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STATE OF THE SMALL-BUSINESS ECONOMY

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS UNITED STATES HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

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STATE OF THE SMALL-BUSINESS ECONOMY

Wednesday, February 13, 2013

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 1:00 p.m., in Room 2360, Rayburn House Office Building, Hon. Sam Graves [Chairman of the Committee] presiding.

Present: Representatives Graves, Chabot, Luetkemeyer Mulvaney, Tipton, Hanna, Huelskamp, Schweikert, Collins, Rice, Velázquez, Chu, Hahn, Payne, Meng, Barber, and Kuster.

Chairman GRAVES. We will go ahead and call this meeting to order.

I want to welcome once again our new members of the Committee and those visitors to the Small Business Committee.

As we kick this off, for the last 2 years we have usually started our work with the Small Business Committee by listening to experts provide views on the economy and the challenges that lie ahead. We are going to do the same this year with a distinguished panel of witnesses whose testimony is going to help us better understand the current environment and how real small businesses are coping in an economy that remains in a stubborn recovery.

With the economy contracting by 0.1 percent in the fourth quarter of 2012 and the unemployment rate increasing to 7.9 percent in January, there is serious concern about whether the country is on the right track. Our economy is large and very complex, with many factors influencing its trajectory. As we examine these factors, we must take a hard look at the policies coming out of Washington to determine what we can do differently or what we can do better.

One thing we know is that small businesses will be the leaders of a strong recovery. Yet, time and time again, the policies proposed by the current administration fail to take into account this important segment of the economy. In fact, last night I think the President only mentioned small business twice in his remarks.

When small businesses do poorly, the economy suffers. According to the National Federation of Independent Business, small-business owners continue to be pessimistic about the future. These concerns have kept them from borrowing, hiring, and expanding. Business owners lack confidence in their future because of the uncertainty over taxes, the burden of unnecessary regulations, and the cost and compliance demands of healthcare, and low consumer spending. In fact, consumer spending, which accounts for 70 percent of overall economic activity, grew only 0.2 percent in December, which is a very discouraging sign for small businesses who are looking to expand.

I look forward to the hearing. I look forward to listening to our witnesses. We will certainly benefit from their perspective on the state of the economy and how small businesses are faring.

I appreciate all of you coming out. I know that some of you have come a good distance, and we very much appreciate that.

With that, I will turn it over to Ranking Member Velázquez for her opening statement.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

And I, too, want to welcome the new members on our side, Mr. Payne from New Jersey and Ms. Kuster from New Hampshire.

As members of this Committee are aware, the success of our overall economic recovery hinges on how small businesses fare. While few will argue our economy is where it needs to be, it is also hard to ignore the important strides that have been made to date.

Since 2009, GDP growth has expanded at a moderate 3.2 percent, suggesting the economy is making gradual improvement. Likewise, although the employment situation remains challenging, we have seen 35 consecutive months of positive job growth and more than 2 million jobs created last year alone. Still, the pace of this growth is far from sufficient. For those who lost their livelihood in the recession or young people entering the job market, there remain too many applicants for too few opportunities.

As is always the case, the gains exhibited by the broader economy are closely linked to trends in the small-business sector. Recent survey data found small-business owners' optimism regarding the next 6 months' growth by 5 points in January.

Another encouraging sign has been the easing of the small-business credit markets, ensuring a flow of capital to small firms looking to expand their operations. According to the most recent Federal Reserve senior loan officer survey, most banks are loosening credit standards for small-business and commercial loans. Moreover, February data finds that 73 percent of small firms report being able to obtain the financing they need, the highest level in 4 years. Affordable credit will remain key to growth in this sector. If, as we often say, small businesses are the backbone of the economy, affordable capital is the lifeblood.

Beyond the need for affordable financing, small companies also need additional customers in order to expand and take on more workers. Small businesses certainly have concerns about changes to the regulatory environment. However, a recent analysis by the Federal Reserve suggests that the biggest obstacle to small-business job creation may actually be the lack of consumer spending.

In that regard, measures that generate consumer spending, such as payroll tax cuts, may offer a better path forward for boosting small-business growth and hiring. Indeed, the recent Federal Reserve letter calls into question whether regulatory uncertainty is truly impeding employment gains.

It goes without saying that our economy has not achieved the level of growth all of us on both sides of the aisle want to see. Americans understandably expect more. However, it is also important to remember the dire state of the economy in 2009. After 4 tough years, we are beginning to see glimmers of hope on the horizon, and our Nation's small businesses are leading the way.

I look forward to hearing from our witnesses as to how this Committee can be more helpful in fostering an environment that helps small businesses succeed, grow, and create the jobs Americans so desperately need.

