and members of the Committee, I am pleased to appear before you on behalf of the Board of Governors of the Federal Reserve System to discuss the availability of credit to small businesses.

Small businesses are critical to the health of the U.S. economy. They generate more than half of nonfarm business gross domestic product, employ more than half of private-sector workers, and over the past decade have created well over half of net new jobs annually. Moreover, larger firms often begin as smaller firms that prosper and grow. If small businesses are to continue to provide major benefits to the economy, their access to credit is clearly a high priority. My statement today will address how the ongoing turmoil in the financial sector and the weakening macroeconomy appear to be affecting small businesses' access to credit, while recognizing that the impressive diversity across both industry and geography of the small business sector makes it very difficult to draw too many general conclusions. In addition, I will discuss the policy actions that the Federal Reserve, the Congress, the Treasury, and other government agencies have taken in recent weeks to address the overall functioning of financial markets and deteriorating economic conditions as well as how these policies should assist small businesses going forward.

Recent Financial Market and Economic Developments

As you know, the U.S. financial sector has been under severe stress for more than a year as a result of declining house prices, large losses on mortgages and mortgage-related instruments at financial institutions, and an abrupt pullback from risk-taking by investors. These strains intensified in late September and early October, and lending between banks and other financial institutions beyond more than a few days virtually shut down. Withdrawals from money market mutual funds and fears that net asset values would fall further severely disrupted commercial paper and other short-term funding markets, and longer-term credit became much more costly as risk spreads on corporate debt instruments jumped and private interest rates rose. The problems in credit markets and concerns about the economy have caused equity prices to swing sharply and to decline significantly, on net.

Even before the recent heightening of the financial market turmoil, economic activity had shown considerable signs of weakening. In the labor market, private nonfarm payroll employment fell in August by a notably larger amount than in the previous seven months of the year, and in September and October, job losses were even more sizeable. The unemployment rate in October moved sharply higher to 6-1/2 percent. On the spending side, consumption expenditures, business investment outlays, and residential investment spending all declined in the third quarter, and overall real economic activity contracted 1/4 percent. Consistent with the emerging slack in both product and labor markets and a drop in the price of energy and other commodities, headline and core measures of price inflation have both decelerated in recent months. In addition, measures of inflation expectations have also declined.

Small Business Access to Credit in the Current Environment

With this general background in mind, I will now turn to how current financial and macroeconomic conditions appear to be affecting access to credit by small businesses. As you may recall, former Federal Reserve Governor Frederic Mishkin testified before the Senate Committee on Small Business in April and concluded that credit standards for small businesses had almost certainly tightened since the onset of the crisis, and that much of this tightening appeared to be reflected in an increased cost of credit to small businesses rather than any significant reduction in the availability of credit.[1] He noted, however, the high degree of uncertainty surrounding this assessment, which remains the case now with even more data in hand.

In my statement today, I will discuss how both credit supply and credit demand factors appear to be affecting small business access to credit, while recognizing that, in practice, it is normally quite difficult to separate the effects of these two forces. With respect to credit supply, access to credit for both small and large businesses may be affected by a decline in the willingness of banks and other lenders to make loans to small businesses because of, for example, credit market disruptions or other stresses that financial institutions may be enduring. In addition, small business access to credit can be reduced by a drop in the creditworthiness of small businesses because of, for example, a decline in the value of collateral they can post to back a loan. Alternatively, a drop in the demand for small businesses' products and services resulting from, for instance, weakening macroeconomic conditions will reduce current and expected sales and revenues. The likely resulting pullback in expansion plans will reduce businesses' demand for credit over and above any effects coming from the supply side of the market.

