

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 Administer 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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P-R-O-C-E-E-D-I-N-G-S

1:03 p.m.

1
2
3 MR. LIESMAN: Good afternoon. I am Steve
4 Liesman and I really have the honor of being here to
5 introduce this distinguished panel to talk about a
6 very, very important issue here, the issue of small
7 business and lending and getting small business back
8 on its feet so we can get the economy back on its
9 feet.

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

21 I wanted to here at the Seidman Center
22 and I want to introduce now our panel beginning with

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1 Federal Reserve Chairman Ben Bernanke, the senior
2 Senator from Virginia, Senator Mark Warner, the
3 Chairman of the U.S. Chamber of Commerce, Tom Bell.
4 Then we have skipped here leaving the best for last,
5 the Chairman of the FDIC and our host this afternoon
6 Sheila Bair. Join me in welcoming our panel.

7 (Applause.)

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

16 As the biggest employer of American
17 workers, small businesses might hold the answer.
18 Some small businesses say they are now finding it
19 easier to get loans and to expand and hire new
20 workers. Recent surveys do confirm that standards
21 for small business loans have improved in recent
22 months. Many small businesses still complain of

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1 tight credit conditions and an inability to get
2 loans, indicating that we are not quite out of the
3 woods yet.

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

9 Fortunately for all of us we have the
10 right person in the right place at the right time to
11 get the ball rolling. There is no greater friend or
12 advocate for small business than our first speaker,
13 Chairman Spencer Bachus. He has been named the
14 Guardian of Small Business by the National Federation
15 of Independent Businesses and he received the Spirit
16 of Free Enterprise Award from the U.S. Chamber of
17 Commerce. We have worked closely with Chairman
18 Bachus over the years on a number of legislative and
19 regulatory issues, including important reforms to the
20 deposit insurance system and I know we will continue
21 to work closely in the months ahead. He is a good
22 friend.

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1 In addition we are of like minds on the
2 urgent need to head off the next potential financial
3 crisis by restoring fiscal responsibility in
4 Washington. Both spending and debt are way out of
5 control. As the new Chairman of the House Financial
6 Services Committee he will be in a unique position to
7 tackle these issues as well as the credit problems
8 facing small businesses. I'm certain that all of us
9 will be most interested in what the Chairman has to
10 say.

11 Before we get started, let me first ask
12 him a very important question.
13 Which are you more happy about, winning the
14 chairmanship of the House Financial Services
15 Committee or your beloved Auburn winning the National
16 Championship?

17 Thank you very much. Please welcome
18 Spencer Bachus.

19 CONGRESSMAN BACHUS: Thank you, Sheila,
20 for that kind introduction and particularly for that
21 War Eagle. We had to rehearse the War Eagle. I
22 thank you for organizing this forum with important

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1 stakeholders addressing the question of how we can
2 promote lending to small businesses. As the Chairman
3 said, it's important to do that because small
4 businesses create most of the jobs in America. Job
5 creation I think is the challenge that is facing our
6 economy, as well as our financial institutions.

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

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

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1 we got here.

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

17 This morning Chairman Bair said that
18 while failures peaked in 2010, the FDIC's losses were
19 down because smaller institutions were failing. The
20 fact that smaller community banks are failing can be
21 partially traced back to government policies that
22 gave our too-big-to-fail institutions, in my opinion,

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1 a competitive advantage. The fact that community
2 banks are failing will have disastrous impact on
3 small businesses going forward because these small
4 banks are more likely to extend credit to small
5 businesses than their big bank counterparts.

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

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

20 I applaud the six regulatory agencies all
21 represented here today led by our host, the FDIC, who
22 back in February issued joint guidance telling their

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1 examiners to stop second guessing banks' loans. The
2 guidance said, "Prudent small business lending will
3 not be subject to supervisory criticism." Sadly that
4 guidance is not always filtering back to the
5 operational level, as indicated by the constant
6 stream of comments I and my colleagues, both
7 Republican and Democrats, receive from community
8 banks and their small business customers. The
9 guidance is being offset by examiners and other
10 regulators in the field who have not followed the
11 policies promulgated by their agencies in Washington,
12 but have continued to be overly restrictive when
13 evaluating the credit decisions of those they
14 regulate. This has become so commonplace that it has
15 become known as the mixed messages problem.

16 Instead of focusing on patterns and
17 practices that suggest poor underwriting or lax risk
18 management, some examiners are micromanaging the
19 daily activities at our community banks. All of us
20 in Washington, both in Congress and at the agencies
21 represented at this forum, must continue to examine
22 the mixed messages being sent to community banks

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1 which continue to create uncertainty and impede
2 recovery.

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

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

22 In order to do this we need to look at

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1 the ways regulations are being implemented,
2 especially now that the regulators are writing over
3 300 new rules. With prudence and careful attention
4 to unintended consequences, rules can be written that
5 achieve the consumer protection and safety and
6 soundness needed by our society but, does not slow
7 economic activity or prevent job creation. Each of
8 us understands that any robust job creation must come
9 from the private sector. Our small businesses will
10 be key to that recovery and Washington should do its
11 best to set strong guidelines and let our small
12 businesses flourish so that they can create jobs.

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

21 What he said about overtaxation is also
22 true of overregulation. It in a way is a form of

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1 taxation.

2 Thank you, Chairman Bair, for convening
3 this important forum and I look forward to working
4 with you and Chairman Bernanke and my Senate
5 colleagues, as well as other interest groups
6 including the Chamber in promoting job creation,
7 something that we all agree is so important for our
8 country and its future. Thank you.

9 (Applause.)

10 MR. LIESMAN: Thank you, Congressman
11 Bachus.

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

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

19 Mr. Chairman, to my immediate left here,
20 what are the prospects that the economy steps forward
21 this year and solves some of these problems that
22 we're talking about?

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1 CHAIRMAN BERNANKE: Well, first of all,
2 you're absolutely right about the sales issue. If
3 the sales come, that will make these businesses
4 stronger, make them more creditworthy and it will be
5 a virtuous circle.

6 We see the economy strengthening. It
7 looks better in the last few months. We think that
8 the three to four percent-type of growth number for
9 2011 seems reasonable. Now, that's not going to
10 reduce unemployment at the pace that we'd like it to,
11 but, certainly it would be good to see the economy
12 growing. That means more sales, more business for
13 companies of all sizes.

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

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

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1 circle.

2 MR. LIESMAN: Chairman Bair, your outlook
3 for the year?

4 CHAIRMAN BAIR: I would agree with that.

5 I think the economic recovery is key here. There's
6 always been a supply issue; there's been a demand
7 issue. As sales pick up, as small businesses
8 strengthen, their demand for credit will increase and
9 the banks willingness to lend, because their
10 creditworthiness will be enhanced, it will be a
11 virtuous cycle.

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

20 I think the more we can do to get the economy going
21 again, the more we're going to have small businesses
22 and banks lending to small businesses.

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1 MR. LIESMAN: Senator Warner, with all
2 due respect, instead of your economic forecast, would
3 you comment on the danger here that the economy comes
4 back, solves some of these problems, but government
5 remains proactive, perhaps too proactive and does
6 things that the economy can and should be doing for
7 itself.

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

16 Short term gives us some burden.

17 One of the things I think we're going to
18 have to continue to do to grow this economy is look
19 for our export capabilities. Unless we can continue
20 to see not only domestic growth, but export growth, I
21 don't think we're going to see the kind of level of
22 recovery we'd like.

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1 Certain things that we have been doing
2 are around the edges, and particularly on small
3 business credit. The legislation that was passed
4 last fall should have been passed probably a year
5 earlier. That was incrementally helpful around the
6 edges. Whether it's the increase of the SBA, whether
7 it's the Capital Access Program that the banking
8 community actually has been very supportive of, and
9 certain other things we can do around the edges to
10 help credit the small businesses.

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

17 MR. BELL: Well, thus far I think over
18 the last couple years, both from a legislative and an
19 administration standpoint, it's been a little more
20 difficult. Uncertainty creates an environment in the
21 business community. It's hard to make decisions.
22 When it's hard to make decisions, it's hard to

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1 invest. If you can't underwrite, you can't invest.

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

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

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

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

18 CHAIRMAN BAIR: Right.

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

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1 their collateral has declined.

2 CHAIRMAN BAIR: Right.

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

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

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

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1 already.

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

10 MR. LIESMAN: Has it helped?

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

21 MR. LIESMAN: Senator Warner?

22 SENATOR WARNER: I just want to jump in

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1 on this, and I would agree with what Chairman Bachus
2 said on this. We are sending mixed messages. On one
3 level we want the banks' balance sheet to get better.

4 On the other level we're telling them to go
5 out and do more lending. Whether you are a lending
6 officer or if you're a bank examiner, that just human
7 nature-wise pushes you to more conservatism.

