

Remarks to Small-Business Owners and Community Lenders

March 16, 2009

The President. Thank you very much. First of all, Marco, thank you for the wonderful introduction. I don't know if people heard properly here, but this is a all-natural health food restaurant in Philly. *[Laughter]* So I asked him what was the equivalent at his shop for a cheesesteak. *[Laughter]* And he described for me—what was it, a chicken—

Marco Lentini. It's our chicken Italiano. *[Laughter]* It's a chicken cutlet, spinach Florentine, sharp provolone, all on an Italian ciabatta bread. *[Laughter]*

The President. Right. So I wanted to know if there was whiz on that. *[Laughter]* And he said no. *[Laughter]*

But Marco is an example of what small business is all about. And I think Cynthia is an example of what community banks are doing all across the country, partnering with small businesses in order to create jobs and opportunity and entrepreneurship that's been the driving force in our economy for so very long.

So I thank all of you, particularly the small businesses and community bankers who are here today. And I thank the two of you, as well as some of the other entrepreneurs that we met, and bankers that we met, before this public event. Thank you for sharing your stories.

I also want to thank the chair and ranking member of the Senate Committee on Small Business and Entrepreneurship, Senators Mary Landrieu and Olympia Snowe. Please give them a big round of applause. As well as the chair and ranking member of the House Committee on Small Business, Congresswoman Nydia Velazquez and Congressman Sam Graves, who are here as well. I want to thank them publicly for being here, but also so much of the good work that our proposals today are building on has to do with the vigilance that they've shown on their committees. So we very much appreciate that.

Now, before I talk about the new steps that we're taking to get credit flowing to small businesses across our country, I do want to comment on the news about executive bonuses at AIG. I think some of you have heard a little bit about this over the last few days. This is a corporation that finds itself in financial distress due to recklessness and greed. Under these circumstances, it's hard to understand how derivative traders at AIG warranted any bonuses, much less \$165 million in extra pay. I mean, how do they justify this outrage to the taxpayers who are keeping the company afloat?

In the last 6 months, AIG has received substantial sums from the U.S. Treasury. And I've asked Secretary Geithner to use that leverage and pursue every single legal avenue to block these bonuses and make the American taxpayers whole. I want everybody to be clear that Secretary Geithner has been on the case. He's working to resolve this matter with the new CEO, Edward Liddy—who, by the way, everybody needs to understand came on board after the contracts that led to these bonuses were agreed to last year.

But I think Mr. Liddy and certainly everybody involved needs to understand this is not just a matter of dollars and cents, it's about our fundamental values. All across the country, there are people who are working hard and meeting their responsibilities every single day, without the benefit of Government bailouts or multimillion dollar bonuses. You've got a bunch of small-business people here who are struggling just to keep their credit line open, that they

are foregoing pay, as one of our entrepreneurs talked about; they are in some cases mortgaging their homes and doing a whole host of things just in order to keep things afloat. All they ask is that everyone, from Main Street to Wall Street to Washington, play by the same rules. And that is an ethic that we have to demand.

And what this situation also underscores is the need for overall financial regulatory reform, so we don't find ourselves in this position again, and for some form of resolution mechanism in dealing with troubled financial institutions, so that we've got greater authority to protect American taxpayers and our financial system in cases such as this.

Now, we already have resolution authority—[coughing]—excuse me. I'm choked up with anger here—[laughter]. We always—already have some of that resolution authority when it comes to a traditional bank. But when you start getting into AIGs and some of these other operations that have a whole bunch of different financial instruments, then we don't have all the regulatory power that we need. And this is something that I expect to work with Congress to deal with in the weeks and months to come.

Well, we're here today to talk about how my administration can help the millions of small businesses bearing the brunt of this credit crisis. And Secretary Geithner and I just met with not only Marco and Cynthia, but a number of other small-business owners and community lenders who shared with us experiences that are familiar to so many.

Small businesses are the heart of the American economy. They're responsible for half of all private sector jobs, and they create roughly 70 percent of all new jobs in the past decade. So small businesses are not only job generators, they're also at the heart of the American Dream. After all, these are businesses born in family meetings around kitchen tables. They're born when a worker takes a chance on her desire to be her own boss. They're born when a part-time inventor becomes a full-time entrepreneur, or when somebody sees a product that could be better or a service that could be smarter, and they think, "Well, why not me? Let me try it. Let me take my shot." That's Marco's story, which he just shared with us.

That's Brian Conrad's story. When Brian's company eliminated his department—Brian is sitting right there, so I don't want to embarrass him here, but it's a great story—he lost his job, but he found his calling and started, you know, doing all kinds of work on a restaurant called the Blue Monkey, which now employs some 40 people in Pennsylvania's Lehigh Valley.

That's Carmen Jones's story. Carmen is over there. Carmen was disabled in an accident a few years ago. And in facing personal trials, she discovered a reservoir of strength and an untapped market. So today, she helps companies advertise and sell their services to people living with disabilities.

Now, this is America's story, a place where we believe all things are possible, where we are limited only by our willingness to take a chance and work hard to achieve our dreams. But today, too many entrepreneurs can't access the capital to start, operate, or grow their business. Too many dreams are being deferred or denied by a form letter canceling a line of credit.

And this is a consequence of the credit crisis, which began when some banks bundled and sold mortgages in complex ways to hide risk and avoid responsibility. The collapse of these mortgage-backed securities and other complex financial instruments froze the credit markets, including the markets that helped small businesses access loans to cover payroll, to purchase supplies, or to expand in ways that create new jobs.