To summarize our conclusions, the information that we have received since April from both banks and small businesses suggest, rather convincingly, that over the last six months it has become more difficult for small businesses to access credit, but that at the same time, small business demand for credit has declined. Commercial banks, the most common source of credit for small businesses, have generally both imposed more-stringent credit standards and increased interest rate spreads and fees. In addition, deteriorating financial positions in both the small

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[1] See Frederic S. Mishkin (2008), "Small Business Lending," testimony before the Committee on Small Business and Entrepreneurship, U.S. Senate, April 16, www.federalreserve.gov/newsevents/testimony/mishkin20080416a.htm.

business and the household sectors are almost surely reducing the creditworthiness of many small businesses and thereby constraining their access to credit. That being said, the information we have on the volume of small business loans suggests that credit is generally available, albeit on significantly stricter terms. In addition, small businesses generally report that reduced demand for their products and services caused by a lower level of economic activity is a more serious concern than is the tightening of credit supply conditions. Put differently, while credit supply concerns are real, the weakened state of the economy appears to be the more serious challenge facing most small businesses in the current environment. Importantly, there is some evidence that concern over access to credit is relatively stronger at larger businesses. The remainder of my statement discusses the information on which we base these conclusions.

Incoming survey data for the banking sector suggest that small businesses access to credit has tightened further over the past half year. For example, in the Board's most recent Senior Loan Officer Opinion Survey on Bank Lending Practices conducted in October, a net 75 percent of the domestic banks surveyed--a larger net fraction than in the July survey--reported that over the previous three months, they had tightened the standards applied when approving commercial and industrial (C&I) loans to small firms.[2] But small businesses were not alone; almost a net 85 percent of the domestic banks surveyed reported having tightened lending standards on C&I loans to large and middle-market firms over the previous three months. In both the July and October surveys, a significant and increasing net fraction of banks noted that they had increased the interest rate spreads over their cost of funds and fees on the C&I loans they had approved for small firms, and a somewhat smaller net fraction of banks reported tightening nonprice conditions, such as collateral requirements and loan covenants. Importantly, in both the July and

[2] See Board of Governors of the Federal Reserve System (2008), Senior Loan Officer Opinion Survey on Bank Lending Practices, October, www.federalreserve.gov/boarddocs/snloansurvey/200811, and July, www.federalreserve.gov/boarddocs/snloansurvey/200808.

October surveys, the net fractions of banks reporting tighter lending standards and tighter price terms on C&I loans to small firms were very high by historical standards going back to 1990. These results are also true for loans made to medium-size and large businesses.

Somewhat in contrast to the above results, information from the most recent (August) quarterly Survey of Terms of Business Lending suggested that there has been relatively little net change in average interest rate spreads on C&I loans since late 2006.[3] Loan rate spreads at small domestic banks, which are an important source of financing for small businesses, remained toward the low end of the wide range within which they have fluctuated since 2004. Spreads on C&I loan originations smaller than $100,000 at all banks, which are loans that are likely made to small businesses, have also remained broadly unchanged since 2006. While differences between the two surveys, including their relative timeliness, likely explain part of the contrasting results, on balance, the quarterly Survey of Terms of Business lending results serve to temper the Senior Loan Officer Opinion Survey results.[4]

Data on changes in the quantity of C&I loans at banks also support the view that small businesses have generally maintained their access to bank credit, although new loans and new loan commitments are being subjected to stricter lending standards and terms. Based on a sample of banks of all sizes that report weekly to the Federal Reserve, the dollar volume of outstanding C&I loans at both large and small U.S. commercial banks expanded robustly over the first four months of this year, increased moderately over the months of May through August, and surged dramatically in September. A special set of questions on the October Senior Loan

[3] See Board of Governors of the Federal Reserve System (2008), Statistical Release E.2, "Survey of Terms of Business Lending," August 4-8, www.federalreserve.gov/releases/E2.

[4] The majority of loans considered in the Survey of Terms of Business Lending are drawn under pre-existing commitments, which differs from the Senior Loan Officer Opinion Survey that considers changes in the terms and standards being applied to new loans. This difference between the two surveys likely explains in part why the C&I loan spreads reported in the Survey of Terms of Business Lending show little change despite the notable tightening in the price terms on C&I loans reported in the Senior Loan Officer Opinion Survey.