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

18 One of the things I want to compliment
19 Chairman Bair on is something we talked about a
20 couple months ago and she's kicking off today, and I
21 hope the Fed will join as well. I get these kind of
22 calls or letters every day where I've got a borrower

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1 saying their community-based bank is saying they
2 can't make the loan because their regulator is saying
3 no. The FDIC has set up a help line, toll-free hot
4 line that you can call in if you're a borrower and if
5 you feel like the regulator is overbearing. And this
6 may put a kind of incentive back in place for the
7 regulators to back off a little bit.

8 MR. LIESMAN: Do you want Chairman
9 Bernanke to face some of the --

10 SENATOR WARNER: I'd like to see the Fed
11 join on that as well.

12 CHAIRMAN BERNANKE: Well, first of all,
13 the Federal Reserve's had an ombudsman since 1995.

14 SENATOR WARNER: Okay.

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

21 SENATOR WARNER: Will this also be
22 available for actual borrowers?

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1 CHAIRMAN BERNANKE: Borrowers can call
2 the ombudsman and we'll make sure that the issue is
3 followed up.

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

9 MR. LIESMAN: Tom?

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

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1 MR. LIESMAN: Chairman Bernanke?

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

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

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

22 MR. LIESMAN: Right.

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

4 MR. LIESMAN: Right.

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

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

16 CHAIRMAN BAIR: Yes, I would say I don't
17 think they're inconsistent. I really don't. I mean,
18 a bank with a strong balance sheet is going to do a
19 better job lending, and we've actually seen that.
20 The lion's share of the lending - made during the
21 crisis we were discussing earlier, the large banks
22 loan balances were down by about 11 percent during

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1 the crisis. And at community banks, their loan
2 balances went up almost by four percent. The lion's
3 share of that was attributable to the healthier
4 community banks. I think having a strong balance
5 sheet helps your ability to lend.

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

14 And Ben's right, it's harder, but this is
15 a better way to do it. Look at the creditworthiness
16 of the borrower, look at the cash flows, look at the
17 ability to repay, not just the underlying collateral.

18 You will have good healthy lending going forward,
19 but you need a strong balance sheet to lend. They're
20 not inconsistent, I don't think.

21 MR. LIESMAN: Senator Warner, Lori Carter
22 from Springfield, Virginia writes in: "I have a

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1 government contract and I've been denied loans from
2 six banks because I do not have collateral."

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

6 SENATOR WARNER: Give them my number.

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

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

11 CHAIRMAN BAIR: Yes.

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

18 And I think, Tom, you're right, we are
19 trying to re-balance a little bit. Human nature.
20 Everybody went way too far with moving the pendulum
21 one way. We're trying to move it back. The notion
22 simply that -- I don't think any of us, myself

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1 included, we would say just because you got a
2 government contract, somehow we're going to give some
3 level of implicit guarantee that means you're going
4 to get a loan. I think there still needs to be
5 appropriate standards.

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

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

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

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

20 MR. BELL: I think it's some of both. I
21 think that it's hard to change this inherent feeling
22 that the lending officer or his superior has that we

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1 need to be awfully damn careful because look how
2 close we came to falling over the edge. Now, we made
3 it. We survived, but we're not going to make
4 those same mistakes again.

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

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

16 MR. LIESMAN: Well, that's great.

17 MR. BELL: It may not get better.

18 MR. LIESMAN: Let's ask the Chairman of
19 the Federal Reserve, who we happen to have right
20 here, is there anything you can do about the real
21 estate crisis and solving that collateral problem
22 that's out there?

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1 CHAIRMAN BERNANKE: Well, we're working
2 hard on lots of different fronts. We bought a few
3 mortgages, for example. We're trying to get the
4 economy going.

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

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

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

22 MR. LIESMAN: Chairman Bair and for

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

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

9 MR. LIESMAN: It did, right.

10 CHAIRMAN BERNANKE: Called the TALF.

11 MR. LIESMAN: Right.

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

20 Obviously, the biggest problem in some
21 sense will be the Fannie and Freddie reforms which
22 have to come at some point which will be critical to

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1 reestablishing the soundness of the residential
2 mortgage market.

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

9 I think for small business loans it's
10 particularly challenging. They're not as homogenous
11 as some other categories of loans that are
12 securitized.

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

20 MR. LIESMAN: Senator Warner, another
21 issue that is raised time and again is Dodd-Frank.
22 The regulators to your right are busy everyday

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1 creating new rules, that are uncertain what those
2 rules are going to be. To what extent do you feel
3 that Dodd-Frank has actually made banking more
4 uncertain and therefore actually inhibited the
5 granting of loans to small businesses?

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

19 I think again as we talk about this
20 particular area, particularly as we think about
21 smaller banks, a lot of the tougher parts of
22 Dodd-Frank exempt those banks under \$10 billion in

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1 assets. By having some of the requirements from some
2 of our larger banks in terms of contingent capital,
3 in terms of funeral plans, in terms of higher capital
4 standards, we do in effect, if we do it right; and
5 the jury's out whether we'll do it right, can level
6 the playing field a little bit so that those
7 community-based banks don't have the kind of inherent
8 disadvantages that the large cap center banks have.

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

17 Again for the audience that doesn't know
18 my background, I spent 20 years in the capital
19 markets, 20 years. I've been a business guy longer
20 than I've been a politician. Until I kind of got
21 into the belly of the beast on the Banking Committee
22 and saw how close we came; and I think history will

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1 treat Chairman Bair and Chairman Bernanke, and
2 candidly President Bush, for the courage of the TARP,
3 with a lot of respect, the amount of excess within
4 the financial system was outrageous. The notion that
5 the status quo could have been continued, I don't
6 think would be acceptable to anyone.

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

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

11 SENATOR WARNER: Status quo was fine?

12 MR. BELL: Pardon?

13 SENATOR WARNER: Status quo was fine?

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

18 Look, 300 rulemakings, maybe as many as
19 500 rulemakings that are going to go on well into the
20 future with unfunded mandates for my colleagues here,
21 if the three people to my right had been allowed to
22 sit in a room and write a piece of legislation, I

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1 think we would have ended up in a good place.

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

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

19 CHAIRMAN BERNANKE: Well, I think it's
20 really important - as Senator Warner said, it was
21 really important to address these problems. They had
22 to be addressed.

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1 The too-big-to-fail issue is obviously
2 one that created all kinds of moral hazard and led to
3 some really bad outcomes. We had to fix it. And
4 maybe it was a case of operating on the patient while
5 he was still running around; a little bit difficult
6 in that respect. There's really no alternative but
7 to increase capital, to apply some additional rules
8 and so on.

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

18 The other thing, and this addresses Mr.
19 Bell's comment, inevitably it's going to take some
20 time to develop these regulations, put them into
21 place, implement them and so on. The faster we can
22 do it, the more accurate and clear we can be in our

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1 communication, the better we'll be off in terms of
2 getting rid of the uncertainty that he's concerned
3 about.

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

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

18 Lord knows I wish we could have done it
19 in a more incremental way, but when you get that kind
20 of shock, when the American taxpayer writes an \$800
21 billion dollar bailout bill, they want to make sure
22 we try not to have that repeat again. I think we

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1 have not had a major rewrite of our financial rules
2 since the '30s. I hope again that this will stand
3 the test of time as long.

4 There's going to be parts of uncertainly.

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

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

15 CHAIRMAN BAIR: Right.

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

18 CHAIRMAN BAIR: Right. Well, Basel III
19 is primarily geared towards the larger institutions.

20 I would echo almost all of this is geared towards
21 the larger institutions. I mean, more or less
22 derivative regulation, proprietary trading,

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1 securitizations, these are activities - the lion's
2 share is done by the very largest institutions.
3 Where there is an intersection with community banks,
4 I think all the regulators, to Ben's point, are
5 working hard to make sure there's no negative impact.

6 I mean, small business loans, those
7 community banks account for about 40 percent of all
8 the small business loans that are made by insured
9 depository institutions. They're an extremely
10 important area of support for credit for small
11 businesses. We are very cognizant of that and want
12 to make sure that -- is consistent with the thrust of
13 Dodd-Frank. It was a try to level the playing field
14 and remove some of the competitive disadvantages that
15 the smaller institutions had faced with the
16 too-big-to-fail doctrine.

17 I would also say though the pain that the
18 entire economy, including small businesses, have
19 suffered as a result of the financial crisis and
20 ensuing recession is so much more dramatically
21 profound than any kind of incremental uncertainty
22 there might be as we work through these regulations

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1 to provide for a more stable financial system. So at
2 the end of the day, listen, you'll always have
3 cycles, but I never ever want to see what we just
4 went through in 2008 and 2009. That's really why
5 we're here today. If it hadn't been for that crisis
6 and the recession we wouldn't have to be having to
7 talk about credit availability and how much small
8 businesses are hurting and how that has impeded job
9 growth. Let's not lose sight of the long term, which
10 is greater financial stability to protect us all.

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

18 CHAIRMAN BERNANKE: We'll rework
19 that.

20 MR. LIESMAN: What's that?

21 CHAIRMAN BERNANKE: We'll rework it for
22 you.

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1 MR. LIESMAN: No, no, no. It's great.
2 It's very readable. No, leave it as it is. I wish
3 more of the stuff you guys you put out was as
4 readable.

