



Remarks Prepared for Delivery

The Honorable Sandy K. Baruah
Acting Administrator
U.S. Small Business Administration

Delivered at the

**NATIONAL ASSOCIATION
OF DEVELOPMENT COMPANIES
Regional Meeting**

Utah

Tuesday, October 21, 2008

Introduction

Thank you, Steve, for that kind introduction.

I very much appreciate the role that NADCO plays in executing the SBA mission. As the voice of CDC's, you play an important role in SBA. The fact that CDC's mission is Economic Development is of particular interest. I also want to thank NADCO for including me on the program today.

The 504 program is critical to SBA and NADCO is critical to the 504 program and I thank you for your leadership.

I also want to applaud the leadership of Chris Crawford – your voice in Washington. Chris is a class act – well respected both in the Hall of Congress and Halls of SBA.

The President believes in the promise of free enterprise, seeing small business ownership as the gateway to greater opportunity for all Americans, whatever their cultural or ethnic background. As he has said on more than one occasion:

Small business ownership is a great equalizer in America. The only connections you need are happy customers, [and] a good business plan.

The only credentials you need are good products. The only values you need [are] to be willing to take risks and to work hard.

Of course, we are working towards this important goal at an unusual moment in our economy. We meet at a time when Americans – for understandable reasons – are concerned about our economic security. The wild ride on Wall Street and the crisis has all of us – even those who always thought that Wall Street was far away and irrelevant to the lives of everyday businesses and families – paying close attention to the intricate workings of the financial markets.

As I know the economy is *the* topic of conversation, I thought this evening I would offer some observations first, about state of the economy, and secondly, what President Bush and your government are doing to restore order and confidence in our economic system.

The Economic Situation

The run up to this “perfect storm” is a complicated matter. In a nutshell, the loose credit markets of recent years coupled with rapidly rising home values led to the overbuilding of housing stock, lenders who convinced good folks to engage in risky financial behavior, and individuals who simply purchased more house than they could reasonable afford in the long-term. This has led to a crisis

in our financial markets, and much like a hurricane, it has the potential to cause even more damage if we don't take meaningful and quick action.

The President's Bold Leadership

I am pleased to report today that the President Bush along with Secretary Paulson and the economic team are doing everything possible – including working around the clock and in concert with governments around the world – to bring resolution to the financial crisis and restore stability to the markets.

The government has taken aggressive steps to deal with this crisis. Allow me to highlight the four key things that are being executed in order to stabilize our financial markets.

- Using a portion (\$250 billion) of the \$700 billion rescue plan passed by Congress earlier this month to temporarily inject needed capital into banks by purchasing non-voting equity shares with the goal of helping the banks resume lending to each other, to other businesses, and to consumers. I say *temporarily* because this program is carefully designed to encourage banks to buy these shares back from the government when the market stabilizes.

- Effective immediately, the FDIC will temporarily guarantee most new loans to insured banks. The FDIC will also immediately and temporarily expand government insurance to cover all non-interest bearing accounts. This is critical move for small businesses, as these kinds of accounts are primarily used to cover day-to-day operations including payroll and inventory purchases. The additional important benefit of this action is to help with inter-bank lending – which has dramatically slowed in recent weeks. This new insurance will allow banks to pledge government insurance accounts as collateral, which will vastly increase banks’ confidence as well as lending to each other.
- The Federal Reserve will soon become the buyer of last resort for commercial paper. By unfreezing the market for commercial paper, which provides short-term financing for banks and businesses, this action will help businesses of all sizes meet payroll, purchase inventory, and invest to create new jobs.
- All this in addition to the previous announced plan to buy up mortgage-backed securities that are clogging up our financial system. These mortgage-backed securities are essentially mortgages held by folks like you and me, living in real homes, with real values.

All these elements add up to what I call a “failure is not an option approach” to resolving the credit crisis and getting 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:

- LIBOR rates continue 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 credit markets and capitalist system.

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

The Lifeblood of Small Business

Keep in mind that *all* these efforts we are taking to restore confidence in our credit markets will need time to fully work their way through the economic

system. But when they do, we *will* see results. We will see money and credit and capital flowing once again, making a big difference for *small business*, whose lifeblood depends upon access to capital.

A good idea without capital is simply that -- just an idea. Without these efforts at the federal level, our innovators and entrepreneurs -- including many here today -- might be cut off from the capital they need to do business. The entrepreneurial spirit that is represented in this room today would go nowhere because good ideas mean nothing without good financing. Fully functioning credit markets are critical to all of us -- as business owners, as employees, as home owners, and as consumers.