Officer Opinion Survey attempted to help explain these patterns. The results suggested that firms' drawing on unused portions of loans made under previous commitments was not especially important for explaining the September surge in lending at banks with less than $20 billion in total assets. Indeed, over one-third of those smaller banks reported having increased loans not made under previous commitments. However, many of those banks noted that the increased demand was accounted for, in part, by firms that were substituting bank loans for other funding sources.

Incoming data from business surveys also indicate that lending conditions for small businesses have tightened--in some cases, significantly. For example, recent monthly surveys of the National Federation of Independent Businesses (NFIB), which are available through October, suggest that financing conditions for small businesses have deteriorated substantially over the past several months. In particular, the net percentage of respondents that reported that credit was harder to obtain over the preceding three months and the net percentage of respondents that expected credit conditions to tighten over the next three months have climbed to the higher end or the top of their ranges over the past two decades. That said, financing conditions have continued to be ranked as the top business concern by only a modest fraction of small business--5 percent in October--although this is up from 2 percent last March. However, this modest level of concern may, in part, reflect the dominance of other factors, such as weak demand conditions, a topic to which I will return shortly.

The Duke/CFO Magazine Global Business Outlook Survey, conducted most recently in September, also suggested that the ongoing financial turmoil is having an increasingly adverse effect on small businesses' access to credit.[5] Almost 40 percent of the chief financial officers

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[5] See Duke University, Fuqua School of Business, and CFO Magazine (2008), Duke/CFO Magazine Global Business Outlook Survey, September, www.cfosurvey.org.

(CFOs) of small businesses who responded to the survey said that credit had become more costly, less available, or both as a result of the financial turmoil. This proportion is up slightly from the March survey when this sentiment was reported by about one-third of responding small business CFOs. This survey also asked respondents to rank their top three concerns for their business, with (changing) options given in the survey. "Credit markets/interest rates" was ranked second to "consumer demand" as the top concern among small business CFOs in both the September 2008 and the March 2008 surveys. This survey also suggested, as did the Senior Loan Officer Survey discussed above, that access to credit is a relatively more serious concern for larger firms. For example, some 38 percent of the Duke/CFO Magazine survey respondents with less than 500 employees indicate that the financial turmoil is adversely impacting their access to credit, but 47 percent of larger firms say this is true. Consumer demand is the top business concern for firms of all sizes.

The effect of the current crisis on household balance sheets is an additional channel through which small business access to credit is being affected. As you know, small business and household finances are, in practice, very closely intertwined. For example, data from the Board's 2007 Survey of Consumer Finances indicated that about 11 percent of households own and actively manage a small business, and of these households, about 18 percent use personal assets to guarantee or collateralize loans for the business.[6] A broadly similar fraction of households that own and actively manage a small business also have made one or more loans to the business. In addition, the most recent Survey of Small Business Finances (SSBF) indicated that about 15 percent of the total value of small business loans in 2003 was collateralized by

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[6] Data collection for the 2007 Survey of Consumer Finances was completed early in 2008 and processing of the data is under way. An article reviewing the highlights of the data is expected to be published in the *Federal Reserve Bulletin* in the first quarter of 2009. Release of the public version of the micro data is expected to follow that publication (see www.federalreserve.gov/pubs/oss/oss2/2007/scf2007home_modify.html).

"personal" real estate (and some 37 percent was collateralized by business real estate assets).[7] Because the condition of household balance sheets can be relevant to the ability of some small businesses to obtain credit, the fact that declining house prices have weakened household balance-sheet positions suggests that the housing market crisis has likely had an adverse impact on the volume and price of credit that small businesses are able to raise over and above the effects of the broader credit market turmoil.

