Remarks Prepared for Delivery by

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Introduction

Thank you. I am delighted to be here today with NAGGL – the voice of SBA's lending institutions.

Since 1984, your organization has been critical in growing the 7(a) loan program. In fact, approximately 80% of SBA's 7(a) loan volume can be attributed to NAGGL members. This is thanks to your dedicated members who directly assist American entrepreneurs in realizing their dreams of being their own boss.

In almost everything the SBA does, we work through our lending and other partners to serve our customers – America's small businesses. That means *we* succeed when *you* succeed. SBA cannot fulfill its mission unless our financial partners are pleased with SBA products and service and can delivery those products and services at a reasonable profit. With that in mind, I'm glad for the opportunity to speak about how the current economic situation is affecting your small business lending.

We face 2 critical challenges.

1. Access to Capital. Today, with record low interest rates, the issue facing borrowers is not the *cost* of capital, but the access to capital. It's a lot like finding a product you want to buy – on sale – in store front window, but the doors to the store are locked.
2. Demand for Loans. At the end of the day, small businesses are people. And people are hesitant to take out a loan when they don't feel confident about their ability to re-pay that loan. Given the economic news today, this is an understandable thought.

The Credit Crisis

We meet at a time of significant challenge for our economy. After almost six straight years of uninterrupted economic growth, our nation's third quarter economic growth was negative. This negative growth of 0.3% was – fortunately – less than many had predicted, but negative growth is never welcome news.

The wild ride on Wall Street and the credit crunch has all of us – even those who always thought that Wall Street was far away and irrelevant to the lives of everyday small businesses and families – paying close attention to the intricate workings of the financial markets. As you know from being on the front lines of the economy, the credit situation is a serious one, and a situation that required quick and decisive action.

Quick and decisive action is exactly what the Federal government has done. Working around the clock and in concert with governments around the world, the federal government led by President Bush and Secretary Paulson have brought an impressive array of tools and actions to bare on the financial crisis that began on Wall Street, but impacts all of Main Street.

There have been several announcements regarding the $700 billion Emergency Economic Stabilization Act, and I want to walk you through the four key elements of this plan – all of which are designed to unfreeze our credit markets and get banks lending again, especially to small businesses and consumers.

- *First, Direct Capital Injection*. $250 billion of the package will be used to provide direct capital injection into banks. For every dollar the government injects into these banks, banks will be able to make up to $10 in loans – this is critical at a time when the financial system is short on the liquidity needed to lend. In exchange for this capital injection, the government will acquire non-voting shares in these banks – which the banks will pay a yearly dividend and will buy back in about five years, ensuring taxpayers get their investment back. This program will provide banks with what they need now – capital to lend to consumers, students, and businesses – with a mechanism that will allow the taxpayers to get repaid.

- *Second*, *Expanded FDIC Insurance*. The FDIC, in addition to the increased insurance on deposits – now $250,000 – will expand its insurance in significant ways. The FDIC will now insure many types of bank-to-bank loans. This inter-bank lending, which is central to the functioning of our capital markets, has become frozen. With this new temporary insurance, banks will be able to lend to each other with confidence.

  Additionally, the FDIC will now temporarily insure non-interest baring accounts – for an unlimited amount. These accounts, commonly used by businesses of all sizes for meeting payroll and inventory purchase needs, were previously not covered by FDIC insurance. This will give businesses confidence that their business deposits are safe and they will not be inclined to pull these accounts if they believe their financial institution is shaky – thus accelerating the financial challenges of a particular institution.

- *Third*, *Commercial Paper Purchases*. The Federal Reserve will now have the authority to be the buyer of last resort for commercial paper, used by businesses for short-term financing. With the Fed serving as a possible purchaser of these assets, it will help unfreeze this market and get capital flowing again.

- *Fourth*, *Mortgage Backed Securities Purchase Plan*. This is the plan we all heard so much about in the early days of the Congressional debate over the Emergency Economic Stabilization Act – the plan to buy up some mortgage-backed securities that are clogging our financial system. These mortgage-backed securities are essentially mortgages held by folks like you and me, living in real homes, with real values.

  The government will be able to buy these bundled home mortgages at a steep discount – 20 to 40 cents on the dollar – and resell them later at a profit. This will provide the immediate benefit of getting these unpopular assets off the market, get capital flowing again, and provide a net profit to the taxpayer in the long-run.

This plan can be plainly described as the American people taking a loan from ourselves in order to buy an asset, a mortgage-backed security, which we know is *on sale* today. We'll hold that asset until its value increases; then we'll sell these assets back into the private market at a profit. This plan make even more sense when you realize that even today, about 95% of all Americans are paying their mortgages on time.

All these elements add up to a *"failure is not an option approach"* to the credit crisis and will get capital flowing to Main Street again. While the credit problems will not be solved overnight, we are already seeing that the Treasury plan is working:

- The LIBOR rate continues to fall; and
- Long-term Treasury rates are moving in the right direction.

All these actions taken under the leadership of President Bush and Secretary Paulson are big and bold enough to work over time, to preserve confidence in our free market system. Those of us who work for this President didn't simply wake up one day and say, *"Hey, let's give socialism a try."* We are in extraordinary times and extraordinary action was called for. When government, and only government, has the scope, patience, and resources to act, I believe it has the *obligation* to act – and your government has acted to bolster our free market system.