So, and I think it's important just to take a moment to understand: Here's how these markets work. A community bank like the one run by Cynthia offers an entrepreneur like Marco a loan to open up a restaurant. Before this crisis, Cynthia had two options. Her bank could hold the loan and receive regular payments from Marco as he pays back the amount that he borrowed plus interest. But another option was the bank could also sell part of the loan as an asset to a larger bank or to an investor. And that means that her bank could then use these new funds for more business loans and auto loans and home loans and student loans.

That's why this secondary market—Cynthia's ability to resell loans—is so important: It means banks can offer small businesses and families more credit because the bank has more money on hand. If Cynthia could get that \$11 million that—of SBA loans that she currently holds in her portfolio, if she can get that into the secondary market, that's now \$11 million that she can make work back in her community.

Today, unfortunately, there aren't nearly as many secondary buyers for these kinds of loans, even when they're guaranteed by the Small Business Administration. So community banks cannot bring in the funds necessary to provide as many loans. And as a result, we've seen a precipitous drop in lending to small business.

The SBA typically guarantees \$20 billion in loans annually. But this year, lending may fall below \$10 billion. Even businesses with impeccable credit can't access loans.

So entrepreneurs and their employees pay an enormous price. But the whole country pays a price as well, because less lending leads to fewer jobs and lower spending, which leads to less lending, a vicious cycle that delays our recovery. And small businesses don't just provide jobs, they provide the innovations that help us lead in the global economy.

Smaller companies produce 13 times more patents per employee than large companies. Now, think about it. Hewlett-Packard began in a garage—it was a small business. Google began as a research project—small business. The first Apple computers were built by hand one at a time—small business. McDonald's started with one restaurant—Marco, I know you've got ideas—[laughter]—small business.

Our recovery in the present and our prosperity in the future depend upon the success of America's small businesses and entrepreneurs. And that's why my administration has already taken aggressive action on their behalf. My recovery plan, as has already been noted, raises the guarantees on SBA loans to 90 percent and eliminates costly fees for borrowers and lenders that can be too costly in a recession. And these changes are being implemented now, fulfilling a campaign promise that I made. The recovery plan also includes a series of tax cuts for small businesses and tax incentives to encourage investments in small businesses. And the Treasury Department has launched the Consumer and Business Lending Initiative to help unfreeze the credit markets.

I've also proposed, as part of my budget, that we reduce to zero the capital gains tax for investments in small or startup businesses, expanding and making permanent one of the tax cuts in the recovery plan. And my budget, as part of our health care reform efforts, calls for tax credits and other assistance to help small businesses offer coverage to their workers.

So we've already done a lot, but we've got to do more. And none of these steps will be effective unless we unlock the credit markets that are denying small businesses the loans they need to grow.

Therefore, as part of my financial stability plan, the Treasury Department will begin purchasing up to \$15 billion of SBA loans through the Troubled Asset Relief Program or TARP. We will immediately unfreeze the secondary market for SBA loans and increase the liquidity of community banks. Cynthia's bank is going to be able to sell those \$11 million in loans so that she's got more money to lend.

So with this action, any lender that provides SBA small-business loans will have a buyer for those loans. And in turn, community banks will no longer have to choose between providing loans to creditworthy small businesses and maintaining the required capital and liquidity.

Now, this plan is the latest step—but by no means the last step—in our ongoing efforts to stabilize the financial markets on behalf of businesses and consumers. We'll be outlining further steps on behalf of small businesses in the weeks and months ahead. And we will continue to do whatever is necessary to lead this economy out of recession and lay the foundation for long-term prosperity.

That's what the small-business owners in this room expect us to do. They're folks like John Wilson, the president and part owner of a small business in Raleigh, North Carolina. He wrote to me a few weeks ago and participated in the meeting we just held.

And John's business, N.C. Design Group, sells cabinets and interior design services. And not surprisingly, it's been a tough year. Sales have fallen by half. And keep in mind, John had previously doubled what had started off as a very small business, to the point where he's providing a living for—it was up to 40—48 people. And John did all that he could to save loans. The owners, including John, have taken no compensation, but they had to reduce the size of their company from 48 employees to 34. And John just told the group of us that he personally took the time to speak to each and every person that he had to lay off. And I don't think he minds me sharing that he cried each time he did it, because it's a hard thing when somebody is working hard and committed to helping you build your business, you having to lay them off.

And now, even though they've never been late on a payment to the bank, they're having trouble keeping a credit line. It's putting his small business—and the 34 jobs left—in jeopardy.

Now, John is not looking for a handout, he's looking for the opportunity to succeed. And he said it best himself in his letter, and I'm quoting from the letter here: "Small business people are incredibly resilient and resourceful given half a chance," he said. "But we need the chance."

Well, I want to say to John and to every American running a small business or hoping to run a small business one day: You deserve a chance. America needs you to have that chance. And as President, I will continue to do everything in my power to ensure that you have the opportunity to contribute to your community, to our economy, and to the future of the United States of America.

Thank you, everybody. Thank you. All right.

NOTE: The President spoke at 12:29 p.m. in East Room at the White House. In his remarks, he referred to Marco Lentini, founder and president, Avanti Food Corporation/Gia Pronto, who introduced the President; Cynthia L. Blankenship, vice chairman and chief operations officer, Bank of the West; Brian Conrad, owner, Blue Monkey Sports Restaurant; and Carmen D. Jones, founder and president, Solutions Marketing Group.

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