FEDERAL DEPOSIT INSURANCE CORPORATION

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FORUM ON
OVERCOMING OBSTACLES TO
SMALL BUSINESS LENDING

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THURSDAY
JANUARY 13, 2011

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The Forum met in the Third Floor Auditorium in the L. William Seidman Center, 3501 N. Fairfax Drive, Arlington, Virginia, at 1:00 p.m., Steve Liesman, CNBC Senior Economics Reporter, and John Harwood, CNBC Washington Correspondent, moderating.

OPENING REMARKS
CONGRESSMAN SPENCER BACHUS, Chairman, House Financial Services Committee

FRAMING THE ISSUES PANEL
SHEILA C. BAIR, Chairman, Federal Deposit Insurance Corporation
BEN S. BERNANKE, Chairman, Board of Governors of the Federal Reserve System
MARK W. WARNER, U.S. Senator, Commonwealth of Virginia
THOMAS D. BELL, JR., Chairman, U.S. Chamber of Commerce
STEVE LIESMAN, CNBC, Moderator

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CONFRONTING THE OBSTACLES PANEL
JORGE C. CORRALEJO, Chairman, Latino Business
Chamber of Great Los Angeles
WILLIAM J. DENNIS, JR., Senior Research
Fellow, National Federation of
Independent Business
DON D. GRAVES, JR., Deputy Assistant
Secretary for Small Business, U.S.
Department of Treasury
JOHN D. HARRISON, Superintendent, Alabama
State Banking Department
M. ANTHONY LOWE, Chicago Regional Director,
Federal Deposit Insurance Corporation
REBECCA R. RAINEY, Chairman and CEO, Centinel
Bank of Taos
STEVEN J. SMITS, Associate Administrator for
Capital Access, Small Business
Administration
KATHLEEN P. SOWA, National Business Credit
Executive, Bank of America
JOHN HARWOOD, CNBC, Moderator

CLOSING REMARKS
KAREN G. MILLS, Administrator, Small Business
Administration
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MR. LIESMAN: Good afternoon. I am Steve Liesman and I really have the honor of being here to introduce this distinguished panel to talk about a very, very important issue here, the issue of small business and lending and getting small business back on its feet so we can get the economy back on its feet.

I just wanted to make a personal note. It is not only an honor for me to be moderating this panel but, to do so at the William Seidman Center. It was more decades ago than I want to admit that as a reporter at the St. Petersburg Times I began covering Bill Seidman and his work at the Resolution Trust Corporation. Then two decades later I got to work again with Bill Seidman at CNBC where he was a valuable contributor and helped people, really guide them through the financial panic that we had, and he was a very dedicated public servant.

I wanted to here at the Seidman Center and I want to introduce now our panel beginning with
Federal Reserve Chairman Ben Bernanke, the senior Senator from Virginia, Senator Mark Warner, the Chairman of the U.S. Chamber of Commerce, Tom Bell. Then we have skipped here leaving the best for last, the Chairman of the FDIC and our host this afternoon, Sheila Bair. Join me in welcoming our panel.

(Applause.)

CHAIRMAN BAIR: Good afternoon everyone and thank you all so much for coming here. We've got a really incredible group of people; I was looking at the registration list yesterday and I was so pleased, representing the very best in government as well as the private sector. We are all here today because we share the same concern; what more can be done to kick start a tepid recovery and a weak job market?

As the biggest employer of American workers, small businesses might hold the answer. Some small businesses say they are now finding it easier to get loans and to expand and hire new workers. Recent surveys do confirm that standards for small business loans have improved in recent months. Many small businesses still complain of
tight credit conditions and an inability to get loans, indicating that we are not quite out of the woods yet.

What are the obstacles to small business lending and how do we overcome them? My expectation is that by the end of today not only will we have a list of the obstacles but, we will have some concrete solutions.

Fortunately for all of us we have the right person in the right place at the right time to get the ball rolling. There is no greater friend or advocate for small business than our first speaker, Chairman Spencer Bachus. He has been named the Guardian of Small Business by the National Federation of Independent Businesses and he received the Spirit of Free Enterprise Award from the U.S. Chamber of Commerce. We have worked closely with Chairman Bachus over the years on a number of legislative and regulatory issues, including important reforms to the deposit insurance system and I know we will continue to work closely in the months ahead. He is a good friend.
In addition we are of like minds on the urgent need to head off the next potential financial crisis by restoring fiscal responsibility in Washington. Both spending and debt are way out of control. As the new Chairman of the House Financial Services Committee he will be in a unique position to tackle these issues as well as the credit problems facing small businesses. I'm certain that all of us will be most interested in what the Chairman has to say.

Before we get started, let me first ask him a very important question.

Which are you more happy about, winning the chairmanship of the House Financial Services Committee or your beloved Auburn winning the National Championship?

Thank you very much. Please welcome Spencer Bachus.

CONGRESSMAN BACHUS: Thank you, Sheila, for that kind introduction and particularly for that War Eagle. We had to rehearse the War Eagle. I thank you for organizing this forum with important
stakeholders addressing the question of how we can promote lending to small businesses. As the Chairman said, it's important to do that because small businesses create most of the jobs in America. Job creation I think is the challenge that is facing our economy, as well as our financial institutions.

I talked with a banker from Arizona the other day and he said what is hurting our bank is people losing their jobs or not having jobs.

As we address the issue, it is important to be clear about the principles that should guide us. In reading recently, I came again across the phrase "American exceptionalism." This encapsulates what I believe about our country, our economic system and most importantly our people. We do things our own way and it works. As we craft policies to promote economic recovery and create jobs, we need to remember that free markets, the capitalist system and individual initiative have made the U.S. economy the largest in the world, twice as large as that of China, Japan, Germany and Great Britain combined. Government planning and government control is not how
we got here.

Individual initiative and free markets have long been the recipe for our prosperity and dynamic economy. Unfortunately, the new regulatory structure of Dodd-Frank will redefine the way our economic system and our financial services system operate in the future, constricting jobs and punishing Main Street businesses that did nothing to cause the crisis. During my conversation with employers I'm constantly told that one of the biggest obstacles they face right now is obtaining financing from banks. The search for sufficient capital is a struggle, even for companies with good credit history and long-established relationships with local banks. The majority of small businesses depend on their community banks for credit.

This morning Chairman Bair said that while failures peaked in 2010, the FDIC's losses were down because smaller institutions were failing. The fact that smaller community banks are failing can be partially traced back to government policies that gave our too-big-to-fail institutions, in my opinion,
a competitive advantage. The fact that community banks are failing will have disastrous impact on small businesses going forward because these small banks are more likely to extend credit to small businesses than their big bank counterparts.

As the Federal Reserve study said, the findings suggest that an important role may remain for a community bank who has an advantage over large banks in extending loans to small businesses. Their local roots and knowledge of the local community and the entrepreneurs who run local businesses may be critical in providing the type of relationship-driven loans that many small businesses need.

We all know that inadequate underwriting and loose credit standards contributed to the financial crisis, but the pendulum has swung too far towards regulatory micromanagement. We can't allow arbitrarily applied regulatory directives to stifle prudent lending.

I applaud the six regulatory agencies all represented here today led by our host, the FDIC, who back in February issued joint guidance telling their
examiners to stop second guessing banks' loans. The
guidance said, "Prudent small business lending will
not be subject to supervisory criticism." Sadly that
guidance is not always filtering back to the
operational level, as indicated by the constant
stream of comments I and my colleagues, both
Republican and Democrats, receive from community
banks and their small business customers. The
guidance is being offset by examiners and other
regulators in the field who have not followed the
policies promulgated by their agencies in Washington,
but have continued to be overly restrictive when
evaluating the credit decisions of those they
regulate. This has become so commonplace that it has
become known as the mixed messages problem.

Instead of focusing on patterns and
practices that suggest poor underwriting or lax risk
management, some examiners are micromanaging the
daily activities at our community banks. All of us
in Washington, both in Congress and at the agencies
represented at this forum, must continue to examine
the mixed messages being sent to community banks
which continue to create uncertainty and impede recovery.

Under my chairmanship the Financial Services Committee will focus this year on fashioning policies that encourage not inhibit job creation and facilitate a robust economic recovery. Our focus will be to ensure that over 300 new federal rules mandated by Dodd-Frank be written in a way that does not further impede job growth by burdening American small businesses in a sea of bureaucratic red tape.

This time of economic and regulatory uncertainty requires all of us to work together in a spirit of cooperation to avoid policies and regulations that prevent critical investments by our small businesses. We all recognize the importance of consumer protection and the need to avoid the kinds of mistakes and malfeasance that led to the financial crisis that culminated in 2008. Nonetheless, we must take great care to ensure that we are adopting policies and regulations that grow our economy and create jobs.

In order to do this we need to look at
the ways regulations are being implemented, especially now that the regulators are writing over 300 new rules. With prudence and careful attention to unintended consequences, rules can be written that achieve the consumer protection and safety and soundness needed by our society but, does not slow economic activity or prevent job creation. Each of us understands that any robust job creation must come from the private sector. Our small businesses will be key to that recovery and Washington should do its best to set strong guidelines and let our small businesses flourish so that they can create jobs.

As Larry Kudlow said in an introduction to a recent book, "Taxing capital at prohibitive rates is akin to attempting to have capitalism without the very capital that makes it run. How does the average worker get a job when business cannot create jobs because they are starved for capital? Many economic thinkers do not understand that capital and labor work together."

What he said about overtaxation is also true of overregulation. It in a way is a form of
Thank you, Chairman Bair, for convening this important forum and I look forward to working with you and Chairman Bernanke and my Senate colleagues, as well as other interest groups including the Chamber in promoting job creation, something that we all agree is so important for our country and its future. Thank you.

(Applause.)

MR. LIESMAN: Thank you, Congressman Bachus.

To my panel, the list of problems is long; the time is short. Let's get right to it.

A recent survey by the NFIB: 33 percent said the number one problem is weak sales. I think that's sort of the elephant in the room here. Before we dive into these issues of regulations and how to make lending easier, let's talk about the economy.

Mr. Chairman, to my immediate left here, what are the prospects that the economy steps forward this year and solves some of these problems that we're talking about?
CHAIRMAN BERNANKE: Well, first of all, you're absolutely right about the sales issue. If the sales come, that will make these businesses stronger, make them more creditworthy and it will be a virtuous circle.

We see the economy strengthening. It looks better in the last few months. We think that the three to four percent-type of growth number for 2011 seems reasonable. Now, that's not going to reduce unemployment at the pace that we'd like it to, but, certainly it would be good to see the economy growing. That means more sales, more business for companies of all sizes.

MR. LIESMAN: Does it then become easier for small business to get loans and maybe get the hiring started, what you called in the past a virtuous circle.

CHAIRMAN BERNANKE: That's right, a virtuous circle. More cash flow and also higher collateral values makes businesses more creditworthy, gives them more credit demand, allows them to expand, allows them to hire. That's, as you say, a virtuous
circle.

MR. LIESEMAN: Chairman Bair, your outlook for the year?

CHAIRMAN BAIR: I would agree with that. I think the economic recovery is key here. There's always been a supply issue; there's been a demand issue. As sales pick up, as small businesses strengthen, their demand for credit will increase and the banks willingness to lend, because their creditworthiness will be enhanced, it will be a virtuous cycle.

I think the collateral value question still is a key one. According to a Cleveland Fed study, about one in four small businesses have financed themselves either through home equity lines or using their home equity as collateral, and those valuations have come down so much. Still a question about where we are with the housing market and home prices. I would say that would be a note of caution.

I think the more we can do to get the economy going again, the more we're going to have small businesses and banks lending to small businesses.
MR. LIESMAN: Senator Warner, with all due respect, instead of your economic forecast, would you comment on the danger here that the economy comes back, solves some of these problems, but government remains proactive, perhaps too proactive and does things that the economy can and should be doing for itself.

SENATOR WARNER: Well, I do think we have to hit that balance. I think there's one thing, even though the economy's recovering, I don't think any of us are going to expect the American consumer to continue to kind of carry the whole burden on their backs. I mean, one of the hidden good things of this recession has been we've been cutting back on personal debt levels, which longer term is important. Short term gives us some burden.

One of the things I think we're going to have to continue to do to grow this economy is look for our export capabilities. Unless we can continue to see not only domestic growth, but export growth, I don't think we're going to see the kind of level of recovery we'd like.
Certain things that we have been doing are around the edges, and particularly on small business credit. The legislation that was passed last fall should have been passed probably a year earlier. That was incrementally helpful around the edges. Whether it's the increase of the SBA, whether it's the Capital Access Program that the banking community actually has been very supportive of, and certain other things we can do around the edges to help credit the small businesses.

MR. LIESMAN: Tom Bell, I don't mean to put you on the spot, but that's exactly what I'm going to do given your fellow panelist here, on balance would you say government is making things easier or harder for small business to create jobs and propel the economy?

MR. BELL: Well, thus far I think over the last couple years, both from a legislative and an administration standpoint, it's been a little more difficult. Uncertainty creates an environment in the business community. It's hard to make decisions. When it's hard to make decisions, it's hard to
invest. If you can't underwrite, you can't invest.

I think things are getting better. Since the elections I think we've seen a change, certainly sort of a mutual commitment to figuring out how to get the job done. The job is creating more jobs and an environment where small business can invest, reinvest and succeed. I agree with the other panelists.

By the way, Chairman, I appreciate you inviting me to the panel to talk about where we are as opposed to where we're going. The next panel talks about the solutions, right? We just talk about the problem? I was hoping that was the case anyway.

I have high expectations, Steve, for the next year or so.

MR. LIESMAN: Okay. Chairman Bair, you talked about this issue of collateral.

CHAIRMAN BAIR: Right.

MR. LIESMAN: Which is something that I have a whole list of questions from the audience. A very key issue here. Let's just describe what that is, that people cannot get loans because the value of
their collateral has declined.

CHAIRMAN BAIR: Right.

MR. LIESMAN: Good viable businesses incapable of getting those. Is there a role that the FDIC can play here?

CHAIRMAN BAIR: Well, we have with the Fed's leadership and OCC and OTS, the other banking regulators. This is one of the things that we had tried to address in our guidance, at least with regard to refinancing our restructuring outstanding commercial real estate loans, loans collateralized with commercial real estate, that we do not want our examiners criticizing an otherwise creditworthy loan just because the collateral has declined.

Even if they're under water at that point with the loan, if the borrower is repaying the loan and has the capacity to continue to repay the loan, we don't want that loan criticized. I think a supervisory policy that requires criticism that additional capital be held against the loan just the collateral has fallen is highly pro-cyclical, and we wanted to avoid that. We have tried to address it
already.

That said, most small business lending is a higher risk form of lending that generally is collateralized. To the extent home equity has provided the collateral, as well as commercial real estate; and those valuations are down significantly as well, this is going to be a continuing problem. We've asked for examiners to focus on the borrower's ability to repay, not to collateral declines.

MR. LIESMAN: Has it helped?

CHAIRMAN BAIR: I think it has. We get mixed input from banks. I know there are some banks and there are some borrowers out there who feel that it has not worked as well as it should. I tell everybody, and I'll say it again, if you have a situation where you don't think that policy has been applied, I want to know about it, because we're really trying very hard not just to articulate these policies in Washington, to make sure they're followed in the field.

MR. LIESMAN: Senator Warner?

SENATOR WARNER: I just want to jump in
on this, and I would agree with what Chairman Bachus
said on this. We are sending mixed messages. On one
level we want the banks' balance sheet to get better.
On the other level we're telling them to go
out and do more lending. Whether you are a lending
officer or if you're a bank examiner, that just human
nature-wise pushes you to more conservatism.

I think what we're seeing in this
recession is we've gone way past the normal washout
of small businesses that normally get washed out in a
recession and kind of healthy capitalism. We're
cutting into businesses that have had long-term track
records. And as everyone has mentioned here, you've
got your trailing cash flows down and your collateral
value is down. It's tough short of some of these
incremental SBA Capital Access Program, other things
that can help around the edges.

One of the things I want to compliment
Chairman Bair on is something we talked about a
couple months ago and she's kicking off today, and I
hope the Fed will join as well. I get these kind of
calls or letters every day where I’ve got a borrower
saying their community-based bank is saying they can't make the loan because their regulator is saying no. The FDIC has set up a help line, toll-free hot line that you can call in if you're a borrower and if you feel like the regulator is overbearing. And this may put a kind of incentive back in place for the regulators to back off a little bit.