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

9 CHAIRMAN BERNANKE: That I could change?
10 Well, the report was really about outreach. We had
11 40 meetings, more than 40 meetings, and we had a
12 capstone last July in Washington. We listened to
13 small businesses, we listened to lenders, the trade
14 associations, examiners, legislators, etcetera. We
15 just tried to understand the situation and look for
16 recommendations and ideas. I think it was very, very
17 helpful.

18 There were lots of specific
19 recommendations like helping small businesses get
20 more technical assistance so they can provide a more
21 complete and understandable application. That was
22 just the communications. It was a way of getting

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1 more information and making the process a better one.

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

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

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

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

21 MR. LIESMAN: Tom, do you want to just
22 take a crack at that question? Is there one thing

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1 that you think the forces should concentrate on that
2 would really make a meaningful change to get at this
3 issue?

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

6 MR. LIESMAN: Okay.

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

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

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

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1 community.

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

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

14 MR. BELL: Sign us up on that.

15 SENATOR WARNER: Third, is we have done
16 some things around the edges. I mean, again this
17 legislation I referred to in the fall. The SBA of
18 today is different than your grandfather's SBA. It's
19 a much more aggressive, I think much more active
20 organization. Twelve billion dollars in loans since
21 the end of September. There's a program that we
22 worked with Chairman Bair on, a Capital Access

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1 Program that about 25 states have. Runs through the
2 banking industry to create separate loss reserve
3 pools for some of these more marginal loans. Not
4 administered through the government, administered
5 through the state and through banks.

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

21 When we cite the statistics
22 appropriately, the nice item is growth in small

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1 business. Disproportionately those come from those
2 firms, the gazelle firms, the firms that grow very,
3 very rapidly, not the butcher shop or the tire fixing
4 place, which are important. Until we can think more
5 creatively about early stage capital formation, I'm
6 not sure we're going to see the kind of job filled
7 recovery we need.

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

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

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

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

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

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

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

20 Hopefully; again, where we started the
21 conversation, with an improving economy that will
22 self-correct.

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1 MR. LIESMAN: Chairman Bernanke, can you
2 square this circle for me, which is that the Federal
3 Reserve has flooded the system with excess reserves.
4 There's a ton of money out there for banks to lend
5 and yet they're not lending. How do you fix that
6 problem?

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

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

16 I think it's been a tough situation.
17 It's been a tough couple of years, no question about
18 it and small business lending has contracted quite
19 significantly. Interestingly, small business lending
20 has contracted less at community banks, as we talked
21 about before. It's also contracted less at healthy
22 banks. So, if banks are healthy and have strong

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1 capital, then they're better able to lend.

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

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

11 CHAIRMAN BERNANKE: Yes, that's one of
12 our primary -- I would say in terms of small business
13 lending, we have the survey of loan officers, which
14 is showing that there's no more tightening at this
15 point and some improvement, some easing, including
16 for small business. We have the surveys from the
17 NFIB, which has shown a little bit of improvement and
18 optimism and credit access. We have a lot of
19 anecdotes and examiner information we're getting back
20 which suggests some improvement. We follow the data
21 on smaller loans, which are not exactly the same as
22 loans to small businesses, but do give us some sense.

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1 Overall, it's certainly still a very tight
2 situation. I think things have stopped getting worse
3 and are looking a little better.

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

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

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

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

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

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1 up.

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

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

15 I do think the SBA, I think the \$12
16 billion in small business tax cuts that were in --
17 this is the bill that took place in September, and
18 this little Capital Access Program, which has only
19 got a -- could be leveraged 15 to one against a
20 billion dollars, about \$15 billion of lending
21 possibilities out of that will be incrementally
22 helpful.

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1 I don't want to discount what Sheila has
2 done with this help line though. I think, as Tom
3 rightfully pointed out, we're fighting human nature
4 here with the pendulum going too much. What
5 incentive does a regulator -- nobody wants to ever
6 mention the verboten word "forbearance," and we don't
7 want to go there. Appropriately we can point to
8 Japan and elsewhere.

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

19 CHAIRMAN BAIR: Right. Sometimes our
20 examiners have a very tough job, but I think that
21 they all try very hard to strike the right balance.
22 You're right; thank you for acknowledging, sometimes

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1 our examiners are used as an excuse. They may not
2 really want to make the loan and, oh, our regulator
3 won't let me do that. Some of that happens.

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

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

14 MR. BELL: It's definitely improved the
15 lending environment. We are surveying our members
16 and talking to our members, it's getting better. The
17 activities of December will have a very, very
18 positive effect I think on the overall economic
19 environment, but particularly with regard to small
20 business of confirming the tax rates, even though
21 it's only two years. I mean, that gives you two
22 years. That's about all the runway a small business

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1 can see anyway. Hopefully we'll make them permanent.

2
3 Then the depreciation and other things
4 that have been done over the last several months both
5 legislatively and administratively, I think it has
6 definitely improved the environment. I would expect
7 that the lending will improve substantially
8 through 2011 given the demand. Now, the big issue is
9 still demand. I think if we get demand ramped up, I
10 don't really think the lending environment's going to
11 be the problem.

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

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

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1 really something.

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

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

12 MR. BELL: I'll tell you what, if it
13 wasn't for these two people and their organizations,
14 and people like Senator Warner who have the courage
15 to vote for some very difficult situations, we would
16 have lost our financial system. I think more and
17 more of the business community realizes today that
18 this was a very close call. Some courageous people
19 did some things that were not universally supported.
20 We got a lot of criticism from our membership,
21 various parts of our membership, supporting TARP and
22 supporting some of the other legislative initiatives,

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1 but it was the right thing to do. Now, we've just
2 got to come back.

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

9 CHAIRMAN BERNANKE: Well, we are again
10 trying to keep that psychological feature in mind.
11 As we make the rules we are -- first of all, we have
12 to follow the intent of Congress. That's number one.

13 We're not legislators, we're rulemakers. We're
14 trying to implement the law as Congress wrote it.

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

22 You mentioned Basel III, by the way,

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

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

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

22 CHAIRMAN BERNANKE: We've got an

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1 elaborate project management system at the Federal
2 Reserve. Now trying to keep track of the reports,
3 consultations, rules, etcetera, it's a big job. Even
4 regulators have productivity gains, and that's what
5 we're trying to get here.

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

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

13 CHAIRMAN BAIR: Well listen, I think
14 we've all launched transparency initiatives. We have
15 an open door
16 policy if people want to meet with us. We have our
17 time table on our rulemakings. There is a
18 publication process of comments for a formal
19 rulemaking, but if someone comes in outside the
20 rulemaking process, we disclose that, too. They came
21 in, what they wanted to talk with us about. We don't
22 discourage that. We think it's fine. We want people

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1 to come in and engage with us. We want everybody to
2 know who we're talking to and the kind of information
3 we're getting. We've also scheduled round tables
4 that we Webcast where we bring various interested
5 parties and experts in to talk about our rules, to
6 help us in the development phase.

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

16 MR. LIESMAN: Senator Warner?

17 SENATOR WARNER: I just have to smile a
18 bit because I've had leaders of some of our major
19 financial institutions come in to me in the last few
20 months since Dodd-Frank has passed and said Mark, we
21 got to move this stuff along, move this stuff along.
22 Then I sometimes remind them that it was your folks

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1 that were saying we actually needed two years of
2 study before we put that regulation in place when the
3 legislation was going through. I do think the sooner
4 we get it done the better, absolutely.

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

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

21 MR. LIESMAN: Tom Bell, did the market
22 create these financial engineers or did the

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1 government create them?

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

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

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

18 SENATOR WARNER: I am temporarily
19 optimistic about this --

20 MR. LIESMAN: That's a news flash.

21 PARTICIPANT: Get that on tape.

22 MR. LIESMAN: That's a news flash.

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1 Chamber official says --

2 SENATOR WARNER: Temporarily optimistic.

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

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

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

15 CHAIRMAN BERNANKE: First of all, I do
16 think that our policies have contributed to a
17 stronger stock market, just as they did in March of
18 '09 when we did the last iteration of this. The S&P
19 500 is up about 20 percent plus. The Russell 2000,
20 which is about small cap stocks, is up 30 percent
21 plus. I think a stronger economy actually helps
22 small business more than it helps even larger

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1 businesses.

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

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

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

18 CHAIRMAN BERNANKE: I certainly have. We
19 started taking action in August really. Even though
20 we made these announcements in November, this policy
21 really began in August, on August 10th when we began
22 to reinvest securities, when I began to talk about

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1 this at Jackson Hole where you always come and join
2 us. At that time, the economy was looking somewhat
3 shaky, frankly, and we were quite concerned about the
4 sustain-ability of the recovery and about potential
5 deflation and those kinds of risks, so we felt
6 something needed to be done.