Another indicator of the stress that current conditions have placed on small business credit access is the recent experience of the Small Business Administration's (SBA) 7(a) guaranteed loan program. This program is generally used to provide loans to small businesses when they cannot get conventional loans. Although SBA-guaranteed loans are only a small portion of total small business loans, in recent months the dollar volume of these loans has dropped significantly, and in October 2008 the volume was less than 50 percent of its level 12 months earlier. These declines are the result of a number of factors--lower demand overall for loans due to the weaker economic outlook, tightened credit standards by lenders, and declining creditworthiness among applicants because of their deteriorating financial condition. In addition, market reports indicate that in recent weeks, banks and other lenders that make SBA loans have not been able to securitize and sell SBA-backed loans to other institutions in the secondary market.

Turning to credit demand, the NFIB survey's results are even more pessimistic than they were in April. For example, the survey's index of small business optimism dropped in October to its lowest level since the monthly surveys began in 1986. This subdued level reflects deterioration in several components of the index, including that the fraction of respondents

[7] See Board of Governors of the Federal Reserve System (2003), Survey of Small Business Finances, www.federalreserve.gov/pubs/oss/oss3/ssbf03/ssbf03home.html.

considering expansion in the next three months and the fraction considering capital expenditures in the next three to six months have fallen to the bottom of their ranges over the past two decades. Weak plans for business expansion will likely reduce demand for loans, which could result in future declines in small business loans even without any tightening of credit supply conditions. As noted earlier, although only 5 percent of small businesses in the NFIB survey ranked financing conditions as their top concern, some 23 percent of firms indicated that sales were their main concern. These results, when combined with the Duke/CFO Magazine survey data, suggest that consumer demand concerns generally provide the most serious challenges facing small businesses.

Policy Responses to Financial and Economic Developments and Their Implications for Small Business Credit Access

I would now like to turn to a discussion of the policy actions that the Federal Reserve, the Congress, the Treasury, and other government agencies have taken in recent weeks to address the overall functioning of financial markets and the weakening of economic activity as well as how these policies should assist small businesses going forward.

In response to the escalation in financial market stress that began in late September, policymakers both in the United States and other countries have taken a series of extraordinary actions aimed at restoring market functioning and improving investor confidence. The Federal Reserve has continued to address ongoing problems in interbank funding markets by expanding its existing lending facilities, increasing the quantity of term funds that it auctions to banks, and accommodating greater demand for funds from banks and primary dealers. The Federal Reserve has also implemented several important temporary facilities to alleviate the pressures on money market mutual funds and commercial paper issuers.

The Emergency Economic Stabilization Act (EESA), enacted by Congress in early October, provides critically important new tools to address financial market problems. The Troubled Asset Relief Program (TARP), authorized by the legislation, allows the Treasury to provide capital to financial institutions across a wide spectrum of sizes and to purchase or guarantee troubled mortgage-related and possibly other assets held by banks and other financial institutions. The EESA also temporarily raises the limit on the deposit insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC) from $100,000 to $250,000 per depositor and temporarily fully covers non-interest-bearing transactions accounts, such as payroll accounts. As you know, this latter action was aimed particularly at helping small businesses.

In response to weakening macroeconomic activity and the increased downside risks to economic growth and employment implied by the recent escalation in financial market stress (along with diminished upside risks to inflation), the Federal Open Market Committee (FOMC), in a coordinated effort with other central banks, lowered the target federal funds rate 50 basis points to 1-1/2 percent on October 8. This cut was followed by a further 50 basis point easing to 1 percent at the October FOMC meeting.

Additionally, on November 12, the federal banking agencies released an interagency statement aimed at ensuring that all banking organizations fulfill their fundamental role in the economy as intermediaries of credit to businesses, consumers, and other creditworthy borrowers.[8]

These actions should have a wide range of positive effects across the entire economy, including small businesses. Policymakers' actions over the last two months in interbank funding

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[8] See Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, and Office of Thrift Supervision (2008), "Interagency Statement on Meeting the Needs of Creditworthy Borrowers," joint press release, November 12, www.federalreserve.gov/newsevents/press/bcreg/20081112a.htm.

markets, commercial paper markets, and the money market mutual fund industry should help restore market functioning and allow short-term funding to be directed to where the economy most needs it. Likewise, the activities permitted as part of the EESA legislation should help rebuild confidence in the financial system, increase the liquidity of financial markets, and improve the ability of a broad range of financial institutions to raise capital from private sources. The expansion in the coverage of deposit insurance provided by the FDIC should also bolster public confidence and provide additional liquidity to FDIC-insured institutions. The FOMC's cumulative 1 percentage point reduction in the federal funds rate in October, combined with previous reductions between September 2007 and May 2008, should lower lending costs and stimulate economic activity in coming quarters. And, the agencies' recent guidance should encourage lending to creditworthy borrowers.

