

Ben S Bernanke: Financing needs of Michigan's small businesses

Brief remarks by Mr Ben S Bernanke, Chairman of the Board of Governors of the Federal Reserve System, at the Meeting on addressing the financing needs of Michigan's small businesses, Detroit, Michigan, June 3, 2010.

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Thank you, President Evans. I am pleased to be here in Detroit to be part of an ongoing and very important discussion about improving access to credit for small businesses. I would particularly like to thank the staff of the Federal Reserve Bank of Chicago and President Evans for organizing this event.

Today's meeting is part of a series of more than 40 such gatherings that the Federal Reserve System is conducting across the country. Entitled Addressing the Financing Needs of Small Businesses, these forums are designed to elicit ideas and information that will help the Federal Reserve and others respond effectively to both the immediate and longer-term concerns of small businesses. Today's event brings together representatives from banks and other private lenders, community development financial institutions, bank supervisors, other federal and local government agencies, and small business trade groups. Each of you brings an important perspective to this issue, and I would like to thank all of the participants for their willingness to share their ideas.

Over the past two years, a concerted effort by the Federal Reserve and other policymakers has helped to stabilize our financial system and our economy. Following a sharp contraction in late 2008 and early 2009, we are now in the fourth quarter of economic expansion, with jobs once more being created rather than destroyed. Nonetheless, important concerns remain. One particularly difficult issue is the continued high rate of unemployment. High unemployment imposes heavy costs on workers and their families, as well as on our society as a whole. I raise this issue here because healthy small businesses, including start-ups as well as going concerns, are crucial to creating jobs and improving employment security.

Unfortunately, lending to small businesses has been declining. Indeed, outstanding loans to small businesses dropped from almost \$700 billion in the second quarter of 2008 to approximately \$660 billion in the first quarter of 2010.¹ An important but difficult-to-answer question is how much of this reduction has been driven by weaker demand for loans from small businesses and how much by restricted credit availability. To be sure, the distinction between demand and supply is not always easy to make. For example, some potential borrowers have been turned down because lending terms and conditions remain tighter than before the financial crisis, perhaps reflecting banks' concerns about the effects of the recession on borrowers' economic prospects and balance sheets. From the potential borrower's point of view, particularly a borrower who has been able to obtain loans in the past, these changes may feel like a reduction in the supply of credit; from the lender's point of view, the problem appears to be a lack of demand from creditworthy borrowers. Although lenders and borrowers may have different perspectives, our collective challenge is to help ensure that creditworthy borrowers have access to credit so that, should they choose, they can expand their businesses or increase payrolls, helping our economy to recover.

¹ Data are from the Federal Financial Institutions Examination Council (FFIEC) Consolidated Reports of Condition and Income (Call Report), where small business loans, as reported in the Report forms FFIEC 031 and 041, schedule RC-C, part II, are defined as loans with original amounts of \$1 million or less that are secured by nonfarm nonresidential properties or commercial and industrial loans plus loans with original balances of \$500,000 or less for agricultural production or secured by farmland.

At the Federal Reserve, we have been working to facilitate the flow of credit to viable small businesses. We helped in bringing capital from the securities markets to small businesses through the Term Asset-Backed Securities Loan Facility – the TALF program. Our bank stress tests of a year ago also drew private capital to the banking system, which helped offset credit losses and provided the basis for increased lending. I know that earlier in this conference you heard about the various interagency policy statements issued to banks and examiners, reinforcing our message that, while maintaining appropriately prudent standards, lenders should do all they can to meet the legitimate needs of creditworthy borrowers.² Doing so is good for the borrower, good for the lender, and good for our economy. We have also conducted extensive training programs for our bank examiners, with the message that encouraging lending to small businesses that are well positioned to repay is positive, not negative, for the safety and soundness of our banking system.

As we continue to examine the factors affecting small business lending, our thinking will be shaped by information from diverse sources. For example, our most recent Senior Loan Officer Opinion Survey on Bank Lending Practices suggests that, for the first time since the crisis began in 2007, most banks have stopped tightening credit standards.³ We also know, from the survey conducted by the National Federation of Independent Business that while only 8 percent of small businesses list access to credit as their principal immediate economic problem, just 40 percent of small businesses attempting to borrow in 2009 had all of their credit needs met.⁴

Surveys like the two I just mentioned are informative, but getting a full picture also requires hearing from knowledgeable people with diverse perspectives on these issues. Meetings like this one allow us to gather intelligence we and others can use to facilitate the flow of credit to small businesses – for instance, by identifying specific credit gaps, clarifying examiner expectations and procedures, improving coordination of small business support services, and ensuring the availability of technical assistance for loan applications. Thus we can help ensure that small businesses are able to participate in and contribute to the recovery. The findings from the entire series of meetings sponsored by the Federal Reserve will be presented at a culminating conference at the Board of Governors in Washington later this summer.

Learning from people engaged with small businesses and small business credit, like those here today, is vital if we are to make progress. I look forward to hearing your ideas and concerns, and thank you again for joining us.

² For example, see Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, Office of Thrift Supervision, and Conference of State Bank Supervisors (2010), “Regulators Issue Statement on Lending to Creditworthy Small Businesses”, joint press release, February 5.

³ See the April 2010 Senior Loan Officer Opinion Survey on Bank Lending Practices available on the Board of Governors’ website.

⁴ See William J. Dennis, Jr. (2010), [Small Business Credit in a Deep Recession](#) (Washington: National Federation of Independent Business., February).