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

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

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

22 MR. LIESMAN: Chairman Bair, another

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

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

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

22 MR. LIESMAN: Senator Warner, could you

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

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

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

12 SENATOR WARNER: Well, a couple of
13 things. I mean, I think one of the messages we've
14 heard from the regulators and Chairman Bernanke is --
15 he would not say it this impolitely, but he's
16 basically saying to the Congress that we need to walk
17 and chew gum at the same time. We need to show that
18 we can do short-term stimulus, which we just did \$900
19 billion worth in December. Really what is going to
20 be critical to keep this economy going is
21 government's used its tools. We've used monetary
22 policy, we've used government stimulus.

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1 We've got to get part of that \$2 trillion
2 that's sitting on corporate balance sheets off the
3 sideline reinvested. I think some of the policies we
4 took in December will help move that. I think it's
5 important that between the administration and the
6 business community there's a détente.

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

14 It is not perfect by any means, but we're
15 going to introduce that as legislation and, it's put
16 up or shut up time. I think we will have a broad
17 base of Senators, Democrats and Republicans alike,
18 who say that the single largest threat, long-term
19 threat to our national economy is not simply the
20 short-term challenges we face right now or the
21 financial crisis, but getting our nation's balance
22 sheet in order.

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1 That is going to take both sides. That
2 is going to take dramatic cutback on spending. It is
3 going to take meaningful tax reform and a tax reform
4 similar to what Simpson-Bowles did that while
5 lowering the rates broadens the base and in certain
6 cases ends up creating the revenue stream we need.
7 It doesn't take a rocket scientist to figure out that
8 spend at 24 percent of your GDP and revenues at 18
9 percent is not sustainable and will not self-correct
10 even with a slightly better economy. So I think
11 deficit reduction, you'll hear a lot more of that.
12 It will not disappear. You have got to be careful
13 around the debt limit. We don't want to play Russian
14 roulette with the world's economy.

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

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

22 MR. LIESMAN: Nobody's paying any

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1 attention or watching.

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

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

16 MR. BELL: Well first of all, I'd say it
17 is the number one issue and it's not way out there in
18 the future, it's present. I think the last election
19 cycle demonstrated very clearly that there's a lot of
20 people in this country, perhaps a significant
21 majority, who think we have too much government and
22 more government than we can afford, and probably more

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1 government than we want, and we need to do something
2 about it. It's the first time in my 40 years of
3 watching what's going on around here that I've seen
4 the issue raise up to a top three issue, in most of
5 the opinion surveys, for instance.

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

13 PARTICIPANT: Welcome to my world.

14 MR. BELL: Yes. Where they all agree is
15 that we got to do something, just don't do anything
16 that affects me. I think this is the first time that
17 the Chamber is taking the position as an organization
18 and our members are generally receptive of. Okay, we
19 get it. We have got to look at the longer term. We
20 have to look at a significant restructuring of how we
21 derive the revenues that we derive and we've got to
22 figure out how to get our spending down below 20

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1 percent. Because I think it's been demonstrated
2 that's about all you're going to get out of tax
3 revenues is 20 percent of GDP. There's got to be a
4 balancing there somewhere.

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

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

14 SENATOR WARNER: I think you have to. I
15 mean, we want to get down to OECD levels. We're at
16 35. We need to bring it down closer to 25. The
17 effective rate though for a lot of large corporations
18 right now is low 20. There's going to be some
19 winners and losers. I think the only way you get
20 there is with a bit of shared sacrifice from
21 everybody. Everybody's got to feel like they're
22 doing their part.

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1 Because the concern I have is while
2 deficit reduction is top three right now, you then go
3 out and say -- I think Simpson-Bowles for example on
4 Social Security was not very aggressive at all, but
5 the notion of raising the retirement age two years
6 over a 40-year time frame some of this just math.
7 Eight workers per retiree 50 years ago; two now.
8 These things got to be laid on the table.
9 Overwhelming the public doesn't want to touch that.
10 Overwhelming the public doesn't want to touch
11 Medicare. We've got to have a little more truth and
12 everybody -- and I'm so appreciable of what Tom's
13 saying, is we won't get this done unless the business
14 community is saying we're in for our share of the
15 hard choices as well.

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

19 Chairman Bernanke, the one issue as I
20 prepared for this panel here that kept coming up was
21 the issue of real estate as collateral, that in the
22 environment of uncertainty surrounding real estate

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1 values -- and I really would like to leave here with
2 a sense that there's something that can be done here
3 on this issue that either replacing real estate as
4 collateral -- is there a role for the Fed or other
5 government agencies to come in and resolve that issue
6 so the small businesses that are viable can get loans
7 because there's collateral there?

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

17 The basic message is that the comparables
18 is not the only thing you want to look at. You want
19 to look at the whole context. How's the property
20 going to be used? What is the cash flow? Those
21 sorts of things. Better appraisals is one micro kind
22 of thing that can be done.

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1 I think ultimately until the real estate
2 markets recover, which is going to take a while
3 still, the only way around this again is to make
4 loans that don't rely on collateral for repayment.
5 Which means that
6 you've got to do the hard work, as I said before,
7 getting into what are the prospects of the business?
8 What is its cash flow? Our guidance is very clear.
9 You shouldn't be rejecting loans because of the
10 industry or because of the geography, or some
11 category. You need to look at each individual
12 business. Think about its actual prospects. Learn
13 the business. Then make that tough decision.

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

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

21 CHAIRMAN BAIR: Well, I said at the
22 beginning of the crisis on another panel, that I

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1 think someone forgot how to do it.

2 MR. LIESMAN: Yes.

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

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

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

22 SENATOR WARNER: I just had two quick

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1 points. I mean one of the things a number of us have
2 been urging the regulators if the loan's performing,
3 even if the collateral value is down, to ask somebody
4 particularly in commercial loans to then dramatically
5 post additional collateral, really puts folks between
6 a rock and a hard place, particularly if they've been
7 performing for a long time.

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

19 MR. BELL: There is a huge unrealized and
20 unaddressed loan loss imbedded in the banking
21 community from real estate that's not been addressed.

22 It has not. Disclaimer. I ran a public real estate

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1 investment trust for eight years. It's not been
2 addressed. We need an RTC-type way. If we want to
3 get the stuff out of the system, get it into
4 secondary hands, you've got to create an RTC-type
5 structure. You've got to create a secondary market.
6 There's a lot of money that would like to invest in
7 that secondary market. But, you know what? They
8 want to make a profit. They want to make money.
9 Some of them will make bets and they'll lose money,
10 but others will make bets and they'll make money.
11 This administration has to address the fact that,
12 look, if you create the structure some people are
13 going to get rich; some other people are going to
14 lose money, but it will solve the problem.

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

19 MR. BELL: It got ruled to death.

20 MR. LIESMAN: -- not been used and the
21 issue festers.

22 Well, I wish we could end on a more

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1 optimistic note, but please join me in thanking our
2 panelists.

3 (Applause.)

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

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

10 MR. LIESMAN: Thank you very much.

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

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

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

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

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1 Secretary of the U.S. Department of the Treasury.

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

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

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

19 Welcome our new panel.

20 (Applause.)

21 MR. HARWOOD: Now, let me start out to
22 get everybody's brief take on the central conundrum

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1 that was addressed by the previous panel, and that
2 was the seeming contradiction with the fact that
3 banks say they're ready to lend, but small businesses
4 say they can't get loans.

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

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

14 MR. HARWOOD: Appropriate tightening?

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

21 Having gone through that period, I think
22 we are now at the point where we're going to see a

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1 lot more lending going forward. We've taken a number
2 of steps at the federal level to try and help banks
3 do more so that they can increase their lending. As
4 you may know, we just passed a small business bill
5 that the President signed into law in September.
6 Because of that there are two programs that are very
7 focused on providing banks with the capital they need
8 so that, one, they can get the easing of the
9 regulatory constraints by the regulators so that they
10 can lend, and also so that they can feel more
11 confident that they can get those dollars out and use
12 them appropriately.

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

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

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1 very different.

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

7 MR. HARWOOD: Steve, you agree?

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

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

22 PARTICIPANT: A lot?

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1 PARTICIPANT: A lot?

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

3

4 MR. HARWOOD: Talk about it a little.

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

15 It's good news I suppose that the large
16 corporations are doing much better, and that's good.

17 However, the money that they're making is not going
18 into job creation so much in the studies that we've
19 seen. It goes more into stock buy backs and
20 acquisitions and these kinds of things.

21 We really need to examine, as we will do
22 this afternoon, what are the opportunities for small

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1 business to make the recovery? There's no real
2 economic recovery for this country without a small
3 business who generates 65 percent of the jobs.

4 MR. HARWOOD: Kathleen?

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

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

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

22 On the flip side of that, banks cannot survive

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1 without lending. We have tried to partner, we have
2 tried to be involved from every aspect of making sure
3 our banks were involved in the lending process.
4 Based on what we hear from the banks that don't want
5 to lend, they are not lending. When we survey that,
6 we come back and our banks say, no, we don't have the
7 demand we're willing to lend.