At SBA we are doing everything we can to help small businesses, especially those owned by minorities, to weather the storm. Those action items include:

- Not changing our credit standards, even as we have seen some of our lenders changing theirs. We are not retrenching.
 - In fact, we continue to expand our outreach to lenders to ensure we are a full partner with them as they consider their own strategies with respect to small business lending. We also are reminding them

that SBA programs offer reduced risk at a time when institutions are looking to reduce risk.

- We accelerated the launch of the Small/Rural Lender Advantage Program, which targets smaller financial institutions – like community banks – and institutions with low SBA volume. By reducing the paperwork for both the institution and the lender, we can get banks up and running in this program in less than a month.
- We are reminding our lending partners that they have the authority to defer SBA guaranteed loan payments up to three months – and therefore do more with SBA approvals.
- Note as well that SBA’s interest rates have fallen with the prime rate – now about 50% less than a year ago. This reminds us that our current crisis is an access to capital issue, not a cost of capital issue.
- Through the hard work of my predecessor, Steve Preston, we are working hard to improve our processes so that we are more responsive to our lenders. In order to be better partners to our lenders, we developed an updated standard operating procedure that, for the first time, is directed specifically at participating lenders and development companies.
 - As we make it easier for lenders to participate in SBA loan programs, they pass those benefits on to their borrowers, making it easier for small business owners to have access to capital. Overall,

the new SOP is more “user-friendly” for lenders, having been reduced from 1000 pages down to 400 pages. We are committed to updating this SOP every six months moving forward.

I am proud to be leading a Federal agency that is doing so much to support small businesses, which are so critical to our economy.

Conclusion

Let me close by putting things in perspective.

This crisis has given voice to some of the shrill – but perhaps well-meaning – voices who are advancing the “Chicken Little Theory.” My perspective is that while no one can dispute the sobering nature of the news of recent weeks, we should not overreact – one way or another.

The economic obit of America has been written before.

- In the oil shock of the early 1970s – many believed that our best days were behind us.
- In the late 1970s – when we experienced stagflation and malaise many believed that we had to lower our standard of living.

- In the early 1980s – the recession of '81 – '82 caused some to lose confidence in both the big government ways of the 1970s and the new direction that Ronald Reagan and George H. W. Bush wanted to take the nation.
- In 1987 – we saw a true stock market crash on “Black Monday,” a 23% drop in the value of the stock market in just one day.
- In the early 1990s – the rise of Japan’s economy caused some to believe that America was incapable of competing against the world and that we were becoming a second-rate economic power.

The predictions of doom and gloom for each of these events were no more valid then, than the similar predictions I hear today. Is the challenge we face today different? You bet – just of these challenges differed from the previous. Yet, with each of these challenges, we not only survived, but we would go on to experience significant economic growth afterwards.

We have tough questions to ask ourselves. But as we look for answers, let’s not forget some fundamentals:

1. Homeownership is a good thing. Long-term, homeownership is the largest wealth creator for most Americans. Homeownership provides stability to

our nation, drives economic growth, and builds more livable and vibrant communities. Homeownership is a good thing.

2. Small business is the backbone of our economy. Two-thirds of all private sector jobs are created by American small businesses. Increased burdens and regulations on small businesses will stifle small businesses and thus stifle job creation.
3. Most small businesses are sole-proprietorships – S-corps – that are taxed at the individual rate. So beware of calls for “taxing the rich” because those taxes hit small businesses hard. We must separate the Bentley-driving Wall Street type from the Buick-driving small business owner with five employees trying to make payroll and dreams of expansion.
4. Business investment – not government spending – drives our economy and creates job opportunities. Unless the private sector is ready, willing, and able to invest in a community, economic growth simply will not occur – regardless how much government spends.
5. Finally, innovation is our nation’s only potential sustainable competitive advantage in our flat, 21st-century global marketplace. So, let’s remember

where innovation flourishes. Innovation occurs in open and competitive markets. That's why you see more innovation in toothpaste than you see at your local DMV. We promote job growth and economic prosperity by creating the conditions for small businesses to flourish and be innovative.

These are interesting times, no doubt. But, as I said, I am hopeful. Just as we addressed and succeeded through previous challenges – we will this time too.

Thank you for your leadership in our economy, thank you for your leadership, and thank you for your kind attention today.