Mr. Liesman: Do you want Chairman Bernanke to face some of the --

Senator Warner: I'd like to see the Fed join on that as well.

Chairman Bernanke: Well, first of all, the Federal Reserve's had an ombudsman since 1995.

Senator Warner: Okay.

Chairman Bernanke: It's on our Web site, federalreserve.gov. If you have an issue, if you're a bank and you think you're not getting fair treatment and you're worried for some reason about complaining to your examiner, then call Washington and we'll respond to that.

Senator Warner: Will this also be available for actual borrowers?
CHAIRMAN BERNANKE: Borrowers can call the ombudsman and we'll make sure that the issue is followed up.

CHAIRMAN BAIR: If we get a call regarding a Fed bank, we'll make a referral to the Fed as well. I think directly or indirectly we can reach all the bank regulatory agencies with this mechanism.

MR. LIESMAN: Tom?

MR. BELL: I think to a certain extent we're trying to, and we should try to regulate human nature, because I mean, on the one hand if you're a bank, you almost lost your franchise. You're a borrower and you almost lost your business because you over leveraged yourself and your collateral is flat. Your human nature is, hey, I'm going to be a little more careful. I'm going to be a more careful lender and I'm going to be a more careful borrower. We have to expect that we've got to sort of work that system. It's just not about what happens here in Washington. It's about a mind set that exists out there out the business public.
MR. LIESMAN: Chairman Bernanke?

CHAIRMAN BERNANKE: Yes, one thing is that collateral can be a substitute for good underwriting. You've got collateral. You don't have to do a careful job of understanding the business and so on. With collateral values down, when you have to look at cash flows and you have to look at the prospects for the business, then you've got to do a lot more work. That's what we want people to do.

MR. LIESMAN: I'm the guy who has to report on these interagency memos that you two guys put out. A bit of the hair that I've lost is a result of trying to understand these interagency memos here that say on the one hand lend; on the other hand conduct prudent banking. I've always wanted to pick up the phone and say, Chairman Bernanke, what do you mean by that? Can you help me out?

CHAIRMAN BERNANKE: Well, you've got to have a balance.

MR. LIESMAN: Right.
CHAIRMAN BERNANKE: I mean, we got in trouble in the first place by making too many bad loans. You have got to make good loans.

MR. LIESMAN: Right.

CHAIRMAN BERNANKE: You've got to have creditworthy borrowers. We can do that if we put in the effort. We've talked about community banks. One of the advantages of community banks is they have longstanding relationships, they understand the business better, they know the people. That's one reason why community banks have stepped into the breach to some extent where bigger banks have pulled back. There are substitutes for lazy lending, which is just the hard work of understanding the business.

MR. LIESMAN: Sheila, do you want to --

CHAIRMAN BAIR: Yes, I would say I don't think they're inconsistent. I really don't. I mean, a bank with a strong balance sheet is going to do a better job lending, and we've actually seen that. The lion's share of the lending — made during the crisis we were discussing earlier, the large banks loan balances were down by about 11 percent during
the crisis. And at community banks, their loan balances went up almost by four percent. The lion's share of that was attributable to the healthier community banks. I think having a strong balance sheet helps your ability to lend.

Ignoring bad loans, I mean that's what Japan did. They lost a decade doing that. If you've got troubled loans on the balance sheet, you can't ignore them. They've got to be worked out. If they can't be worked out, they need to be written off and you're going to need to add to your capital pace as part of that process. They can't be ignored. Having prudent well-underwritten loans is critical.

And Ben's right, it's harder, but this is a better way to do it. Look at the creditworthiness of the borrower, look at the cash flows, look at the ability to repay, not just the underlying collateral. You will have good healthy lending going forward, but you need a strong balance sheet to lend. They're not inconsistent, I don't think.

MR. LIESMAN: Senator Warner, Lori Carter from Springfield, Virginia writes in: "I have a
government contract and I've been denied loans from six banks because I do not have collateral."

What do you have to say to a person like that? Is there a role for the Senate and the Congress in that regard?

SENATOR WARNER: Give them my number.

MR. LIESMAN: I mean, you're the one paying the bill there and they can't get a loan.

SENATOR WARNER: Yes, well I think you get a little bit of blame passing.

CHAIRMAN BAIR: Yes.

SENATOR WARNER: You get the blame passing from the loan officer who's nervous, getting pressure from the management that we need to be tighter on our lending standards. For the loan officer -- it was easier to say let's blame it on the regulator.

And I think, Tom, you're right, we are trying to re-balance a little bit. Human nature. Everybody went way too far with moving the pendulum one way. We're trying to move it back. The notion simply that -- I don't think any of us, myself
included, we would say just because you got a
government contract, somehow we're going to give some
level of implicit guarantee that means you're going
to get a loan. I think there still needs to be
appropriate standards.

MR. LIESMAN: Tom Bell, you talked about
this idea that the market has to run its course.
Does this seem like a market that should be allowed
to run its course, or in your opinion in that
particular instance is there a role for government to
I guess grease the wheels or make something happen
that probably ought to happen?

MR. BELL: Well first of all, the
government's a notoriously slow pay, so I'm not sure
I think it's an either or situation.

SENATOR WARNER: It was a pretty fast pay
in the fall of '08, Tom.

MR. LIESMAN: Your advise is to get out
of government here to this person?

MR. BELL: I think it's some of both. I
think that it's hard to change this inherent feeling
that the lending officer or his superior has that we
need to be awfully damn careful because look how close we came to falling over the edge. Now, we made it. We survived, but we're not going to make those same mistakes again.

The biggest issue that I see where the government could have a very significant impact and they've been slow to act is to do something about this continuing, and I mean continuing well-into-the-future, real estate issue that we have, and it's not been dealt with. If you look at a lot of small business loans, real estate is the collateral. The underwriting, as the Chairman suggested, was not done. The collateral looked good.

Well, the collateral's no longer good and it's not getting better.

MR. LIESMAN: Well, that's great.

MR. BELL: It may not get better.

MR. LIESMAN: Let's ask the Chairman of the Federal Reserve, who we happen to have right here, is there anything you can do about the real estate crisis and solving that collateral problem that's out there?
CHAIRMAN BERNANKE: Well, we're working hard on lots of different fronts. We bought a few mortgages, for example. We're trying to get the economy going.

MR. LIESMAN: That's central banking sarcasm for those who didn't get it.

CHAIRMAN BERNANKE: We're working with our colleagues in the agencies here to try to improve our workouts, bank workouts of troubled mortgages, both residential and commercial. In fact, we did a survey of commercial real estate workout practices before we did the commercial real estate guidance. Then we did a sort of a before and after, and we've seen improvement. We've seen increased workouts, faster workouts. That's part of the process.

It's not going to happen overnight. I mean, the economy's got to come back. Confidence has to come back. We have to see higher utilization rates. More people can qualify for mortgages and so on. It's a slow process, but certainly that's one of our key goals.

MR. LIESMAN: Chairman Bair and for
Chairman Bernanke, there's been talk about whether or not both entities should do more work in the secondary market. There's no place to on-sell these loans once they come out. Is there a role for either the FDIC or the Federal Reserve in helping restart or even start again the secondary market for loans?

CHAIRMAN BERNANKE: Well, the Federal Reserve did have a program.

MR. LIESMAN: It did, right.

CHAIRMAN BERNANKE: Called the TALF.

MR. LIESMAN: Right.

CHAIRMAN BERNANKE: Which was really an attempt just to get the secondary market going again for commercial real estate, commercial mortgage-backed securities, as well as other kinds of loans, including small business loans. We have worked on that. All the agencies working with the Dodd-Frank provisions to try to help restore the functioning of the secondary market.

Obviously, the biggest problem in some sense will be the Fannie and Freddie reforms which have to come at some point which will be critical to
reestablishing the soundness of the residential mortgage market.

CHAIRMAN BAIR: Yes, I would agree with that. I think as bad as things got, I think they would have been a lot worse if the Fed hadn’t stepped in with those programs. I mean, you were the only buyer of small business loans. That secondary market virtually evaporated, as limited as it was.

I think for small business loans it’s particularly challenging. They’re not as homogenous as some other categories of loans that are securitized.

The agencies are working together now, trying to come up with better standards to bring the securitization market back in a way that will appropriately align economic incentives and ensure high quality and transparency for investors buying those securities. I think that’s going to take awhile to do. I do.

MR. LIESMAN: Senator Warner, another issue that is raised time and again is Dodd-Frank.
creating new rules, that are uncertain what those rules are going to be. To what extent do you feel that Dodd-Frank has actually made banking more uncertain and therefore actually inhibited the granting of loans to small businesses?

SENATOR WARNER: I actually felt that while imperfect; and I was a big part of writing Title I and Title II of the bill in terms of the systemic risk and the resolution process, I felt we struck a pretty good balance. I can tell you that I got as much criticism from the Left that the bill didn't go nearly far enough and let the banks off too easy as I did criticism from the Right that it went too far. A lot of the tough questions have been pushed to the regulators, I would add at the request actually of the financial industry, because I'm not sure you necessarily wanted Congress writing the specific regulations on derivatives and so forth.

I think again as we talk about this particular area, particularly as we think about smaller banks, a lot of the tougher parts of Dodd-Frank exempt those banks under $10 billion in
assets. By having some of the requirements from some of our larger banks in terms of contingent capital, in terms of funeral plans, in terms of higher capital standards, we do in effect, if we do it right; and the jury's out whether we'll do it right, can level the playing field a little bit so that those community-based banks don't have the kind of inherent disadvantages that the large cap center banks have.

So I think Dodd-Frank's a work in progress. If you look at our European and Asian partners in terms of their response, they're glad America went first. I think you'll see they will go as far if not further. I think at the end of the day if this is appropriately implemented and tweaked where it overreaches, that it's a pretty good framework going forward.

Again for the audience that doesn't know my background, I spent 20 years in the capital markets, 20 years. I've been a business guy longer than I've been a politician. Until I kind of got into the belly of the beast on the Banking Committee and saw how close we came; and I think history will
treat Chairman Bair and Chairman Bernanke, and
candidly President Bush, for the courage of the TARP,
with a lot of respect, the amount of excess within
the financial system was outrageous. The notion that
the status quo could have been continued, I don't
think would be acceptable to anyone.

MR. LIESMAN: Tom Bell practically fell
off his chair.

MR. BELL: It's a bad bill with never
ending unintended consequences in our view.

SENATOR WARNER: Status quo was fine?

MR. BELL: Pardon?

SENATOR WARNER: Status quo was fine?

MR. BELL: No, it wasn't obviously. We,
four years in advance of that, put together a
bipartisan group to try to figure out what to do. We
weren't suggesting do nothing.

Look, 300 rulemakings, maybe as many as
500 rulemakings that are going to go on well into the
future with unfunded mandates for my colleagues here,
if the three people to my right had been allowed to
sit in a room and write a piece of legislation, I
think we would have ended up in a good place.

This is a smorgasbord, and I just think it's a big mistake. If you talk to bankers, and I talked to several; and I've been on several bank boards, before this meeting, and they say we don't know. We don't know what impact it's going to have on our business and we won't know for some time. And that's got to make them somewhat reticent to invest in their future and to make decisions that are long term because they don't know exactly what the environment's going to be.

MR. LIESMAN: Chairman Bernanke, I think it's fair to point out that you're not responsible for the mandates that were given to you from Congress, nevertheless, you have to fulfill them. What is your response to the criticism that all these rules that are coming out could right now be putting a damper on bank lending?

CHAIRMAN BERNANKE: Well, I think it's really important - as Senator Warner said, it was really important to address these problems. They had to be addressed.
The too-big-to-fail issue is obviously one that created all kinds of moral hazard and led to some really bad outcomes. We had to fix it. And maybe it was a case of operating on the patient while he was still running around; a little bit difficult in that respect. There's really no alternative but to increase capital, to apply some additional rules and so on.

We're doing our best to be first of all sensible, to be balanced and to make rules that will work but will not impose excessive burden. And in particular I do agree with Senator Warner that the thrust of the bill is at the largest so called too-big-to-fail banks. It's my view that we should do everything we can to minimize regulatory burden on the smaller banks which don't pose any kind of systemic risk.

The other thing, and this addresses Mr. Bell's comment, inevitably it's going to take some time to develop these regulations, put them into place, implement them and so on. The faster we can do it, the more accurate and clear we can be in our
communication, the better we'll be off in terms of getting rid of the uncertainly that he's concerned about.

MR. LIESMAN: Senator Warner and then I want Chairman Bair's response.

SENATOR WARNER: We could have a long conversation on that. I just think again let's remember where we were. We came to the precipice of not just the American economy demise, but worldwide economic demise. We had over half the financial sector totally unregulated. Every industry's got a percentage of black magic in it, but the percent of financial alchemy that had been created over the last decade alone that even the financial leadership, including the regulators, were not aware of the current state of risk exposure, all that has to at least have some level of oversight.

Lord knows I wish we could have done it in a more incremental way, but when you get that kind of shock, when the American taxpayer writes an $800 billion dollar bailout bill, they want to make sure we try not to have that repeat again. I think we
have not had a major rewrite of our financial rules since the '30s. I hope again that this will stand the test of time as long.

There's going to be parts of uncertainly. Again, many of these parts of uncertainly were because frankly even if the Congress had tried to get more, for example, uncertainly around derivatives, I don't think we had the expertise. To a certain degree, we needed more expertise from the regulators, which I'm not sure they even had at this point to kind of set those rules in place.

MR. LIESMAN: Chairman Bair, if you could respond to that, as well as lop in that other minor thing going on, Basel III --

CHAIRMAN BAIR: Right.

MR. LIESMAN: -- which adds additional uncertainty, right?

CHAIRMAN BAIR: Right. Well, Basel III is primarily geared towards the larger institutions. I would echo almost all of this is geared towards the larger institutions. I mean, more or less derivative regulation, proprietary trading,
securitizations, these are activities - the lion's share is done by the very largest institutions. Where there is an intersection with community banks, I think all the regulators, to Ben's point, are working hard to make sure there's no negative impact. I mean, small business loans, those community banks account for about 40 percent of all the small business loans that are made by insured depository institutions. They're an extremely important area of support for credit for small businesses. We are very cognizant of that and want to make sure that -- is consistent with the thrust of Dodd-Frank. It was a try to level the playing field and remove some of the competitive disadvantages that the smaller institutions had faced with the too-big-to-fail doctrine.

I would also say though the pain that the entire economy, including small businesses, have suffered as a result of the financial crisis and ensuing recession is so much more dramatically profound than any kind of incremental uncertainty there might be as we work through these regulations
to provide for a more stable financial system. So at the end of the day, listen, you'll always have cycles, but I never want to see what we just went through in 2008 and 2009. That's really why we're here today. If it hadn't been for that crisis and the recession we wouldn't have to be having to talk about credit availability and how much small businesses are hurting and how that has impeded job growth. Let's not lose sight of the long term, which is greater financial stability to protect us all.

MR. LIESMAN: Chairman Bernanke, the Federal Reserve did 40 meetings around the country trying to get at the bottom of the issue of small business lending. You wrote a 20-page report, which I recommend to anybody who's interested in this issue. It's actually readable. It has plenty of anecdotes in it about individual businesses --

CHAIRMAN BERNANKE: We'll rework that.

MR. LIESMAN: What's that?

CHAIRMAN BERNANKE: We'll rework it for you.
MR. LIESMAN: No, no, no. It's great.  It's very readable. No, leave it as it is. I wish more of the stuff you guys you put out was as readable.

If there's one thing out of that report that you could change right now that you think would make small business lending take off, what would it be?

CHAIRMAN BERNANKE: That I could change? Well, the report was really about outreach. We had 40 meetings, more than 40 meetings, and we had a capstone last July in Washington. We listened to small businesses, we listened to lenders, the trade associations, examiners, legislators, etcetera. We just tried to understand the situation and look for recommendations and ideas. I think it was very, very helpful.

There were lots of specific recommendations like helping small businesses get more technical assistance so they can provide a more complete and understandable application. That was just the communications. It was a way of getting
more information and making the process a better one.

   It wasn't really a set of new proposals. It was really just our listening.

   I think that's one of the most important things we are doing is listening through those meetings. We have a program called Ask the Fed where there's been a call-in by banks and bank supervisors.

   Thousands have called in to listen and hear about our various guidances and programs. We have added a new Council of Small Bankers that comes and meets with the Federal Reserve Board directly three times a year. Listening is really important, and that's what we've been trying to do.

