Panel 3

Kimberly Zeuli: Thanks Joseph. Good afternoon to everybody. As Joseph said, we've been hearing about data and research throughout the day. So, but, that should be good news for us. So, we look forward to a lot of interaction from the audience on this panel. Very dynamic as the research and data panel usually is late in the day.

[Laughter] I saw a few people up there grabbing double coffees, a few requests for the espresso bar. No, we're just going to be engaging. So, no PowerPoints, no small fine data, just a lot of good discussion on this. So, before I introduce our great speakers, I want to provide a little bit of context for this panel. Earlier today we heard from Robin Prager at the Board of Governors and we heard from Karen Mills from SBA. And, they talked about the importance of collecting survey data and undertaking good hard analytical research because it helps us understand this issue more globally. And it allows, it allows us to put the current situation in historical context, alright, so that we can start to discuss, for example, the relative decline and demand. How bad is it? How bad is it this time? Is it different this time than what we've experienced in the past? So, as human beings, we tend to think about that what we're experiencing now is the most dramatic, it's the worst, or it's the best. And, we tend to extend our own version, our own experiences, on the realities and we pick up a lot of information from the media. So, when we collect representative survey data annually, year after year after year, right NFIB, we're going to hear about that... It seems like a lifetime of collecting data. It helps provide some perspective on our own personal individual experiences. One issue that hasn't been addressed directly, so, I'm going to take that on, is the board's decision to stop its survey of small business finances which ended in 2003. And, while we acknowledge that there's certainly a loss associated with stopping that survey, it has opened up a lot of opportunities around the system to collect new and different types of data around small business credit conditions. For example, I'm just going to mention a few here. I'm not going to go into a lot of detail. But, you can certainly follow up with these individual reserve banks if you have more questions on it. I know that Atlanta and the New York Fed, they have both, I think, they have both completed either their first or their second round of surveys of small businesses. The New York Fed survey is quite extensive and the small, and the Atlanta survey is now in its second round and has a very nice sample as well. And, I know that Cleveland is planning to do one with some banks as well, some innovative surveys. And there are smaller surveys and a lot of different types of research now going around this system. We also did a data scan as part of this panel for some background learning. We did the data scan around the system, sent it out to all of our expert stakeholder partners, anyone we could think of. And, I would agree with the woman here from the Milken Institute. There's a lot of data out there. Let's just leave it at that. We were going to provide you with a data scan document. But then, we really would scare people away from this panel. So, we didn't. But, the idea of a consortium is a good one. And I know, if that wasn't recorded before, we should throw it up there as one of the next steps for us to seriously consider, the idea of a data consortium. And, the next step, obviously, is to go through that data and to figure out if we have a bushel of apples that we can pull together or whether it's some type of strange fruit salad and we're not sure what to make of it in the aggregate. So, I had the pleasure of being involved in organizing this panel from the beginning with Cyan Bishop. And we went through lots of iterations. And what we wanted to do was make sure that we found a set of panelists who had a lot of experience grappling with this issue who could bring a career's worth of experience, of data collection and research to help answer some of the questions raised earlier in the day. We also wanted to avoid the people who collected data for data sake. Not that we don't love those people, the data nerds, if you will. We love them. But, we wanted to make sure that we chose a set of panelists who had one eye on outcomes and policy and who could talk about that and relate to that. So, throw all sorts of policy data questions their way. They are very experienced and told me that my job as moderator would be easy because you take all comers, right, any, you're set. See, we, we found, we found them. So, we did a good job on that. So, let me introduce our esteemed panelists. Again, full bios are in your packet. Bill Dunkelberg, Professor of Economics at Temple. He's also Chief Economist at NFIB and brings a wealth of expertise on survey methodology. Zoltan Acs is Chief Economist, Office of the Chief Counsel, U.S. Small Business Administration and he is also an economic professor and founder and editor of Small Business Economics and, obviously brings also a wealth of experience on research and small business entrepreneurship especially. Denny Dennis is a Senior Research Fellow at NFIB. And he has worked at NFIB since the 70s. And he's, was there a chuckle there? And, he's the recipient of numerous recognition for all that he's written about this subject. And finally, Scott Shane, Professor of Economics at Case Western Reserve University, and a Visiting Scholar at the Federal Reserve Bank of Cleveland. He has also writes widely for popular audiences including a regular website column for Business Week, which if you haven't read, is worth checking out. We're also joined over here in the note taking capacity by Barbara Robles who's a PHD in her own right and just moved to the Fed from an academic position, so very well qualified to write down those comments.

[Laughter] She's a researcher in community affairs. If you're ever doubting the investment in that PHD Barbara, now would be the time. Okay, so, good investment payoff right. I think it's being taped, so at least you've got that going for you. Okay so, I'm going to ask all of them the same three questions. We're going to go, we're going to tackle each question one by one. And, after each question, I'll encourage audience participation. I will hold them to five minutes. I also have an academic background which makes me an experienced moderator and I've told them all that. So, they will be held to five minutes and they've agreed to do that. So, I'm going to just briefly let you know the three questions so you can write them down in case you anticipate them. The first one, I'm just, they're just going to be asked to explain their research and what they believe are the small business credit conditions today. Next, I'm going to ask them how they reconcile any discrepancies between their research findings and what we heard today. And, if they don't do that fairly, that's where you come in and really push them to reconcile it. And finally, they're going to be asked about existing data gaps and what we should be focusing on in terms of data collection and research. So, with that, a reminder again that we need to be brief and to the point. And, we will get started. So, we will start with Bill. And the question is, please briefly describe your research, what you think the credit conditions are today and any solutions.

Bill Dunkelberg: I get to go first.

Kimberly Zeuli: You do.

Bill Dunkelberg: I thought Denny was going first.

Kimberly Zeuli: He changed it up on you guys.

Bill Dunkelberg: They just didn't tell us. Alright, well, I was prepared to really respond to what I thought Denny was going to share.

Kimberly Zeuli: You can let Denny go first.

