Karen Mills

Well, thank you very much and thank you for the kind introduction. I have to say it is a great group here. We--as I look around, I see all kinds of our partners and our friends and I particularly wanna thank Chairman Bernanke and the whole staff of the Fed for the partnership that we have built that you just heard described. About--oh, I don't know, several months ago, the Fed approached the SBA about holding 40 roundtables. I guess John has been busy traveling all around the country with small businesses and lenders, and we were very happy to be part of this. We were able to attend, we were able to help organize, we were able to hold conference calls with bankers and with bank examiners in the field to explain what all of you know which is how the SBA products work and how they can help in this particular situation and provide some--provide the loan guaranties that--that we provide which do not go against some of the balance sheets, and that was a very, very important piece of information in understanding in the last year for banks around the country. So, it's a great partnership and we very much hope that this will continue to grow. The reason why this partnership is so important is no surprise to everybody in this room, but I'm gonna say it again. Small businesses are the engine of growth in this economy. They create 64 percent of the net jobs in this country. Half of the people who work in this country own or work for a small business, half of the people who work. So, if we are going to be competitive, if this economy is going to grow, it's going to be because we provide small businesses the tools that they need so they can go out and compete in the global economy and create jobs. What's the big challenge right now? Well, one big challenge may be the biggest but certainly among the biggest is that there is still an issue about access to capital for small business. We've made a lot of strides, we made some progress, things are better than they were in October 2008, but there's still a gap. According to the NFIB 2003 to 2006, 61 percent of small businesses had all their credit needs met, now the number is 40. Big businesses are less affected. They can tap into other sources of capital. Small businesses, it's really about their bank and their bank credit, and that's allowing them to start, to sustain, and to grow their businesses. That's why October 2008, when the credit crunch hit, they were just stopped in their tracks. Now, today's goal, and I'm gonna quote Chairman Bernanke. He--he put it quite well last month, and at a roundtable in Detroit he said, "Meeting the needs of creditworthy borrowers is," and I quote, "good for the borrower, good for the lender, and good for our economy," so we couldn't agree more. This morning, we heard some good news, I hope. From the panel on private sector lending, there's a lot of really good movement and ideas out there. For the first time since 2007, the surveys are showing that lenders nationwide have stopped tightening their standards. Not really easing, you know that's still a small bet, but stopped tightening. And there are a number of bank CEO's, some of them are here, represented here. I'm sure you heard Kevin Watters talk about the commitment that they are making at JPMorgan Chase. They have reinvigorated many of them, and many of our partners, their small business lending, very, very aggressive, in some cases creative and regional banks and then some of our main banks. But, once again, we still have a gap, we still have a gap. When I travel around, which I do a lot as many of you do, 27 million small businesses, are still saying they cannot get access to credit. And I wanna make a point here. This is not businesses who are about to fail. Two years ago, a year and a half ago, we were hearing from businesses, I need a loan, I need a loan because if not I'm gonna go out of business. For the last year we've been hearing, I need a loan because I have an order that I'd like to take but I need the capital. I need the working capital, I need the growth capital, I need the sustaining capital so that I can move forward. That's despite the current economy. Many, many firms, and that's how our economy goes in small business, many firms just in every sector are growing and taking customers and hiring more workers. They need our support. If these healthy and creditworthy small businesses can't get loans and they can't create jobs and something is still broken, something is still wrong, we need to fix that. So, what's the SBA doing to help? Well, let me tell you one story, one anecdote. I was in Seattle a couple of weeks ago and I went to a pet food store, it's called Mud Bay. How many of you have a cat or a dog? Well I don't, my husband is allergic but let me tell you, you would love this store. They specialize in natural foods for cats and dogs and they even will like custom, they'll give you these samples they have behind the thing in the--you try this one and you try that one till you find the one with the right nutrient blend and the taste that your cat or dog would like. Well, in 1999, they had about a million in revenues. They had 15 employees and a couple locations.