And, with that, I thank you, all the witnesses, for being here today.

I yield back.

Chairman GRAVES. Thank you all again. To explain the process—first of all, we are probably going to have a series of votes sometime during the hearing, probably in about 30 minutes, in which case we will recess for a short period of time. We are going to try to get through as much testimony as we can.

You each have 5 minutes, and the lights will turn yellow when you have 1 minute left. If you go over, it is not a problem. We are not going to kick you out of here for that. If you have something to say, we would encourage you to say it.

So, with that, we will start with our first witness here today, which is Professor Randall Kroszner, who is the Norman R. Bobins Professor of Economics at the University of Chicago Booth School of Business. Prior to joining the faculty at the University of Chicago, Professor Kroszner served as a Governor of the Federal Reserve System from 2006 to 2009.

Professor Kroszner, thank you for being here. Welcome to the Committee, and we look forward to hearing from you.

STATEMENTS OF RANDALL S. KROSZNER, NORMAN R. BOBINS PROFESSOR OF ECONOMICS, BOOTH SCHOOL OF BUSINESS, UNIVERSITY OF CHICAGO, CHICAGO, ILLINOIS; MARIA C. COYNE, EXECUTIVE VICE PRESIDENT, KEYBANK, CLEVELAND, OHIO, ON BEHALF OF THE FINANCIAL SERVICES ROUNDTABLE AND THE CONSUMER BANKERS ASSOCIATION; SEAN FALK, PRESIDENT AND OWNER, WOLFTEA, LLC AND NACHOGANG, LLC, CEDAR PARK, TEXAS, ON BEHALF OF THE INTERNATIONAL FRANCHISE ASSOCIATION; AND MARGOT DORFMAN, CHIEF EXECUTIVE OFFICER, U.S. WOMEN'S CHAMBER OF COMMERCE, WASHINGTON, D.C.

STATEMENT OF RANDALL S. KROSZNER

Mr. KROSZNER. Thank you very much. I am delighted to be back now as a professor rather than as a Governor of the Federal Reserve. But I am delighted to be back here before you again.

Chairman Graves, Ranking Member Velázquez, and members of the Committee, thank you very much for asking me to testify on the state of the overall economy and the economic outlook. I will touch briefly on a few of the aspects of our economy and economic challenges in my remarks, but certainly I will look forward to your questions on a wide variety of issues.

I will be focusing primarily on the general economic outlook and leave it to my colleagues to talk more specifically about some of the issues facing small businesses, but I will touch on a few of those issues.

The way that I characterize the U.S. economy for roughly the last year or so and, unfortunately, I think, going forward is we are in a sideways slide—that is, that we are unlikely to see a strong breakout in growth. I also think we are very unlikely to see a double-dip type of recession.

Now, of course, shocks can come along. There are a lot of unexpected factors that can happen, whether it is in Europe, whether it is a cybersecurity attack, whether there can be some sort of natural tragedy. So, obviously, those factors are ones that I can't take directly into account. But I think if we were to go along without major shocks, we will continue in this sort of sideways slide.

What I mean by that is that we have been having job growth, private-sector job growth, at a modest level, which has kept the unemployment rate roughly constant, moving down slightly. Roughly a year ago, it was slightly above 8 percent. Today, it is just slightly below 8 percent. So hardly any progress, despite job growth of more than 150,000, 180,000 jobs per month, because the population is gradually growing, the labor force is gradually growing, so it is just basically keeping us treading water. That is why I kind of characterized things as a sideways slide.

Now, some people have become concerned because the GDP report from the last quarter suggested a very mild contraction. I think there were a number of one-time factors having to do with the timing of some government expenditures that were very strong in the third quarter, very weak in the fourth quarter, and Hurricane Sandy that led to a slight contraction. I think going forward we are likely to see a continuation of the kind of growth that we have been seeing, which has been around 2 percent, maybe in the low to mid 2's, but sort of around 2 percent or so going forward.

Fortunately, the rate of inflation continues to be subdued. Since mid-2009, inflation, as measured by the Personal Consumption Expenditures Index, has averaged about 2 percent per year and was just 1.7 percent in 2012. So certainly we have to be mindful of swings in prices of commodities, energy, food stuffs. Obviously, I am from the Midwest, so we have seen a lot of challenges because of the drought that we have been facing out there. But the overall pace of inflation has been quite moderate.

If you look at surveys of consumers, surveys of professional forecasters, as well always market-based measures, there is no expectation of a significant increase in inflation. It seems to be at roughly the same level that it has been, or expected to be at roughly the same level that it has been. And I think that is fortunate that we don't see that, but obviously we always want to be mindful of a potential for that to change as the economy evolves.