Bill Dunkelberg: Let me go ahead and tell you what we do. NFIB has 300,000 to 400,000 member firms. It varies from year to year but it's a big number. They, we have firms in all of the industry categories you can think of. We tend, we're not a representative sample based on census data. We're a little large in the construction side and probably on the manufacturing side, right. And, Denny's nodding over there. And that, of course, has been one of the interesting questions that I've had to deal with lately because people say well you have too many construction firms, is that why your optimism index is not doing well? So, I have, several times now, pulled all the construction firms out of our sample which, you know, in the first month of each quarter, runs around 2,000/2,500 firms, recalculated everything, and there's no difference. So, we seem to be pessimistic everywhere, in all industries. And, tomorrow we'll release our June report at 7:30 in the morning. So, if you want to see the latest comparisons by index component with and without construction, you can check that out tomorrow. So, we've been doing this since 1972 fourth quarter. That's when we started the small business economic trends surveys. Basically, we ask the same questions to a random sample of our membership. Was every quarter, which was the first month in each quarter until 1986 when we started doing monthly surveys. So now, we do a big survey in the first month of each quarter. And then, we do two smaller surveys yielding 800 to 900 respondents in the in between months. So, we collect a lot of data over the year. And, for the most part, as I said, the same questions have been asked, so, we don't really disrupt our time series. So, that means we've been able to watch the small business sector through the 74 fiver section, 80, 82, 90, 91, 2001 and of course in this current recession period as well. Now, from the credit perspective, you know, what kinds of things have we learned? Well, one thing we know is that credit availability or credit use, you know, is very typical. But, credit always seems to be really easy to get at the beginning of the expansion. So, if you look at 1983 or 2003 you'll see that very few of our owners say that credit's difficult to get. It's real easy. So, we'll start off with only two or three percent saying that, you know, credit's harder to get for them. And then, as the expansion expires with the recession, you find that you get ten, 12, 13% telling us that credit is hard to get the last time they tried. So, it, you'd expect that though. You'd expect to see that going through any expansion and then recession. Credit's going to become more difficult, not necessarily because credit standards have changed but because the applicants have changed. The recession means poor PNL's, balance sheet is tougher, prospects are not as good, etcetera. And so, even though we know what a good loan looks like and we have criteria for that, fewer people qualify for that. So, just to give you a few numbers, in the May survey, 92% of our respondents said they got all the credit they wanted or didn't want any. So, that's 92%. Three, no, three or four percent, I think it was four percent said that credit was their top business problem compared to 30% that said that weak sales is their top business problem. She gave me this sign I'm already out of time. Two minutes. Anyway, so what we see, so let's see, let me kind of jump to the kind of policy issue from the data that we have which says credit really isn't an issue here for small businesses now. And, it's hard to see that it really bumped up back in 08 even though it got, you know, terribly serious compared to past recession experiences. So, a view of many people in Washington is that somehow banks aren't lending and that's holding back the expansion. And, I would like to suggest that it really seems to be something different than that. First of all, in our survey, capital spending, actual reported capital spending and plans for capital spending, are 35 year loads. Those are things that businesses usually come to banks to get a loan for. More firms plan to cut inventory than planned to add. So, they're not coming to us, I say us, I'm putting on my hat as Chairman of the Board of Liberty Bell Bank, which is a small bank in South Jersey. And we pay attention to small businesses.

So, nobody's coming in and asking for anything there. Of course, consumers are reducing their debt. Consumers aren't buying cars. And so, you look at this way and then look at the housing market. Normally, we should kind of be building based on demographics and growth a million, five million, six houses. We're only building around 600. So, a million housing units are not being built. That means a million construction loans are not, people aren't coming to ask us for money for a construction loan and all the jobs associated with a million starts are not here. So, private credit demands are immensely low which may be one reason why the Federal Government has found it easy to finance 1.3 trillion dollar deficit. But, you know, going forward, we're concerned that we might see some crowding out issues. That is, if we actually try to build a million housing units and get a couple hundred billion dollars, I don't know what you think the average construction loan is, but say, 200,000 dollars times a million starts. You're trying to get that. And, you're going to find that we're going to have some difficulty on the credit side. So, that's basically the story we have on the credit side. Credit's not an issue. Customers are the issue. And, if we ever get some customers, we'll start borrowing money and start hiring. But, until we do, no reason to, because these expenditures won't pay for themselves.

Kimberly Zeuli: Thank you. Maybe then we will follow up with Denny and see if you have anything to add there.

William Denny Dennis: Well, actually I do from a different, from a different data series. Beginning about 2000, we started doing something called the National Small Business Poll, and we've been doing that periodically since that time. And, essentially what this is, is a survey of small business owners, small employers, have to have at least one, up to 250. It's done for us by the Gallop Organization. So, it's a national random sample. It's not a member's sample. And, it's a stratified random sample to make sure that we get enough large or small firms to be able to say something about them. We've had three relating to the recession and to credit over the last couple of years. The last one, small business credit in the deep recession, we just started out by asking what was their single most important problem. And, overwhelmingly, it was sales. After sales was confidence. They really are lacking confidence right now. You've heard this in several places before. This shouldn't be new to you. But, the third thing on their list was real estate values. And, I would like to spend, at some point in the day, a lot of time, or at least as much time as I have allocated, on real estate because this is an enormous thing. Put all these three together and you come down for little demand for credit. And then, of those who want it, the balance sheets often don't look good. And, it goes back again to this issue of real estate in many cases. Let me give you just a few numbers. Ninety-three percent of all business owners, these are employers now, you have to have at least one employee besides the owners. Ninety-three percent of them own their own home. Not only that, if we look at the survey of consumer finances, we see that that home is probably worth 60% more than the average value or the medium value of a home. So, they've got a lot of housing. The second thing is that half of them who are not in a home based business, now remember, you've got about 25% of all employers are located in the home, insurance agents, or agencies, construction, maybe some dental offices, things like that. But of the remainder, half own their own business real estate, commercial real estate--half. Not only that, but, 39% of the group own outside real estate, which is not one of the two. So, this is a group of people that owns a lot of real estate, to say the least. Since we know that there's no such thing, for a small business owner, as your business balance sheet and your personal balance sheet, all this kind of falls into one. And, of course, when you go in for a loan, guess what? Now, let's take it one step further with real estate. I'm kind of, as I say, I have been converted to this as being the issue that we refuse to address. Thirteen percent of all business owners have a piece of upside-down property--13%. If you have a mortgage on one of those, after all, some people have paid off their mortgages. If you have a mortgage, then it goes up to almost 20%. So, you can tell, again, how this problem that we're having, not only with residential real estate, but the 1.4 trillion we're going to owe in the next three years on commercial real estate, how that's beginning to affect the small business sector, has the ability to borrow or to do anything, quite frankly, in a financial manner. Now, my time is up. But, I will conclude by saying this. I don't think we've seen the real credit issue come yet. That's to come. So, with that cheery note.

[Laughter]

Kimberly Zeuli: That's intriguing.

William Denny Dennis: I'll pass it on to Zoltan.

Zoltan Acs: Thank you very much. Well, following this distinguished team of.

Pessimists.

