For a recovery to take hold, hundreds of thousands of small businesses must find the confidence to expand and create jobs. But when they get to that point, the local banks they depend on—worried about borrowers' financial strength, scrutinized by regulators and slammed by souring real-estate loans—might not be willing or able to provide the credit they need.

While big companies have been able to borrow in bond markets, smaller companies rely mainly on bank credit, which has been shrinking. In 2009, total lending by U.S. banks fell 7.4%, the steepest drop since 1942. In all, the credit pulled out of the economy by banks since the downfall of Lehman Brothers in September 2008 amounts to about $700 billion, more than double the amount so far distributed under President Barack Obama's $787 billion stimulus program.

''It's a dismal situation,'' says Diane Swonk, chief economist at Chicago-based financial-services firm Mesirow Financial. ''Banks won't lend to businesses because they're afraid they'll go bad, but that can become a self-fulfilling prophecy.''

The dearth of credit for small businesses could have a big effect on prospects for restoring the 8.4 million jobs lost since the recession began. From 1992 through the beginning of the latest recession, companies with fewer than 100 employees accounted for about 45% of net job growth, according to Labor Department data.

Policy makers have been looking for ways to reopen the spigot. President Obama has proposed creating a $30 billion fund to support small-business lending. Last month, in an unusual show of solidarity, the Federal Reserve, the Federal Deposit Insurance Corp. and other state and federal regulators issued a joint statement urging banks to continue lending to credit-worthy small enterprises.

Making sure small firms get access to credit ''is crucial to avoiding a Japan-type scenario of persistent stagnation,'' says Mark Gertler, a New York University economist who has done seminal research with Fed Chairman Ben Bernanke, then a Princeton University professor, on how troubles with bank lending can aggravate economic downturns.

Getting banks to lend more won't be easy, given the rising tide of defaults on loans made to finance housing developments, office buildings, shopping malls and other commercial real estate. Deutsche Bank expects banks to suffer at least $250 billion in losses on such loans, with about half coming in the next few years. Together with an estimated $250 billion in further charge-offs on home mortgages, that's more than double banks' current reserves against losses on all types of loans.

The stakes are particularly high for community banks, which tend to be much more active in commercial real estate than their larger counterparts. As of December 2009, such loans comprised about 42% of all loans held by the 7,344 banks with less than $1 billion in assets, compared to about 17% for the hundred or so banks with more than $10 billion in assets.

Some bankers say policy makers' desire to encourage lending isn't always reflected on the ground, where they say bank inspectors are getting tougher about lending standards. ''For the first time in my 37 years in banking, we're having to say to our clients that we're not sure this will pass muster with the regulators,'' says Larry Barbour, president and chief executive of North State Bank in Raleigh, N.C. ''That's not healthy.''

Washtenaw County, Mich., which includes Ann Arbor, Ypsilanti and Saline, offers a glimpse of how the cycle of economic malaise and shrinking credit is playing out across the country. The county includes the Willow Run plant, where Ford Motor Co. once produced the B–24 Liberator bombers that helped win World War II, the University of Michigan football stadium, and hospital complexes and high-tech start-ups in Ann Arbor. As of December, Washtenaw's unemployment rate stood at 9%, close to the national average.

Michigan Ladder's Mr. Harrison, 44 years old, remembers vividly the day in September 2008 when the recession hit home. The company, which manufactures wooden ladders and distributes imported aluminum and fiberglass models, had been doing well despite the financial crisis. Sales were up 6% over the previous year, and Mr. Harrison had expanded the company's staff to about 28, from 20 at the beginning of the year.

But during the week of Sept. 15, the company's largest supplier of aluminum and fiberglass ladders suddenly refused to deliver ladders unless it was paid in advance. Within days, says Mr. Harrison, Michigan Ladder lost as much as $1 million of the supplier credit on which it relied to pay for raw materials and maintain its inventory of ladders. At the same time, its customers started failing to pay for ladders it had already delivered.

''Literally overnight, the whole world changed for us,'' says Mr. Harrison. ''It was simply too much of a shock—too much of a change, too quickly.'' He laid off eight workers in December 2008 and another eight in 2009 as sales fell 40%.