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

21 MR. LOWE: I think that's a large part of
22 the issue. We hear a lot of anecdotal comments

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1 especially from bankers and Congress that it is the
2 regulators that are causing the credit crunch,
3 causing banks not to lend. When I talk
4 individually with bankers, when I'm on panels or I'm
5 visiting a bank during an examination, they
6 consistently tell me we're open for business, like
7 the comment was made earlier.

8 We're ready to make loans but there's just not the
9 demand.

10 A lot of businesses out there, small
11 businesses, people that we've banked for years on end
12 just are not in a predicament or a situation right
13 now where they want to expand their business. The
14 businesses themselves are trying to conserve capital.

15 They're trying to make sure that their business plan
16 is still going to be feasible and reasonable going
17 forward. I think it's a combination.

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

21 MR. DENNIS: Well, no, I think there's
22 problems below lack of demand that are certainly more

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1 fundamental that create the lack of demand, but
2 clearly the lack of demand is there. In 2009 we saw
3 there were about 55 percent of all employers wanted
4 to borrow, small employers, and made some attempt at
5 getting some credit somewhere. In 2010 that fell to
6 48 percent. The number of approvals edged up
7 slightly, so I'm not sure that the total numbers
8 changed all that much from year to year.

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

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

22 MR. DENNIS: Eh.

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1 MR. HARWOOD: Eh?

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

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

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

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

18 You go through and you start looking at
19 these. Then not only is there do you have any money,
20 but there's do you like the deal and that sort of
21 thing? I would be curious to know how many banks
22 have applied for this so far. I mean, I saw that

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1 March 11th was the date that was kind of recommended
2 that you apply before then or whatever. We're near
3 that, but I haven't heard how many banks are
4 interested.

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

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

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1 different reasons.

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

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

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

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

17 MR. HARWOOD: Eh?

18 MS. RAINEY: Well, no, because in looking
19 at a lot of my colleagues across the country, I think
20 that there is an opportunity, there is a need for
21 banks that need that capital so that they can.
22 They're faced with capital concentrations. There's

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1 any number of things that they're up against that
2 they are not able to lend. For a lot of those
3 organizations, this will be a tremendous help. It's
4 not the solution for everything, but it's a part of
5 the piece getting us there.

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

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

10 MR. HARWOOD: You're ducking, too.

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

17 I do think it will help some of the
18 community banks. There are other provisions in there
19 around Capital Access Funds for states. I think that
20 can help. Again, those are borrowers at the margin.

21 Like SBA lending isn't a total solution, it will
22 help some borrowers at the margin.

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1 MR. HARWOOD: John?

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

12 And this is the same thing with this
13 fund. I see that our banks in Alabama, we have some
14 that need additional capital. Absolutely the private
15 equity markets are pretty rough and this is an
16 opportunity for them to be able to acquire capital.
17 However, sometimes I look at whether the real
18 criteria, the ones that probably need the capital and
19 could make it and use it are not going to be able to
20 qualify because they have some problems in there.
21 The ones that are strong and healthy probably don't
22 need the capital, therefore they're not going to want

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1 to use this program. To date we have around 140 to
2 150 banks somewhere in the neighborhood of \$250
3 billion in assets and I think we have one application
4 on file.

5 MR. HARWOOD: Steve?

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

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

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

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

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

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1 banks.

2 MR. HARWOOD: Jorge, you agree with that?

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

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

10 MR. CORRALEJO: No, I don't. Not at all.

11 I think we saw some really good folks here this
12 morning and I think that their hearts and their minds
13 are into governing.

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

22 There are other things that are so

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

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

15 MR. LOWE: Well, I'm not sure if I would
16 agree with that concept. I know when banks are
17 looking at their lending function and deciding on
18 making credit, a credit score may be one of the
19 issues that they're going to look at, especially a
20 personal credit score. A lot of small businesses,
21 individuals are using their homes as collateral their
22 personal wealth to get the financing approved, and

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1 those type of things. The credit score is just one
2 factor. I think most of our lenders, or the bankers
3 that I talk with, there's a variety of issues that
4 they look at and consider.

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

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

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

18 MR. JACOBS: (Off microphone.)

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

22 MR. JACOBS: Thank you. My name is Mitch

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1 Jacobs. I'm an entrepreneur. I built a technology
2 company.

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

8
9 Banks feel like the reliance on the
10 personal credit score is still very important. If
11 they were to approach their regulator with a
12 portfolio that had a lot of 600 FICOs in it, they'd
13 have an enormous problem. The FICO score is not at
14 all, or the personal credit score is not at all
15 relevant to the overall health of the business.
16 It's what Chairman Bernanke said before, the work
17 involved in evaluating businesses is too much work.

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

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

22 MR. HARWOOD: Should it be?

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1 MS. RAINEY: We're working with
2 individuals. It's their business. Yes.

3 MR. JACOBS: Would you lend to 600 FICOs?

4 MS. RAINEY: Yes, there are several on
5 our books.

6 MR. JACOBS: Okay.

7 MS. RAINEY: It's part of the equation.

8 MR. JACOBS: That I think is a --

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

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

21 MR. HARWOOD: Anybody on this panel think
22 that he's got a good point and that the financial

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1 system and banks need to adjust to that point?

2 MR. CORRALEJO: He's got an extraordinary
3 point. Our Chamber does loan packaging for members
4 and other small business and we've been a strong
5 advocate of technical assistance for small business.

6 Part of that is that we can bring loans to bankers
7 where we have a technical assistance agreement with
8 them long term. That's not to suggest that anybody
9 having technical assistance is going to be eligible
10 for a loan, however, we can prove that this business
11 is operating very efficiently, they have the ability
12 to repay the loan and opportunity for growth. That
13 could really be a part, a measurement or a substitute
14 as part of the credit analysis.

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

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

20 The second thing I keep thinking about is
21 any of the studies that I've done using Paydex rather
22 than FICO, which is the Dun & Bradstreet score, I

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1 mean, there's a clear relationship between who's
2 better off and who's not. I mean, there is a direct
3 relationship there.

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

7 MR. JACOBS: It's the smaller businesses.

8
9 MR. DENNIS: Yes.

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

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

19 MR. JACOBS: I just think this country
20 has extraordinary
21 technology assets and there should be more discussion
22 about using the technology assets as we try to solve

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1 the problem with delivering capital to Main Street.

2 Thanks. Thank you.

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

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

15 MS. RAINEY: It depends on what type of
16 business you're talking about. In my community,
17 preferred stock and warrants in businesses don't
18 exist. If you're really trying to get to rural
19 America, it's tough when you're looking from a
20 collateral perspective. Yes, you can look at the
21 history of the business, but if we start making a
22 bunch of business loans without collateral, I'm not

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1 sure my friends at the FDIC are going to treat us too
2 fairly. There's an impasse there, especially when
3 you're talking rural America.

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

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

19 MR. DENNIS: Yes, there's a fellow by the
20 name of Arthur Lipper who is out on the West Coast
21 who is an entrepreneur down in Southern California
22 that has been developing things along this way, or

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1 along this line where it's a much more of a
2 negotiated sort of thing in a non-traditional way.
3 He does talk about giving different types of pay
4 backs and different types of, what can I call --
5 anyway, these tying up certain types of ownership
6 shares and so on. It's a negotiated sort of thing.

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

14 MR. HARWOOD: Don?

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

20 One of the programs that was part of the
21 Small Business Jobs Act is the billion- and-a-half
22 dollar State Small Business Credit Initiative. That

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1 program is specifically aimed at assisting states
2 with their innovative credit support programs all
3 around the country. Those programs are really aimed
4 at supporting businesses that have had collateral
5 deterioration issues. They're loan loss reserve or
6 portfolio insurance programs. There are collateral
7 support programs all across the country.

8 These innovative programs that have
9 worked at the state level obviously with the fiscal
10 constraints that the state governments are facing
11 these days, the federal government can step in and
12 provide them with that type of additional funding.
13 We think, at a bare minimum, we're going to see about
14 \$15 billion worth of additional lending for those
15 businesses that are having the most trouble.

16 MS. SOWA: Collateral is an issue, but
17 the primary issue; you spoke to this -- our number
18 one reason for decline is lack of adequate cash flow.

19 It's the repayment ability, and that is the primary
20 issue. When you bring up warrants, the reality is a
21 lot of these businesses need an equity injection.
22 It's not lending that they need. They need equity.

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1 I think the previous panel spoke to that as well.
2 The angel investor network, that just doesn't exist
3 today.

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

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

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

21 The key is on generating contracts for
22 small businesses. If you generally look where the

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1 data is available, and it's not generally that
2 available, but it can be made, there are very few
3 contracts to small business. Government contracts,
4 for example, or even the prime contractors.