Zoltan Acs: Pessimists, I have two stories this morning. And, they're generally the stories I always hear at effect conference. First the bankers come up and they tell you anybody that doesn't need a loan can get one. You hear that all the time. And there's no problems. And then, we hear the people from disadvantaged communities and say none of our people can get a loan. And, you always hear that. I'm going to be sort of in the middle here. And, let me echo Bill's point, we do have a, the recession's over, everybody tells us. Well, here's the way I like to think of the recession. We just fell into a hundred foot well, and we stopped falling. How do we now crawl out? Are arms and legs are broken, right, and we're bruised, and it doesn't feel real good. So, yes, the recession's over, but, there's a lot of damage in the economy. So, we're in a very difficult situation. Now here's the way I like to think about small business. Think of yourself sitting in a bathtub. It's a leaky bathtub. So, the water's always leaking because the plug's not good enough. But, to keep the water nice and warm and the bathtub full, you always have to have water running in and you'd like it to be hot. That hot water running in are new businesses, new plans that come into the economy. Without that, pretty soon you're sitting in an empty bathtub and it's cold and it's unpleasant. So, business startups are important. Now, I don't have any data on whether we're funding small businesses. I don't know that. But, I do know this: the number of business starts are down. They're not as high as they were. Maybe they were too high four or five years ago, but, they are down. So, we're not filling up the bathtub. So, that's an, that's one issue. Now, when I think of those startups, I think of new businesses and the existing pool of businesses. And, here's what we know from a long line of research. Most small businesses don't grow. They have one or two, three, five employees, some of them have a hundred. About four percent of businesses grow. If you want to think of that, that's about 300,000 businesses that have employees. They create almost all the jobs. Some of them are small, some of them are big. So, funding those, that's one funding issue, right, funding the startups is a second issue. So, what I see is we're not having enough startups. Whether that's due to funding or not, I don't know. Whether people are just freaked out by the economy, I don't know that either. But, we're not having a lot. Now, let me sort of go to Japan, cross the Pacific. And, if you go look at the Japanese economy, there's one thing that I know. And, you can go check the numbers yourself. They have zero startups. It wasn't always the case. Their startups were never as high as ours. Their economy is different. But, their numbers went like that. So, when I look at the U.S. economy, I look at small business, I look up startups, what I worry about is, are we on a trajectory where startups are not going to recover? And, I worry about that. My final note is, if I look at bank credit, here's what I know. When I look at the balance sheet of all small firms, it's about 50% debt and about 50% equity. And, bank lending's about 16%. So, it's a piece of the puzzle but it's not the whole piece. So, the funding issue is much more complicated than just bank credit. And other types of funding are equally important as we hear this morning on how do you fund those firms that you really want to grow. So, I think, there's credit issues and there's financing issues and they're both important for the economy. And, I'll stop 15 seconds early, thank you very much.

Kimberly Zeuli: Oh wow, thanks. So, Scott it's up to you. Are we in a lukewarm bathtub, bottom of the well or facing an Armageddon?

Scott Shane: Well, I will tell you that what's quite surprising is actually to have several academics on a panel and see a lot of agreement, because it's actually quite surprising to see that. But let me, let me start by telling you a little bit about what I do. So, I'm a data leach. I don't produce any of this data, I just use it. And, the advantage of that is I don't look at all of it and try to figure out the patterns from it. And that includes the private sector data sources that you heard something about, what American Express Open does or Discover Card or Bailer Research, or the Fed data, both the surveys and the other data, and the trade association kinds of data. Now, the first think I need to point out to you is that we don't have good data. It's very important that people realize this, that, from a time series point of view, to try to understand what's happened over time, we have virtually no series of survey data that go back across recessions. One of the ones we have is the NFIB data. But, as the, as Bill pointed out, it's not a representative survey of all small businesses, it's representative of the NFIB members. So, we have a hard time divining what's going on from the data. What we do know is a fact, which is that, the amount of credit that is received and used by small business today is down from what it was a few years ago. So, the fact is clear. The problem is the answer to the question 'why'. Now, the good part about this is that if the bankers and the trade association members and the small business owners were taking an exam, everybody would get an A because there's some truth to everybody's explanation of what is going on here. So, part of this is, you know, the bankers say, as was mentioned before, people aren't asking for money. And, the demand for credit is down. And, there's evidence from a variety of sources that that's true. And, not just the NFIB, but may sources, private sector sources are showing that a minority of small businesses are asking for money. And so, one first thing we have to say is well, we can't blame anybody else for anybody who isn't asking, right. Maybe amongst those who ask we would see a different pattern. The second thing that we're starting to see is, at least, during the current recession there's been a decline in the number of businesses that have been asking for credit during this recession. We can't compare it to any others because we don't have good data on that. But, during the recession, the demand for credit has gone down. But, maybe that's because sales are down. Maybe it's because people are discouraged borrowers. We're not we're not sure. Second thing is, is that, the bankers are also right about one other point. And the other point is the credit risks are worse than they were before. So, to give you just a sense of some of the data, so, if we looked at the American Express open small business survey, and we looked at September 2007 before the recession began and compared it to February 2010 on the question about small businesses that report having cash flow concerns, we see a jump from 49% to 60%, right. You know, we would, we would want to expect that people would be more cautious about lending if we saw that small businesses were saying they have more cash flow concerns than before, right. Now, on the other hand, right, we do see people reporting that they are more discouraged borrowers than they had been; people saying that they are experiencing, to some extent, cutbacks on things like lines of credit. So, the answer is, it appears that we have a variety of different factors all contributing. We know that there's a decline. We can't point to a single source. And, the main reason why is because we don't have good enough information to point to that one source. So, we get a lot of discussion about well it's this one or it's that one without the agreement.

Kimberly Zeuli: Thanks. So, are we in a bathtub or well or?

Scott Shane: I'm going to not use any of the analogies there.

Kimberly Zeuli: Oh okay.

Scott Shane: And just go with the fact.

[Laughter]

Kimberly Zeuli: Questions. Alisha you want to go?

Alisha Coffman: Alisha Coffman Foundation, so, this kind of touches on all of the four presentations. Research in the census bureau shows that, basically, all net new jobs added in our economy from 1980 to 2005 came from new firms. So, I believe what Zoltan was saying about startups being super important, it's true. I agree with Scott who says we don't have good data. There is, there are a lot of data out there but there are not a lot of good data. So, you know, Bill said financing is not an issue. But, to reiterate what Scott said, you know, the NFIB survey is a survey of members which are, you know, older, more established. Even if you take out construction, the average firm is much older on average than firms in the economy. The survey that Denny was talking about, now, these are employer firms. You know less than, or about 25% of firms in the United States have employees. So one, Denny's not talking about the 75% of non-employers that are, that are in the U. S.. And, Bill's not talking about most of the other, most of the firms that are in the United States. So, when we are asking is small business financing an issue, we don't have an answer because we don't have data to answer the Question. You know, Stiglitz and Weiss won the Nobel Prize in economics by showing that price doesn't equalize supply and demand in the markets. And, equilibrium and credit markets are, is credit rationing. So, not all the firms that want credit who are credit worthy get loans. And the first type of firm that's going to be rationed out of the credit market are going to be new firms because they don't have a credit history. I'm not surprised there's not a huge credit issue for the NFIB survey. These guys are very well established, they're old, they have a track record. Of course they're going to get financing. They're not the ones getting rationed out of the credit market. So, I think, when we look at how to best understand credit markets, we need to capture what we're looking at which is new firms and young firms. And, until we have, you know, a good data source for that, we're not going to even be able to answer that question.