The benefits to small businesses from some of the above-described policy actions will be largely indirect, but nevertheless real. For example, although small businesses do not themselves issue nonfinancial commercial paper, they nonetheless benefit when large nonfinancial firms can issue commercial paper in well-functioning markets and thus do not have to tap backup lines of credit at banks. Similarly, improving interbank funding markets and restoring public confidence in banks and other financial institutions benefits small businesses--again, indirectly--by lowering intermediaries' and thereby small businesses' borrowing costs and increasing the volume of loans that banks can extend. The temporary increase in FDIC deposit insurance coverage should reinforce these effects by further strengthening public confidence and providing additional liquidity to FDIC-insured institutions.

Importantly, some of these policy actions will also directly benefit small businesses. For example, the higher deposit insurance coverage limits confer direct benefits by greatly reducing the volume of exposed small business deposits as well as by decreasing the number of small businesses with exposed bank deposits. Data from the 2003 SSBF indicate that under the \$100,000 deposit insurance ceiling, an estimated \$178 billion of small business deposits were uninsured, and 8.7 percent of small businesses had some deposit exposure. With the increased ceiling of \$250,000 and the full insurance of non-interest-bearing transactions accounts, the 2003 SSBF data suggest that total small business deposit exposure fell to \$37 billion and that less than 1 percent of small businesses have any deposit exposure. Among firms with fewer than 10 employees--which represent over 80 percent of all small businesses--the broader deposit insurance coverage reduces total deposit exposure from an estimated \$22.1 billion to \$1.6 billion and leaves only 0.3 percent of these businesses with any deposit exposure.

The recent reductions in the federal funds rate should directly benefit small businesses. Lower policy rates should result in small businesses facing lower borrowing costs, especially because rates on small business loans tend to be tied to the prime interest rate, which generally moves closely with the federal funds rate.[9] In addition, stronger economic activity resulting from lower interest rates should result in small businesses enjoying increased demand for their products and services.

Of course, the magnitude of the effects of recent policies are highly uncertain, given the current climate of extreme financial stress as well as the nonconventional nature of a number of these policy actions. Thus, the Federal Reserve will continue to monitor closely how the effects of recent policy actions are affecting small business conditions and economic activity more broadly.

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[9] The Survey of Terms of Bank Lending indicated that 40 percent of the dollar volume and two-thirds of the number of C&I loans originated over the past year have been tied to the prime rate.

Conclusion

The health of the U.S. economy depends importantly on the vitality of the small business sector, and continued access to credit on competitive terms is necessary for that vitality. On balance, credit supply conditions to small businesses have tightened substantially since last April. Although credit appears to be generally available, such availability usually comes with tougher standards and at a higher cost. However, while credit concerns are real, the weakened state of the economy and the resulting drop in demand for their products and services appear to be the more serious challenge for small businesses in the current environment.

How small businesses' access to credit will evolve will likely be strongly influenced by the success of recent policies undertaken by the Federal Reserve, the Congress, and other policy institutions aimed at improving the functioning of financial institutions and markets, rebuilding confidence in the financial system, and stimulating economic activity. Given the current financial and economic environment, the sizes of the effects of recent policies on both the economy and small businesses are highly uncertain. For these reasons, the Federal Reserve will continue to monitor evolving financial market and economic conditions and their effects on small business access to credit as part of its broader efforts to restore the health of the U.S. financial system and our economy.