   Then based on that we are again going for this objective of getting that right balance, which is on the one hand, we don't want banks to make bad loans; nobody wants that. We do want businesses that are viable and have good business plans and lots of experience backing them up to get loans. That's the balance we're trying for.

   MR. LIESMAN: Tom, do you want to just take a crack at that question? Is there one thing
that you think the forces should concentrate on that
would really make a meaningful change to get at this
issue?

MR. BELL: I think there are three things
that you could do immediately.

MR. LIESMAN: Okay.

MR. BELL: One is pass the three pending
trade agreements that are coming before the Congress.
That's the number one market expansion opportunity
for small business and frankly for all business, so
if we could get that done. I know Senator Warner's
in the right place on those issues and I think you
have more and more in the Congress that are moving in
that direction. I think that's one.

The regulatory tsunami that we're facing
I think is very difficult. If you want to create
certainty in the business environment, they have to
know what the rules are. You can't underwrite risk
without rules. We have to limit that to the degree
that we can.

We have got to keep the tax rate as low
as possible particularly on that small business
community.

MR. LIESMAN: Senator Warner, go ahead, take a crack at that.

SENATOR WARNER: Let me take a crack at it as well. I agree on the trade. I actually agree on a macro level on the regulatory burden. I've got a proposal out there called -- the headline is "Regulatory PAGO," the notion that if you add a regulation an area, you've got to take one away of similar size and shape. Before we say it can't happen, the U.K. has actually started to implement this, and of all places, the U.K. has passed America in terms of international competitiveness rates.

MR. BELL: Sign us up on that.

SENATOR WARNER: Third, is we have done some things around the edges. I mean, again this legislation I referred to in the fall. The SBA of today is different than your grandfather's SBA. It's a much more aggressive, I think much more active organization. Twelve billion dollars in loans since the end of September. There's a program that we worked with Chairman Bair on, a Capital Access
Program that about 25 states have. Runs through the banking industry to create separate loss reserve pools for some of these more marginal loans. Not administered through the government, administered through the state and through banks.

I think there's a bigger issue that I don't have the answer, but I would love to come back and have another session on. I say this as somebody who used to be in the venture capital business. As we move towards more and more financial engineering and the ability within the banking sector to make money through financial engineering as opposed to lending to companies of value who really wants to take the tough job anymore; that's why I think it's been pushed down to more of our community-based banks as opposed to the money center banks, of doing early stage lending? I mean, even in my old interest, the venture capital business has gotten so large that nobody does early stage capital formation very well.

When we cite the statistics appropriately, the nice item is growth in small
business. Disproportionately those come from those
gazelle firms, the firms that grow very, very rapidly, not the butcher shop or the tire fixing place, which are important. Until we can think more creatively about early stage capital formation, I'm not sure we're going to see the kind of job filled recovery we need.

MR. LIESMAN: I think that's a great point. There was an op-ed in the Wall Street Journal that pointed out it's not small business that creates the jobs; it's new businesses that create the jobs. I wonder who wants to take this on the panel, if the emphasis is misplaced. That it's about venture capital. It's about start-up businesses, not necessarily about small business.

SENATOR WARNER: I don't want to over talk here, but angel networks have disappeared. Large venture capital businesses no longer do early stage rounds. They've gotten to be multibillion dollar funds and they're really more mezzanine. There are certain things we've done around tax policy in terms of no capital gains and firms under 250

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grand. Thinking more aggressively about early stage
capital formation is an area that I'd love the panel
and anybody else in the audience to give us some
ideas on.

MR. BELL: The number one venture
funder is Visa.

CHAIRMAN BAIR: That's what I was going
to say, credit cards. It's true.

MR. BELL: Yes, and Mastercard. I mean,
on new start-up businesses.

CHAIRMAN BAIR: We talk about loan
balances, but credit lines were pulled and we lost
about 2.3 trillion on unused credit lines. About
half of that was credit cards during this crisis.
Hopefully some of that will start coming back too as
the economy recovers. The very, very small start-ups
typically do use their credit cards to get things
started. That source of credit has been severely
contracted as well.

Hopefully; again, where we started the
conversation, with an improving economy that will
self-correct.
MR. LIESMAN: Chairman Bernanke, can you square this circle for me, which is that the Federal Reserve has flooded the system with excess reserves. There's a ton of money out there for banks to lend and yet they're not lending. How do you fix that problem?

CHAIRMAN BERNANKE: Well, first of all we have to make the banks stronger. They are strengthening. They're getting more capital. Capital is rising and the leveraging is beginning to slow down. Lending is starting to improve.

The second is the regulatory environment and the examiners' environments we've been talking about, which is to get an appropriate balance between again prudence and making those loans.

I think it's been a tough situation. It's been a tough couple of years, no question about it and small business lending has contracted quite significantly. Interestingly, small business lending has contracted less at community banks, as we talked about before. It's also contracted less at healthy banks. So, if banks are healthy and have strong
capital, then they're better able to lend.

My sense is that we are at a position where we're starting to get some improvement. I think 2011 will be a better year for small business lending. Certainly the supervisors and the monetary policy makers, we'll do what we can to support that.

MR. LIESMAN: When you look at the data anecdotally and also the data that the Fed puts together in the Senior Loan Officer Survey, do you see something going on in the markets?

CHAIRMAN BERNANKE: Yes, that's one of our primary -- I would say in terms of small business lending, we have the survey of loan officers, which is showing that there's no more tightening at this point and some improvement, some easing, including for small business. We have the surveys from the NFIB, which has shown a little bit of improvement and optimism and credit access. We have a lot of anecdotes and examiner information we're getting back which suggests some improvement. We follow the data on smaller loans, which are not exactly the same as loans to small businesses, but do give us some sense.
Overall, it's certainly still a very tight situation. I think things have stopped getting worse and are looking a little better.

Again, as the economy improves, you would expect to see better lending going forward.

MR. LIESMAN: Chairman Bair, same question to you. What are you hearing from your banker contact?

CHAIRMAN BAIR: We think it is turning. Their third quarter banking profile indicated that loan balances remain relatively stable. It's just the first time that we haven't seen this kind of quarter over quarter decline. Our sense is that it is starting to turn.

Banks are -- most of them are profitable again. The credit quality, they're working through their troubled loans. We have lower rates of delinquencies and charge offs. Those are all things that improve a bank's balance sheet capacity to lend.

I think there's a lot beyond our control, but if things continue as they are, it's slowly getting better and I think you will see lending activity pick
up.

MR. LIESMAN: Senator Warner, it seemed like everything finally came together after the election and Congress got a few things done that people were waiting to get done. Are you hearing that the $30 billion program as well as what happened to the 100 percent depreciation is having a positive effect on the economy right now?

SENATOR WARNER: Well, I have not heard as much in terms of the small business lending, about the $30 billion. I don't think a lot of that money has been taken up. I have some real questions as to whether banks were going to take it up in the first place.

I do think the SBA, I think the $12 billion in small business tax cuts that were in -- this is the bill that took place in September, and this little Capital Access Program, which has only got a -- could be leveraged 15 to one against a billion dollars, about $15 billion of lending possibilities out of that will be incrementally helpful.
I don't want to discount what Sheila has done with this help line though. I think, as Tom rightfully pointed out, we're fighting human nature here with the pendulum going too much. What incentive does a regulator -- nobody wants to ever mention the verboten word "forbearance," and we don't want to go there. Appropriately we can point to Japan and elsewhere.

This mixed message of lend but be healthy, there's not much pressure other than directives from the top. By having this line where a borrower, if they feel like they're -- if they're told by their banker that the regulator is causing this problem, the fact that the borrower can pick up and call on a help line might at least make that regulator think twice about the Chairman's instructions. Could be a helpful tool.

CHAIRMAN BAIR: Right. Sometimes our examiners have a very tough job, but I think that they all try very hard to strike the right balance. You're right; thank you for acknowledging, sometimes
our examiners are used as an excuse. They may not really want to make the loan and, oh, our regulator won't let me do that. Some of that happens.

This will be important information for us. Not only do we want to help these borrowers, but also we can track this information the way the track consumer inquiries. And if the particular banks are areas where we're seeing a greater frequency of problems, we can look at that more deeply. I think it will be very helpful to us as a supervisory tool as well.

MR. LIESMAN: Tom, did you want to weigh in?

MR. BELL: It's definitely improved the lending environment. We are surveying our members and talking to our members, it's getting better. The activities of December will have a very, very positive effect I think on the overall economic environment, but particularly with regard to small business of confirming the tax rates, even though it's only two years. I mean, that gives you two years. That's about all the runway a small business
can see anyway. Hopefully we'll make them permanent.

Then the depreciation and other things that have been done over the last several months both legislatively and administratively, I think it has definitely improved the environment. I would expect that the lending will improve substantially through 2011 given the demand. Now, the big issue is still demand. I think if we get demand ramped up, I don't really think the lending environment's going to be the problem.

MR. LIESMAN: Tom, has the Chamber decided whether or not it's going to continue to oppose Dodd-Frank now that there's a new sheriff in town with regards to the House?

MR. BELL: I think what we'll try to do is improve Dodd-Frank through the legislative process and the rulemaking process. You have at least 300, some say 500 rules that have to be made. I lived through Sarbanes-Oxley running a public company. I think there were 16 rulemakings in Sarbanes-Oxley. That was fairly disruptive. This is going to be
really something.

I think through the rulemaking process and perhaps some adjustments legislatively, we can come up with a solution that works for everybody and I think is embraced or further embraced by the business community. We don't like what we've got right now.

MR. LIESMAN: Well, you got two of the people writing the rules right in the room here. Do you want to do it in memo form, or do you want to do it by --

MR. BELL: I'll tell you what, if it wasn't for these two people and their organizations, and people like Senator Warner who have the courage to vote for some very difficult situations, we would have lost our financial system. I think more and more of the business community realizes today that this was a very close call. Some courageous people did some things that were not universally supported. We got a lot of criticism from our membership, various parts of our membership, supporting TARP and supporting some of the other legislative initiatives,
but it was the right thing to do. Now, we've just
got to come back.

MR. LIESMAN: Chairman Bernanke, we've
got a lot of questions here that ask the following:
Is it possible in your opinion that what's happening
right now is that the regulators, because of the
mistakes they made in the past, are overdoing it
right now?

CHAIRMAN BERNANKE: Well, we are again
trying to keep that psychological feature in mind.
As we make the rules we are -- first of all, we have
to follow the intent of Congress. That's number one.
We're not legislators, we're rulemakers. We're
trying to implement the law as Congress wrote it.

Given that, within the constraints of the
law, we want to make the rules as sensible as
possible. The financial system is really important.
That's why we don't want to strangle it. We want to
make sure that it's safe. We also want to make sure
that it does its job. We're trying to strike that
right balance.

You mentioned Basel III, by the way,
before. That's another set of very complicated rules, although again aimed mostly at the largest most complex institutions. Personally I view Basel III and Dodd-Frank as very complementary. You put them together, the higher capital standards and liquidity standards and so on, plus the rules on resolution and on activities and so on. Together I think they do quite a lot. We understand again the burden. We need to write the rules in a way that is workable, is not going to constrict activity.

Secondly, we do have to move as quickly as we can, consistent with getting it right because we don't want this to be hanging out there for a long, long time. We talk to the bankers and they tell us look, we can live with all different kinds of stuff, but just tell us what the rules are so we can go back into the game. I think that's very important for us to do.

MR. LIESMAN: I think I have it bad as a journalist. How many deadlines do you have coming up, and are you going to make them?

CHAIRMAN BERNANKE: We've got an
elaborate project management system at the Federal Reserve. Now trying to keep track of the reports, consultations, rules, etcetera, it's a big job. Even regulators have productivity gains, and that's what we're trying to get here.

SENATOR WARNER: Steve, I have tremendous respect for the Chairman, but before we shed too many tears, any time we try to take anything away from the Fed - that wasn't quite the same reaction.

MR. LIESMAN: Chairman Bair, would you comment on the issue of the potential for overdoing it?

CHAIRMAN BAIR: Well listen, I think we've all launched transparency initiatives. We have an open door policy if people want to meet with us. We have our time table on our rulemakings. There is a publication process of comments for a formal rulemaking, but if someone comes in outside the rulemaking process, we disclose that, too. They came in, what they wanted to talk with us about. We don't discourage that. We think it's fine. We want people
to come in and engage with us. We want everybody to
know who we're talking to and the kind of information
we're getting. We've also scheduled round tables
that we Webcast where we bring various interested
parties and experts in to talk about our rules, to
help us in the development phase.

I think we're doing everything we can to
get input from the public that's impacted by these
rules, as well as the industry which needs to deal
with them. I think we're trying to be balanced and
fair. I welcome congressional oversight. I think
that's a healthy thing. I would agree with Ben, we
need to get on with it. I think we do have a very
resilient financial system. They just need to know
what the rules are and they can adapt to it.

MR. LIESMAN: Senator Warner?

SENATOR WARNER: I just have to smile a
bit because I've had leaders of some of our major
financial institutions come in to me in the last few
months since Dodd-Frank has passed and said Mark, we
got to move this stuff along, move this stuff along.

Then I sometimes remind them that it was your folks
that were saying we actually needed two years of study before we put that regulation in place when the legislation was going through. I do think the sooner we get it done the better, absolutely.

Again, I spent 20 years around the financial sector before I got involved in politics. It had moved so far beyond my knowledge level, and I think most of the legislators' knowledge. This is opaque, complex and I hope more transparency -- I mean, it would be great if we had a few more real engineers as opposed to financial engineers in this country. We set up a system that allowed financial engineering to create paper value rather than value where we actually create intellectual capital and make things and do things. I'd like to get back to more of that.

Part of this transparency that I think underlies and tries to level the playing field with these enormously large institutions will long term be viewed as a step in the right direction.

MR. LIESMAN: Tom Bell, did the market create these financial engineers or did the
government create them?

MR. BELL: The market. I mean, the government had a role to play, a permissive role, I would say. I mean, when you have astrophysicists designing financial products to be sold by bankers, that's probably a bad recipe for sustain-ability.

I think there's been over reaction, but I would have to say what would you expect? Because the over abundance, or however you want to describe it on the other side, which created the problem in the first place, was at least as far to say the right as this is to the left. We just have to come back to the middle. I haven't heard anything here today that suggests that we're not moving back towards the middle, and that's good news.

MR. LIESMAN: You're optimistic about the drift of the government in this regard?

SENATOR WARNER: I am temporarily optimistic about this --

MR. LIESMAN: That's a news flash.

PARTICIPANT: Get that on tape.

MR. LIESMAN: That's a news flash.
Chamber official says --

SENATOR WARNER: Temporarily optimistic.

MR. LIESMAN: Chairman Bernanke, I have to ask you this question: Since you guys have launched QEII rates have gone up. The stock market's gone up, too. We did a poll of CNBC market participants and they said that QEII's responsible for a higher stock market but also higher commodity prices. That does not seem to be something that in general is helping small business.

CHAIRMAN BERNANKE: Well, how much time you got to answer this question?

MR. LIESMAN: As much time as you have, sir.

CHAIRMAN BERNANKE: First of all, I do think that our policies have contributed to a stronger stock market, just as they did in March of '09 when we did the last iteration of this. The S&P 500 is up about 20 percent plus. The Russell 2000, which is about small cap stocks, is up 30 percent plus. I think a stronger economy actually helps small business more than it helps even larger
businesses.

Yes, it is contributing to the stock market. Interest rates are higher, but I think that's mostly because the news is better. It's responded to a stronger economy and better expectations.

I think that the policies helped and I think the small business, which as we started off by saying responds to increased demand, increased market share, increased opportunity, is a beneficiary of that. Again, I think one of the best things that we can do is try to strengthen the overall economy.

MR. LIESMAN: Are you increasingly optimistic on that front, say compared to the fall? Have you gotten a little bit more optimistic about the economy?

CHAIRMAN BERNANKE: I certainly have. We started taking action in August really. Even though we made these announcements in November, this policy really began in August, on August 10th when we began to reinvest securities, when I began to talk about
this at Jackson Hole where you always come and join us. At that time, the economy was looking somewhat shaky, frankly, and we were quite concerned about the sustain-ability of the recovery and about potential deflation and those kinds of risks, so we felt something needed to be done.