Kimberly Zeuli: Thanks Alisha. Is there [inaudible]?

Yeah, first of all, you know, you're right about there not being any good data sources on, particularly on new stuff over time. I would point out that employers, even though there're just six million of the something like 29 million of them that we have, remember though that about one half of those are part timers doing part time things. And, you know, so you can't really, I'm not sure to what extent, you know, you can count them in. I just don't know. And then, you have, you know, the other 25%, if you will, that are self employed then, you know, themselves. So, we don't have those in. On the other hand, if you look at the survey done by, what is it Discover, Scott, you might know better than I do, that are the under the fives and are down with the unemployed or with the zero employees include a lot of zero employees. They don't, you know, they basically reflect what we're showing. And so, I think that there is no homerun series that'll just say this is exactly it, but, if you start looking at the preponderance of stuff, particularly at the preponderance of stuff that is done by some type of random selection rather than the self selection, I think you'll find that the conclusion or the consensus or the drift of the thing pretty much comes down to where we are.

Can I put on my banker head, just comment on that real quickly?

Bill Dunkelberg: Yeah really quickly.

Okay the, you said that lots of people that are credit worthy aren't getting credit. All the banks that I know, and I speak to community banking organization around the country, all say one we didn't change our credit service, two we have money to lend, we just don't have anybody to come in. if they're credit worthy, you know, we'll make a loan. We're not happy making 25 BP's leaving our money here at the Fed. It's not a good way to make money. So, I think we have to be careful about that term. The other thing we have to keep in mind is a lot of people who say that want credit and think they're credit worthy, you know, forget that banks are not venture capitalists. So, you can come in with a great idea for an operating system and your last name may be Gates, but, you know, nobody at a bank can evaluate a new idea, you know, that hasn't been proven.It's just not our job. So, you know, that has to go to the equity issue. And we talked a little bit about venture capital. And, it's true that venture capital is hard to get now because the Angels lost a lot of money in the stock market and the house values are down and so on. And so, we have to, you know, figure out, you know, which petitioner the market specializes in dealing with all these new firms. And, it's not always banks unless, of course, you have a lot of personal collateral, then we'll be glad to lend to you anyway.

Kimberly Zeuli: Thanks. [Inaudible].

Yeah, hi, thanks a lot. [Inaudible] National Community Investment Fund, based in Chicago also member of the Consumer Advisory Council here at the Fed. It's interesting Zoltan, you mentioned what you heard in the morning, something that I heard too, two statements, you know, the bankers think anybody who deserves credit gets the credit. Other people saying, you know, and I'm seeing it from my [inaudible] there are folks not getting credit, you know, small business folks. And then, what is also interesting that is coming out of the panel is that we are saying that we don't have the data. Well, ask a Community Bank or ask a big banker, you know for the reporting of any kind of data and know they're going puke because there's a lot of information being asked for them. And you know stop asking about them. So, I think, it's almost imperative for us to sort of step back and do a data scan. I mean, can you, you talk about the data scan that you do. You know, what data is available today? What is being collected? And then, actually rationalize that to make it more useful for longer term. But, that's a longer term issue. I'm actually very interested in, you know, today. If indeed two thirds, is it two thirds? Sixty four, sixty five percent, yeah, two thirds of the new employment is generated by small businesses, what can we do with some incisive work in datasets available today to make sure that credit goes to those folks? It's a two part thing. One is can which is probably a medium term and a longer term question, you know, it's for the regulators to resolve that as long with SBA as well. And two, you know, do something now because there is the contradiction which I'm hearing from the market versus what the lenders are saying.

Kimberly Zeuli: Thanks. Anyone want to respond? Zoltan?

Zoltan Acs: Yeah, that's a great question. And, let me sort of touch on what Alisha said. I think everybody in this room knows the following. We've had a huge credit crunch. Banks are recapitalizing and credit's less available. I don't think anybody here would say that there's more credit available than there used to be. And, when credit is tight, small firms are going to get hurt more than big firms and other. I mean, we know this. There's just nothing new in this. So, I think that this is what's at the table. And, because there are a large amount of asymmetric information in the economy, right, which simply means small firms will be credit rationed because I know something that the banker doesn't know and we can't resolve it. And, I think, the policies that are on the table, as the Administrator said at lunch and that we have been trying to implement, is the Federal Government has stepped into this role and probably should be stepping in, in a larger role to sort of get us through this period. Now, here's what I don't know. Is this period going to be over in a year? And there's a lot of bankers here. Are the credit markets going to be functioning effectively in a year. well, if I listen at Denny, he says until we sort of get the housing markets sorted out and values back, we may be in this for two or three years. So, which tells me that the Federal Government, through the SBA and other similar agencies, has their role cut out to stabilize this economy for the next couple of years. And, I think, maybe that's what should be on the table as a discussion.

Kimberly Zeuli: Scott did you want to say something real quick?

Scott Shane: Yeah, I just wanted to make two, two quick points. The first point is that we have to be very careful about survey data of small business owners or entrepreneurs about why they didn't get access to credit because people who are running their own businesses are not the people who are going to say I'm not going to get financing because I have a bad idea and I'm not good at running my business.

[Laughter] They're just not going to, you're just not going to hear that information. If there's a big portion in there that's going to be a problem. And I think we don't always recognize that when we talk about a lot of these anecdotes. My second point is that there's, going to the last point about the small businesses and job creation. We know that one of the reasons we're really concerned about small business credit is because of small business job creation. And we talked about this fact that close to two thirds of the jobs are being created by small businesses or they have been for recent data series. But, what we don't talk about is that within those small businesses, the bigger small businesses are much bigger job creators than the smaller small businesses. So, from 1982 to 2008, firms with nine or fewer workers created 15% of the jobs. Those with 50 to 499 employees created 30% of the jobs, right. So, yeah, small businesses may be the big job creators, but, within that it's the big small businesses. And then, we have to think about what that means in terms of thinking about credit if we're worried about job creation as the reason why we're worried about credit.

Kimberly Zeuli: Thanks.

There's one other thing too that I think is really important and that is this whole idea that the small business traditionally leads the solid recession and therefore we ought to be pumping this thing. The truth is, it's really the construction industry in which small businesses are huge. I mean, that's the one industry that small business is in bigger than anything else is the construction industry. And, of course, pretty tough, the construction industry to lead us out of this one. And, one of the things we have to appreciate when we're saying how come small business isn't doing its traditional, playing its traditional role and things of that nature; it's because of the construction industry. And, down a million, dunk, down a million starts, tough, yeah.