These efforts, as bold as they are, are also limited in scope and duration. These are temporary measures – and have strong provisions to ensure that taxpayer dollars are protected and that the government is not in a position to exercise management over private sector entities.

SBA Rule

Yesterday Eric Zarnikow spoke to you about SBA's concerns over the credit crisis and how it affects your lending to small businesses and the secondary market. SBA has heard your concerns and has been working hard on this issue.

Today, we are able to share much more about what SBA is doing to directly respond to your needs. Let me clear that the reason we are sharing more today than we did yesterday is *not* because I am here at the podium, but rather some news became public late yesterday afternoon that allows me to talk in more detail of what we are doing that demonstrates potential progress on issues of importance to your institutions.

Since the onset of the credit crisis, SBA has been working closely with our Federal partners to identify things we can do to expand credit access for small businesses – and the White House has supported our efforts to develop solutions. At the same time, President Bush has made it clear that he does not want a repeat of what sometimes happens at the end of an Administration – a flurry of so-called “midnight regulations” designed to lock in policy changes at the last minute without the usual review and scrutiny.

In fact, White House Chief of Staff Josh Bolten, back in September, specifically directed Federal agencies that all regulations must be finalized by about this time, or put off until the next Administration, except in “extraordinary circumstances.” This Administration is committed to a smooth, professional, collaborative, and transparent transfer of power and this prohibition on “midnight regulations” is part of this commitment.

Of course, the credit crisis is an extraordinary circumstance, and regulations associated with the Emergency Economic Stabilization Act are, of course, working their way through the system. SBA is working with our Federal partners to propose regulations that address the crisis in the secondary market for SBA loan products. The same folks who are working on TARP regulations are the same folks who we are working to address your concerns.

This week, SBA submitted a rule to the Office of Management and Budget for consideration. If it is approved and adopted, the rule would help to address the current credit crisis.

- The rule would allow variable-rate SBA loans to use the LIBOR interest rate as a base rate. The change in the historical relationship between LIBOR and the prime rate has made it harder for you to make loans when prime is the only base rate available -- if we can get agreement on this change we can respond to your calls to use LIBOR as an option which will ease the secondary market for SBA loans as well as bring the SBA secondary market into contemporary world-wide financial standards.

- In addition to the draft rule addressing the LIBOR situation, we are discussing other changes that would open up the secondary market by making SBA loans easier to assemble and more attractive in the secondary market.

We will keep you informed as this rule moves through the review and publication process. I am encouraged by the support the White House has given to our efforts and hope we will be able to put this rule into effect soon.

Please note that while I am optimistic about action on this issue, I am not announcing a final rule or decision, but rather a key milestone in the Federal process to get you the relief you need to make small business lending profitable once again.

We know this is important to you, and therefore it is important to us. Contrary to what some folks – frankly uninformed folks – might be suggesting, SBA is not sitting idly by during this extraordinary time. The SBA team has been at the table and engaged with our Federal partners looking for solutions. Even given the enormous demands on our Federal colleagues working on regulations addressing the Emergency Economic Stabilization Act, SBA has been getting nothing but cooperation and encouragement.

The fact that we are only 45 to 60 days into this credit crisis and we already have a meaningful rule developed in conjunction with our Federal partners, that hopefully will be approved, is a testament to the effort and collaboration currently occurring within the Executive Branch. I am pleased to say that any claims that the agency is not working around-the-clock to address liquidity issues in the SBA secondary market are absolutely and completely false and uninformed.

With the combination of the Treasury-led efforts to address the macro issues, and the promising efforts specific to the secondary market for SBA loans, I believe we have a good start on having the right tools to address the *access to capital* issues. Of course, these challenges will not be solved overnight.

Regarding the *demand* side of the equation; it is much more difficult to predict when confidence will return. If I knew the answer to that question, I wouldn’t need my government paycheck.

Putting Things in Perspective

What I can suggest, however, is that we put things in perspective. The financial crisis has given voice to some who are advancing the *Chicken Little Theory* –

the sky is falling. Let’s not forget that the economic obit of this country has been written before. From the . . .

- Oil shock of the early 1970s.
- The stagflation and malaise of the late 1970s.
- The sharp recession of ’81 – ’82.
- The stock market crash of 1987.
- To the early 1990s – the rise of Japan’s economy caused some to believe that America was incapable of competing against the world and we were headed toward becoming a second-rate economic power.

We have seen economic challenges before. While each is different, we know that they are temporary; we know we will get thought them, and we know that economic growth will follow this latest period of tough economic times.

As we deal with these challenges, I want to assure you the government is taking serious and intelligent action – and we are doing so in close coordination with leading economies across the globe. My former colleagues at Department of Commerce recently launched a website, *EconomicRecovery.gov,* that will help consumers, businesses, homeowners, and anyone interested learn of the many actions – macro and micro – that the government is taking to address this crisis. Federal agencies ranging from Treasury, FDIC, Housing and Urban Development, Commerce, and of course, SBA, are all contributing content to this site – and I encourage you to check the site periodically to understand the resources that are available to you.

These are challenging times, no doubt. But I remain optimistic about the promise of America, the promise of our free-market economy, and the promise of small business. Just as we addressed and succeeded through previous challenges – we will this time too.

Thank you again for your role in advancing the mission of SBA – you are the service delivery arm of SBA and you are critical not just to SBA, but to small businesses across this nation. Thank you for your leadership, thank you for your kind attention today, and on behalf of President George W. Bush, thank you for your support of America's small businesses.