Mr. Harrison has since lined up new credit from suppliers, and he says sales are on track to rise 15% this year. He thinks the time has come to implement the expansion project he shelved when the crisis hit. The plan: Produce in Michigan the aluminum and fiberglass ladders he currently imports from places such as Mexico and China. He already has the customers, and he calculates that manufacturing in Michigan will actually boost his profit margins, in part because the savings on shipping will offset the higher cost of U.S. labor.

''We can do this,'' he says. ''We can be a low-cost producer, and we will have a made-in-USA product, which we think will have some appeal to people.''

The Bank of Ann Arbor is Mr. Harrison's best bet to finance his project. Larger banks typically don't deal with companies the size of Michigan Ladder. Also, Bank of Ann Arbor, which has $543 million in assets, has weathered the crisis much better than most of its peers. It turned profits every year, expanded overall lending and declined the support of the government Troubled Asset Relief Program.

The bank has made loans to finance expansions for some of its stronger customers, such as Solohill Engineering, which makes products used in the manufacture of vaccines and more than doubled sales in 2009. Nonetheless, says its president, Mr. Marshall, fears about a weak recovery are prompting even healthy banks to be careful, a trend he recognizes could help make those fears a reality.

''It's kind of a vicious cycle,'' he says. ''Anytime you're in an economic environment like we are, bankers are going to be more conservative.''

One of bankers' main concerns is the damage the recession has done to many companies' finances. Values of real estate and other things small business owners can put up as collateral for loans have fallen so far, so fast, that many businesses have little to offer. Also, a year or more of losses have eroded the value of owners' stakes in companies, leaving less of a cushion against bankruptcy.

Mr. Marshall says such financial concerns are a big reason he's not ready to lend to Mr. Harrison, who says his company took heavy losses in 2008 before returning to profitability in 2009. Mr. Harrison says he's exploring ways to raise new money from investors, but so far to no avail. ''It's not reasonable to expect that [the Bank of Ann Arbor] can make up for all the credit companies like ours have lost,'' he says.

Mr. Harrison's credit difficulties also are linked to the travails of other borrowers such as Mr. Haeussler, the 51-year-old president of Peters Building. In 2005, he and a partner began developing a 625-acre piece of land known as Saline Valley Farms, the site of a cooperative farm in the mid-1900s.

The downturn hit Mr. Haeussler hard in 2007, when home builder Toll Brothers called with bad news: It wouldn't exercise its option to purchase 93 luxury-home lots, the entire first phase of the Saline Valley Farms project. When the $8.3 million loan he and a partner had taken out to grade the lots and build infrastructure came due in late 2008, they still owed $6.7 million and had 76 empty lots, the estimated value of which had fallen to about $1.4 million.

''It was perfectly wrong timing,'' says Mr. Haeussler.

Losses on loans to developers such as Mr. Haeussler have taken a toll on community banks, eroding their capital and limiting their capacity to make new loans. Bank of Ann Arbor has moved more quickly than other banks to recognize losses, charging off nearly one-quarter of its construction and development loans in 2009. That compares to about 5% for all banks. In its remaining portfolio of such loans, about 6% are delinquent, compared to about 16% for all banks.

Many community banks are renegotiating troubled real-estate loans. In Mr. Haeussler's case, the Bank of Ann Arbor cut a deal: In return for a four-year extension, Mr. Haeussler and his partner more than quadrupled the amount of collateral backing the loan, putting up the entire Saline Valley Farms project and more. Even with the added collateral, the bank charged off $2.1 million of the loan, effectively recognizing that it may never get the money back.

The bank figures that giving Mr. Haeussler more time increases the odds he will pay off his loan. But such deals tie up cash on what essentially are bets that existing borrowers will make it through. That leaves banks, including Bank of Ann Arbor, with less appetite to make new loans to customers like Mr. Harrison, who doesn't have the resources Mr. Haeussler and his partner used to secure their loan.

Mr. Haeussler, for his part, says he's trying not to think too much about all that's hanging in the balance, which could include his entire business. ''It's a little unnerving at times,'' he says. ''But you just have to put your head down and work through it.''