So what I really would like to see is the U.S. achieve a more robust, noninflationary recovery, and I believe that we can. In my formal written remarks, I have more details on the state of the economy, and feel free to ask questions about that, but I just wanted to mention a few factors that I think are very important.

When we look at surveys both of small businesses and of large businesses, the things that keep coming up on top of the agenda for them, their concerns that are holding them back, are Federal Government policies, the Federal budget, the cost of health care. This seems to come up over and over again—the Duke/CFO Magazine survey; the NFIB, the National Federation of Independent Businesses. These keep coming up.

One of my colleagues, Steve Davis, has looked at a measure and developed a measure of economic policy uncertainty. Looking at how much that has gone up since the crisis, particularly focused on these issues of Federal Government policies, Federal budget, and the cost of health care, he estimates that GDP growth may have been reduced by up to 2.3 percent, investment by up to 14 percent, and employment, up to 2.3 million jobs. So this is sort of a concrete illustration of how uncertainty about the policies that are before Congress and the administration can slow economic growth.

Going forward, I think it is crucial for the Congress and the administration to understand that policy uncertainty is taking its toll on the economy. So clear or clean resolutions of uncertainty on fiscal policy and regulatory policies undoubtedly would help to spur a recovery, but it is also important that they be resolved in ways that are pro-growth. So it is not just the resolution, but it is how they are resolved.

Just to quickly tick off three areas, I think the tax system should be seen as not simply a mechanism for raising revenue but also for something that can provide more incentives for growth. A recent study that I cite in my written testimony suggests a consistent and large adverse effect of corporate taxes on both investment and entrepreneurship. And so I think we need to think very carefully about that, when thinking about corporate tax reform.

I think, second, on government expenditures, it is very important to think about how we can sustain economic growth. A lot of government expenditures, like in Japan—where they have been doing this now for 2 decades, where their debt-to-GDP ratio has gone from 70 percent to 250 percent. They have had anemic growth because they have not focused on growth-oriented spending, just simply spending in and of itself.

Finally, when coming to resolve uncertainty with respect to regulation, thinking about the role of cost-benefit analysis, ensuring that the costs and benefits are weighed in thinking about regulatory implementation, is very important.

Thank you very much.

Chairman GRAVES. Thank you, Dr. Kroszner.

I think we are going to go ahead and recess now. We only have two votes, so we will run over and vote and then turn around and come back. I am going to guess we will be gone about 25 minutes.

I apologize for the delay. I had hoped we would get through a little bit farther, but Nydia and I don't get to make the schedule, unfortunately.

So, with that, we will recess and be right back.

[Recess.]

Chairman GRAVES. We will call the hearing back to order.

Our next witness is Maria Coyne, who is the executive vice president for consumer and small-business lending at KeyBank. KeyBank is headquartered in Cleveland, Ohio, and has 1,088 branches throughout 14 States. Maria joined KeyBank in 2001 after serving as a small-business strategist for the Greater Cleveland Growth Association.

Maria is testifying on behalf of the Financial Services Roundtable and the Consumer Bankers Association.

Welcome to the Committee.

STATEMENT OF MARIA C. COYNE

Ms. COYNE. Chairman Graves, Ranking Member Velázquez, members of the Committee, I am honored to be here today speaking with you about small business, a matter that is near and dear to my heart.

And as you pointed out, I am here today representing not just KeyBank but also testifying on behalf of the Financial Services Roundtable and the Consumer Bankers Association. Collectively, the Roundtable and the CBA represent many of the Nation's leaders in small-business lending.

First and foremost, KeyBank and the entire financial services industry are committed to small-business lending, as it is a core component of our overall business and small businesses are the cornerstone of the U.S. economy. Banks are a crucial partner to businesses, and we are stepping up our lending so small business can do what they do best: invest in communities. At KeyBank, we are committed to making loans in the communities we serve.

As our country continues to recover from the economic crisis of a few years ago, there are a number of factors that will have a direct impact on small businesses and small-business lending in 2013. These challenges threaten the long-term health of the economy of the U.S. and must be resolved quickly in order to provide a stable path forward for consumers, businesses, and lenders. We urge Congress and the administration to address these challenges as soon as possible.

The industry is consistently hearing from their small-business clients that general economic conditions make them less inclined to take on additional debt. Also, a key issue is consumers' lack of confidence, resulting in lower sales, particularly on the smaller end.

A secondary problem is the diminished credit profiles of many small businesses due to the current economic environment. Collateral value has declined, and with limited collateral, small businesses that are otherwise creditworthy have had to rely increasingly on loans backed by the SBA to get the funding that they need.