Now, they've had 4 SBA loans, they have 17 locations, and they have 24 million in revenues and 170 employees. There are businesses like this that I see all over the country. We work with tens, with thousands of banks every year. And as you will know, what we do is we guarantee a portion of the loan and we share the rest with the lender so that the lender can reach out and make a loan that they would not otherwise make. If you're a bank and you will give somebody a loan and the market says that person should get that credit, then there's no reason for the taxpayers to subsidize. But if it's still a great small business and there is a reason that that--that the bank needs a little extra support, that's where we come in. Mud Bay, this pet food store, their most recent SBA loan was made possible with the Recovery Act loan, which allowed us to raise our guarantees to 90 percent and reduce or eliminate our fees. That was hugely important to so many small businesses. They got 200,000 dollars and working capital from Columbia Bank and they hired about 10 more workers, thousands of stores over the last 16 months. In fact, we have made about 70,000 Recovery Act loans. There are 70,000 stores like that out there. And that's because of this increased guarantees and the wave fees. We have turned right now, turned out 30 billion in these loans, 30 billion in Recovery Act loans. And the taxpayers got a pretty good bang for their buck. For us to put 30 billion in the hands of small business, it costs about 680 million in subsidy, 680 million for 30 billion. So, that's the good news. Here is the bad news, we ran out of money. In fact, we ran out of money a few times. We ran out of money in November, we put on a queue and Congress gave us more. I think we ran out of money 4 or 5 times but this time, we have not gotten a funding. And I will be honest with you, our loan volume is down over 50 percent, it's down over 50 percent. We have over 500 businesses in the queue. We have established a queue. It kinda looks like--you ever been on the standby list in the airport and they have your name come up. Well, we have a portal and you can look at where you are in the queue. And a bit of--of new technology, and people are in the queue waiting for that Recovery Act funding to be extended. That's part of the extension programs, it's passed the house a couple times and still right before the senate. So we're very hopeful because now is not the time to pull back. We have a program we know works, we know that it drives volume right into the hands of small businesses who are good and creditworthy and they need those loans. We have in addition in that Recovery Act done something else I'm very happy with. We've gotten over 1300 lenders back into the SBA program who had not made a loan since 2007, 1300 lenders also in there about more than a hundred credit unions. All kinds of banks on Main Street in their communities ready now to provide SBA products, SBA guarantees to those small businesses in these critical times. So it's very important that we get back this Recovery Act funding. But that's actually only one of the steps. We--even if we get that back, we have more gaps to fill, that's why we have the president's small business jobs bill right now before Congress. In that jobs bill, we have many tools that small businesses need right now. Let me give you a couple examples. One is working capital. How many of you heard from a small business, I need working capital, I can't find a working capital loan, right? My credit line got pulled. Well, we have asked--we have a product for that, SBA Express loans. We have asked Congress to increase the limit on those loans temporarily to a million dollars. Because right now they're capped at 350,000, it's not enough. How about commercial real estate? Well, we have a lot of small businesses who have owner occupied commercial real estate. That's the dentist that owns the dentist office. That is the manufacturing company that owns the warehouse. We want to use our 504 program that many of you participate in, in order to refinance existing loans on owner-occupied real estate. Right now 504 can only be used for expansions. Temporarily, we think that a lot of owner-occupied real estate took 5-year bullet mortgages in 2005 and 2006. Guess what, it's 5 years later, 2010-2011, those are gonna come due and we're gonna have a lot of people who have never missed a payment, who go to their bank and the bank is gonna say, "You know what, I need to reduce my portfolio and I'm not gonna refinance." We wanna be able to use our 504 product in order to be able to temporarily do that kind of refinancing. And we have some permanent changes that we've asked for. We very much see that our program's cap at 2 million dollars is too low. We have franchisees who wanna buy the additional franchise. We have manufacturers who need specialized equipment. We have small exporters who are getting that next big order. We have asked to increase our loans to--our loan upper limits to 5 million dollars, from 2 million to 5 million dollars. And our micro loan limit, I know there are some micro loan lenders and financers out there. It's now a 35,000 dollar limit. We wanna do 50,000. In addition, we know that SBA loans alone can't fill all the gap that's out there. We're only some portion of the market, call it maybe 10 percent, and that's a data issue I'll get to in a second. We need the conventional market to be fully operational. That's why we're supporting the small business lending fund. This is for Main Street community banks who don't have the capital. They are out there as you know looking to lend more money to small businesses, and if they do and if they increase their small business lending, the small business lending fund could be available to them at a cost as low as 1 percent. So that is up to 30 billion dollars that is also before Congress. We very much see this as a one-two event. There'll be SBA programs and more capital into community banks. Together, that very much we hope will ease some of the gaps that are out there in the marketplace. Our principals in all of these things that we've got before Congress are built on what works, like the Recovery Act. Do it quickly and efficiently and give the taxpayers a pretty big bang for their buck. We've talked a lot about credit. I wanna talk just a minute about data. As we continue to look at and monitor the situation, we have recognized--and I think everybody in this room and our partners at the Fed have recognized that there is a gap in timely, meaningful, and accurate data. I know that everybody is realizing it because there's a panel on it this afternoon. So you're gonna talk about it. But we have reports that only show data for loans outstanding. We don't have many data on loan originations and the outstandings bounce--lots of things bounce up and down between that. And right now, we only have data once a year. We need data every quarter. As you all know, what gets measured gets done. And we have to be able to make solid small business policy based on good and accurate fact-based information. That's what we're very much hoping to do and to think about together. We need on the demand side better information about loan applications, amounts of credit request. On the supply side, we need data on loan origination, not just on the balance sheet. We need quarterly data, as I said, not annual data. And we need the data that's segmented by loan size so we can understand how to design our products so that they meet those needs. And we need data to eliminate what's going on in the underserved markets which particularly is SBA's mandate, where that you can't get credit elsewhere and there's still a need for access and opportunity. As you all know, this is the country of entrepreneurship. This is how we provide access and opportunity. We must make sure that we have those avenues available. We are now seeing gaps exactly in that sector in this recovery and we need this data and we need these programs in order to move forward and fill those gaps. Now, I do wanna say we don't wanna put undue burdens on lenders and regulators and others in the collection of this data, but this is a missing piece of the puzzle. And we will work with everybody and with Congress to press forward and see how we can gather just the kinds of information that will help policy and help us make smart decisions based on the facts.

