Statement of David Borris, Main Street Alliance Executive Committee Member and Business Owner For House Financial Services Committee, Subcommittee on Financial Institutions & Consumer Credit Hearing on "The Effect of Dodd-Frank on Small Financial Institutions and Small Businesses" Wednesday, March 2, 2011

Chairman Capito, Ranking Member Maloney, and members of the committee,

Thank you for the invitation to testify regarding the impact of the Dodd-Frank financial reform law on small businesses.

My name is David Borris and I serve on the Executive Committee of the Main Street Alliance, a national network of small business owners. Our network creates opportunities for small business owners to speak for ourselves on matters of public policy that impact our businesses, our employees, and the communities we serve.

I've been a small business owner for 25 years. My wife and I opened a homemade food store in 1985 and over the years we expanded into a full service catering company with about 25 full-time employees and up to 80 more part-time and seasonal workers. We take great pride in what we do.

For today's discussion on the financial reform law and its impact on small institutions and small businesses, I think it is important to understand the vital connection small businesses share with the communities we serve. Unlike large national or multinational corporations, Main Street business owners see both our customers and our employees every day – in our businesses, at the local grocery store, on the soccer fields and at school bus stops – and the public policies that impact the health of our customer base and our workforce reverberate to our bottom lines and the health of our businesses.

The financial crisis and its aftermath have taken a serious toll on America's small businesses. According to a report by London-based Capital Economics, during this recession small business job losses were responsible for about two-thirds of the employment decline in the U.S. as of late 2009. Between March 2008 and March 2009, small business bankruptcies nearly doubled. While bailouts were being handed out on Wall Street, Main Street small businesses have continued to pay the price in a "double squeeze" of a decimated customer base on the one hand and frozen credit markets on the other.

The Dodd-Frank Law and Small Business Access to Credit

There has been much attention to the severe tightening of access to credit since the onset of the financial crisis. This is certainly a serious issue for small business owners who are positioned to expand, and for the nation's economic recovery. But to blame the Dodd-Frank law for this credit crunch makes little sense.

Credit dried up – and has remained so frozen – because of the financial crisis itself, which could have been averted or at least mitigated had the stabilizing measures contained in Dodd-Frank been in effect. To blame Dodd-Frank for the crisis-induced credit crunch confuses cause and effect, especially as the new law is not yet even implemented. A proper reckoning of cause and effect is needed in order to move forward with pragmatic policies that clear the path for small businesses to flourish.

When it comes to new capital requirements under Dodd-Frank, financial experts dispute the claim of a possible negative impact on productive lending as unfounded. As Professor Anat Admati from the Stanford Graduate School of Business and her colleagues write in a letter published in the Financial Times in November 2010:

> "These warnings are misplaced. First, it is easier for better-capitalized banks, with fewer prior debt commitments hanging over them, to raise funds for new loans. Second, removing biases created by the current risk-weighting system that favor marketable securities would increase banks' incentives to fund traditional loans. Third, the recent subprime-mortgage experience shows that some lending can be bad for welfare and growth."

The real reasons why small institutions and small businesses are having difficulties with credit and lending are the underlying uncertainties in the economy – high unemployment, sluggish demand, and the lingering foreclosure crisis. The Great Recession cost the U.S. economy 8 million jobs and eroded the small business customer base severely. Those customers have not yet returned in sufficient numbers to restore lending to better terms. Uncertainty in the foreclosure market continues to hang like an albatross around the neck of consumer demand as the unwillingness of big lenders to write down foreclosures lingers as a drag on lending markets and economic growth. (It should be noted too that efforts to re-write Dodd-Frank even before it is implemented also add to uncertainty and confusion about the direction of lending and financial sector practices.)

New data on bank reserves reinforce the conclusion that the credit problem stems not from regulatory requirements (either current or pending), but from the lingering hangover that remains from the financial meltdown. According to last Friday's *Wall Street Journal*, U.S. bank reserves have swelled to $1.3 trillion, a figure the *Journal* described as "eye-popping." That includes $1.2 trillion in excess reserves – reserves beyond the amounts required by law – a number that has swelled by $225 billion since the start of this year.