I think we're seeing some improvement. As I said in the beginning, we're looking for a stronger recovery this year. We're seeing some improvement in the labor market. I think deflation risk has receded considerably. We are moving in the right direction.

MR. LIESMAN: Just one more question along that vein. Would you say the risks are more balanced now than they had been?

CHAIRMAN BERNANKE: Certainly. In August they were definitely to the down side. Now I think they are somewhat more balanced, although there are many uncertainties in the world in the financial markets we have to keep a close eye on. They are more balanced today.

MR. LIESMAN: Chairman Bair, another
question here: We've sort of been over this, but I like the way this person put it. Actually it's a person from the FDIC. I'm not going to give you their name. Bankers say we're open for business. Small businesses say we cannot get credit. Please comment on this asymmetry.

CHAIRMAN BAIR: Well, I think the truth lies somewhere in the middle. I do think regulators need to caution against over reaction and striking that right balance. I think maybe some banks also became a little more risk averse perhaps than they should have been.

By the same token, demand for credit has been down. Again, I think the truth is somewhere in the middle. We're encouraging banks to lend. We want them to lend. We also want them to make safe and sound loans. I think again getting the economy going is going to strengthen the ability of small business to start or expand and make them more creditworthy and eventually have more confidence in their ability to repay with an improving economy.

MR. LIESMAN: Senator Warner, could you

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walk us through this next several months here? Would it seem like they're going to be relatively dramatic in the town across the river here when it comes to the --

SENATOR WARNER: I'm glad we're in Virginia right now.

MR. LIESMAN: Things are relatively quiet here. In terms of issues of the debt ceiling, deficit reduction, I know they're not sort of primary issues, but they're certainly important when it comes to small business and what's going to happen there.

SENATOR WARNER: Well, a couple of things. I mean, I think one of the messages we've heard from the regulators and Chairman Bernanke is -- he would not say it this impolitely, but he's basically saying to the Congress that we need to walk and chew gum at the same time. We need to show that we can do short-term stimulus, which we just did $900 billion worth in December. Really what is going to be critical to keep this economy going is government's used its tools. We've used monetary policy, we've used government stimulus.
We've got to get part of that $2 trillion that's sitting on corporate balance sheets off the sideline reinvested. I think some of the policies we took in December will help move that. I think it's important that between the administration and the business community there's a détente.

I think we also have to longer term put in place a meaningful deficit reduction plan. Saxby Chambliss, Republican Senator from Georgia, and I are working on basically taking the President's Commission, the Simpson-Bowles Commission, that by the way got 11 out of 18 votes. Even within the Senate, that was north of 60 percent.

It is not perfect by any means, but we're going to introduce that as legislation and, it's put up or shut up time. I think we will have a broad base of Senators, Democrats and Republicans alike, who say that the single largest threat, long-term threat to our national economy is not simply the short-term challenges we face right now or the financial crisis, but getting our nation's balance sheet in order.
That is going to take both sides. That is going to take dramatic cutback on spending. It is going to take meaningful tax reform and a tax reform similar to what Simpson-Bowles did that while lowering the rates broadens the base and in certain cases ends up creating the revenue stream we need. It doesn't take a rocket scientist to figure out that spend at 24 percent of your GDP and revenues at 18 percent is not sustainable and will not self-correct even with a slightly better economy. So I think deficit reduction, you'll hear a lot more of that. It will not disappear. You have got to be careful around the debt limit. We don't want to play Russian roulette with the world's economy.

MR. LIESMAN: Not to get too deep in the weeds on the mechanics of it, is it linked to the debt ceiling increase, or are they separate tracks?

SENATOR WARNER: Well, time will prove that out. I trust you like a brother, but I'm not going to share all the strategy right here. I think you're going to see broad --

MR. LIESMAN: Nobody's paying any
attention or watching.

SENATOR WARNER: I know that. Steve, just you and I. I think you're going to see broad bipartisan interest in not letting deficit reduction. At the end of the day it's easy for politicians to give tax breaks. It's harder to make the kind of hard choices that we have to make to put our nation back on a stable balance. States have done that. States are doing that. I had the opportunity to do that when I was governor of Virginia. I think the country's ready to step up and I think the politicians need to follow.

MR. LIESMAN: Tom Bell, would you tell us what the business community wants when it comes to deficit reduction?

MR. BELL: Well first of all, I'd say it is the number one issue and it's not way out there in the future, it's present. I think the last election cycle demonstrated very clearly that there's a lot of people in this country, perhaps a significant majority, who think we have too much government and more government than we can afford, and probably more
government than we want, and we need to do something about it. It's the first time in my 40 years of watching what's going on around here that I've seen the issue raise up to a top three issue, in most of the opinion surveys, for instance.

I think what the business community would like to see is a significant restructuring of the tax system and of the entitlement programs. I think the problem we have at the Chamber with any issue like this is that many of our members have their own specific tax accoutrements that they love and want to hang onto.

PARTICIPANT: Welcome to my world.

MR. BELL: Yes. Where they all agree is that we got to do something, just don't do anything that affects me. I think this is the first time that the Chamber is taking the position as an organization and our members are generally receptive of. Okay, we get it. We have got to look at the longer term. We have to look at a significant restructuring of how we derive the revenues that we derive and we've got to figure out how to get our spending down below 20
percent. Because I think it's been demonstrated that's about all you're going to get out of tax revenues is 20 percent of GDP. There's got to be a balancing there somewhere.

MR. LIESMAN: I mean, that's one of the most interesting issues out there. For example, lowering the corporate tax rate in a revenue-neutral way, you have to raise taxes on half of the corporations. It's neither a Republican nor a Democrat issue. It's really a bipartisan issue if you're going to resolve the corporate taxes.

Senator Warner, is that one of the things you're hearing?

SENATOR WARNER: I think you have to. I mean, we want to get down to OECD levels. We're at 35. We need to bring it down closer to 25. The effective rate though for a lot of large corporations right now is low 20. There's going to be some winners and losers. I think the only way you get there is with a bit of shared sacrifice from everybody. Everybody's got to feel like they're doing their part.
Because the concern I have is while deficit reduction is top three right now, you then go out and say -- I think Simpson-Bowles for example on Social Security was not very aggressive at all, but the notion of raising the retirement age two years over a 40-year time frame some of this just math. Eight workers per retiree 50 years ago; two now. These things got to be laid on the table. Overwhelming the public doesn't want to touch that. Overwhelming the public doesn't want to touch Medicare. We've got to have a little more truth and everybody -- and I'm so appreciable of what Tom's saying, is we won't get this done unless the business community is saying we're in for our share of the hard choices as well.

MR. LIESMAN: Senator Warner, I want to bring it back though to the small business issue. My fault for going on the deficit tangent there.

Chairman Bernanke, the one issue as I prepared for this panel here that kept coming up was the issue of real estate as collateral, that in the environment of uncertainty surrounding real estate
values -- and I really would like to leave here with a sense that there's something that can be done here on this issue that either replacing real estate as collateral -- is there a role for the Fed or other government agencies to come in and resolve that issue so the small businesses that are viable can get loans because there's collateral there?

CHAIRMAN BERNANKE: Well, on the margin you can do some things. Well first, beyond all the stuff we're trying to do to get the economy going again, you can work with appraisals. One of the issues with real estate is that in a distressed environment with very few sales, sometimes the appraisals come in very, very low and that's going to affect the collateral value. The agencies in December issued new guidance.

The basic message is that the comparables is not the only thing you want to look at. You want to look at the whole context. How's the property going to be used? What is the cash flow? Those sorts of things. Better appraisals is one micro kind of thing that can be done.
I think ultimately until the real estate markets recover, which is going to take a while still, the only way around this again is to make loans that don't rely on collateral for repayment. Which means that you've got to do the hard work, as I said before, getting into what are the prospects of the business? What is its cash flow? Our guidance is very clear. You shouldn't be rejecting loans because of the industry or because of the geography, or some category. You need to look at each individual business. Think about its actual prospects. Learn the business. Then make that tough decision.

Collateral is way to essentially make a loan without doing much work. Given that collateral is a problem now, the only way to make loans is going to be by doing the work.

MR. LIESMAN: Chairman Bair, are the bankers too lazy to do that?

CHAIRMAN BAIR: Well, I said at the beginning of the crisis on another panel, that I
think someone forgot how to do it.

MR. LIESMAN: Yes.

CHAIRMAN BAIR: Again, a nod to the community banks; I think they deserve it. We've shown I think they're more high touch lenders and they do tend to typically have a more intimate knowledge of their borrowers. I do think that's one of the reasons why their loan balances have remained stronger throughout the crisis than some of the larger institutions that have been more remote relationship sometimes with their borrowers.

Yes, and I welcome it because that will give us better loan quality from a safety and soundness standpoint, from the standpoint of the deposits being insured. All the exposure we take, we'll get better asset quality if bankers do get back to basics and look at the underwriting and, the underlying ability of the borrower to pay, not just rely on collateral.

MR. LIESMAN: We're in the last two minutes, so Senator Warner and then Tom Bell.

SENATOR WARNER: I just had two quick
points. I mean one of the things a number of us have been urging the regulators if the loan's performing, even if the collateral value is down, to ask somebody particularly in commercial loans to then dramatically post additional collateral, really puts folks between a rock and a hard place, particularly if they've been performing for a long time.

One of the things that we're also seeing; and I think Sheila made the comment here, is with the massive consolidation of some of the larger banks you've got management chains that have totally been wiped out in communities. That total connection between the borrower and the banker has been so destroyed that it really is a longer term opportunity for the community banks. I'm not sure long term that we're going to be able to completely fund the whole small business industry totally out of the community banking system alone.

MR. BELL: There is a huge unrealized and unaddressed loan loss imbedded in the banking community from real estate that's not been addressed. It has not. Disclaimer. I ran a public real estate
investment trust for eight years. It's not been addressed. We need an RTC-type way. If we want to get the stuff out of the system, get it into secondary hands, you've got to create an RTC-type structure. You've got to create a secondary market. There's a lot of money that would like to invest in that secondary market. But, you know what? They want to make a profit. They want to make money. Some of them will make bets and they'll lose money, but others will make bets and they'll make money. This administration has to address the fact that, look, if you create the structure some people are going to get rich; some other people are going to lose money, but it will solve the problem.

MR. LIESMAN: We have to wrap it up. I mean, you could go for another half an hour. The original design of the TARP was to use that for that purpose, and it's interesting that it's --

MR. BELL: It got ruled to death.

MR. LIESMAN: -- not been used and the issue festered.

Well, I wish we could end on a more
optimistic note, but please join me in thanking our panelists.

(Applause.)

MR. LIESMAN: My colleague John Harwood will be up with the next panel. We've talked about the problems. John Harwood's going to solve all of them in the next panel.

MR. HARWOOD: We're going to be much more optimistic.

MR. LIESMAN: Thank you very much.

(Whereupon, at 2:15 p.m. off the record until 2:16 p.m.)

MR. HARWOOD: Thank you, Steve. We'll talk to some of you later. Chairman Bair's going to be back in a little bit.

We're going to keep this discussion going. We're going to get down in the weeds on some of these issues and figure out what some of the solutions are given the problems with lending and bank standards that we talked about.

Got a big panel. Let me introduce all of them. First of all, Don Graves, Deputy Assistant

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We're keeping some mystery around the panel. They're hiding on the other side of the wall.

There's going to be eight of them, so we have got to get chairs for everybody. If I could sing and dance, I would be doing that at the moment. All right.

Everybody's coming out.

Okay. Don Graves, Deputy Assistant Secretary of the Treasury; Steven Smits, Associate Administrator for Capital Access with the Small Business Administration; Rebecca Rainey, Chairman and CEO of the Central Bank of Taos; Anthony Lowe from the Federal Deposit Insurance Corporation; John Harrison, Superintendent of the Alabama State Banking Department; Kathleen Sowa from Bank of America; Jorge Corralejo from the Chairman of the Latin Business Chamber of Commerce in Los Angeles; and Denny Dennis from the National Federation of Independent Business.

Welcome our new panel.

(Applause.)

MR. HARWOOD: Now, let me start out to get everybody's brief take on the central conundrum
that was addressed by the previous panel, and that was the seeming contradiction with the fact that banks say they're ready to lend, but small businesses say they can't get loans.

Is it a regulatory problem? Is it some other problem in the economy? Don?

MR. GRAVES: I think there are a number of issues at play here. I think we're obviously coming out of the worst economic conditions that I think any of us have faced in our lifetimes. Because of that you've seen some tightening of regulatory requirements on a lot of the banks, which is --

MR. HARWOOD: Appropriate tightening?

MR. GRAVES: Appropriate tightening, absolutely. I think you've seen some changes to borrowers' credit, and that's had an impact on their ability to access credit because they've had some dings. I think you have some banks that are a little bit scared because of what they've seen over time.

Having gone through that period, I think we are now at the point where we're going to see a
lot more lending going forward. We’ve taken a number of steps at the federal level to try and help banks do more so that they can increase their lending. As you may know, we just passed a small business bill that the President signed into law in September. Because of that there are two programs that are very focused on providing banks with the capital they need so that, one, they can get the easing of the regulatory constraints by the regulators so that they can lend, and also so that they can feel more confident that they can get those dollars out and use them appropriately.

MR. HARWOOD: Rebecca, how much of a difference is that small business lending facility going to make? We heard some objections from people opposed to it who said that some banks were going to regard that as mini-TARP and not want to be associated with the stigma of that program.

MS. RAINEY: I think it provides a tremendous opportunity. The Treasury did a great job I think differentiating what the Small Business Loan Fund will be as opposed to what TARP was, so it is
very different.

   I think for those banks that are needing
the capital, that have the demand in their community,
it will be night and day. It will be a tremendous
opportunity for them to leverage and get back to
lending.

   MR. HARWOOD: Steve, you agree?

   MR. SMITS: I absolutely agree. I think
we've gone through a crisis, I think a recession that
many of us have not seen in our professional life
times. I think that our businesses are beat up. Our
banks are beat up. I think that this provides a
wonderful opportunity for banks that are
looking for capital. I think it will do good at the
right time.

   MR. HARWOOD: Let me get a show of hands
here. Does everybody on this panel agree with the
proposition that 12 months from now the economy's
going to be in a lot stronger shape than it is now,
that we're all headed in the right direction?
Anybody disagree with that?

   PARTICIPANT: A lot?
PARTICIPANT: A lot?

MR. CORRALEJO: A lot? I disagree a lot.

MR. HARWOOD: Talk about it a little.

MR. CORRALEJO: Well, just coming from my experience in California, if you look at the levels of unemployment and you look at the number of foreclosures, and in 2011 we're looking at losing another approximately 2 million homes added to about almost 7 million, that's going to keep things very, very rough. I mean, perhaps there's a measure of growth, but I think in the small business sector; and that's what we're here about today, I think it will be not dramatic at all. That's unfortunate.

It's good news I suppose that the large corporations are doing much better, and that's good. However, the money that they're making is not going into job creation so much in the studies that we've seen. It goes more into stock buy backs and acquisitions and these kinds of things.

We really need to examine, as we will do this afternoon, what are the opportunities for small
business to make the recovery? There's no real economic recovery for this country without a small business who generates 65 percent of the jobs.

MR. HARWOOD: Kathleen?

MS. SOWA: I think you could say a lot better for larger businesses. I agree for smaller businesses I think it's starting to improve, but many small businesses are heavily invested in real estate, commercial and residential. Until we get that turned in the right direction, I think it's going to be a slow recovery for small businesses.

MR. HARWOOD: John Harrison, tell me from your perspective to what degree are we suffering from over reaction by regulators and how much improvement can we get by turning those dials as opposed to just waiting for the economy to lift this whole process?

MR. HARRISON: Well, the reaction is real the way we see it from our banks in Alabama. There's not a single one of them probably that if you dialed them up would not say they regulatory pressure when they're looking at trying to make a loan.

On the flip side of that, banks cannot survive
without lending. We have tried to partner, we have tried to be involved from every aspect of making sure our banks were involved in the lending process. Based on what we hear from the banks that don't want to lend, they are not lending. When we survey that, we come back and our banks say, no, we don't have the demand we're willing to lend.

MR. HARWOOD: Anthony, what's your perspective on that? It goes to some of the debate that we had politically in 2010 where you had some in the business community who were complaining that the reason the economy wasn't doing better was because all these regulations and new laws that were being considered created uncertainty. The other said, no, wait a minute, the fundamental problem is there's no demand. Is that the fundamental problem with lending to small business is that economic conditions are such and the recovery is going to be so slow that there isn't going to be the scale of demand that we would like to see?

