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Congress of the United States

CONGRESSIONAL OVERSIGHT PANEL

Opening Statement of Richard Neiman

Congressional Oversight Panel Field Hearing on Small Business Lending

April 27, 2010

Good morning. I am pleased to be here in Phoenix to continue the Panel's commitment to issues around small business lending. The spiraling financial crisis has touched every corner of the credit markets, including products like small business loans which were seemingly remote from subprime mortgages.

Small businesses are engines of the economy and of job creation. The financial crisis and ensuring recession, however, has created a catch-22 that makes it difficult to restart this credit market. There is a lack of confidence on both the supply and the demand side, which reinforces the economic rut.

- Small businesses are understandably hesitant to take on more debt and expand at a time when their own customer base may be less stable; and,

- Banks are also understandably reluctant to take on more risk at a time when small businesses may have strained income.

Community banks are frequent sources for small business credit, and in this stage of the financial crisis, smaller banks are coming under increasing stress. We have seen growing numbers of smaller banks fail recently, and anticipate this trend will continue. These small bank failures, which could be increasingly driven by commercial real estate defaults, create holes in our communities. Where there once was a flourishing center for responsible hometown lending, there can be a vacuum. This means less credit may be available for small businesses, as well as for consumer lending.

So I see a clear connection between righting the ship for real estate loans and small business lending. Commercial real estate defaults may constrain the lending capacity of the smaller banks which provide credit to many small businesses. And since many small businesses use their homes as business collateral, the cratering of the residential real estate market has reduced these borrowers' ability to qualify for a loan.

To break this stalemate will require old-fashioned underwriting, to identify the good deals that are still waiting to be made. It may also require banks to think not only creatively, but collectively.

For example, we have a unique small business program here in New York. It is centered on the New York Business Development Corp (NYBDC), which was chartered in the 1950's during a recessionary period. To my knowledge, we are one of the few such programs in the country, with New York's being particularly well established.

The NYBDC is an entity which functions similar to a lending consortium. Member banks provide funding to the NYBDC, which in turns makes loans to small businesses- loans that banks would typically decline. The NYBDC has had a very successful history with these loans, and is a real force for economic development within my state.

I see potential for this model as a means of using TARP or other federal funds to spur responsible small business lending, especially at a time when bank lending is declining. Banks that are risk-averse could still support small business lending, through the funding of similar collective enterprises.

It is my hope and intent that today's hearing will assess the magnitude of the problem in small business lending and, most importantly, explore potential market-based and public policy solutions.

I look forward to your testimony this morning, and to your innovative ideas.