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

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

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

17 The President can simply ask his cabinet
18 members and regulators to provide him with
19 contracting data on small business lending. If you
20 look at small business, 24 out of the 27 million are
21 people that do less than 10 million a year and less
22 than 100 employees a year. That kind of analysis is

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1 really critical to dealing with unemployment, dealing
2 with contracting, dealing with lending. All of these
3 things are a combination of those.

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

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

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

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1 gap.

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

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

22 Most of our underserved communities

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1 really need what we call our smaller loans of
2 \$250,000 and under.

3 The challenge for many banks, larger institutions is
4 in order for the economics of providing a loan under
5 \$250,000, it has to be a very streamlined quick
6 decision, not a lot of hand holding. These
7 mission-based lenders are built upon the platform of
8 hand holding. Attention up front and entrenched in
9 their communities. They understand the dynamics of
10 that community and that will translate into success
11 for these small businesses in the future.

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

14 PARTICIPANT: Yes, it was.

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

19 PARTICIPANT: They're not filling the
20 gap. I think when Jorge was talking earlier
21 regarding the contracts, one of the great things
22 about the Dodd-Frank bill, in our opinion, is the

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1 supply diversity piece that Congresswoman Maxine
2 Waters and obviously Barney Frank supported that is a
3 significant piece of legislation, if you will. It's
4 going to have a great impact on minority-owned
5 businesses and business in general, if you will,
6 because it requires financial institutions and other
7 corporations, when they're doing business with the
8 federal government, to submit data to them regarding
9 not only the diversity of their employees, the board
10 and what have you, but the contracting, if you will.

11 And as Jorge pointed out earlier, with
12 the federal government we've been trying to get data
13 from the Department of Defense for the past two years
14 to find out what percent of their contract is going
15 to be awarded to minority and woman-owned businesses.

16 Right now, the data we have is I guess from 2005
17 says there's less than one percent for Latinos.
18 Black-owned business, Asian-owned business, same
19 thing.

20 We think this piece of legislation is
21 critical and we have taken it on ourselves to make
22 certain that the banking industry, as well as

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1 corporations who have contracts with the federal
2 government adhere to that piece of the legislation.

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

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

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

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1 that the federal government provides.

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

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

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

21 Who thinks it would be better off had it
22 not passed?

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1 You're not giving me an eh.

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

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

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

22 I think in terms of long term, in terms

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1 of small business, I'm not sure that's going to have
2 a big effect on small business. This is going to be
3 something that a large bank may disagree with me, but
4 I'm not sure this is going to filter down to us.

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

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

14 MS. SOWE: No.

15 MR. HARWOOD: I want to shift to a
16 different issue which of course occupied much of the
17 first two years of the Obama
18 administration, and that was health care, and try to
19 get a sense from the panel, especially beginning with
20 Rebecca and Kathleen, as to how the passage of the
21 health care bill is going to affect the viability of
22 business in the near term?

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1 We had a question from the audience that
2 said small business formation, particularly with so
3 many people over 45 losing their jobs is very
4 dependent on health insurance. Why not scrap the
5 employer-based system altogether for a completely
6 portable system?

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

11 MS. RAINEY: Goodness, that's a huge
12 question. I think as with a lot of the regulations,
13 there are a lot of unknowns right now. I think my
14 business, I'm still trying to figure out for my own
15 health insurance plan what the impacts are going to
16 be. We just went through a health insurance renewal.

17 There's a lot of new questions. I think it just
18 adds one more thing that small businesses are having
19 to figure out. I'm of the camp that something needed
20 to happen, so I agree that we're making --

21 MR. HARWOOD: You're glad it passed?

22 MS. RAINEY: I think so. There's still a

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1 lot of questions that need to be answered.

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

7 MR. HARWOOD: Jorge?

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

19 MR. HARWOOD: Denny, I suspect I know
20 where you're coming from with this, but I'd like to
21 hear you explain it. Also whether you think the
22 bipartisan move toward repealing that reporting

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1 requirement on small business transactions 1099,
2 whether if that is gotten rid of whether that's going
3 to make a big positive difference.

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

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

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

21 So, what do we do? We go out and
22 make it worse by adding 30 million more people

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1 to the system with no additional supply. We're
2 already going to be short 120,000 physicians if
3 nothing else happens. Now add this demand. My point
4 is essentially that we're going to have a
5 supply/demand that's going to be just unbelievable.

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

19 You've got all these sorts of
20 things that CBO has to abide by that
21 essentially allows anyone who wants to to
22 really play with the numbers. We got a

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1 huge financial problem. Our rates are going
2 to go up.

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

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

7 MR. DENNIS: You disagree with my
8 numbers?

9 MR. GRAVES: Listen, the millions
10 of people who are now going to be able to
11 access safe and affordable health care is
12 going to fundamentally change the way that our
13 economy functions. You are basically helping
14 those folks who've been, from a business
15 perspective, a drag on the economy because
16 they haven't had adequate health care.
17 They've had to go to the emergency room to get
18 their services. You're now putting them into
19 a system where they can access the health care
20 that they need, to visit doctors and be part
21 of that process of receiving the health care
22 so that you can diagnose problems before they

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1 become acute. I disagree with you. I
2 think that in fact it's going to be a long-
3 term saver for the economy.

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

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

16 MR. HARRISON: Well, I think
17 that's a good point, but if you look at the
18 small businesses, whether there's enough small
19 business lending against the business itself
20 has got to be able to make a profit and
21 they've got that additional call. Plus they
22 had the threat of what was going to happen on

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1 the tax issues. When you have the combination of the
2 two, is there a business demand out there for the
3 lending? Now, I understand that some businesses --

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

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

19 MR. HARWOOD: Let me shift gears.
20 Got a very interesting question from Taylor
21 Webb, who's a congressional intern who is
22 somewhere in this audience. If you did

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1 show up, make your way to the microphone.

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

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

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

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

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

17 MR. CORRALEJO: Well, it does
18 exist. This economy impacts everything. I'm saying
19 still entrepreneurs still rise and
20 start businesses. If you look across the
21 nation, a lot of businesses are starting up and
22 particularly for minority communities, I might

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1 say. The Latino community is growing at the
2 rate of over 30 percent in entrepreneurship.
3 I think of course there are problems with lending,
4 these kinds of things.

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

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

18 MR. DENNY: May I suggest though
19 that this is going to be a real problem and
20 I'm not sure it has to do with attitudes as
21 one would think of that the entrepreneurial
22 spirit is dying.

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1 A real lot of it's going to have
2 to do with access to finance caused by
3 housing. A lot of people who begin use their
4 home as the piggy bank, unfortunately, if we
5 can call it that. What you're seeing is
6 of course with the deflation of the housing
7 market that isn't there anymore. You're having a
8 series of folks who might
9 ordinarily go in who cannot do so. We are
10 seeing right now, the statistics are beginning
11 to start coming through that for the first
12 that in my memory we're having fewer starts in
13 the last couple years than we've had in the
14 previous years. We not only have this
15 group going out, but we have fewer coming in
16 and a lot of it is tied to housing.

17 MR. HARWOOD: I want to come back
18 to the housing thing, but, Taylor, do you want
19 to follow up? Jorge was suggesting that
20 the problem at the individual level was less
21 significant than you think it is. Go
22 ahead.

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1 MR. WEBB: Yes, and just to give
2 you some background, I'm from Holland,
3 Michigan and obviously Michigan's really been
4 hit by this economic crisis. Also, my grandpa
5 started a small business. My dad used to have
6 a manufactured home business that's basically
7 going down as well. That's sort of the
8 background for this question.

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

15 Secondly, as far as there
16 might be areas in the country that are more conducive
17 to these small business
18 loans being given out, but how do you see
19 these new policies that are supposed to be
20 being put in place actually expanding and
21 getting to some of the areas in the country
22 that may be most hard hit or where housing prices

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1 like in Michigan have totally collapsed?

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

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

12 I see good signs. I look at
13 numbers every single day. Where are we
14 heading? What are we doing? I saw last
15 quarter that the SBA, as far as my loan
16 programs, had the highest level of volume in
17 the history of our programs, ever. The week
18 before Christmas was the highest week of loan
19 volume activity, ever. That's all good. Again, I go
20 back to do I measure success by
21 how much volume we do? No, I measure success
22 by -- I would love it if the gap was

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1 shrinking. That does also tell me
2 that there has been a big gap. However, we're
3 starting to see lending. They're taking
4 advantage of these government programs.

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

21 The other thing I looked at, and
22 this actually made me smile quite a bit, is I

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

14 That tells me that the entrepreneurs, the
15 business owners are making a conscious decision to
16 invest. With the growth in our loan programs it
17 tells me that our lenders are looking at -- lenders
18 need to lend. Lenders want to lend. However,
19 everything that we've talked about are challenges.
20 It takes a little bit of time of finding out now how
21 do I deal with those challenges? One of the ways to
22 deal with the challenges is to look at the credit

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1 enhancements that are available and how do we make it
2 make economic sense and how can we also control our
3 risks?