MR. LOWE: I think that's a large part of the issue. We hear a lot of anecdotal comments...
especially from bankers and Congress that it is the regulators that are causing the credit crunch, causing banks not to lend. When I talk individually with bankers, when I'm on panels or I'm visiting a bank during an examination, they consistently tell me we're open for business, like the comment was made earlier. We're ready to make loans but there's just not the demand.

A lot of businesses out there, small businesses, people that we've banked for years on end just are not in a predicament or a situation right now where they want to expand their business. The businesses themselves are trying to conserve capital. They're trying to make sure that their business plan is still going to be feasible and reasonable going forward. I think it's a combination.

MR. HARWOOD: Denny, do you agree with that? Do you think lack of demand at the business level is the fundamental problem?

MR. DENNIS: Well, no, I think there's problems below lack of demand that are certainly more
fundamental that create the lack of demand, but clearly the lack of demand is there. In 2009 we saw there were about 55 percent of all employers wanted to borrow, small employers, and made some attempt at getting some credit somewhere. In 2010 that fell to 48 percent. The number of approvals edged up slightly, so I'm not sure that the total numbers changed all that much from year to year.

Clearly demand, at least in terms of the numbers of firms that wanted it, was down, and reasonably substantially. You saw the Fed survey of lenders that come out of the major banks, of course not the small ones, showed that we began to see something down -- that the downward trend really began to reverse itself in October. We're beginning to see that a little bit. Still demand is a real issue.

MR. HARWOOD: What is the NFIB's perspective on the Small Business Lending Fund? Good step by government? Will it make a significant difference or not?

MR. DENNIS: Eh.
MR. HARWOOD: Eh?

MR. DENNIS: Eh. I mean, we supported it.

MR. HARWOOD: Thirty billion dollars is not real money?

MR. DENNIS? We supported it, you know, as did the Chamber when it was in before the Congress. Is it going to make a difference? Not really. Because what you're looking at is you're looking at a situation where it makes some real assumptions.

The first assumption is that banks don't have money to lend, and that's not true for the most part. Now, there are certain banks that do. We've seen a lot of small banks with lots of money that are sitting there and are putting it in munis because they don't have customers that they can lend it to.

You go through and you start looking at these. Then not only is there do you have any money, but there's do you like the deal and that sort of thing? I would be curious to know how many banks have applied for this so far. I mean, I saw that
March 11th was the date that was kind of recommended that you apply before then or whatever. We're near that, but I haven't heard how many banks are interested.

MR. HARWOOD: Don, let me ask you, Gene Sperling, who's the President's new choice for the Director of the Economic Council, broke his back getting that Small Business Lending Fund passed through Congress. If he broke his back for eh, was he wasting his time?

MR. GRAVES: No, I respectfully disagree with my colleague from the NFIB. We've heard from businesses all across the country who are saying we can't get access to credit. I think there's an issue here. It's a little bit more nuanced. There's a bit of a geographic dispersion for credit demand around the country. Certainly there are some parts of the country where you have banks who are flush with money and don't have borrowers. There are large parts of the country where businesses can't get access to lending because the banks are constrained from providing them with those loans for a number of
different reasons.

We think that the Small Business Lending Fund, which is a $30 billion capital fund, will provide hundreds of billions of dollars in lending to small businesses across the country. Sure it's not for everyone.

It's not every bank. It's not going to get to every business out there. I think that at the end of the day you're going to see a huge uptick in the amount of lending by banks because of the program.

MR. HARWOOD: Rebecca, you are the reality check. Who's right, Don or Denny?

MS. RAINEY: Well, I think there's a lot going on. Our particular bank I'm not sure will use these funds because we do have liquidity, we do have capital and we need the demand.

MR. HARWOOD: Eh?

MS. RAINEY: Well, no, because in looking at a lot of my colleagues across the country, I think that there is an opportunity, there is a need for banks that need that capital so that they can. They're faced with capital concentrations. There's
any number of things that they're up against that they are not able to lend. For a lot of those organizations, this will be a tremendous help. It's not the solution for everything, but it's a part of the piece getting us there.

MR. HARWOOD: Kathleen, Rebecca just ducked. Who's right?

MS. SOWA: I think it's somewhere in between. And there are other provisions --

MR. HARWOOD: You're ducking, too.

MS. SOWA: Yes, yes I am. I wonder how many banks need the capital. And to Denny's point, it would be interesting to find out who's applied for it. And I know there's some reluctance to apply, given some of the stigma that could be associated with it.

I do think it will help some of the community banks. There are other provisions in there around Capital Access Funds for states. I think that can help. Again, those are borrowers at the margin. Like SBA lending isn't a total solution, it will help some borrowers at the margin.
MR. HARWOOD: John?

MR. HARRISON: Well, in Alabama our banking department was a proponent of TARP. We thought it was an absolute outstanding way for our banks to get some much needed capital that we saw they were going to need. Our perception was that it was a government bailout, therefore they took an awful lot of heat from their customers and from the press and from the public in general, when actually it was a great investment for the government and for the banks as it's being repaid with interest.

And this is the same thing with this fund. I see that our banks in Alabama, we have some that need additional capital. Absolutely the private equity markets are pretty rough and this is an opportunity for them to be able to acquire capital. However, sometimes I look at whether the real criteria, the ones that probably need the capital and could make it and use it are not going to be able to qualify because they have some problems in there. The ones that are strong and healthy probably don't need the capital, therefore they're not going to want
to use this program. To date we have around 140 to 150 banks somewhere in the neighborhood of $250 billion in assets and I think we have one application on file.

MR. HARWOOD: Steve?

MR. SMITS: Well, you're going to tell me I ducked. The answer really is it's going to be good for some institutions and other institutions are going to make a decision that they don't need it, and that's the honest truth.

MR. HARWOOD: Well, let's put it this way: Is it a good thing that Congress created it?

MR. SMITS: I think it's a very good thing. I think it provides another resource and a tool for the banks that really look at this.

MR. HARWOOD: Critics said it's a $30 billion slush fund.

MR. SMITS: I don't see that at all. I see this as supporting our community banks. Our community banks play a vital role in providing access to capital to our small businesses. Again, this is another resource and a tool to help strengthen these
banks.

MR. HARWOOD: Jorge, you agree with that?

MR. CORRALEJO: I think the concept is excellent. It's about as innovative as you're going to see from the government. There are some funds there for community banks, and we've got a ton of them in California.

MR. HARWOOD: Do you have a low opinion of people who work in government?

MR. CORRALEJO: No, I don't. Not at all. I think we saw some really good folks here this morning and I think that their hearts and their minds are into governing.

My point is this: I think it's a really good concept, but there are a lot of other aspects to that jobs program that show additional innovative-ness by the government in terms of SBA, the broadening expansion of SBA lending. It's not enough. The biggest problem is that it's a digit too small, if you look at the nature of small business across the country and the need for funding.

There are other things that are so
important about this, like the lending to CDFIs; we've got tons of them in California, alternative means of providing credit. I think by looking at these kinds of things that you're looking at some extraordinary measures that could serve some good. The problem is there's not enough funding.

MR. HARWOOD: Anthony, I want to shift gears for a minute and talk -- I've got some cards with questions that were submitted by some in the audience and some who are not here. One of the ones that intrigued me was this question, which said there's now proof that the use of the personal credit score is a major barrier to lending for some small businesses. What can be done about that?

MR. LOWE: Well, I'm not sure if I would agree with that concept. I know when banks are looking at their lending function and deciding on making credit, a credit score may be one of the issues that they're going to look at, especially a personal credit score. A lot of small businesses, individuals are using their homes as collateral their personal wealth to get the financing approved, and
those type of things. The credit score is just one factor. I think most of our lenders, or the bankers that I talk with, there's a variety of issues that they look at and consider.

MR. HARWOOD: Kathleen, big issue or not a big issue?

MS. SOWA: I don't think that's a big issue. There's actually reliance on credit scores today than there was at the height of lending where we weren't doing income verification. We're doing more traditional lending on most of the small business credits, not relying on the credit score.

MR. HARWOOD: Now, this question might have come from somebody in this room today. If you're in this room and that was your question, do you want to rebut any of the statements that it's not a big deal?

MR. JACOBS: (Off microphone.)

MR. HARWOOD: Let me have you go to the microphone so we can get all this. Repeat the question and identify yourself and we'll start again.

MR. JACOBS: Thank you. My name is Mitch
Jacobs. I'm an entrepreneur. I built a technology company.

What we're doing is using technology to collect financial metrics of small businesses, Main Street businesses and solve the problem of all the time that goes into evaluating the financial health of a business using automation to solve that problem.

Banks feel like the reliance on the personal credit score is still very important. If they were to approach their regulator with a portfolio that had a lot of 600 FICOs in it, they'd have an enormous problem. The FICO score is not at all, or the personal credit score is not at all relevant to the overall health of the business. It's what Chairman Bernanke said before, the work involved in evaluating businesses is too much work.

MR. HARWOOD: Rebecca, is the personal credit score a big deal at your bank?

MS. RAINEY: It's a part of the equation, certainly.

MR. HARWOOD: Should it be?
MS. RAINLEY: We're working with individuals. It's their business. Yes.

MR. JACOBS: Would you lend to 600 FICOs?

MS. RAINLEY: Yes, there are several on our books.

MR. JACOBS: Okay.

MS. RAINLEY: It's part of the equation.

MR. JACOBS: That I think is a --

MS. RAINLEY: What we do as bankers is look at the entire story, and sometimes it's good, sometimes it's bad.

MR. JACOBS: I think the other issue here is 50 to $100,000 loans, where there's millions of those that need to be made to get this thing kick started again. I think that's where the challenge comes in. I would be surprised, and certainly through my experience; and there should be is a conversation about this, is that when you're dealing with those smaller loans the reliance on the personal credit score is a major obstacle to small businesses.

MR. HARWOOD: Anybody on this panel think that he's got a good point and that the financial
system and banks need to adjust to that point?

MR. CORRALEJO: He's got an extraordinary point. Our Chamber does loan packaging for members and other small business and we've been a strong advocate of technical assistance for small business. Part of that is that we can bring loans to bankers where we have a technical assistance agreement with them long term. That's not to suggest that anybody having technical assistance is going to be eligible for a loan, however, we can prove that this business is operating very efficiently, they have the ability to repay the loan and opportunity for growth. That could really be a part, a measurement or a substitute as part of the credit analysis.

MR. HARWOOD: Denny, what do you think about this question?

MR. DENNIS: Well first of all, I'm fascinated by it. I mean, anything like this is always of great interest.

The second thing I keep thinking about is any of the studies that I've done using Paydex rather than FICO, which is the Dun & Bradstreet score, I
mean, there's a clear relationship between who's better off and who's not. I mean, there is a direct relationship there.

It's interesting because you're developing a new type of credit score that just doesn't use FICO, it sounds like to me.

MR. JACOBS: It's the smaller businesses.

MR. DENNIS: Yes.

MR. JACOBS: Paydex doesn't go below $3 billion of revenue, and that's 7 million businesses in the United States that can't access capital.

MR. DENNIS: Well, yes, but my point still goes to the point that you're starting a new type of credit score, just not using FICO. That's a very interesting thing. I mean, I'm very interested and I hope you go ahead and it works. I mean, all for you.

MR. JACOBS: I just think this country has extraordinary technology assets and there should be more discussion about using the technology assets as we try to solve
the problem with delivering capital to Main Street.  
Thanks. Thank you.

MR. HARWOOD: I want to shift to a  
question about collateral. We had the discussion the  
previous panel about real estate as collateral, and  
that was very difficult.

Here's a question: Since small business  
lending is mostly based on collateral; i.e., real  
estate, with values down 30 to 50 percent, what other  
kind of financial products are possible for small  
business? Why not take warrants or preferred stock  
and invest in upside? Is that a viable way to  
compensate for what's happened to real estate and how  
could that come to pass?

MS. RAINEY: It depends on what type of  
business you're talking about. In my community,  
preferred stock and warrants in businesses don't  
exist. If you're really trying to get to rural  
America, it's tough when you're looking from a  
collateral perspective. Yes, you can look at the  
history of the business, but if we start making a  
bunch of business loans without collateral, I'm not
sure my friends at the FDIC are going to treat us too fairly. There's an impasse there, especially when you're talking rural America.

MR. HARWOOD: Anthony, is this a dead end suggestion?

MR. LOWE: I wouldn't say that. I think the premise here, the majority of our institutions, when they're doing lending and looking at which loans they're going to approve or fund, they're looking at repayment capacity. Collateral is looked at as a secondary source. I think most bankers anything that they can think they can liquidate at the end, if they have to go that route and get repaid, they were probably considered. Most of our bankers, the majority of our bankers are looking at repayment capacity. What's the cash flow? What's the business plan? Are you going to be here a year from now, three years from now to pay back my loan?

MR. DENNIS: Yes, there's a fellow by the name of Arthur Lipper who is out on the West Coast who is an entrepreneur down in Southern California that has been developing things along this way, or
along this line where it's a much more of a negotiated sort of thing in a non-traditional way. He does talk about giving different types of paybacks and different types of, what can I call -- anyway, these tying up certain types of ownership shares and so on. It's a negotiated sort of thing.

The thing that makes it useful is that it goes for a certain type of business, which is the little larger small business. It's not basically the Main Street, the under 20s, the under 30s. It tends to be the little larger ones and that's where I think the opportunities arise for such things that you're talking about.

MR. HARWOOD: Don?

MR. GRAVES: One of the other things that was mentioned earlier is that we've taken a number of steps at the federal level to support small businesses recognizing that there are these collateral issues.

One of the programs that was part of the Small Business Jobs Act is the billion- and-a-half dollar State Small Business Credit Initiative. That
program is specifically aimed at assisting states
with their innovative credit support programs all
around the country. Those programs are really aimed
at supporting businesses that have had collateral
deterioration issues. They're loan loss reserve or
portfolio insurance programs. There are collateral
support programs all across the country.

These innovative programs that have
worked at the state level obviously with the fiscal
constraints that the state governments are facing
these days, the federal government can step in and
provide them with that type of additional funding.
We think, at a bare minimum, we're going to see about
$15 billion worth of additional lending for those
businesses that are having the most trouble.

MS. SOWA: Collateral is an issue, but
the primary issue; you spoke to this -- our number
one reason for decline is lack of adequate cash flow.
It's the repayment ability, and that is the primary
issue. When you bring up warrants, the reality is a
lot of these businesses need an equity injection.
It's not lending that they need. They need equity.
I think the previous panel spoke to that as well. The angel investor network, that just doesn't exist today.

MR. HARWOOD: We're approaching Martin Luther King holiday on Monday. I got this question from the audience. I'm going to read the question, but invite the person who submitted the question to perhaps follow up when we're getting the answers and we can have a dialogue.

What can the President do before the 2012 election to help 6 million minority-owned businesses create jobs for more than 30 million Americans who are unemployed or under employed? What's the answer to that?

MR. CORRALEJO: I think there are a number of things that the President could do without any congressional action. I think part of it is in data collection. First, before you know where you're going, you have to see what you've got and whether it's contracts or lending, these kinds of things.

The key is on generating contracts for small businesses. If you generally look where the
data is available, and it's not generally that available, but it can be made, there are very few contracts to small business. Government contracts, for example, or even the prime contractors.

We need to analyze what is the measure of contracting going to small business? Because this would generate jobs. It would create some collateral. Data collection is really critical.

MR. HARWOOD: With the idea of making requirements on certain amount of contracting?

MR. CORRALEJO: Well, that's a possibility. I'm saying you cannot analyze what you're doing with the small business sector if you don't know what's going on. Once we can analyze that I think we can make some really strong recommendations.

The President can simply ask his cabinet members and regulators to provide him with contracting data on small business lending. If you look at small business, 24 out of the 27 million are people that do less than 10 million a year and less than 100 employees a year. That kind of analysis is
really critical to dealing with unemployment, dealing
with contracting, dealing with lending. All of these
things are a combination of those.

MR. HARWOOD: Steve, this President has
in a certain way; some people use the term
"post-racial," has not been a advocate of
race-specific solutions. He's been talking about
solutions that lift all boats, although some may be
targeted toward lower income or less-advantaged
businesses. What can be done specifically for
minority businesses?