THE PEOPLE OF KASHMIR DESERVE A VOTE ON THEIR FUTURE

HON. DAN BURTON

OF INDIANA

IN THE HOUSE OF REPRESENTATIVES

Tuesday, September 28, 2010

Mr. BURTON of Indiana. Madam Speaker, I rise tonight to call the attention of the House to the ongoing unrest in Kashmir. Although this conflict is a world away from our shores, it directly impacts our sons and daughters fighting the Global War on Terror in Afghanistan and Pakistan.

The mountainous region of Kashmir has been a flashpoint between India and Pakistan for more than 50 years because many of the people living in Indian-administered Kashmir -especially in the Muslim-majority Kashmir valley—do not wish to be governed by India. They would prefer to be either independent or part of Pakistan. In fact, India and Pakistan have militarily clashed over the territory three times in 1947/48, 1965 and 1971, and nearly fought another war over the territory in 2001—which could have involved nuclear weapons.

Several years ago, Indian Prime Minister Manmohan Singh and then Pakistani President Pervez Musharraf agreed to begin a dialogue aimed at narrowing their differences on the issue of Kashmir, and launch a series of confidence-building measures aimed at promoting trade and normal relations. I was encouraged by their efforts to improve the security situation in Kashmir, and was hopeful that cooperation between India and Pakistan would continue and ultimately lead to a sustained peace in Kashmir. President Musharraf is now gone and Prime Minister Singh has either been unable or unwilling to carry forward the initiative he began some six years ago. As a result, the simmering frustrations of an entire generation of Kashmiris who have grown up and come of age in an environment of repression once again exploded into violence this summer.

Regrettably, the conflict has garnered little attention from the American media and zero attention from the White House. During the Presidential campaign, President Obama pledged to appoint a special envoy to the region and declared, ". . . that solving the 'Kashmir crisis' was one of his 'critical tasks.'" So far, this has been a promise unfulfilled.

Madam Speaker, I believe an end to the violence and uncertainty in Kashmir would be widely welcomed in India and Pakistan as well as by our military commanders in Afghanistan. The longer the Pakistani Government focuses on staring down India along the Line of Control in Kashmir the harder it will be to defeat the extremists groups threatening the stability of the Pakistani Government, as well as the elements of the Taliban and Al-Qaeda using Pakistan as a safe haven to launch attacks against coalition forces in Afghanistan.

I do not know how the problem in Kashmir will ultimately be solved. However, I personally believe that the people of Kashmir should be given the plebiscite they were promised by the United Nations decades ago. And I ask unanimous consent to place in the CONGRESSIONAL RECORD an op-ed by Dr. Ghalam-Nabi Fai—Executive Director of the Kashmiri American Council—which puts the case for the plebiscite in context. I encourage my colleagues to read it. Whatever the solution, resolving the dispute over Kashmir is crucial to defeating the militants and stabilizing Pakistan, and winning the War in Afghanistan. The status quo is simply unacceptable.

[From the Guardian, Aug. 31, 2010]

THE PEOPLE OF KASHMIR MUST BE ALLOWED TO VOTE ON THEIR OWN FUTURE

(By Ghulam-Nabi Fai)

Pankaj Mishra's article was a concise and accurate examination of the Kashmir crisis (Why silence over Kashmir speaks volumes, 14 August). He pointed out that the protesters "have a broader mass base than the Green Movement does in Iran. But no colour-coded revolution is heralded in Kashmir by western commentators?

Virtually everyone—men, women and children—of the capital city of Kashmir, Srinagar, has taken to the streets to lodge a non-violent protest at the office of the United Nations against the continuance of Indian occupation. But such non-violent protests have received little or no press coverage, even though they have been taking place, as Mishra reports, since 2008. Is it any wonder that Kashmiris feel "that theirs is the voice of a neglected people"?

Mishra speaks about the Indian media amplifying "the falsehoods and deceptions of Indian intelligence agencies in Kashmir", which argue that the Kashmiri protests are the work of Islamic fundamentalists and/or terrorists. But in the case of Srinagar, the population of a major town cannot be composed entirely of such elements.

Kashmiris simply demand a speedy implementation of the pledge solemnly extended to them by India and Pakistan and the UN—to be allowed to decide their future through an unrigged and uncoerced vote.

The protests are an unmistakeable expression of Kashmiris' resentment against the indifference of world powers—and their failure, largely because of toxic power politics, to implement international agreements.

