

DAN MEUSER  
9TH DISTRICT, PENNSYLVANIA  
350 CANNON HOUSE OFFICE BUILDING  
WASHINGTON, DC 20515  
(202) 225-6511  
121 PROGRESS AVE.  
SUITE 110, LOSCH PLAZA  
POTTSVILLE, PA 17901  
(570) 871-6370



Congress of the United States  
House of Representatives  
Washington, DC 20515

HOUSE COMMITTEE  
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ON SMALL BUSINESS

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SUBCOMMITTEE ON  
RURAL DEVELOPMENT, ENERGY,  
AND SUPPLY CHAINS

October 20, 2023

The Honorable Jerome H. Powell  
Chair  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue NW  
Washington, D.C. 20551

The Honorable Michael S. Barr  
Vice Chair for Supervision  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue NW  
Washington, D.C. 20551

Dear Chairman Powell and Vice Chair Barr,

We are writing regarding the impact of capital requirements on small businesses. We remain committed to fostering an environment that supports the growth and vitality of small businesses, a vital component of our nation's economy.

In our ongoing efforts to address the challenges faced by small businesses, we would like to draw your attention to recent data that highlights the evolving landscape of credit availability and lending standards for small firms. Specifically, we are concerned about the findings from the Senior Loan Officer Opinion Survey on Bank Lending Practices (SLOOS)<sup>1</sup>, which underscores the tightening credit standards and increasing costs of credit for small businesses.

We recognize the Federal Reserve's commitment to safeguarding our financial system from undue risks. Nevertheless, even measures aimed at the largest banks that severely raise capital requirements can have far-reaching consequences. As larger banks recalibrate their operational and lending models in response to these capital requirements, there's a real concern about the cascading impact this may have on smaller financial institutions, and consequently, on the small businesses they serve. Such a scenario would invariably alter the financial landscape, with potential consequences like a tightened credit environment and increased borrowing costs. It is imperative that small businesses have access to affordable credit to support their growth and

<sup>1</sup> Federal Reserve System. Senior Loan Officer Opinion Survey on Bank Lending Practices. Retrieved from <https://www.federalreserve.gov/data/sloos.htm>

recovery, especially as they continue to navigate the challenges posed by the ongoing economic environment.

The Federal Reserve's latest Survey of Loan Officer Opinion (SLOOS) provides compelling insights into the shifting credit landscape. Approximately 50% of banks have tightened their credit standards for small businesses with annual sales of less than \$50 million. Over 60% indicate that credit has become more expensive for these firms, and more than 60% report heightened premiums on riskier small business loans.

When it comes to current credit standards compared to the period from 2005 to now, more than half of the banks express that their standards for both small businesses and very small businesses (those with annual sales under \$5 million) are stricter than average, with few loosening their criteria. Furthermore, expectations for the latter half of 2023 indicate that the majority of banks foresee either worsening credit conditions or a status quo; a negligible percentage anticipate improvements.

The Fed Beige Book anecdotes from various regional banks corroborate this sentiment. The New York Fed highlights the deteriorating conditions in the finance sector, with regional banks noting declining loan demand and tightening credit conditions. The Philadelphia Fed reports tighter credit standards and reduced commercial and industrial loan volumes. The Kansas City Fed underlines the financial hardships faced by small and micro businesses, leading them to turn to higher-interest, non-traditional credit forms like credit cards and online lending platforms. The Dallas Fed echoes the broader trend, with tightened credit conditions, declining loan demand, and rising uncertainties adversely impacting business perceptions.

The recent National Federation of Independent Businesses (NFIB) September 2023 Optimism Index highlighted that small businesses face rising costs of credit, "A net 26 percent of owners reported paying a higher rate on their most recent loan, up 2 points from August. The average rate paid on short maturity loans was 9.8 percent, 0.8 of a percentage point above last month. Thirty-one percent of all owners reported borrowing on a regular basis (up 3 points)."<sup>2</sup>

In sum, both the quantitative SLOOS data, qualitative Beige Book anecdotes, and survey results from the NFIB underscore that those small businesses, particularly the smallest ones, face a challenging credit environment in costs and access. The Fed's acknowledgment of these conditions suggests a recognition of potential headwinds in the broader economic recovery and how those headwinds could be exacerbated by the Basel III Proposal should it be implemented.

Given the urgency and importance of this issue, we implore you to commission a comprehensive review of the Basel III Endgame proposal's impact on small business lending. Additionally, we kindly request that strategies and measures to counteract any negative repercussions be

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<sup>2</sup> NFIB Research Foundation, "Small Business Optimism Index," National Federation of Independent Business, publication or last modified date, <https://www.nfib.com/surveys/small-business-economic-trends/>.

established and shared with us, even if that means significantly scaling back capital requirements.

Therefore, we request the Fed provide us:

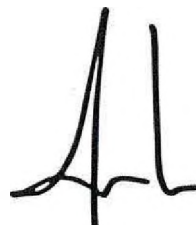
1. Economic analysis of potential downstream effects on small businesses, access to capital, and how current rising capital costs could be exacerbated by the Basel Proposal;
2. How could the raising of capital requirements have a severe effect on small business loans, especially small businesses that are women-owned, minority-owned, veteran-owned, and in rural areas, particularly in a high interest rate environment; and
3. Whether Vice Chair of Supervision Michael Barr considered small business interests in his holistic review conducted before releasing the Fed's proposal.

We appreciate your attention to this important matter and welcome the opportunity to discuss this data further. The Small Business Subcommittee on Tax, Access to Capital, and Economic Growth remains dedicated to advocating for policies that foster a thriving environment for small businesses, and we look forward to working collaboratively to address these issues. We ask for a response to the following questions no later than November 15, 2023.

Sincerely,



Dan Meuser  
Chairman  
Subcommittee on Tax, Access to Capital,  
and Economic Growth



Greg Landsman  
Ranking Member  
Subcommittee on Tax, Access to Capital,  
and Economic Growth



Mark Alford  
Member of Congress



Sharice L. Davids  
Member of Congress

cc:

Michelle W. Bowman, Board of Governors of the Federal Reserve System

Lisa D. Cook, Board of Governors of the Federal Reserve System

Phillip N. Jefferson, Board of Governors of the Federal Reserve System

Christopher J. Waller, Board of Governors of the Federal Reserve System

Martin J. Gruenberg, Chairman, Federal Deposit Insurance Corporation

Travis Hill, Vice Chairman, Federal Deposit Insurance Corporation

Jonathan McKernan, Board Member, Federal Deposit Insurance Corporation

Michael J. Hsu, Acting Comptroller, Office of the Comptroller of the Currency