MR. SMITS: Well, we can talk about
things we are doing as well. At the Office of
Capital Access I look at our role as actually filling
a lending gap. Our programs are designed to address
where there are gaps in lending.

With that said, it's very clear that our
underserved communities are disproportionately hard
hit by this recession that we're going through.
That's the facts. To me that is a gap and at the
Office of Capital Access for the SBA, I take that as
a responsibility to figure out how can we fill that
gap.

One way that we're doing that is we recently announced our programs which are actually addressing our underserved communities. We are going to be offering our SBA 7(a), which is our flagship government-guaranteed program, where for the first time our mission-based lenders -- these are non-profit small lending organizations that are inside of these communities all over our country that will now have the opportunity to provide 7(a) loans to the underserved communities.

Now, why is that important? It's important. I think we talked about this a little bit, technical assistance. Before joining the SBA I spent 20-some years in the trenches as a lender, a small business lender. My philosophy is really simple: It's that the attention that the small business owner places before those front doors of that business first open can be all the difference between a successful business or not a successful business.

Most of our underserved communities
really need what we call our smaller loans of
$250,000 and under.
The challenge for many banks, larger institutions is
in order for the economics of providing a loan under
$250,000, it has to be a very streamlined quick
decision, not a lot of hand holding. These
mission-based lenders are built upon the platform of
hand holding. Attention up front and entrenched in
their communities. They understand the dynamics of
that community and that will translate into success
for these small businesses in the future.

MR. HARWOOD: Sir, if this was your
question --

PARTICIPANT: Yes, it was.

MR. HARWOOD: -- let me just ask you how
satisfied are you with how the government is filling
the gap that Steve mentioned and how effectively are
major financial institutions filling that gap?

PARTICIPANT: They’re not filling the
gap. I think when Jorge was talking earlier
regarding the contracts, one of the great things
about the Dodd-Frank bill, in our opinion, is the
supply diversity piece that Congresswoman Maxine Waters and obviously Barney Frank supported that is a significant piece of legislation, if you will. It's going to have a great impact on minority-owned businesses and business in general, if you will, because it requires financial institutions and other corporations, when they're doing business with the federal government, to submit data to them regarding not only the diversity of their employees, the board and what have you, but the contracting, if you will.

And as Jorge pointed out earlier, with the federal government we've been trying to get data from the Department of Defense for the past two years to find out what percent of their contract is going to be awarded to minority and woman-owned businesses. Right now, the data we have is I guess from 2005 says there's less than one percent for Latinos. Black-owned business, Asian-owned business, same thing.

We think this piece of legislation is critical and we have taken it on ourselves to make certain that the banking industry, as well as
corporations who have contracts with the federal government adhere to that piece of the legislation.

MR. HARWOOD: Don and Steve, I want to ask you, why are the numbers so low as he cited? Secondly, why is the data not better? Jorge was saying we need more data. Why don't we have it?

MR. GRAVE: Well, I can't speak to the first issue. I don't actually know the numbers right now. I know that we have a strong commitment, the President has a strong commitment, I know Secretary Geithner has a commitment to this, and I think Administrator Mills as well to ensuring that we do the most that we can to support the success of businesses in all parts of our communities.

As to data, I think the speaker is exactly correct. Data is crucial to getting a better handle on where we're doing a good job and where we're not doing a good job. I think this President and certainly Secretary Geithner are willing to own up to problems that are there in the government and we want to work to do our best to ensure that a wide range of businesses have access to the opportunities
that the federal government provides.

    MR. HARWOOD: Steve, he says the gap is not being filled.

    MS. SMITS: Yes, and I don't want to speak to the numbers; that's not my area in the SBA. What I can tell you is the strong commitment as the SBA in our role that we play to ensuring that small businesses have access to contracts. I think that we've done great strides. I think I've seen a significant amount of progress made with working with other government agencies to ensure that our small businesses and our 8(a) firms and our minority firms have access to participate in those contracts.

    MR. HARWOOD: He mentioned one of the strengths of the Dodd-Frank bill. Let me just get a show of hands on this panel: How many people here think the Dodd-Frank bill on balance is positive and it's going to make a difference for the better in the financial system?

    Who thinks it would be better off had it not passed?
You're not giving me an eh.

MR. DENNIS: No, I'm not going to give that. There are parts that are fine and there are parts that are not so good, and I'm not sure that I like the balance.

MR. HARWOOD: What is the biggest single problem in your view? I mean, at the end of the day the administration and the Democrats in Congress were saying, look, do you want the old system or do you want something new? We've got to go to something new and this is what's in front of us. What do you think is the biggest single problem?

MR. DENNIS: Wow, the biggest single problem is the whole regulatory structure that's going to be required of it. That doesn't mean something shouldn't have been done. Quite clearly too-big-to-fail is a major issue that has to be addressed. I mean, that's just ridiculous that we haven't done it before. There are lots of aspects to it. The whole way of going about it I'm not sure is the most appropriate way to do it.

I think in terms of long term, in terms
of small business, I'm not sure that's going to have
a big effect on small business. This is going to be
something that a large bank may disagree with me, but
I'm not sure this is going to filter down to us.

MS. SOWE: The impact is going to be -- it's going to add some time, cost, complexity to the lending process because we're going to have gather more information. It's definitely doable. What we're concerned about having absolute clarity and as much simplicity in the processes as possible. It won't inhibit small business lending.

MR. HARWOOD: It will not inhibit small business lending?

MS. SOWE: No.

MR. HARWOOD: I want to shift to a different issue which of course occupied much of the first two years of the Obama administration, and that was health care, and try to get a sense from the panel, especially beginning with Rebecca and Kathleen, as to how the passage of the health care bill is going to affect the viability of business in the near term?
We had a question from the audience that said small business formation, particularly with so many people over 45 losing their jobs is very dependent on health insurance. Why not scrap the employer-based system altogether for a completely portable system?

Now, that's water under the bridge, but I'm wondering having passed a big health care bill whether you think it's going to make things better or worse for a small business.

MS. RAINEY: Goodness, that's a huge question. I think as with a lot of the regulations, there are a lot of unknowns right now. I think my business, I'm still trying to figure out for my own health insurance plan what the impacts are going to be. We just went through a health insurance renewal. There's a lot of new questions. I think it just adds one more thing that small businesses are having to figure out. I'm of the camp that something needed to happen, so I agree that we're making --

MR. HARWOOD: You're glad it passed?

MS. RAINEY: I think so. There's still a
lot of questions that need to be answered.

            MS. SOWA: I think it gets to what
Rebecca said, I think the uncertainty around how it's
going to play out and what it means for small
businesses, just another thing that small business
has to deal with today. That's the challenge.

            MR. HARWOOD: Jorge?

            MR. CORRALEJO: Yes, it's complex. The
health care bill brings
a lot of positives. There's still a lot more work to
do on this. It's far from over. With businesses
losing their health care services, they're dropping,
the situation is a lose/lose situation because
companies are losing policies, businesses are giving
it up for themselves for their employees. The
health care bill I think provides some opportunities
for some health care, minimal at least, but it is
positive, particularly given these times.

            MR. HARWOOD: Denny, I suspect I know
where you're coming from with this, but I'd like to
hear you explain it. Also whether you think the
bipartisan move toward repealing that reporting
requirement on small business transactions 1099, whether if that is gotten rid of whether that's going to make a big positive difference.

MR. DENNIS: Well, first of all it's a financial disaster. You can't add 30 million people to the roles and say that that's not going to have an enormous demand effect. Our major problem --

MR. HARWOOD: No wait, the CBO said if the bill's repealed last week it's going to raise the deficit by $230 billion.

MR. DENNIS: Just a second. Just a second. First of all, the major problem has been for the last several years; and it's clearly been small business' major problem, is that this stuff is going up at double digit rates every year. In the last decade it's gone up by like 130 percent where wages and costs are going up for like 20 percent. You're seeing this huge gap that's going into health care. Got to get controls on the spending side and on the cost side.

So, what do we do? We go out and make it worse by adding 30 million more people
to the system with no additional supply. We're already going to be short 120,000 physicians if nothing else happens. Now add this demand. My point is essentially that we're going to have a supply/demand that's going to be just unbelievable.

Second thing is along those lines is that the financial shenanigans that have gone in. Of course CBO has to abide by certain restrictions. It's basically the 10-year window frame. One of the ways that this thing supposedly works financially is that we start a system of long-term health care for seniors which we begin to pay for in the time frame but which extends way out beyond the time frame when the benefits have to be paid. The program doesn't even come anywhere close to paying for itself, according to the Chief Actuary at the Social Security Administration.

You've got all these sorts of things that CBO has to abide by that essentially allows anyone who wants to to really play with the numbers. We got a
huge financial problem. Our rates are going
to go up.

MR. HARWOOD: Don, I think you're
busted.

MR. GRAVES: Again, I respectfully
disagree with my colleague from the NFIB.

MR. DENNIS: You disagree with my
numbers?

MR. GRAVES: Listen, the millions
of people who are now going to be able to
access safe and affordable health care is
going to fundamentally change the way that our
economy functions. You are basically helping
those folks who've been, from a business
perspective, a drag on the economy because
they haven't had adequate health care.
They've had to go to the emergency room to get
their services. You're now putting them into
a system where they can access the health care
that they need, to visit doctors and be part
of that process of receiving the health care
so that you can diagnose problems before they
become acute. I disagree with you. I think that in fact it's going to be a long-term saver for the economy.

Secondly, for small businesses and large businesses alike these employees are going to be much more productive employees because they now will have the health care that they didn't have before. You won't find them taking sick days or missing work because they weren't taking care of their health. They now have the ability to go a doctor, take care of their issues and come back to work and be productive.

MR. HARWOOD: John, what do you think about that?

MR. HARRISON: Well, I think that's a good point, but if you look at the small businesses, whether there's enough small business lending against the business itself has got to be able to make a profit and they've got that additional call. Plus they had the threat of what was going to happen on
the tax issues. When you have the combination of the
two, is there a business demand out there for the
lending? Now, I understand that some businesses --

MR. HARWOOD: No, the tax issue's
gone away.

MR. HARRISON: -- that need some,
but they're not applying for it, therefore the
banks cannot lend it. Now, when you get into
if they qualified, some of them would be
marginal and then we would hope that's where
we could partner with our SBA and have
leveraging. Then it would be what would
work and be good for all, and we could get
those that needed it could get loans
partnering with SBA. There's still to me
-- perception is that health care is a fear to
the small business owner who wants to go out
and create more jobs.

MR. HARWOOD: Let me shift gears.

Got a very interesting question from Taylor
Webb, who's a congressional intern who is
somewhere in this audience. If you did
show up, make your way to the microphone.

His question was not about
regulators or about financial institutions.
It's about individual entrepreneurs.

In light of the financial crisis
the appetite for risk has been reduced at the
individual level. What do you believe is the
best path to encourage individuals to take on
large risks such as starting a small business?

What's the answer to that? Who
wants to take that?

MR. CORRALEJO: Entrepreneurship is
interesting because people are willing to take risks,
and that does not seem to have slowed down.

MR. HARWOOD: You don't think this
problem exists at the individual level?

MR. CORRALEJO: Well, it does
exist. This economy impacts everything. I'm saying
still entrepreneurs still rise and
start businesses. If you look across the
nation, a lot of businesses are starting up and
particularly for minority communities, I might
say. The Latino community is growing at the rate of over 30 percent in entrepreneurship.
I think of course there are problems with lending, these kinds of things.

What I'd like to suggest is that; again speaking from my point of reference in California, there are a lot of opportunities for entrepreneurs that are developing in California. The access to capital programs for small and medium-sized businesses. There's Assembly Bill 1155 that offers monies for these kinds of angel investors that have gone away.

There are a number of dynamic things that are in the works that we need to flush out and perhaps get some government matching funds as well.

MR. DENNY: May I suggest though that this is going to be a real problem and I'm not sure it has to do with attitudes as one would think of that the entrepreneurial spirit is dying.
A real lot of it's going to have
to do with access to finance caused by
housing. A lot of people who begin use their
home as the piggy bank, unfortunately, if we
can call it that. What you're seeing is
of course with the deflation of the housing
market that isn't there anymore. You're having a
series of folks who might
ordinarily go in who cannot do so. We are
seeing right now, the statistics are beginning
to start coming through that for the first
that in my memory we're having fewer starts in
the last couple years than we've had in the
previous years. We not only have this
group going out, but we have fewer coming in
and a lot of it is tied to housing.

MR. HARWOOD: I want to come back
to the housing thing, but, Taylor, do you want
to follow up? Jorge was suggesting that
the problem at the individual level was less
significant than you think it is. Go
ahead.
MR. WEBB: Yes, and just to give you some background, I'm from Holland, Michigan and obviously Michigan's really been hit by this economic crisis. Also, my grandpa started a small business. My dad used to have a manufactured home business that's basically going down as well. That's sort of the background for this question.

Even so, like being from my hometown and just being in a family that has lots of relatives who started small businesses, I can just see the pinch in their pockets when yes, their home is sort of the base for the loan for the small business.

Secondly, as far as there might be areas in the country that are more conducive to these small business loans being given out, but how do you see these new policies that are supposed to be being put in place actually expanding and getting to some of the areas in the country that may be most hard hit or where housing prices
like in Michigan have totally collapsed?

MR. HARWOOD: Steve, is it a small town problem he's describing?

MS. SMITS: Without a doubt there are parts of the country that are feeling the pain much more than others and it's not going to be a simple we're out of the woods. It's going to be a regional. You're going to see parts of the country. When we first started talking we talked about are we headed in the right direction?

I see good signs. I look at numbers every single day. Where are we heading? What are we doing? I saw last quarter that the SBA, as far as my loan programs, had the highest level of volume in the history of our programs, ever. The week before Christmas was the highest week of loan volume activity, ever. That's all good. Again, I go back to do I measure success by how much volume we do? No, I measure success by -- I would love it if the gap was
shrinking. That does also tell me that there has been a big gap. However, we're starting to see lending. They're taking advantage of these government programs.

We provide tools. My mission really is I ensure access to capital to our small businesses through our lending partners, to small businesses that otherwise cannot access capital on reasonable terms and conditions. Really by watching our volume go up, it tells me that we're doing something right. With the Recovery Act and then the extension of the Jobs Act at the end of September, our flagship program, the SBA 7(a) had a higher loan guarantee and a fee abatement for our small business owners' fees that they pay for these government enhancements. Basically, it created an encouragement for our small businesses and it also encouraged our lenders with a higher guarantee.

The other thing I looked at, and this actually made me smile quite a bit, is I
was wondering how many of our -- because when businesses buy equipment, that tells me that they're making a conscious decision to make an investment and that usually translates into growth, correct? That's a long-term decision. I took a look at our flagship program, the SBA 7(a) and said, well what proportion of those 7(a)'s are going towards equipment purchases? The Recovery Act kicked in; and we talked about these provisions -- kicked in in February of 2009 and extended for the Jobs Act in September. The chart is absolutely incredible. It doubled. The percentage of our loans that went towards equipment purchases doubled February 2009.

That tells me that the entrepreneurs, the business owners are making a conscious decision to invest. With the growth in our loan programs it tells me that our lenders are looking at -- lenders need to lend. Lenders want to lend. However, everything that we've talked about are challenges. It takes a little bit of time of finding out now how do I deal with those challenges? One of the ways to deal with the challenges is to look at the credit
enhancements that are available and how do we make it make economic sense and how can we also control our risks?

MR. HARWOOD: I want to go back to the real estate issue which Denny brought up, because it came up with the previous panel, too. Tom Bell from the Chamber, when he was asked what you'd like to see government do, he said do something about the real estate problem. Of course, on the one hand we have people saying government's pouring money down rat holes and deficit's too big and they ought to stop spending. On the other hand, do something about this big real estate sink hole out there.

Let me ask Rebecca and Kathleen and Denny, our private sectors types, and also Jorge, what the heck should government do about the real estate problem?

MS. RAINEY: I don't know. I mean, I think this is such a regional issue, too, that I think it's very challenging. There's an unknown on appraisals these days and where those valuations are coming from, how where in markets you don't have a
lot of comps what you do, where you're in markets
where you're having to fire sale properties. What
did that do to the underlying valuation? I think
part of it is the role of the regulators and how
we're working through some of these problem credits,
but it's also very regional in terms of some of the
local markets and how they go about dealing with it.