Kimberly Zeuli: Good. We have a question here. I just want to mention, I mean, we're already sort of moving into the second set of questions here, which is about how do you reconcile the different sets of information, antidotal versus survey, so.

Michael Banner: Michael Banner, from Los Angeles. Actually, I have a comment and a question. It sounds like one of the things I'm picking up from this panel is that smart borrowers don't borrow when the economy's bad and smart bankers don't lend either. And so, the ones that are borrowing and the ones that are lending are really, you know, are having stress. The other question I really have is about this notion of how real estate and, primarily, commercial real estate is impacting this whole picture. If commercial real estate impairment in community banks, maybe more so now than the bigger banks who preserve a lot of it, is still clogging up the system and you have more out standings in commercial real estate loan portfolios versus C and I lending. How do we get out of this?

Well what is your experience [inaudible]?

[Laughter]

Michael Banner: Well, you know, if John Maynard Keynes was in this room he would say bulldoze every empty building.

[Laughter]

Kimberly Zeuli: Okay, that's short.

[Laughter] Okay.

Michael Banner: Well other than that I'll just comment, you know, time solves a lot of these problems. You know, it is true, of course, that some firms grow quickly and create a lot of jobs. But, a lot of job creation comes just from more. We have a million new people every year. So, you know, we get more barbershops and more nail salons. And they don't grow. And, you know, they can, there's only five barber chairs in there and they're filled. But they create, the new ones, you know, that don't grow, they create a lot of jobs just because of the sheer size of the economy. Well the same way with, so, the housing problem would get solved that way in most markets. Now, a few markets like, you know, Florida, there's just so many houses it'll take five years for population growth to resolve the issue. But in other parts, I mean, we are building 600,000 new. So, we have to start somewhere. And it's going to continue to improve just because the fundamentals will help. And, that'll stabilize real estate prices and give people confidence in a lot of markets. And again, they're very local markets. So, you know, in my market things aren't nearly as bad in New Jersey and Philadelphia as they are in Florida where I also, unfortunately, have a house in Cape Coral which is ground zero for that single family housing mobile buzz. But, I mean, it will resolve but it'll just take some time.

Kimberly Zeuli: Alright, we had a question right here in the middle, this table. Sorry for the.

Grady Hedgespeth: Grady Hedgespeth of SBA, Office of Financial Assistance. One of the things we're struggling with, as you heard my colleagues say, is what is small. And, as we start thinking about collecting better data, especially lending data, I'm curious about what you would think the number would be to define a small business loan if you could just pick one number?

You know, I asked an accountant once, "What's a small business?" I think it was Ernst and Young, I don't even know if they're around anymore. And, he said, oh that's easy, less than a billion dollars in sales, that's a small business. That stuff doesn't even help me. I have to think it's useful to put this into two categories. I think that Brian, you always of used this and sort of Scott eludes to that. First there are people that don't have any employees, non-employers. There's a lot of them. And I'm not even sure if you want to think of those as businesses, that's an occupational choice. I'm a plumber. I'm going to go fix your plumbing. And then, there's that either zero to nine or zero to 20. And then, there's that 20 to 200, 300. Those are two distinct categories. Now, which one do you want to call small? I don't know. You can take your pick. But, they have different needs. And, you know, sometimes you want to call it medium. But, where do you want to put your emphasis, I think, is the interesting question. You know, is it that one to ten or do you want to focus on the 19 to 100 that are going to probably grow more?

Kimberly Zeuli: Scott, would you like to?

Scott Shane: Yes.

Kimberly Zeuli: Weigh in on this?

Scott Shane: First of all, I'm really glad to hear that the SBA is actually considering this question. Because, you know, if you look at the numbers, right, we're talking about, I believe the number calculates to 99.93% of all business in the United States, if you include employer or non-employer businesses, are small businesses. To me, that rounds to a, you know, very close to a hundred, right. So, it's not a very useful definition. But, I think that the issue may be better served by not saying what's the right definition for small business but that the term small business isn't very meaningful. And, what we should do is say this is what it is for non-employers. This is what it is for businesses with one to nine employees. This is what it is for businesses up to 25 employees. This is what things look like. Because, I agree with Zoltan and the principal that, you know, there are some patterns there and maybe the 20 and above, there's a cutoff. But, only for certain dimensions. And the better way to deal with it is to say well, let's not worry about which dimension the definition's going to fit better for and say let's just talk about businesses by their size and worry about the conditions and issues that they face. Because, there is so much heterogeneity about the issues that they face that we really need to sort that out if we want to understand the answers to the problems.

Yeah, that, you're absolutely right Scott. And, the Europeans, in a sense, do it better than we do. They use, they call people the one to five, or the one to nines, craft businesses. Just, it's a nice term for that particular size. And, from ten to 249, I guess, they're small businesses. And then, from 250 to 500, medium size businesses. So, they actually use the employ size like Scott's talking about. But they use more and it makes a lot more sense than the way we do it.

There's a footnote that I just point out that the Fed survey of 50 money survey banks about whether credit conditions are tighter or smaller for small businesses makes me wonder what they think a small business is. But, it doesn't correlate very well at all historically with our measure of credit tightness when people tell us credit is harder to get. So, I don't think the money center banks have much of an idea about what a small business is either when they're talking about whether credit conditions are tighter or not.

Kimberly Zeuli: So, now we have some disagreement. We have one person up here and then I'll get over to that side of the room.

Ron Phillips: Thanks, I'm Ron Phillips with Coastal Enterprises in Maine. We're rural CDFI, make a lot of loans and do a lot of business counseling. We just helped a bowling alley get acquired for example. It was originally valued as 600,000. The actual purchase price was 100,000. So, it gives you a idea of what goes on, on that level. We helped, recently, a small self employed operator go out of business who ran a cosmetic retail store and how to liquidate and get value for their inventory. But, we also helped with a 504 deal; a person who's involved in a biotech project with raising goats and using goat serum basically for various kinds of things. So, we helped them build a barn for 260 goats they're taken care of for over 15 years and quite a lovely project. But, there're good and bad things, difficult things going out there, good stories and hard stories. I think though, the think about small business definitions is really the place to focus on because there are different tiers. We can look at that more closely. My question, though, deals with, I guess, credit cards and going back to that. I'm on the Consumer Advisory Council here with Rob Duran and some others. And we have been looking at the applicability of a consumer protections that have in past last May applied to a business in terms of credit cards, using credit card for business activity let alone helots or lines of credit against their houses, which I think is quite an issue. I wish Robin from the KauffmanFoundation who is here didn't mention, but I will, maybe she has more perspective on it now. But the Kauffman Foundation did studies to show that there is a distinct sophistical correlation between the use of credit cards and bankruptcy among small businesses. I think NFIB also corroborates that some way. So there's some research. The question is maybe to you Mr. Dennis but also to others if they want to comment. Do you see that there should be regulations that go to the American Expresses or the Bank of Americas or the Wells Fargo that are providing these? These are Capital One business credit cards. Should there be also consumer types of protections that go to those because of the bank that sees the result from some of the uses of those credit cards? Thank you.