Those excess reserves represent money that could be out circulating in the economy on productive loans, including loans to small businesses. Instead, those excess reserves are sitting at the Fed and the banks are collecting 0.25 percent interest for holding more money out of the economy.

Yes, small businesses are in a credit crunch – the banks slashed their small business lending by $59 billion between June 2008 and June 2010 – but the excess reserves the banks are sitting on could fill that lending gap 20 times over.

Even focusing narrowly on small institutions, Fed data indicates that about $150 billion of that reserve figure comes from small institutions. That alone is more than two and a half times the amount that would be needed to restore small business lending to the level of summer 2008.

The Dodd-Frank Law's Benefits for Small Businesses
While Dodd-Frank is hardly responsible for drying up credit, it does include a number of provisions that weigh in on the positive side of the ledger for small businesses.

Consumer Financial Protection Bureau
The new Consumer Financial Protection Bureau will benefit small businesses from three perspectives:

- First, small businesses are financial consumers, too – we've been harmed directly by deceptive financial products, and we'll benefit directly as abusive lending practices are curtailed.
- Second, people need to have money in their pockets to go out and spend in local small businesses. When people get trapped in bad mortgages or deceptive credit arrangements, it saps their disposable income. By guarding against this, the CFPB will help keep money in people's pockets to spend in the real economy.
- Third, the consumer bureau will promote a level playing field in lending by regulating shadow lenders, reining in abusive but profitable practices (propagated mostly by larger institutions), and allowing small banks and credit unions to compete on more equal terms.

In the *Main Street Policy Pulse* report the Main Street Alliance released in January 2010, based on a survey of over 1,200 small businesses across 13 states, 67 percent of responding business owners supported the creation of the consumer bureau, and only 12 percent opposed it.

Restoring the Focus on Traditional Lending Through Limits on Proprietary Trading
Dodd-Frank law's limits on proprietary trading will also benefit small businesses. The basic function of banking – to pool deposits and offer loans to build and grow productive enterprises – should be reliable and predictable. With the boom in proprietary trading by banks, more and more attention and resources were turned toward casino-style trading and its big payouts, and less and less toward traditional lending. This was bad news for small businesses seeking loans. The Dodd-Frank law's proprietary trading limits will encourage banks to restore the focus on their traditional mission of economically productive lending.

Reforming Credit/Debit Contracts and Debit Interchange Fees
The Dodd-Frank law also includes provisions that should restore some parity to credit and debit contracts and debit interchange fees. These include returning to business owners the freedom to make decisions about forms of payment, and establishing a rules process for ensuring that debit interchange fees are set at reasonable and proportional levels. While we would have liked to see a similar requirement for credit card interchange, these provisions represent important positive steps for small businesses.

In addition to these specific measures, there remain the overarching benefits to small businesses and local economies of increasing overall economic stability as the Dodd-Frank framework seeks to do.

Conclusion
The bottom line for me, as a small business owner, has to do with trust. My business and small businesses across America are built on trust. When you walk in my door, a handshake is a commitment. We succeed by earning the trust of our customers, again and again. The financial sector lost sight of this basic principle of good business, and we've all paid a very steep price.

That's why we need the new rules of the road for the financial sector included in the Dodd-Frank law – to engender trust, inspire confidence, and decrease uncertainty. Small businesses like mine are counting on Dodd-Frank to help put the economy back on solid ground and make sure we don't get the rug pulled out from under us again. We need Dodd-Frank to succeed so we can go back to doing what we do best: creating jobs, building local economies, and serving local communities across America.

United States House of Representatives
Committee on Financial Services

"TRUTH IN TESTIMONY" DISCLOSURE FORM

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. **Name:**	2. **Organization or organizations you are representing:**
David Borris	The Main Street Alliance

3. Business Address and telephone number:

[redacted]

4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?	5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?
☐ Yes ☑ No	☐ Yes ☑ No

6. If you answered .yes. to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.

7. Signature:

Please attach a copy of this form to your written testimony.