MS. SOWA: I noticed the first panel
didn't really answer the question; I was looking for
their answer, and I do think it's a huge issue and no
easy solution. I think we need to get the
foreclosures behind us. We still have a lot of
people that are in their homes that can't afford, not
even close to afford to be in their homes.

MR. HARWOOD: What's the role of
government in clearing that?

MS. SOWA: Just I think helping the
lenders get through the process, and we continue to
hear about delays here and there. I just think
getting that problem behind us is very important for
small business to move forward.

MR. HARWOOD: Denny, let me ask you about
that and throw in one extra thing at the end, which
is that all of sudden everybody's talking about tax
reform. Ooh, cool. Let's take away deductions and
get the rates down. Mortgage interest deductions one
of the deductions they're talking about. Is that a
good idea and what should we do about real estate?

MR. DENNIS: Well, I wish I had the
golden parachute or the magic bullet on this one. I
can tell you more about the problem than I can the
solution. For smaller firms it's unbelievably
important. I mean, just a few numbers.

Ninety-four percent own a home, much
higher than the average. On median it's 60 percent
more valuable. Plus of those who don't have a
home-based business, that have an office or whatever
you want to call it, almost half of those own that,
particularly in the rural areas. If we want to just
take a step further, almost 40 percent own investment
real estate, over half of which own more than one.
The small business owners are heavily into real
estate, to say the least. That's one of the critical
reasons we have it.
Clearly the issue you're talking about
tax reform is going to come up. My gut is that small
business owners aren't going to like a particular
 provision of what probably will be a major discussion
on tax reform, and that is either elimination of the
home interest deduction or at least capping it. My
guess is capping it will probably be the one. It's
going to be central; has to be central to the
discussion, but in the short term it's going to be
really, really tough because we have this horrible
problem and we have sat it on for two years and done
nothing basically. Actually, it's been about three,
four years where we've just sat on it and heaven only
knows what we're going to do in the next couple
years.

MR. HARWOOD: What do you think, by the
way, ought to be done on the issue of corporate tax
reform? Treasury Secretary Geithner's meeting
tomorrow with chief financial officers from about 15
companies and talk about the possibility of removing
deductions that many businesses like and getting the
rates down.
When I was talking to an analyst at the Chamber the other day, they said well half of all business income goes to businesses that aren't organized as corporations and you can't do corporate tax reform and bring that rate down, because those businesses are still going to be paying 35 percent, therefore it's all got to be done together somewhere down the road. You agree with that?

MR. DENNIS: Yes, it's the S corporations is what you're referring to.

MR. HARWOOD: Yes.

MR. DENNIS: Yes. No, I mean, clearly I think tax reform's on the agenda, should be on the agenda. I'm old enough to remember the 86 Act. That worked pretty well and then all of a sudden we started putting holes in it again and so on and so forth. I think this is something good that can benefit smaller firms in the long term, particularly when it comes to simplification.

There are certain parts of the code that are going to have to remain relatively complicated just because when you talk about depreciation and
things like that they have to be there. There are a whole series of things that don't have to be like they are. The home office deduction for the very little ones, for example. Doesn't have to be anywhere close to that complicated, but it is. The whole idea of what is an employee doesn't have to have 20 tests.

MR. HARWOOD: Can tax reform at the individual or corporate level, or both be done before the 2012 election, or is it going to take longer than that?

MR. DENNIS: Oh, I think you can only discuss it for a couple years. I mean, this is huge. This is very, very big and I don't think that you can reasonably do it well in two years.

MR. HARWOOD: Jorge?

MR. CORRALEJO: Getting back to your housing question --

MR. HARWOOD: Yes.

MR. CORRALEJO: -- It's extraordinarily complex of course, but I think government can continue to play a major role in that instead of
outlaying monies for principal reductions, which generally are just not working if you have people underwater and underwater for far more than a minor principal reduction, it's a waste of money. I think those monies could be better used for home ownership counseling and I think that you could utilize these counseling sessions to put people into new homes which would I think reverse the trend that we have. That's a short note on that, but that's something that we've been discussing and taking a look at and when you're looking at the principal reductions versus the new home ownership. Instead of continuing to lose the existing house that you're in, you could buy something more affordable and reverse the trend that way.

MR. HARWOOD: I want to ask John and Anthony a question that came in, in the notes that were sent by Rebecca. I think I know where she stands on it, but I'd like to get your perspective on this. It goes to some of the things that Congress did in 2009-2010 that sounded really popular. Let's limit bank fees, overdraft fees, debit card fees,
that sort of thing.

The question is at the end of the day banks have to be profitable and viable to help support small business lending. Are the aggressive new regulations and restrictions on income from overdraft and interchange fees jeopardizing banks' ability to lend and ultimately hurting borrowers? John and Anthony?

MR. HARRISON: Go ahead.

MR. LOWE: Yes. When we look at overdraft fees and any of the fees that banks are bringing in, that's a large portion of income for some of our banks, especially small community banks.

I think the overdraft policy that we have put forth at FDIC is looking at the tradeoff between the utility of what's being provided to the consumers versus those costs. We definitely don't want to put a tamper down on any innovative type of business line, but we want to just make sure that a consumer is getting some value for what they're getting.

MR. HARWOOD: John?
MR. HARRISON: I concur with that, that overdraft fees are certainly important to community banks and large banks, too. There are also some constraints that we have to use to protect the consumer, and that's part of it. I don't think where we see any of it that it has any reflection or creates any problems with lending.

MR. HARWOOD: From your perspective then, if you don't think it makes real problems in lending, do you see it as appropriate protection of the consumer as opposed to playing to the grandstand in terms of voters and doing something that sounds great but may ultimately have an unintended consequence?

MR. HARRISON: Yes.

MR. LOWE: Yes, I think it is important about -- and the premise of it is that we're trying to protect consumers, making sure again that they know exactly what they're getting, what value they're getting for the cost that they're paying.

MR. HARWOOD: Rebecca, you want to smack these guys down?

MS. RAINNEY: I'll be nice. I think this
is a fascinating issue. It also is one where all banks are lumped into one category.

You look at myself, you look at community banks. We're in the grocery store next to these folks. We're not going to take advantage of our consumers. We have overdraft programs that allow them to clear checks when they need to. We don't have the automatic program, some of the different stuff that has been created. You look at it as a community bank.

Just about everything I do these days is now being regulated. What does that do to our entrepreneurial spirit and our ability to balance and knowing that there are going to be times when loan demand is soft? How do we balance? How do we maintain our balance sheet and our income statement so that we can do what we do and not take a stereotypical approach? It's almost like we need a tiered approach to regulation so that we can really get at the problems where there are problems. Because I agree, some of these products have been taken advantage of. Things like interchange I'm not
so sure that that's really a consumer protection
issue, but it's something that's really going to get
at the heart of community organizations.

MR. HARWOOD: Don, is it not a consumer
protection issue, or is it?

MR. GRAVES: I think there are a number
of parts of the legislation that would fit into the
consumer protection bucket including this one. I
think we needed to take some steps to ensure that
consumers understood the products that they were
getting, were not getting charged too high fees on
those products, and that we did it in a way that also
ensured the long-term safety and soundness of the
system. I think we struck a pretty good balance.
The Congress did a very good job on that.

I understand that there are differences
amongst the bank community in terms of size and the
types of products and services that they offer. That
said, I think what the legislation did was establish
a baseline. This was not providing the types of
requirements on banks that a lot of folks I think in
certain parts of the lobbying community or the
advocacy community wanted. They weren't as strong as those folks wanted. But at the same time I think they were appropriate and necessary steps.

MR. HARWOOD: Rebecca, let me ask you this: Since you're from Taos and you said you probably would have voted for the health care bill, I'm guessing you're a Democrat.

MS. RAINEY: Yes, I am.

MR. HARWOOD: As a Democrat, this would make you a more credible critic. You agree with the charge that the Obama administration has gone bananas with regulation?

MS. RAINEY: No. Headlines in the Taos news tomorrow. This is interesting. There's a time and place and there's some need. I think what we're doing a lot with regulation these days is painting with a wide brush. Yes, there may be some quick fixes, but there's a lot of unintended consequences that go with them.

MR. HARWOOD: Does anybody want to -- John?

MR. HARRISON: I've wanted to address and
agree with Rebecca until I found out she was a Democrat. I don't know how I want to do that now, but she hit the nail on the head about painting, and it doesn't matter whether it's fees and exchange charges or what, but, we've got to realize that we can't all be painted with the same brush, and that has to do with state regulations and the state regulator as well as it does the size of the bank and the environment that it operates in. We still got to go back to some basic common sense examination of banks and look at them individually, look at them geographically and make sure that we're doing the best job to protect what is our main job, and that is protect, from my standpoint, the safety and soundness of the institution.

MR. HARWOOD: John, is the federal government and federal regulators, are they capable of common sense examination?

MR. HARRISON: That's a good question and one that I will answer very candidly. They used to be. I see today more so that it appears that since we've had this financial problem banks have been
suspect. We still have a number of problem banks on our list. It looks like now that whether you're primarily regulated as a state, whether it's the OCC, whether it's the Fed, but it looks like we're all coming down from Washington. At least what I see is that everybody wants to say well, we can't do or we can do, but Washington is making those calls. To me, that's not where we need to go. We need to be sending that authority and that responsibility down to that region and down to that field level person that should be able to work with that institution, know that market, know the economic conditions and come up with a sound judgment.

MR. HARWOOD: Now wait a minute. I thought you said a minute ago it was a mistake to paint with a broad brush.

MR. HARRISON: It is.

MR. HARWOOD: Anthony, he's painting federal bureaucrats with a very broad brush like that.

MR. LOWE: With respect I have to disagree. When we propose regulations or changes in
our procedures, the majority of the time all the regulatory agencies, we put these out for public comment. We take those public comments into consideration before we finalize any of our rules.

The same thing when we get ready to pursue a corrective action, be it formal or informal, for an institution that's having problems, that action is tailored to the specific needs for that specific institution, if it's capital management, whatever the case might be. We don't have a boilerplate that we just look at all problem banks or troubled banks and say you've got to do 50 different things. Each of those actions is tailored.

MR. HARWOOD: Now let me follow up with you, Anthony, on a question that Kathleen submitted and then see if Kathleen is satisfied with the answer.

The question is how do federal regulators communicate with their counterparts in the field and how do they ensure that there's consistency and coordination on lending standards across the country?

MR. LOWE: One thing that we do is we
periodically; most of the regions of FDIC and from our Washington level, we have conference calls with our entire staff at least once a quarter where we talk about issues, talk about new regulations, talk about congressional actions that may impact the way that we're going to regulate institutions.

We're also issuing internally all types of memorandums that detail this is the way that we're going to consider a couple of things that are public some of our FILs and specifically to commercial lending and encouraging that banks do continue to renew credit, extend credit. We take those memos, we talk directly with our staff and we encourage them if you see a credit that's deteriorating or the collateral behind a credit is deteriorating but the individual still has paying capacity, let's not criticize that specific credit. Let's use some judgment, use some balance here.

MR. HARWOOD: I want to go to the jury for one second. Is there anybody in the audience who thinks that there is a problem with consistency and coordination, and if so, raise your hand?
Wow. Okay. Kathleen?

MS. SOWA: Well, we just heard that from community banks more --

MR. HARWOOD: Case closed.

MS. SOWA: Yes. If you're inspecting that it sounds like you've got the right routines in place. As long as you're inspecting it, that's the case. I've heard that from community banks. It's not a national bank issue.

MR. HARWOOD: Denny?

MR. DENNIS: I think this is an issue that is like many others we're talking about right now, and that is we're in a process of flux, is what I call it, right now. We've had this tremendous run up in the amount of credit that smaller firms have been able to get going back into the '70s, and all of a sudden it changes very abruptly and goes back down the other way. We don't have rules and we don't understand one another anymore. Everything is changing. We keep blaming one another as to what the problems are. I'm not sure until such time that we don't get a little bit more stability and find out
what normal means. We don't know what normal is anymore. Until we find that out we're going to be pointing fingers at one another and I think that's probably a real problem.

MR. LOWE: If I could just add one thing.

Any of our banks, if a banker feels they are not being treated fairly or that we're not being balanced, we want to hear about that our regional level, at our Washington level. We have an ombudsman and the Chairman indicated earlier on the earlier panel we're going to have an 800 number that banks and consumers can call in to. If you don't feel that you're getting a fair shake, that we're not using proper judgment, we want to hear about.

MR. HARWOOD: Kevin Kelly, who may be in our audience; and if so, I'd invite Kevin to step to the microphone, asks how can local community-based organizations best work with the FDIC?

MR. LOWE: I think there are a number of ways. We have several events around the country where we talk with community-based organizations about how they potentially can partner with banks to
do some activities, do some lending activities.

    We also have at FDIC an advisory committee that's composed completely of community bankers. You can provide input to that group about any of our policies, any of our practices that might be stymieing individual lending or small business lending.

    There are a number of things that we do across the country and a lot of our policies that give the public an opportunity to give us input about our operations, what we're doing, what we can do better, what kind of obstacles, if there are obstacles, that we're presenting to lending.

MR. HARWOOD: I want to go to an off-the-wall topic. It's not so narrowly on our agenda, but it's linked to something that's happening next week. Hu Jintao, the Chinese leader, is coming to meet with President Obama next week. Treasury Secretary Geithner gave a speech yesterday and talked about some of the issues related to American competitiveness, both decisions we can take within this country and things that we want China to
do regarding the valuation of the currency.

Denny, Jorge, Kathleen, let me ask you, are you satisfied with the approach that the administration is taking to China? Would it be better off for American business if they were more aggressive in trying to press the Chinese on protection of intellectual property, on currency, or would that risk a trade war that would ultimately backfire on everybody?

MS. SOWA: That's a little out of my area of expertise.

MR. DENNIS: I'm going to plead the same thing. I don't feel competent to answer that question.

MR. CORRALEJO: Well, I have a measure of just experience, not a great deal, but let me make some comments with regards to that.

There's no question the President needs to engage more greatly with the impact on China. I mean, they're a major partner. They hold a great deal of our debt and we need I think to show more leadership. Over the past several years I think
that's hurt us.

With regards to devaluation, but also with regards to importing businesses here. I'm on the Board of Governors of L.A. Economic Development Corporation and we deal a lot with Chinese companies and some of them that are moving to this country. Being with a small business chamber, we are looking to generate some contractual agreements with them to expand businesses for some of their products. They have some major corporations moving here.

Overall, we need to play a much stronger role from D.C. We're doing some things in Southern California, however, it's a far greater, far bigger issue. On these kinds of things, absolutely we need much stronger leadership in all of these areas.

MR. HARWOOD: John, I know it's not your area of specialty either, but just would be interested if you have a view. Should the administration be tougher with China?

MR. HARRISON: Yes.

MR. HARWOOD: Some of the polls say they should.
MR. HARRISON: Well, I definitely think that we should toughen up and we should protect the dollar. That we stand a lot to lose, if we don't because they already own half our debt or a big portion of it anyhow, and I don't know that we want to get any deeper.

MR. HARWOOD: I want to go to a question that Jorge had sent, which is besides small business lending what step would have the greatest impact on the development and creation of new jobs?

We talked about real estate. Let's set that aside, because we've been discussing that. What else either that government can do or that business can do that would have the greatest effect on generating job creation given the fact that we've got unemployment still over nine percent and it's going to stay high for a long time? Who wants to take that?

MR. DENNIS: To some extent the whole idea of the payroll tax being rebateable as two percentage points, I believe on the individual side is a good idea. We're two years too late with it.
That's the problem. That should have been the stimulus policy to begin with is focused entirely on this --

MR. HARWOOD: But going forward?

MR. DENNIS: Going forward I think we're limited by the amount of money that we've already spent. You heard Senator Warner talking about in the future, in the next couple years we start to have to talk about deficit, where we're going and all that sort of thing. I think our options are really, really limited. The idea that we now have begun to put actual stimulus into place is probably the best we're going to be able to do for awhile, as long as we're not talking about real estate.

MR. HARWOOD: Is there anything that the government can do? Everybody's talking about the $2 trillion on corporate balance sheets that is sitting there waiting to be invested. We've talked about the lack of demand. That's a problem that's causing the money to sit there. What can be done about that?

MR. DENNIS: Well, that's going to come when there's a demand for investment. I mean, you
look at smaller firms right now and you look for either physical investment or you look for inventory investment and I mean we're barely back to kind of a very low level now. I mean, we're out of the very depths, but --

MR. HARWOOD: Does everybody on the panel like the 100 percent expensing in that tax deal?