William Denny Dennis: The first thing, it would depend upon what regulations you're talking about. That would have a huge, huge impact. Some of the things they did on the personal side, probably, could be transferred to the business side without a lot of difficulty. Some of them, for example, the changing of interest rates and things like that. So, I mean, I think you have to be very careful. I mean, the question is very abstract. And, you know, should there be, you know? And so, I would feel uncomfortable saying yes. But I certainly don't want to say no either. I just, until you, until, until I see what you're talking about very specifically, I'd like to punt.

Kimberly Zeuli: So, maybe you guy can meet up at the reception and, alright. So, now we've had both the dismal scientist proved as well as the 'it depends.' So, we have this question over here and then I'm going to move on to the third question for this panel. Go ahead.

[Inaudible] Small Business Administration. I'm just curious for the panel, is this a better way to look at small business financing, through the lens of firm size or through firm age?

William Denny Dennis: You know, I did this study which precluded the Kauffman study back in the mid 90s where we looked at this question of age and size. And, we came up with this amazing number that, when you looked at where people worked, they all worked for older firms because most firms are not two days old. The very new ones were small. But, when you looked at net job growth, new firms and new establishments accounted for all the job creation that were less than one or two years old. I mean, again, you're back to the, back to the bathtub story. New matters. It brings in new technology, brings in new products, brings in new blood, brings in new people, revitalizes communities. But remember, there's two parts of that. One is someone starting a new business for the first time. And, the other one is the establishment of a Wal Mart or of an auto plant or whatever. And, they both account for about the same. So, if you ask the question is new or is age or size important? They're both important. But, if you look at the vitality of the economy, age is actually much more important. And so, if we don't fund, whether it's for a large firm or a smaller firm, that startup process, over time, you're a Japan. And so, I think that that age issue is absolutely crucial.

Kimberly Zeuli: Alright well, before we move onto the last question which really goes into greater detail around the data gaps and if there's any new data, does anyone really want to take on this panel at all in terms of their findings? Oh, no, just take, go ahead, I'll wait for the.

[Inaudible] findings, but I thought I was educated until I heard this panel. I have no idea of where we are. And, if we're going to go forward, I mean, I haven't heard where we are except that we fell in that well and broke both arms and legs.

[Laughter]

Kimberly Zeuli: Or, we're in a bathtub.

Or in a bathtub but there's no water. I mean, if we have to have this data in some fashion to understand or convince somebody to give us something and provide us some help, I am below the table at this point. I don't understand.

Kimberly Zeuli: Who would, who would like to respond to that question?

Well let me, let me just.

[Laughter] Let me just start by saying that you can, you can, you know, you can get access to the NFIB surveys by going to nfib.org/research or you can go to smallbus.org and see my last 12 reports and the charts that we've had for 35 years and kind of get a picture of, you know, how we think things are going. Just real quickly, the, you know, the optimism index we have which averages about a hundred over 35 years has been at recession levels for two years. It's the longest string of bad readings we have seen in the 35 year history of the survey. So, things don't look good. You know, the plans to increase employment, we asked, the question asked is do you plan to increase or decrease the total number of people working for you? So, it's a job creation question. It's been negative, that's a negative number for 18 months. It finally turned positive in the last two months to one to one percent. But, it should be up at ten or 15 if we're really moving if we're seeing an expansion. So, you know, you can look at all of the detailed data. Basically, it looks like the small business sector of the economy is not in gear, which may explain why instead of having those great growth rates we had in 1983 which was five percent in the first quarter, then eight then nine then eight, we're looking at three and five and three, if we're being generous with the numbers and probably three or less this quarter. So, it's like half the economy's not working and it's the small business half. And that's kind of where we are now. And, you can check that out and see.

Is the large business half working?

Kimberly Zeuli: Does that answer your question or were you asking a slightly different question? That's part of it.

[Inaudible] Okay, Scott, do you want to give him the X?

Scott Shane: Yeah, let me try this. So, I think the problem, actually, lies in the way we framed the question, alright. So, this is the way the question is being asked if I paraphrase it. There is a supply and demand problem for credit that's allowing the credit to be lower than it used to be for 99.93% of firms. How do we fix that? And, that's almost an unanswerable question. What's a more answerable question is to dig down and say what are the different kinds of businesses? What are the different kinds of problems that they're facing? Just to give you a sense, right. We've got about 16 or so percent of people who run small businesses for 2001, 2007 were personally borrowing against their home's home equity to fund their businesses. What we don't, we haven't looked at the data that exists about what are those firms? Where are they located? Are they different in different places? Who's got that problem to know whether we need to work on a home equity problem or we're worried about the commercial real estate ownership of the small businesses that say maybe the manufacturing guys with 50 employees that are in the NFIB survey, the problem that they're facing. And, until we kind of look at that kind of stuff, we're not going to be able to come up with good answers because I don't think we're going to find an answer that says we're going to fix the supply and demand problem for credit for virtually every firm in the economy by pointing for a solution. That's just not a viable approach.

Kimberly Zeuli: Does that help?

[Inaudible].

Kimberly Zeuli: It's getting there.

Can I really confuse you?

Kimberly Zeuli: Oh, we were moving in the right direction.

[Laughter]

In the late 70s, when I kind of started this business, if you want to call it that, it was virtually impossible for a small business to get a loan. It was a highly regulated atmosphere and that sort of thing. And, the standard everyday operating small business, basically, had real troubles. And, over the years the regulations set in, we had some financial innovation such as credit scoring and things like that. So that, by 2006, we got a survey of a national sample, again of employers, but a national sample, that 90% were able to get their most recent loan request filled, 90%. Now, there's always ten percent that are going out of business. So, 90% got it. It meant, basically, that everybody got what they needed. Then, all of the sudden, we have this crash. And now, we've got some numbers about who's getting it and who's not. But, clearly, the question is you're asking about a normal period. What's normal? And, the answer is, in my lifetime, we haven't seen anything normal. And, I just don't know what normal is. And, I'm not sure we ever will.

Kimberly Zeuli: That's good. We're better? Thanks. Anyone else really confused by what we've discussed before we move on to data gaps? No, we're good, back there, we haven't heard from you. Where's the microphone?