So, we are very happy to be here, to be working together with you all to address the needs of small business financing. Small business owners need us. They need us to be working hard on this program. They have done the hard work, they've gone through this recession, they've reinvented themselves. Now, they're gearing up to expand and to hire workers and they're ready to lead us once again out of the recession as they have done time and time again. Once again, it is not government that creates the jobs, it's businesses. And more often than not, it's small businesses, both those on Main Street and those high growth entrepreneurs that create the next large companies that compete globally and have us and create our--and create our jobs. So, they are gonna create the jobs, our job is to give them all the tools that they need so that they can create jobs, grow our economy and help America stay competitive all around the globe. Thank you very much for having me.

[Applause]

So I'm told I have some time to take a couple of questions if anybody has any. I think there are mics or--yeah, there are mics around. Alright, start in the middle there with that lady, yeah.

[Pause]

Excuse me.

Yeah, stand up say who you are and then--

Julia Rubin, Rutgers University and Harvard College, Harvard Business School, fellow alumni. Sorry, I never do that. Anyway--

[Laughter]

I really appreciate all the information on credit. I actually had a slightly different question which was equity. There was some discussion of the lack of startup funding and I know this is a form on credit but I wondered if you wanna just say anything about that, what the SBA is doing.

The question is about startup funding and equity funding, patient capital. As you heard from my background, I come from the world of growing companies, very often with other kinds of capital than bank debt. And it is very important that we have all kinds of patient capital. We look at small businesses at the SBA in at least 2 categories. The first is Main Street small business. And for Main Street small business, you know, your dry cleaner, your restaurant, your car repair operation, they're part of the fabric of the day--of our daily lives. The SBA serves them with loan products. And generally, up to 2 million, 5 million dollars, that's gonna serve Main Street small business very, very well. We are gonna be there for Main Street small business even though generally, many of them churn jobs. One restaurant opens, restaurant closes but we have to be there for the next restaurant because otherwise you'll have an empty storefront on Main Street, no restaurant. On the other side, it is true the data shows us that most of the jobs are created by a much smaller number of high growth businesses. And we are spending a fair bit of time understanding and learning more about those high growth entrepreneurs and their job creation activity. We know that they need different things. We talk about the 3 C's at the SBA, access to capital, access to counseling, and access to government contracts, capital, counseling, and contracts. These businesses need capital, they need counseling and they need contracts but they need different kinds. And we have a number of programs that help them. Our SBIC, Small Business Investment Companies, are something that provide mostly mezzanine capital now to earlier stage companies. We have our SBIR program that provides research dollars, and we have counseling and mentoring programs for these high growth companies as well. But there are capital gaps, particularly as we've seen in the valley of death which is widening, and all the data says that, so we are working very hard on how we do that. At the same time, we are working very hard on taking our existing platforms like small business investment companies where we have the ability to create even more funds under our authority, and we are--we have a goal of doubling the number of funds that we get through in half the time. And we have reengineered our entire operation to do that and we had our first FastTrack fund which is a repeater fund go through in 2 months. So that's the one of the first things we're doing and we're looking longer term working across the administration with treasury and others for early stage capital opportunities as well. Yes.

Jeff Rosen with Huntington Bank Columbus, Ohio. I wanna first complement you, Administrator, on the energy and passion and leadership that you brought to the SBA. I've been in this business 25 years and its run a better more entrepreneurial than it's ever been in my career, so I wanna thank you for that. My question is really around timing, and a number of us here I'm sure are wondering the same thing. You talk a little bit about the queues and the additional stimulus. Is there anything that we can do to help move things forward quicker as an industry or any thoughts on your mind about the timing around moving it forward?