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

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

18 MS. RAINEY: I don't know. I mean, I
19 think this is such a regional issue, too, that I
20 think it's very challenging. There's an unknown on
21 appraisals these days and where those valuations are
22 coming from, how where in markets you don't have a

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1 lot of comps what you do, where you're in markets
2 where you're having to fire sale properties. What
3 did that do to the underlying valuation? I think
4 part of it is the role of the regulators and how
5 we're working through some of these problemcredits,
6 but it's also very regional in terms of some of the
7 local markets and how they go about dealing with it.

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

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

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

22 MR. HARWOOD: Denny, let me ask you about

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1 that and throw in one extra thing at the end, which
2 is that all of sudden everybody's talking about tax
3 reform. Ooh, cool. Let's take away deductions and
4 get the rates down. Mortgage interest deductions one
5 of the deductions they're talking about. Is that a
6 good idea and what should we do about real estate?

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

12 Ninety-four percent own a home, much
13 higher than the average. On median it's 60 percent
14 more valuable. Plus of those who don't have a
15 home-based business, that have an office or whatever
16 you want to call it, almost half of those own that,
17 particularly in the rural areas. If we want to just
18 take a step further, almost 40 percent own investment
19 real estate, over half of which own more than one.
20 The small business owners are heavily into real
21 estate, to say the least. That's one of the critical
22 reasons we have it.

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1 Clearly the issue you're talking about
2 tax reform is going to come up. My gut is that small
3 business owners aren't going to like a particular
4 provision of what probably will be a major discussion
5 on tax reform, and that is either elimination of the
6 home interest deduction or at least capping it. My
7 guess is capping it will probably be the one. It's
8 going to be central; has to be central to the
9 discussion, but in the short term it's going to be
10 really, really tough because we have this horrible
11 problem and we have sat it on for two years and done
12 nothing basically. Actually, it's been about three,
13 four years where we've just sat on it and heaven only
14 knows what we're going to do in the next couple
15 years.

16 MR. HARWOOD: What do you think, by the
17 way, ought to be done on the issue of corporate tax
18 reform? Treasury Secretary Geithner's meeting
19 tomorrow with chief financial officers from about 15
20 companies and talk about the possibility of removing
21 deductions that many businesses like and getting the
22 rates down.

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1 When I was talking to an analyst at the
2 Chamber the other day, they said well half of all
3 business income goes to businesses that aren't
4 organized as corporations and you can't do corporate
5 tax reform and bring that rate down, because those
6 businesses are still going to be paying 35 percent,
7 therefore it's all got to be done together somewhere
8 down the road. You agree with that?

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

11 MR. HARWOOD: Yes.

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

20 There are certain parts of the code that
21 are going to have to remain relatively complicated
22 just because when you talk about depreciation and

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1 things like that they have to be there. There are a
2 whole series of things that don't have to be like
3 they are. The home office deduction for the very
4 little ones, for example. Doesn't have to be
5 anywhere close to that complicated, but it is. The
6 whole idea of what is an employee doesn't have to
7 have 20 tests.

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

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

16 MR. HARWOOD: Jorge?

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

19 MR. HARWOOD: Yes.

20 MR. CORRALEJO: -- It's extraordinarily
21 complex of course, but I think government can
22 continue to play a major role in that instead of

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1 outlaying monies for principal reductions, which
2 generally are just not working if you have people
3 underwater and underwater for far more than a minor
4 principal reduction, it's a waste of money. I think
5 those monies could be better used for home ownership
6 counseling and I think that you could utilize these
7 counseling sessions to put people into new homes
8 which would I think reverse the trend that we have.
9 That's a short note on that, but that's something
10 that we've been discussing and taking a look at and
11 when you're looking at the principal reductions
12 versus the new home ownership. Instead of continuing
13 to lose the existing house that you're in, you could
14 buy something more affordable and reverse the trend
15 that way.

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

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1 that sort of thing.

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

8 John and Anthony?

9 MR. HARRISON: Go ahead.

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

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

22 MR. HARWOOD: John?

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

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

14 MR. HARRISON: Yes.

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

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

22 MS. RAINEY: I'll be nice. I think this

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1 is a fascinating issue. It also is one where all
2 banks are lumped into one category.

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

11 Just about everything I do these days is
12 now being regulated. What does that do to our
13 entrepreneurial spirit and our ability to balance and
14 knowing that there are going to be times when loan
15 demand is soft? How do we balance? How do we
16 maintain our balance sheet and our income statement
17 so that we can do what we do and not take a
18 stereotypical approach? It's almost like we need a
19 tiered approach to regulation so that we can really
20 get at the problems where there are problems.
21 Because I agree, some of these products have been
22 taken advantage of. Things like interchange I'm not

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1 so sure that that's really a consumer protection
2 issue, but it's something that's really going to get
3 at the heart of community organizations.

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

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

16 I understand that there are differences
17 amongst the bank community in terms of size and the
18 types of products and services that they offer. That
19 said, I think what the legislation did was establish
20 a baseline. This was not providing the types of
21 requirements on banks that a lot of folks I think in
22 certain parts of the lobbying community or the

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1 advocacy community wanted. They weren't as strong as
2 those folks wanted. But at the same time I think
3 they were appropriate and necessary steps.

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

8 MS. RAINEY: Yes, I am.

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

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

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

22 MR. HARRISON: I've wanted to address and

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

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

19 MR. HARRISON: That's a good question and
20 one that I will answer very candidly. They used to
21 be. I see today more so that it appears that since
22 we've had this financial problem banks have been

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1 suspect. We still have a number of problem banks on
2 our list. It looks like now that whether you're
3 primarily regulated as a state, whether it's the OCC,
4 whether it's the Fed, but it looks like we're all
5 coming down from Washington. At least what I see is
6 that everybody wants to say well, we can't do or we
7 can do, but Washington is making those calls. To me,
8 that's not where we need to go. We need to be sending
9 that authority and that responsibility down to that
10 region and down to that field level person that
11 should be able to work with that institution, know
12 that market, know the economic conditions and come up
13 with a sound judgment.

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

17 MR. HARRISON: It is.

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

21 MR. LOWE: With respect I have to
22 disagree. When we propose regulations or changes in

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1 our procedures, the majority of the time all the
2 regulatory agencies, we put these out for public
3 comment. We take those public comments into
4 consideration before we finalize any of our rules.

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

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

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

22 MR. LOWE: One thing that we do is we

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1 periodically; most of the regions of FDIC and from
2 our Washington level, we have conference calls with
3 our entire staff at least once a quarter where we
4 talk about issues, talk about new regulations, talk
5 about congressional actions that may impact the way
6 that we're going to regulate institutions.

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

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

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1 Wow. Okay. Kathleen?

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

4 MR. HARWOOD: Case closed.

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

10 MR. HARWOOD: Denny?

11 MR. DENNIS: I think this is an issue
12 that is like many others we're talking about right
13 now, and that is we're in a process of flux, is what
14 I call it, right now. We've had this tremendous run
15 up in the amount of credit that smaller firms have
16 been able to get going back into the '70s, and all of
17 a sudden it changes very abruptly and goes back down
18 the other way. We don't have rules and we don't
19 understand one another anymore. Everything is
20 changing. We keep blaming one another as to what the
21 problems are. I'm not sure until such time that we
22 don't get a little bit more stability and find out

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1 what normal means. We don't know what normal is
2 anymore. Until we find that out we're going to be
3 pointing fingers at one another and I think that's
4 probably a real problem.

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

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

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

19 MR. LOWE: I think there are a number of
20 ways. We have several events around the country
21 where we talk with community-based organizations
22 about how they potentially can partner with banks to

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1 do some activities, do some lending activities.

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

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

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

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1 do regarding the valuation of the currency.

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

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

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

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

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

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1 that's hurt us.

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

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

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

20 MR. HARRISON: Yes.

21 MR. HARWOOD: Some of the polls say they
22 should.

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

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

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

19 MR. DENNIS: To some extent the whole
20 idea of the payroll tax being rebateable as two
21 percentage points, I believe on the individual side
22 is a good idea. We're two years too late with it.

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1 That's the problem. That should have been the
2 stimulus policy to begin with is focused entirely on
3 this --

4 MR. HARWOOD: But going forward?

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

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

21 MR. DENNIS: Well, that's going to come
22 when there's a demand for investment. I mean, you

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1 look at smaller firms right now and you look for
2 either physical investment or you look for inventory
3 investment and I mean we're barely back to kind of a
4 very low level now. I mean, we're out of the very
5 depths, but --

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

8 MR. DENNIS: Yes.

9 MR. HARWOOD: That a good thing?

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

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

21 MR. GRAVES: Well, I don't think there's
22 any one silver bullet. I think there are --

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1 MR. HARWOOD: Are there any even like
2 partly silver bullets?

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

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

20 I think you've heard recently from the
21 business round table that they expect their members
22 to increase their hiring, to increase their

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1 investment in their companies fairly substantially.
2 I think that will go a long way to turning around the
3 types of increase in small business investment that
4 we'd all like to see. It's not going to be one
5 thing. It's going to be housing as well. It's
6 ensuring that responsible homeowners can stay in
7 their homes, that they have everything they need.
8 It's really just stabilizing the economy as a whole.
9 It's not one individual effort.