MR. DENNIS: Yes.

MR. HARWOOD: That a good thing?

MR. DENNIS: Yes. Yes. I mean, so we're going to have to get into that, but part of that's caused by sales. For the big guys, yes, they have good profits, but a lot of them are coming from overseas rather than from here domestically. Before we're going to get more investment, we're going to have to some more sales.

MR. HARWOOD: Don, you're at Treasury. You're in charge of the economy. What can we do to spur the creation of jobs given the fact that we're broke?

MR. GRAVES: Well, I don't think there's any one silver bullet. I think there are --
MR. HARWOOD: Are there any even like partly silver bullets?

MR. GRAVES: Well, I think it's a range of the things that you've already heard today. It's spurring additional lending to small businesses. It's spurring innovation, and the President's talked at length about his innovation agenda. It's helping small business owners, entrepreneurs, take advantage of the great ideas that they have right now and being able to turn those ideas into products and services they can sell both domestically and abroad.

Where I actually agree with my colleague Denny, it's finding a balance of protecting American companies, but also ensuring that we are competitive globally. It's working all across the globe with our trading partners to make sure small businesses, large businesses have access to their markets, but also have the financial wherewithal to do what they need to do.

I think you've heard recently from the business round table that they expect their members to increase their hiring, to increase their
investment in their companies fairly substantially. I think that will go a long way to turning around the types of increase in small business investment that we'd all like to see. It's not going to be one thing. It's going to be housing as well. It's ensuring that responsible homeowners can stay in their homes, that they have everything they need. It's really just stabilizing the economy as a whole. It's not one individual effort.

MR. HARWOOD: A couple months ago I interviewed Alan Blinder who used to advise President Clinton. He's a Princeton Democratic economist, obviously. He said, look, we need to recognize -- and he's generally considered a moderate. He said we need to recognize we're in a jobs crisis and we're going to be in a crisis for some period of time because it's going to be very slow out of this hole. We ought to think about direct government hiring. New Deal kind of stuff.

Is that crazy talk? Could it make sense?

MR. GRAVES: Well, I don't know that having federal programs aimed at hiring is the way to
go. I'm probably not qualified to talk about that specifically.

   MR. HARWOOD: Does anybody think it is a good way to go, direct government hiring? You do?

   MR. CORRALEJO: Yes, I think it's important because again looking at from our point of view in Los Angeles, in Southern California, Los Angeles has about 600,000 small businesses. That's probably more than any large group of states put together. In the last two years we've lost over a quarter of them. If you look at the desperation of these kinds of businesses, sales are critical. People need to have money in their pockets to buy from their local retailers. Without it we're seeing still a flood of people that are going under. I think that is very much a part of the stimulus package.

   What's important to note is that we cannot slow down or stop this recovery by the absence of stimulating the economy. That's what we're taking a look at. I think it has real value there.

   MR. SMITS: My comment is this: This
country is small businesses. This country was built on small businesses. This country has been pulled out of the depths of every recession we've gone through with the help of our small businesses. The opportunities for us going forward are our small businesses. Almost two out of every three of us work for our own small business, correct? Why I've worked with these small businesses for 20-some years is because I'm fascinated by them. They will find the opportunities. They will find the opportunities every single time.

We go back to what we discussed: Sales. We need to take a look at where are the opportunities? We're a global economy. Exporting. These are the opportunities for our small businesses and we need to take a look at that and we need to see where can we provide the assistance? Can we provide the technical training? Can we provide the tools for our small businesses that really define us to take advantage of that?

MR. HARWOOD: Let me follow up on that point and test sentiment on the panel, because I've
had some conversations with economists, left and right. Usually this part of the conversation occurs off the record because it sounds politically incorrect. One that I talked to a few months ago said something to the effect that, come on, we way over romanticize small business. People use these numbers. It reflects a whole lot of churn in small business starting, stopping and that sort of thing. If you look at it candidly, the best jobs are in large business, the jobs that pay the best, the jobs that have the best benefits. We need to focus more attention on increasing hiring among large businesses rather than small businesses. That is kind of like talking about family farmers in an era where that's a little bit obsolete.

MR. SMITS: My comment is this: I can drive through town and point out to my kids all the businesses I've helped over the years. I was in the trenches. I was doing this. Perfect example; businesses that I've provided -- maybe provided a loan for a restaurant to open up a second location. We talk about, well, how many jobs
is that going to create for that restaurant? How many employees do you have? As you walk to that project and you step back and you take a look at how many jobs has that actually touched, that project; the contractors, the equipment companies, it's mind boggling if you stop and you think about it, I think we're underestimating that.

MR. HARWOOD: Denny, is there too much mom and apple pie talk about small business?

MR. DENNIS: Well, I think actually it been really kind of interesting recently, because you got all the economists coming out with all these new sorts of things. If you look at the Bureau of Labor Statistics, what they call the BED series, which is Business Employment Dynamic Series, which has recorded officially the number from '92 through -- well, ongoing, it's 64 to 65 percent of all net; and I underline "net," not just gross, net. In other words, hires versus layoffs or whatever. Net jobs are created by smaller firms. A goodly number of those are smaller firms under 20.

Now those are government numbers. I'm
not making those up. All the data that we have going back to about 1976, prior to that, says approximately the same thing. All of a sudden somebody comes out, and I know who the people are, the suspects here -- no, they're good people and they're very bright people. All of a sudden they come through and they say, well, yes, but, a lot of them are new, just brand new firms. Well, hello. They are small firms, are they not? They're new firms for the most part. We don't start firms with five and six, 700 employees. I mean, that's kind of just superfluous to the whole argument. The job generation thesis is quite clear going into this recession.

What's going to happen after this recession? I mean, we've been able to do this for years and years and years. A guy by the name of David Birch who wrote the original thing, everybody's criticized him, but everything he has written has proven to be correct with data. So here we are. These are job generators. We went into this recession. We may be seeing something new happening from this recession. Basically, it's indisputable if
you just look at the government numbers.

MR. HARWOOD: Guys, with that stirring defense of the contribution of small business to the U.S. economy and with a lot of hope that things get a little bit better than they look right now, we want to thank our panel.

(Applause.)

MR. HARWOOD: We've got two more speakers at the end. We're not quite done. Thanks so much, guys.

Now I'm going to introduce our next to last speaker, the Chairman of the Federal Deposit Insurance Corporation, Sheila Bair.

(Applause.)

CHAIRMAN BAIR: Hello again. Thank you again all for coming today. I think this has been a tremendously productive discussion. And special thanks to all of our panelists. We're very fortunate to have had so many key policy makers, regulators, bankers, small business owners and others join us.

I'd also like to thank all of our FDIC staff, especially Suzy Gardner, for a lot of work in
a very short period of time in putting this together.

Last but certainly not least, CNBC for all their help with the setup and John and Steve Liesman for co-hosting this. This has really been a fabulous panel discussion. Everybody was terrific. I think you should all get another round of applause.

(Applause.)

CHAIRMAN BAIR: Thank you. It's been a very full and productive afternoon. I know I've learned a lot about the realities of what's happening on Main Street and across the American economy.

To wrap things up for us and to give her own observations we're very privileged to have as our closing speaker Karen Mills, the Administrator of the U.S. Small Business Administration. I'm delighted to welcome Karen to the FDIC. I think she exemplifies what we want in government. We want people with practical business experience in key policy making and administrative roles.

Since earning an MBA from Harvard University, Karen has worked in counseling, managing, mentoring and investing in businesses of all sizes
across the United States. Her skills and ability came to the forefront during the recession of the 1990s when she was in the private sector and helped a number of small manufacturers increase their efficiency and competitiveness which enabled them to survive that down turn.

She also has extensive experience in attracting investment for rural and regional development and she's an expert on regional innovation clusters and other new approaches to business growth. I think you heard Senator Warner earlier this afternoon talking about how quickly she has instigated some of these new programs and gotten many out the door quickly and in a very efficient way.

She's worked very effectively to grow businesses, first in her work in the private sector and now as administrator of the Small Business Administration where she has an opportunity to further public policy and support small business. It's been a privilege for me to be able to get to know her and work with her. She's been tremendous.
I think there's nobody that's got more commitment in the federal government than Karen to small business and she's really done such an impressive job at the SBA.

Please give her a warm welcome.

(Applause.)

ADMINISTRATOR MILLS: Thank you very much Sheila. That was a very kind introduction.

I really want to thank also the FDIC for organizing this. There is really very few forums where we can have this impressive group together on this issue in this kind of way. I think I want to thank also CNBC for making it come alive here and bringing it to the attention of many others throughout the country.

We have been working very closely with Sheila Bair and the FDIC and with the Fed over I guess the past 18 months, and with bank examiners, because we needed to be sure that good loans were going out to creditworthy borrowers. We had a lot of work to do, but there's probably still a lot of work to do, but we made a lot of progress. I really want
to thank this collaboration that we have had with the FDIC. The guidance that they provided very early on on this issue I think got a lot of borrowers to get loans and prevented some good borrowers from being frozen out even in that credit freeze. Thank you very much.

I also want to recognize our new Associate Administrator for Capital Access who you saw up here a minute ago explaining some of our programs, Steve Smits. As you heard, he has been on the line investing and banking with small businesses for years, 25 years I think, and we are very, very pleased to have him as part of our leadership team at the SBA.

Everybody here knows the facts. Two out of three jobs are created by small business. Half of the people in this country own or work for a small business. Half the people. In answer to the question that came up in the panel, if we are going to create the jobs, we do need to make sure that both Main Street small businesses and those high growth gazelles that were being referenced have the access
and the tools that they need so that they can grow, and that they can prosper, and they can complete globally, and create jobs here in America.

We do that at the SBA with three tools. I want to mention two of them we haven't talked a lot about today. We have a network of over 14,000 counselors. It's not enough to give small businesses the money. They need to do the business plan. They need help. They need mentoring. They need advice to succeed.

I think there was a gentleman from Michigan earlier talking about what do you do for mentoring for youth entrepreneurs? We actually have youth entrepreneurship programs. We have special programs we're working on now for high-growth entrepreneurs, an entrepreneurial mentor core where we're encouraging successful business people to mentor that next generation.

The other thing we do at the SBA is we are responsible to make sure that 23 percent of all government contracts go to small business. That's $100 billion a year. That's the oxygen that small
businesses need, particularly in underserved markets to grow and take that next step. That's a win/win at no cost to the American taxpayer. It's a zero cost to the American taxpayer. In fact it's a benefit because departments, agencies like the Veterans Administration, the Department of Defense are getting access to some of the most innovative companies usually with the attention of the CEO. We work very hard on those two Cs, counseling and contracts.

The third C of course we're talking about today, which is capital. What has been mentioned quite a bit today, in 2008, October, credit markets froze. Small firms really couldn't get access and opportunity. The SBA guaranteed loans has to play a very critical role in coping with that market dilemma that we had. That's what government should do. It should fill the gap when the market is not serving the needs of these small businesses.

In the Recovery Act, in the Small Business Jobs Act we were able to get two very key provisions that helped us really sort this market out. We were able to raise our guarantee to 90
percent and reduce or eliminate our fees. That allowed us to put $41 billion into the hands of small businesses over this period of time. That's loan guarantees that gave a pretty good bang for the taxpayer buck, because it costs only just over a billion dollars to do that. We were able to really be quite efficient and move capital into the hands of small businesses. In fact, we were able to bring 1,300 new lenders who had not been participating in the SBA programs back to active SBA lending during that critical time. That was due to these Recovery Act incentives.

We are very, very happy with the fact that we have been able to work hard and fill that capital gap. There's still more work to do be done. To those who say there's no demand out there, I just want to point out that the SBA in the last quarter had its strongest quarter ever in the history of the SBA. We put out $10 billion in this last quarter into the hands of small businesses. Many, many of them are investing in equipment and other activities that are going to create jobs. This is nearly 90,000
small businesses who we've helped with these loan guarantees.

I think the greatest part of my job is I travel all over the country, in Arkadelphia and Seattle and I hear businesses come up to me and say you saved my business. You saved my business. I could not have survived without this SBA loan. It really makes it a worthwhile thing.

I want to actually also add a piece of data that I think Steve may have mentioned up here. One of the things that I really care about is American manufacturing. I grew up in a manufacturing family. I've owned lots of manufacturing companies. What I really like is to go out and walk the factory floor and talk with a business owner about how they're going to run and grow their business.

We have been tracking the percentage of our loans that go to equipment purchases and I'm very happy to say that with these Recovery Act loans and some of the other Small Business Jobs loans the percentage has doubled. We have two times as many of our loans now going for equipment purchases. I think
it's a very good thing because we know that these are helping small companies gear up, innovate and compete.

One of the reasons I think that we've had that success is the loans. The second reason is that many of these Small Business Jobs bills have included important tax incentives. We actually have 17 small business tax incentives that have been passed in the combination of bills between the Recovery Act, the Small Business Jobs bills and the recent tax provisions.

We have tax incentives for small businesses for buying equipment. We have it for providing health care. We have it for hiring people. We have it for zero capital gains if you're investing in a small business. We have five-year carry back of your losses. As small businesses are out there right now talking to their tax preparers, they are getting the benefit of these tax provisions that have been included. As I said in the latest tax cut package we were able to include 100 percent on accelerated depreciation on equipment. That means
money right back in the pockets of the small businesses which they need for working capital as they grow. So these are really critical provisions.

Looking forward as we enter 2011, we are happy to see a lot of the positive signs. I think many of them were described in the first panel today.

The conventional small business lending looks like it's stopped tightening. We need it to be expanding.

In fact, we have many, many of our key large lenders coming back and making proactive pushes to market more small business loans. We're working very hard to partner with them because we need the full conventional market back. The SBA market is back above our 2008 levels. We need the conventional market to be back as well.

We still have some gaps. One of the gaps was talked about today I think in the second panel; and that is we have some underserved markets that are not getting the access and opportunity. Those markets still haven't opened back up. In addition we have seen that the markets for smaller loans have not come back. That's why we announced the two programs that
Steve talked about earlier.

We've got a -- we call it our Advantage Platform, Community Advantage, Small Loan Advantage. Some of you will be very pleased to hear that they include a streamlined application process. Less paperwork, faster turnaround times. That's something that we are delivering both with these new programs and we're working on hard in our main programs.

The other piece of new program that I want to make sure you know about was not mentioned today. It came in the Small Business Jobs Act and it's very important for our commercial real estate, and that is what we call our 504 Refinancing Opportunity. It allows small businesses who need to refinance perhaps a bullet loan that they did a number of years ago, maybe five years ago, which is now coming up for refinancing on commercial real estate, to be done through our 504 Program. I think this is a real win/win. We are looking at strong businesses that are owner-occupied, that have not missed a payment, but are not able to find that refinancing for commercial real estate because the
market is still tight.

    We're just rolling out that program. We're very pleased about it. It came in the Small Business Jobs Act. It's one of the things that the administration is going to be very focused on to making sure we continue to get capital into this market and get small business lending back where it should be.

    The second piece is the $5 million loan limit. We were able to raise our loans to 2 million to 5 million. That also is helping exports. I just came here from an Ex-Im Bank presentation at the Chamber of Commerce where we are working very hard on the President's objective of doubling exports in the next five years. Small business exporters are going to play a major role in that.

    Finally, I know that you all are looking forward to and we are looking forward to Gene Sperling being the new head of the NEC. He was one of the major architects of the new Small Business Lending Fund. That is designed to provide $30 billion in capital to community banks. We know that
community banks on Main Street are a primary place that small businesses look for their next loan and we are looking forward to help the Small Business Lending Fund get more capital into those banks so they can lend it out to small businesses.

All of this I think is good news for the community. We do have some things that we need to do better. Some of them were talked about today. One of them I want to highlight that we're working very hard with Sheila and others on is getting better data. We need better data on small business lending and on minority business lending.

We're a pretty fact-based agency at the SBA and what we promise to you is to use that data, to find that data, to collect it and to use it to continue to try to make strong fact-based judgments on policy going forward that provides access and opportunity for capital for our small businesses.

Because as we've said, the end goal is very clear. If we can get capital into the hands of these entrepreneurs, they can grow their businesses
and create jobs. That's what we need to move forward in this economy and we're very, very pleased to be part of a great collection of people who are working to make that happen. Thank you very much.

(Applause.)

(Whereupon, the forum was concluded at 3:58 p.m.)