Claudia Viek: I'm Claudia Viek and I run CAMEO which is the California Statewide Network of Micro Business Development and Micro Lenders. And, I'd like to key in on that word micro because we really haven't said that word, micro business. But, in fact, as you've pointing out Zoltan that there is, you know, one third of all of the jobs are micro business owners or they're non-employer businesses. And, that's where it all starts. Every business starts as a micro business. So, doesn't that then sort of, by logic, say that we should invest in the startups that we should try to get people in there, get them moving? That's the entrepreneurial way. Someone mentioned the other day, I want to speak to the despair in Florida we just mentioned. I think there is an answer. And that is, that talented, that untapped potential, the immigrant businesses, the women-owned businesses, those that have the potential to grow. Maybe it's a small percentage. But, if you don't widen your net, you don't throw it out there, and you don't provide incentives to banks to make loans, the CRA loans to the startups through the CDFI funds, because they're the only ones that are making those loans, right, to startups. I would just offer that. I think that we need to use that word micro. We shouldn't be ashamed of it. And, we should realize what comes from that.

Kimberly Zeuli: Good thank you.

Claudia Viek: Microsoft came from Micro right.

Kimberly Zeuli: Micro.

Can I respond to that?

Kimberly Zeuli: Yeah.

If you take all the non-employer firms they contribute two percent of GDP. It's tiny. It almost makes no difference to the economy. If you want to grow this economy, you need people that can grow businesses. And, to grow a business you really need three things. You need financial capital that you already have, you need human capital, and you need social capital. Almost everybody that grows a business has those. Now, who does that? That's generally your best and your brightest. What really matters is what those people do. What everybody else does can help. But, unless people that are connected, have money, start creating growing businesses, we're not going to get this economy growing. And so, I actually don't like focusing on the bottom. I like focusing near the middle, toward the top because, I think, it's that middle class where your entrepreneurs come from that grow most of your businesses. The rich don't start businesses. They're already rich. And the people without the social and financial capital, they just can't. I mean, you're all saying this, people at the bottom have a tough time doing it and the bankers don't help. So, it's that middle that is the key to getting this economy growing.

I think, I would have a bit of a different take on that question. And, I think it depends on me asking you what's your objective. And, I don't mean just you, the person who asked that question personally, but everyone. Is the goal of this to create jobs? Is the goal to make sure that a bunch of people who have been hit hard by the current economy get helped? Because, even if we just make those, only those two objectives, we don't have agreement on the solutions because we don't have agreement on the problems because they're actually different problems. Then, we add to that a whole bunch of other objectives. And, I'm going to say you have to tell me what we're trying to get to before I can tell you what the problem is and then try to make up a solution to it. We're too far away from that because we don't agree on what the objective is first. And for micro businesses, the objective is different than job creation and different than impacting GDP. In many cases that's actually, for a lot of people, the best alternative they have. And so, we want to support that because we need to help those people with what they're doing. If we say that that's less important than creating jobs, then we might want to say well then let's focus on the biggest of the small businesses because that's where you're going to get the biggest bang. You get more than with the micro businesses and you get more than at the giant companies if you focus there.

Kimberly Zeuli: Alright, thanks a lot. So, I'm going to move into the last question which is really to ask them to nail down where they think new research is happening that might be of interest to this audience and particularly the data gaps, the next steps. And I'm just going to go down the line here starting with Bill.

Bill Dunkelberg: I get to start again. Well, I think there's been some good commentary about, you know, what we need, you know. I always, people will ask me what's a small business and I'll say well the SBA defines it as any firm with 500 or fewer employees which, as we pointed out, is like, everybody. Six million employer firms 18,000 are above 500, that's the number I borrowed from the SBA. They've just, you know, but they're really important because they produce a lot of the GDP. It's just that they're very capital intensive firms and they don't employ a lot of people when they grow. They employ some, but, that's the only reason. The reason they're big is because they take advantage of capital intensity which the service sector, which is dominated by the small firms cannot. So, I would, I'm not, I think that trying to collect more data by firm size would be probably useful to find out what's going on and where the action is and find out what's going, what's happening. I think we pretty much reconciled the whole issue about anecdotal versus, you know, getting systematic data. I call those man who statistics. Like, if I tell you an average income is 50 grand, you'll say yeah but I know a man who. And another, the press, the media's full of these, you know, some firm that's supposed to be, they think they're credit worthy, you know, and should be getting their. Those man who statistics confuse the issue substantially. So I, we really ought to work harder on getting good databases and we ought to kind of agree on what kind, what kind of characteristics we should know about the firms. And then, try and get an overtime series of data. So, the fun thing about NFIB is we started this thing, you know, back in 1973. So, we've got very good time series information. Yeah we're not representative. You can weight our data to make it representative. Although, you know, you still may have not have gotten the micro firms in for example. And so, you can't weigh micro firms in if you don't have any in the sample to begin with. And so, that's where I think we ought to probably focus our work. We're going to put resources into data collection. It's good to have competition, which we have a lot of different people who've joined the bandwagon who's collecting small business data. It's nice to have them there. But, you know, there's, somebody ought to have a really long view and say this is what, this is how we're going to collect it. This is how we're going to draw the sample, etcetera, and go from there. And, I think, that would be helpful in the long term.

Kimberly Zeuli: Alright thanks. Zoltan.

Zoltan Acs: I'm going to make three points. We have much better data than we used to. Twenty years ago we had almost no data. Thirty years ago we didn't think it was important. So, we do have much better data. The data is not current. The SBA, our employment data's two years old. I can tell you what happened in 2008 but I can't tell you what's happening today. So, there is a real need to have much better data. Bureau of Labor Statistic's data is about nine months old. It's still not, so, we do need better data. And, there's been a data initiative that Kaufman has pursued in Washington. I think we've never really convinced the Washington establishment that data on this is really that important because we still don't have efforts in place to do that. So, better data, more current data, I think, is really what we need. The second point I'd like to make is that I think today we have data that's not as good on lending than that we used to have. And partly because the Fed survey's not there and other issues. So, I think, there, more of an effort should be made so that we actually know whether there's too much money or there's not enough money. So, I think, this issue is important. The third issue that I worry about is the overall federal deficit. It's a different subject, but, if you picked up today's Washington Post, if you picked up yesterday's New York Times, the budget deficit picture looks terrible. And, if you think there's a credit problem now, if this federal budget gets out of control, there'll be no lending for small business. And, I really worry about that. I don't know if this is going to hit in two years or three years or four years. But, if it takes us three years to work down the inventory, then we get a huge budget deficit, then I really see a real problem moving ahead. So, I view you having these data sources that tell us what's happening with small businesses, more up to date and having the financial picture clearer is absolutely crucial to navigate into this decade as we move into this era of larger deficits.