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

20 Is that crazy talk? Could it make sense?

21 MR. GRAVES: Well, I don't know that
22 having federal programs aimed at hiring is the way to

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1 go. I'm probably not qualified to talk about that
2 specifically.

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

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

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

22 MR. SMITS: My comment is this: This

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1 country is small businesses. This country was built
2 on small businesses. This country has been pulled
3 out of the depths of every recession we've gone
4 through with the help of our small businesses. The
5 opportunities for us going forward are our small
6 businesses. Almost two out of every three of us work
7 for our own small business, correct? Why I've worked
8 with these small businesses for 20-some years is
9 because I'm fascinated by them. They will find the
10 opportunities. They will find the opportunities
11 every single time.

12 We go back to what we discussed: Sales.

13 We need to take a look at where are the
14 opportunities? We're a global economy. Exporting.
15 These are the opportunities for our small businesses
16 and we need to take a look at that and we need to see
17 where can we provide the assistance? Can we provide
18 the technical training? Can we provide the tools for
19 our small businesses that really define us to take
20 advantage of that?

21 MR. HARWOOD: Let me follow up on that
22 point and test sentiment on the panel, because I've

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1 had some conversations with economists, left and
2 right. Usually this part of the conversation occurs
3 off the record because it sounds politically
4 incorrect. One that I talked to a few months ago
5 said something to the effect that, come on, we way
6 over romanticize small business. People use these
7 numbers. It reflects a whole lot of churn in small
8 business starting, stopping and that sort of thing.
9 If you look at it candidly, the best jobs are in
10 large business, the jobs that pay the best, the jobs
11 that have the best benefits. We need to focus more
12 attention on increasing hiring among large businesses
13 rather than small businesses. That is kind of like
14 talking about family farmers in an era where that's a
15 little bit obsolete.

16 MR. SMITS: My comment is this: I can
17 drive through town and point
18 out to my kids all the businesses I've helped over
19 the years. I was in the trenches. I was doing this.

20 Perfect example; businesses that I've provided --
21 maybe provided a loan for a restaurant to open up a
22 second location. We talk about, well, how many jobs

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1 is that going to create for that restaurant? How
2 many employees do you have? As you walk to that
3 project and you step back and you take a look at how
4 many jobs has that actually touched, that project;
5 the contractors, the equipment companies, it's mind
6 boggling if you stop and you think about it, I think
7 we're underestimating that.

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

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

22 Now those are government numbers. I'm

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

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

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1 you just look at the government numbers.

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

7 (Applause.)

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

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

14 (Applause.)

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

21 I'd also like to thank all of our FDIC
22 staff, especially Suzy Gardner, for a lot of work in

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1 a very short period of time in putting this together.

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

7 (Applause.)

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

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

20 Since earning an MBA from Harvard
21 University, Karen has worked in counseling, managing,
22 mentoring and investing in businesses of all sizes

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1 across the United States. Her skills and ability
2 came to the forefront during the recession of the
3 1990s when she was in the private sector and helped a
4 number of small manufacturers increase their
5 efficiency and competitiveness which enabled them to
6 survive that down turn.

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

16 She's worked very effectively to grow
17 businesses, first in her work in the private sector
18 and now as administrator of the Small Business
19 Administration where she has an opportunity to
20 further public policy and support small business.
21 It's been a privilege for me to be able to get to
22 know here and work with her. She's been tremendous.

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1 I think there's nobody that's got more commitment in
2 the federal government than Karen to small business
3 and she's really done such an impressive job at the
4 SBA.

5 Please give her a warm welcome.

6 (Applause.)

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

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

16 We have been working very closely with
17 Sheila Bair and the FDIC and with the Fed over I
18 guess the past 18 months, and with bank examiners,
19 because we needed to be sure that good loans were
20 going out to creditworthy borrowers. We had a lot of
21 work to do, but there's probably still a lot of work
22 to do, but we made a lot of progress. I really want

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1 to thank this collaboration that we have had with the
2 FDIC. The guidance that they provided very early on
3 on this issue I think got a lot of borrowers to get
4 loans and prevented some good borrowers from being
5 frozen out even in that credit freeze. Thank you
6 very much.

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

15 Everybody here knows the facts. Two out
16 of three jobs are created by small business. Half of
17 the people in this country own or work for a small
18 business. Half the people. In answer to the question
19 that came up in the panel, if we are going to create
20 the jobs, we do need to make sure that both Main
21 Street small businesses and those high growth
22 gazelles that were being referenced have the access

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1 and the tools that they need so that they can grow,
2 and that they can prosper, and they can complete
3 globally, and create jobs here in America.

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

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

19 The other thing we do at the SBA is we
20 are responsible to make sure that 23 percent of all
21 government contracts go to small business. That's
22 \$100 billion a year. That's the oxygen that small

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1 businesses need, particularly in underserved markets
2 to grow and take that next step. That's a win/win at
3 no cost to the American taxpayer. It's a zero cost
4 to the American taxpayer. In fact it's a benefit
5 because departments, agencies like the Veterans
6 Administration, the Department of Defense are getting
7 access to some of the most innovative companies
8 usually with the attention of the CEO. We work very
9 hard on those two Cs, counseling and contracts.

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

19 In the Recovery Act, in the Small
20 Business Jobs Act we were able to get two very key
21 provisions that helped us really sort this market
22 out. We were able to raise our guarantee to 90

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1 percent and reduce or eliminate our fees. That
2 allowed us to put \$41 billion into the hands of small
3 businesses over this period of time. That's loan
4 guarantees that gave a pretty good bang for the
5 taxpayer buck, because it costs only just over a
6 billion dollars to do that. We were able to really
7 be quite efficient and move capital into the hands of
8 small businesses. In fact, we were able to bring
9 1,300 new lenders who had not been participating in
10 the SBA programs back to active SBA lending during
11 that critical time. That was due to these Recovery
12 Act incentives.

13 We are very, very happy with the fact
14 that we have been able to work hard and fill that
15 capital gap. There's still more work to do be done.

16 To those who say there's no demand out there, I just
17 want to point out that the SBA in the last quarter
18 had its strongest quarter ever in the history of the
19 SBA. We put out \$10 billion in this last quarter
20 into the hands of small businesses. Many, many of
21 them are investing in equipment and other activities
22 that are going to create jobs. This is nearly 90,000

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1 small businesses who we've helped with these loan
2 guarantees.

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

9 I want to actually also add a piece of
10 data that I think Steve may have mentioned up here.
11 One of the things that I really care about is
12 American manufacturing. I grew up in a manufacturing
13 family. I've owned lots of manufacturing companies.

14 What I really like is to go out and walk the factory
15 floor and talk with a business owner about how
16 they're going to run and grow their business.

17 We have been tracking the percentage of
18 our loans that go to equipment purchases and I'm very
19 happy to say that with these Recovery Act loans and
20 some of the other Small Business Jobs loans the
21 percentage has doubled. We have two times as many of
22 our loans now going for equipment purchases. I think

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1 it's a very good thing because we know that these are
2 helping small companies gear up, innovate and
3 compete.

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

12 We have tax incentives for small
13 businesses for buying equipment. We have it for
14 providing health care. We have it for hiring people.

15 We have it for zero capital gains if you're
16 investing in a small business. We have five-year
17 carry back of your losses. As small businesses are
18 out there right now talking to their tax preparers,
19 they are getting the benefit of these tax provisions
20 that have been included. As I said in the latest tax
21 cut package we were able to include 100 percent on
22 accelerated depreciation on equipment. That means

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1 money right back in the pockets of the small
2 businesses which they need for working capital as
3 they grow. So these are really critical provisions.

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

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

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

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

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1 Steve talked about earlier.

2 We've got a -- we call it our Advantage
3 Platform, Community Advantage, Small Loan Advantage.

4 Some of you will be very pleased to hear that they
5 include a streamlined application process. Less
6 paperwork, faster turnaround times. That's something
7 that we are delivering both with these new programs
8 and we're working on hard in our main programs.

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

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1 market is still tight.

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

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

17 Finally, I know that you all are looking
18 forward to and we are looking forward to Gene
19 Sperling being the new head of the NEC. He was one
20 of the major architects of the new Small Business
21 Lending Fund. That is designed to provide \$30
22 billion in capital to community banks. We know that

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1 community banks on Main Street are a primary place
2 that small businesses look for their next loan and we
3 are looking forward to help the Small Business
4 Lending Fund get more capital into those banks so
5 they can lend it out to small businesses.

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

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

20 Because as we've said, the end goal is
21 very clear. If we can get capital into the hands of
22 these entrepreneurs, they can grow their businesses

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1 and create jobs. That's what we need to move forward
2 in this economy and we're very, very pleased to be
3 part of a great collection of people who are working
4 to make that happen. Thank you very much.

5 (Applause.)

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

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