As Mishra stated: "India is a counterweight, at least in the fantasies of western strategists, to China." This contributes to the policies of inaction.

So Kashmir continues to bleed under a renewed outpouring of revolt against occupation, as the world continues to ignore it There is a deliberate and direct targeting of young people by the military forces, intent on crushing the anti-occupation movement. Mishra states: "Already this summer, soldiers have shot dead more than 50 protesters, most of them teenagers." Their weapons? Rocks and stones. Hardly the tools of terrorists.

Apart from the magnitude of violence unleashed by the military forces against protesters, the most poignant aspect of the situation is the acute suffering of the whole population caused by the frequent curfews, disregard of normal life, arrests, detentions and sometimes disappearances of innocent civilians by the authorities. This is a situation without precedent in the south Asian subcontinent and with few parallels in the world today.

During his U.S. presidential campaign, Barack Obama pledged he would appoint a special envoy to the region—as Mishra says, "he declared that solving the 'Kashmir crisis' was one of his 'critical tasks'". However: "Since then the U.S. president hasn't uttered a word about this ur-crisis that has seeded all major conflicts in south Asia."

If only Obama would keep his promise, it would certainly hasten the process of peace and stability in south Asia—home to one-fifth of the human race.

SMALL BUSINESS JOBS ACT OF 2010

SPEECH OF

HON. EARL POMEROY

OF NORTH DAKOTA

IN THE HOUSE OF REPRESENTATIVES

Thursday, September 23, 2010

Mr. POMEROY. Madam Speaker, I rise in support of H.R. 5297—Small Business Lending Fund Act of 2010, a bill that brings billions of dollars of tax relief and access to capital to small businesses.

Helping North Dakota businesses create jobs is one of my top priorities. In North Dakota, small business is business. Nearly 80 percent of North Dakotans work for companies with less than 500 employees and 60 percent work for companies with less than 100 employees. Small businesses are a proven engine of job creation. During the last economic expansion, companies with less than 20 employees accounted for 40 percent of the job growth while accounting for only 25 percent of all jobs.

Today, we give this engine of job creation the fuel it needs to charge forward.

Surveys of National Federation of Independent Business members identified the number one economic concern facing small businesses as poor sales stemming from a lack of demand from consumers. This has been their top concern since the recession and most recently 31 percent of respondents reported poor sales as their most important problem. Beneath this response is the fact that many small businesses want to borrow but cannot. So, they need help with capital too.

To help small business, I introduced bipartisan legislation, the Small Business Jobs and Tax Relief Act, which would generate demand for products and services while putting more capital into the hands of small businesses.

One of the lingering difficulties is that many small businesses have limited access to the capital they need to operate, grow, and create new jobs. By providing small business tax relief, Congress can free up money, which will help small businesses feel that they can hire new employees and make investments in new equipment that will build demand for goods and services. I am pleased that tax cuts from the bill I authored are in key components in this bill before the House today.

One of the several good measures in H.R. 5297 that will generate the demand that our small business need to grow is bonus depreciation. It is one of the best ways to stimulate the economy and create jobs. Bonus depreciation accelerates the rate at which businesses can deduct the cost of capital expenditures so it encourages companies to spend while it boosts company cash flows.

Economists rate bonus depreciation as one of the most economically productive tax initiatives. In a 2001 analysis, the Institute for Policy Innovation estimated that every $1 of tax cuts devoted to accelerated depreciation generates about $9 new growth in the economy. Looking back at times when bonus depreciation was used to encourage capital investment, economists determined that it was responsible for creating several hundred thousand jobs.

Out in our small towns, many Americans are creating job opportunities for themselves and for others by starting new small business. We need to encourage this spirit of free enterprise. The Small Business Lending Fund Act of 2010 will help new start-up businesses in two ways that I heard from North Dakotans would be helpful and included in my bill:

1. The bill would double the current amount a start-up business can deduct, so that a new business owner could deduct $10,000 of expenses he or she might have incurred to set up shop. Without the bill before us today, that deduction for start up costs would be limited to only $5,000; and

2. The 100 percent exclusion from tax of gains on small business stock in H.R. 5297 would expand the access to capital for small business across the county.

This bill also reduces the regulatory burden on small business by modernizing the tax accounting required for business provided cell