So how do we improve small-business lending? KeyBank, the Roundtable, and CBA have supported and will continue to support the various efforts of this Committee and Congress to expand small-business lending and to stimulate economic development. As a result, many small-business lenders have instituted aggressive measures to ensure no stone is unturned when finding ways to make more quality loans.

In 2011, KeyBank, along with 12 other banks, made a commitment to increase small-business lending by $20 billion over 3 years. In September of 2012, the SBA announced that the banks are more than halfway to meeting that commitment—well ahead of the 3-year deadline. Additionally, in May of 2012, the SBA named KeyBank the top SBA Large 7(a) Lender of the Year. We are proud to have earned SBA's highest recognition.

SBA programs, in general, posted the second-largest dollar volume ever in fiscal year 2012. However, despite the positive results SBA programs have produced the last several years, changes are needed to ensure the continued success of SBA's programs. For instance, streamlining the application process for the 7(a) and 504 program would reduce response times and paperwork.

So what does 2013 look like for small-business lending? It is a myth that banks are holding back the economy by refusing to loan to small and large businesses. In fact, overall domestic loans increased 5 percent by the end of 2011, reaching $2.1 trillion by the end of the second quarter of 2012.

However, today's economic environment remains a challenge for many small businesses. We expect small-business loan demand to remain stable at a relatively low level in 2013, with flat to slightly better results from 2012.

The National Federation of Independent Businesses has consistently reported that the overwhelming majority of small-business owners report their financial needs are met and they are not interested in borrowing. As lenders, we, too, have seen no significant signs of improvement, as the creditworthy businesses have routinely reported that they are willing to sit on the sidelines until the economic environment settles.

Accordingly, we look at SBA and other government-guaranteed programs as important levers in generating loan volume. We expect SBA 7(a) volume to be elevated over 2012 production, and we also expect the SBA 504 program to continue to play an important role in the business real estate market.

In conclusion, KeyBank, the Roundtable, and CBA support the Committee's efforts to review areas where it can support small businesses as well as other alternative avenues to help create business opportunities through innovative policy solutions that will help create a foundation to build a strong and prosperous economy. While the efforts to increase small-business lending by Key and the industry overall have produced a variety of positive outcomes, we know more work has to be done to make sure capital reaches entrepreneurs and small-business owners who need it.

This concludes my testimony, and thank you for listening.

Chairman GRAVES. Our next witness is Sean Falk, who is the owner of Wolftea, LLC and Nachogang, LLC. Sean owns 12 franchise businesses with brands such as the Great American Cookie Company, Pretzelmaker, Mrs. Fields Cookies, and Salsarita's Fresh Cantina. Sean is testifying on behalf of the International Franchise Association. Sean is also a former member of the U.S. Marine Corps who served in the gulf war and in Bosnia.

Sean, thank you for being here. Nobody told you that we enjoy samples on the Committee?

STATEMENT OF SEAN FALK

Mr. FALK. I thought about it.

Chairman Graves, Ranking Member Velázquez, and members of the Committee, thank you for your invitation to testify at today's hearing. I am honored to speak with you regarding the current state of small business in America. I believe my role as a small-business owner gives me a unique perspective that is not heard often enough in Washington.

So my name is Sean Falk. I am a Marine Corps veteran, and I own and operate 12 franchise locations. I am a proud participant in a diverse franchise community which supports nearly 18 million jobs. You may recognize some of my businesses as Salsarita's Fresh Cantina, Great American Cookies, Mrs. Fields Cookies, and Pretzelmaker.

I bought my first franchise in 1998, and through 2008 I was averaging a little over one location per year that I would be opening. My business could grow even faster and create more jobs if Washington took more meaningful steps to address the tax and spending issues and regulatory uncertainty.

Government plays an important role in my business decisions. As a business owner, I can't make future business plans when Congress passes and extends regulations for only 1 year at a time. The moving target created by short-term fixes makes it extremely difficult for me to evaluate investments and business opportunities and hampers my efforts to expand and execute a long-term business plan.

Small-business owners across the country also need to consider historically low profit margins, commodity and fuel prices, unemployment insurance rates, exchange rates, and a host of other factors. For me, raising prices is not an option, forcing me to scramble to keep up with new threats to my bottom line.

Prior to 2008, securing financing to open my franchise locations was relatively easy, given my good standing with the banks. However, in 2008 when the financial markets started to go south, so did my ability to access capital. Banks began restricting lending and raised loan standards at a time when I was still growing. Unfortunately, from 2008 to 2011, my business did not grow and I opened no new stores.

