

Congress of the United States
CONGRESSIONAL OVERSIGHT PANEL

Opening Statement of Damon Silvers
Congressional Oversight Panel Field Hearing
on Small Business Lending

April 27, 2010

Good morning. This hearing is an effort by our Panel to learn more about the circumstances of small and medium sized businesses seeking to obtain credit, and in particular to learn whether TARP, the federal bank bailout, has been successful in its purpose of ensuring the flow of credit to Main Street. Like my fellow panelists, I want to express my appreciation to our staff and to Arizona's Congressional delegation and the Mayor of Phoenix for their assistance with this hearing.

Arizona has been particularly hard hit by the financial and economic crisis that began in 2007. Unemployment is at 9.6% and housing prices statewide have fallen by 36%. Consequently, it is appropriate our Panel come here to learn about the state of credit provision to small and medium sized business. We did not know when we planned this hearing that today Arizona would be the focus of a profound debate about our character as a nation, a debate with roots in the pain caused by the economic crisis. But since this debate is underway, I wish to say that for me, America is a place where the police do not ask for your identity papers as you go about your business. I hope we can soon say the same about Arizona.

We have banks in substantial part to transform our savings into credit for business. When then Treasury Secretary Paulsen went to Congress to create TARP, he spoke of the dire threat to the banking system as a whole, with serious consequences for small and medium sized businesses throughout our country that depended on bank credit to finance inventory and capital goods, to purchase real estate, and in many other ways, to keep operating and creating jobs.

What Secretary Paulsen did not say was that as a result of the concentration in the U.S. banking sector, small and medium businesses nationwide have depended increasingly on credit from large banks. The biggest banks, those with over \$100 billion in assets, provided only 15% of small business loans in 1999, in 2008 those big banks provided 37% of small denomination business loans.

Unfortunately, the largest 22 banks receiving TARP Capital Purchase Plan funds—none of which were allowed to fail in the financial crisis, have actually reduced business lending nationally during the period from April to November, 2009—a period when large banks were supposed to be recovering and were recording very high profits. Meanwhile in Arizona, we have

Congressional Oversight Panel

seen an epidemic of weakness among locally based banks, with 84% of the state's banks losing money in 2009, and six banks closed by the FDIC—an epidemic driven largely by residential and commercial real estate loans.

Economic recovery and job creation requires that our banking sector do its job by providing credit on reasonable terms to creditworthy borrowers. I hope we can learn today about the roles played by locally based and national banks in credit provision in Arizona, and get a sense of the relative importance of the weakness of borrowers vs. the weakness of lenders, banks, in understanding the decline of lending to small and medium sized business as a result of the economic crisis.

Finally, I have long suspected that despite TARP, our banks, both large and small, continue to be undercapitalized. In this environment, and so long as banks are not sufficiently recapitalized or restructured, there is reason to believe that bank capital structures will not work to channel credit to small business, much as the TARP seems not to have done so during 2009. I would be interested in the witnesses' thoughts on how to channel credit to borrowers prudently in this environment, and in particular whether TARP money should be channeled directly to small and medium sized business lending, much as TARP money and Federal Reserve money has been used to directly support Wall Street-oriented credit markets such as the asset backed securities markets through the TALF and PPIP programs.

Thank you and I look forward to hearing from our witnesses.