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HEARING ON SMALL BUSINESS LENDING IN WISCONSIN

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Good morning. I am very pleased to be here in Milwaukee to learn about the impact of the Emergency Economic Stabilization Act on the real economy. I would like to express my gratitude to the University of Wisconsin-Milwaukee for hosting us here today, to the Wisconsin Congressional delegation for their assistance, and to our staff for the hard work of organizing this hearing and most of all to our witnesses for joining us today.

I am particularly pleased that we have with us today bankers from Northern Wisconsin, whose written testimony I found to be very insightful. I have family roots in northern Wisconsin, one of the earliest family photos we have is of my great great grandfather and his sons working in a small business – a lumberyard, in Mattoon. My grandfather, the Reverend Charles Floyd Fuller, grew up on that smallest of small businesses—a family farm in Wisconsin. More than any other person, he taught me what it is to be a public citizen in the tradition of Fighting Bob La Follette, and I honor his memory here today.

Wisconsin is a kind of reality check for Washington. The Federal Reserve Board issued a paper last week describing the big bank stress tests. They said they had checked to see how the banks would do in what called the "adverse scenario"—a scenario they described as the future we wished to avoid—a future where unemployment peaked at just over 10% next year. Here in the City of Milwaukee that future is now—with unemployment at 11%.

When Congress enacted the Emergency Economic Stabilization Act with its Troubled Asset Repurchase Program or TARP, known here outside of Washington as the financial bailout – Congress did so clearly out of a concern that the panic in the financial markets threatened the flow of credit to the real economy—to America's families and to America's employers—to employers like our witnesses today. The purpose of TARP was not to rescue Wall Street or make the world safe for derivatives' traders. It was to stabilize the system Main Street depended on to allocate savings—the savings of families here and around the world—so that other families could finance purchases, and so employers could finance their operations on terms that were affordable and fair to both lender and borrower.

We are here today to ask—are those purposes of TARP being fulfilled. Is the credit system working? What impact has the over $500 billion of public funds allocated under TARP had on the real economy and in particular on small business finance? How are national financial institutions acting here in Wisconsin? What has happened to the smaller banks that are the backbone of local credit? Can small business access credit on terms that are sensible from banks, through SBA guarantees, on personal credit cards?

In asking these questions, we are not to return to the bubble years of 2006. Banks and credit markets cannot create viable businesses out of thin air. Excessive, unsustainable leverage was present throughout our society in the bubble—not just in home mortgages or credit cards, but in leveraged buyouts of companies large and small, and hidden in complex capital structures and in hedge funds. We also cannot ask our credit system to substitute for a successful national economic strategy or make up for stagnating real wages. If we dismantle and outsource our real economy, cheap credit from our foreign trading partners will not substitute for what we have lost for long. We just tried that and we ended up with the worst economic situation since the 1930's.

But the public and Congress rightfully need to know whether the bailout is working to ensure that viable businesses have access to credit. Some say, it is not a matter of public concern what the terms of credit are. That just seems silly to me. If we are concerned about credit availability—if Treasury tells us they are measuring the success of TARP based in part on the London interbank lending rates, we should be basing our evaluation of TARP on behalf of Congress and the American people at least to some degree on the rates and time horizons of credit available here in Wisconsin.

This brings me to the fate of our nation's major financial institutions. More than half of all bank assets are held by just four bank holding companies. The nineteen banks subject to the stress tests account for a substantial majority of all bank assets. Business lending by those banks dwarf the SBA program. Today I read the major banks, who now hold hundreds of billions of dollars in taxpayer assets and asset guarantees, would like not to be subject to stress tests, that they would like government aid without conditions. How can we possibly avoid the fate of an economy dragged down by zombie banks if we cave in to big banks' demands for more of the same—more pretending that sick banks are healthy, that losses don't exist, that for favored big players, there is infinite government money, while smaller banks must prove they don't need government money before they can get any.

Business lending, including small business lending, requires healthy banks. And we will never have healthy banks until we get clarity as to the real nature of big bank balance sheets, and until we get those balance sheets properly capitalized in a manner that is fair to the public. The Obama Administration's stress tests are the key initiative that has been taken in this direction. They should have been tougher—but they are the right basic idea—and they must not be further watered down or their results ignored if we want to revive business lending.

We are very fortunate this morning to have a chance to hear about the reality of these issues through the experience of Wisconsin's small business people and community bankers. We are honored to have you with us and look forward very much to your testimony. Thank you.