William Denny Dennis: I totally agree with you on that last comment Zoltan. I would like to point out a couple of things for you if, you may be familiar with them, or if you're not, I would suggest you take a look at them in some form or another. The Congressional Oversight Panel has produced two really, I think, good pieces work. That's Elizabeth Warren's group. One of them is on small business lending and that sort of thing. And the other one's on commercial real estate. Interestingly enough, the former, on small business, they recommend more data and better, much better data. They indicate that they can't make really analysis or good recommendation because there's just not enough there to work with. So, I think, I recommend those two. And, you can get those over the internet very easily. The third one is not so easily understood or abstracted. But, for those of you that are interested in starts. There's something called the Panel Study of Entrepreneurial Dynamics which is one of the most innovative pieces of work, I think, that's ever been done in this area, anyway. And, it's on, well, how would they access that?

The University of Michigan website.

The University of Michigan, yeah.

William Denny Dennis: The University of Michigan Survey Research.

PHD in programming.

William Denny Dennis: Well, that's the problem I'm worried about something that will be handled. But either there or there, there is a book out by Paul D Reynolds too that will describe the basics of, Reynolds and Curtin, Rich Curtin, Panel of Study of entrepreneurial dynamics. But, if you're interested in the startup process, this is the only thing, pretty much like it that I've ever seen done. I think the data issue was exhibited early in this recession when we first went into this thing by the question, quite frankly, of, you know, what we, what we started out with, whether or not there were credit worthy firms that couldn't get credit. What, how much supply was there, how much demand was there, and what was the issue in between? And, it kind of ran into this issue of, over a long period of time, we could tell you how much credit there was from, at least, a pretty good proxy of it. From, sorry Alisha, pretty good proxy of it from the call reports. And, we could get some things on demand by some of the surveys. But, everything all fell down on the issue of credit worthiness. How do we determine what credit worthiness is and how do we incorporate that, incorporate that in? And, quite frankly, I don't have an answer for that. I don't know how you're going to define credit worthiness in this context and how you collect information working around that. But, I think, Zoltan absolutely had it right. You can, there are two basic ways. Unless you've ever collected a dataset, I don't think you can appreciate fully how much is involved and how much interaction, coordination, all this type of thing that goes into it. But, if you want to think about it in two basic approaches, one being a very large piece of work done irregularly or at some lengths and period where you can really get lots of detail and you can learn a lot about financing of a small business as one side. And then, something far less detailed and much more regular and current on the other. I fall down with you Zoltan. I think our problem was always throughout this entire thing, is that we didn't have things to keep us up to date as to what was going on. Obviously, they're not mutually exclusive. But, when we come to these kinds of things, I think we need something that's more current, something that'll keep us on track.

Kimberly Zeuli: Thanks.

William Denny Dennis: We did this thing called small business credit in the deep recession last year. We will update it. We will do it again this year in October. So, we should have another decent report probably before the end of the year.

Kimberly Zeuli: Thanks. Last word.

Scott Shane: Okay, then it must be right if it's the last word. But, no I think that.

Kimberly Zeuli: I didn't say the final word.

[Laughter] Important distinction.

Scott Shane: Good point.

Kimberly Zeuli: Yeah.

Scott Shane: I think that the general sentiment, right, is that we need data over time. We need it to be large samples so it takes into account all of the variation of different types of businesses. And, it needs to be representative. Now, I want to take a twist on the concept of the consortium that and the public private partnerships that were mentioned before. Because, it's not that we have the data out there today that will give us that and that it's an effort to put it all together. What we need to do is create a system that put that data in place. And, instead of having lots of little efforts, which don't amount to a lot, we need a smaller number of really good efforts. And, I actually think that the answer to that has to come largely from the data that's in the private sector. Because, there's no way that outsiders are going to be able to survey and generate that. If we took and collected the amount of administrative data that is out there on this activity and put it together, we'd have a better answer. Now, that comes at a cost because I guarantee you that all the people who said oh yeah, you know there's, this information is in the, in the private sector and you can just gather it and use it, they're going to hate the idea of then having to report this because there would be effort involved. But, if you really want to know, you really want to take all of that data that's out there on, what lenders are actually doing and what's happening with applicants for that borrowing at financial institutions and look at the patterns over time.

Kimberly Zeuli: Thanks. One last question.

We should.

Kimberly Zeuli: Oh, oh gosh. I'm going to go back here with Jerry. I'm sorry you guys. I know it's hard to pick the last.

Jerry Boyle: Hi Jerry Boyle with the Chicago Fed. I can't believe we've gotten this far in this meeting without having some serious discussion about our inability to actually analyze collateral value. Because, collateral value keeps coming up whether it's Mr. Dennis' observation at 13% of these businesses have one property that is under water. Or my friend Dave Andria is here from the original Equipment Suppliers Association. And, you know, his members can tell you a lot about equipment being valued based on a forced sale rather than the productive capacity of the equipment. And, that is all driving business' ability to get credit and in many cases ability to renew credit is a change in value that's being assigned. And so, there's a lot of this anecdotal evidence that appraisals are being sort of punishingly reciprocal right now and we don't have a good basis on which to set a new baseline and, even with the broken limbs, crawl back out of the well a little bit. Because, all of the, all of the comparables that you see, whether it's on equipment or on real estate, are now based on these very distressed sales. And so, the question is, how do you, how do you analyze whether or not collateral values remain in an appropriate range based on something future-looking rather than having everything being sort of retrospective?

Kimberly Zeuli: We just have time for one response, so.

I have no idea.

[Laughter]

Kimberly Zeuli: Okay. Anyone with an idea.

Little banks do that. I know we do the best we can. You know, we're making, we're out there making loans. We have a loan committee, the loan committee comes from different businesses and they know the little market that they're in, that we're in and so on. And so, you know, I mean it's not perfect and, I know, a couple years ago I told our loan committee, I said we're into a real estate boom here, here cut everything by 20%. I don't want to see the appraisals. You know, when you look at a loan you whack them. And, you know, maybe that's why we're still doing okay. But, I don't know of a better system than to have lots of very, you know, good competitive commercial banks, community banks, very big banks, you know, competing with each other and all tapping on people, tapping into people who know the market they're working in. And I think that's, maybe we may not be able to get it better than that.

Kimberly Zeuli: Denny, five second response.

William Denny Dennis: Well, I, first of all, I think really, you know, when you got into the leasing equipment, you've taken the real estate another step further and it's the same essential problem. We're back to the market issue this time for real estate. And, well, that's all I have time for.

Kimberly Zeuli: Do you want another five?

William Denny Dennis: Five seconds, no that's alright.

Kimberly Zeuli: Okay, Scott, did you have something quick?

Scott Shane: I'm alright.

Kimberly Zeuli: Alright. It's a great question and probably would take a lot longer than the time we have. But, maybe we can answer it in the next section or later on. So, thanks, let's join me in thanking our panelists.

[Applause]