Well, as you know, I would not ask you to lobby or do any--

[Laughter]

To do any of that. And in fact, the president has been asking and has a small business jobs bill--before Congress. I think he talked about it in the state of his--state of the union. So, we are very eager for these activities to become part of what we can execute and we think that we have worked very hard to make them very cost effective. So, right now, there's a number of bills, a lot of them have passed the house, a lot of them are before the senate, and we're very, very hopeful that those will come to pass very quickly. Right.

Thank you for coming today, it's really great presentation and--I second Jeff's point about the entrepreneurship of the SBA in your leadership, so--and a lot of the staff you've hired too and some current ones that you inherited, so that's great. My question is I guess to the new market's tax credit and just to emphasize that we have been working with the White House and the department of the treasury and the SBA to some extent on making the credit more compatible to small business financing. It hasn't been as robust. It is a great program that's got bipartisan support. So we have established a safe harbor, a concept, on how to use a credit more effectively for small business financing. That said, which the jury would be out as to how that will be deployed and hopefully will have some impact. But the question I have and I don't know whether you investigated this or perhaps could after this, whether an SBA guarantee against a small business loan could be used and qualified as part of the basis for the tax credit in that particular structure. I know it's a little bit of a detail to maybe think about but we would wanna make sure that that could happen because that would marry the two programs really quite effectively. Thank you.

Anyway. Well, we have just the person who we should work with who's gonna be on a panel later, Don Graves from Treasury is here and that's something that we work--we work very closely with Treasury, and that's something that we can take up with them. Let me come over here.

Hi, Alicia Robb, Kaufman Foundation. Earlier you advocated for collecting quarterly data on the supply side by loan size and I guess I'm not sure where that ever originated from because we're proxy in small business lending using loan size rather than firm size and for--and we're using loans of a hundred thousand and less to proxy credit card lending, and we're using a million and less to proxy for small business loans. And the research I've read and the research I've done, it seems like these are not great proxies for what actually small business lending is. And so, why are you not advocating for small business lending data by firm size rather than by loan size? Thank you.

Well, it's a great question and your points exactly right, which is that these are rough proxies. And the question is, why not just say we wanna collect business data on small business, on loans to small businesses. And the answer is we would like to. But we are trying to, I think, put forth a set of data collection requests that will not be overly burdensome and that could be implemented quite quickly and give us data within existing bank systems. So, yes, we would love it but I think we are trying to be realistic about the burden that this would place on banks. It's hard for banks to know whether one of their borrowers is a small business in certain qualifications. It is very easy actually because I've talked about 60 banks, they already collect the data on loan size. So, maybe this could be phase one and then we could go to what you've correctly I think identified as, you know, the more optimal second phase. I think I have time for two more.

[Pause]

Hi, I'm Frank Altman with community reinvestment fund. I really enjoyed your remarks. We are a CDFI and I wanna--I wanna focus on the point you made about areas of underserved communities. I think there's a real opportunity in this recession for the SBA to partner with community-based organizations around the country in a small business lending area. I think those partnerships are beginning to be discussed but there is a real opportunity to help move SBA product into low income communities. Taking off on what Ron Phillips said, new markets tax credit is a significant resource. There are other tools that are out there that could be benefited tremendously by a closer partnership between community development lenders and the SBA. So, any thoughts on that?

Stay tuned. Yes, lots of thoughts on that. We're working very hard and with lots of you all in this room have led the way and shown that you can make responsible loans that have a very strong repayment rates in these communities and that they do enormous benefits to the entire community, not just to that one small business. And we have some activities and conversations and structures and process. And as I said, stay tuned. So, last question, and I think I had promised one over here.

[Pause]

Hi, I'm Betty [inaudible] with the Milken Institute in Los Angeles, and again, thank you very much for your presentation. I want to pick up on some of the data stuff which is that we've done a lot of work around data and a few years ago, the Ford Foundation funded us to look at this, particularly in the area that we call emerging domestic markets, which is really many of these underserved communities, woman-owned businesses, minority-owned businesses, low income communities. And interestingly, there are so many data pools out there. There are so many people collecting data and we looked at the prospect of whether or not you could create some kind of data consortium, where you could create a process to have data be shared, to mask the data so that no confidentiality would be breached, but to really be able to get at it without having to spend a lot of money to go out and collect new data. So, I was wondering whether or not there were any thoughts along those lines of trying to pull together different sets of data pools. I mean they exist in non-profits, they exist obviously within the banking institutions. If you all have a data set, I mean there are just so many to try to not reinvent the wheel.

Well, that's a great question and it's something that we would be very happy to partner in a public-private partnership and with the Fed to look at because I think there is a great need for a focus on the right kind of data right now, so it's a terrific idea. Thank you very much and thank you all for all the work you're doing for small business.

[Applause]