In 2011, I felt a change in the economic tide. Banks were reaching out to me again offering capital. The caveat was that the loans must be guaranteed by the Small Business Administration. But the application and approval process for an SBA loan took over 6 months, and I was forced to push back the opening of my stores. I finally opened up two new locations in April and May of 2012.

Implementation of the Affordable Care Act has also presented an enormous challenge. Navigating the constant changes, waivers, extensions, regulations, and clarifications of an already-cumbersome law diverts my focus from developing my business and creating new jobs. Also, there are very few government resources to help guide small businesses through this process.

Currently, I employ 43 full-time equivalent employees. If my business grows and I create more jobs, I will also drastically increase my costs due to the employer mandate. This has an undeniable impact on my bottom line and is making me reconsider opening new locations. Also, I may be forced to manage my employees' hours to less than 30 hours per week.

With these challenges and changes, I fear that it may be a struggle just to keep the doors open on some of my 12 locations. Of course I would relish the opportunity to grow my business, but the recent burdens placed on small business and the uncertain economic climate have given me reason for pause.

The state of the small-business economy is extremely fragile. I hope policymakers will consider focusing their energies on address the burdens we face in a business-friendly manner. It is time to address these fundamental challenges facing our economy that are keeping small-business owners and entrepreneurs on the sidelines.

Thank you for this opportunity, and I look forward to answering any questions the Committee may have.

Chairman GRAVES. Ms. Velázquez?

Ms. VELÁZQUEZ. Mr. Chairman, it is my pleasure to introduce Ms. Margot Dorfman.

Ms. Dorfman is the founder and CEO of the U.S. Women's Chamber of Commerce. The Women's Chamber of Commerce represents 500,000 members, three-quarters of whom are small-business owners and Federal contractors. Through her leadership, this organization has championed opportunities to increase women's business, career and leadership advancement.

Additionally, Ms. Dorfman has extensive background in business, including over 10 years in executive positions with General Mills and other Fortune 500 firms.

Welcome.

STATEMENT OF MARGOT DORFMAN

Ms. DORFMAN. Thank you.

Chairman Graves, Ranking Member Velázquez, and members of the Committee, thank you for the opportunity to speak today on behalf of the U.S. Women's Chamber of Commerce and our 500,000 members, three-quarters of whom are American small-business owners and Federal contractors.

In preparation for today's hearing, we surveyed our members. We see that small businesses are anxious to get forward movement and they are looking for opportunities, resources, connections, and a positive business environment. While business budgets are tight and access to capital is in the top three needs of our small businesses, access to contracts and affordable benefits are clearly the most requested when our members are asked how we can help them reach to the next level.

On the Hill, the budget obstacles you face impacts our members. According to one member, budget uncertainty on the part of our clients in the Federal, State, and municipal sectors is a big issue. Many of them cannot move forward to get their projects going because they do not know what is going to happen with agency budgets.

Even so, there are a number of things you can do today to help small businesses grow, prosper, and fuel our economy. Help small businesses secure affordable access to capital, not just for the larger small businesses and the gazelles; help access to capital get down to mainstream businesses, including women-owned, veteran-owned, startups, and rural businesses.

For example, women own nearly one-third of all businesses in the United States, but we are still receiving only 12 to 13 percent of the SBA-backed loans. One member states, "Access to capital is very difficult in this lending environment. I am finding that unless you are established and have assets on hand, banks will not loan you money." And another member says, "Lending is now taking place outside of the box with private lenders and investors for small businesses. This is a risky situation because they usually ask to take controlling interest in your company."

You have it within your power to compel the SBA to significantly increase their commitments to helping all small firms access the capital they need to grow their businesses and fuel the growth of our economy. Help small businesses secure affordable business benefits so that we can compete for quality workers and support our own families.

We still need access to affordable health care and related insurance products and business insurance, disability insurance, but also affordable workplace retirement programs. Many industry barriers exist, and big-business privileges enable large businesses to access these important and necessary benefits far more affordably than the tight-budgeted small businesses.

Help small businesses secure access to Federal contracts. While the SBA claims small businesses are receiving nearly 23 percent of all Federal contracts, their efforts need to be stronger to assure our fair share of contracts is really being awarded to small businesses. The Small Business Administration Office of Inspector General reports that there is still a large number of big businesses included in those statistics, as well as large businesses that establish pass-through companies to funnel Federal expenditures through small-business programs.

The Inspector General's October 2012 report on the most serious management and performance challenges states that "previous OIG audits and other governmental studies have shown widespread misreporting by procuring agencies since many contract awards that were reportedly awarded to small firms were actually being performed by larger companies." One member who is pursuing a $50 million job at Camp Pendleton stated, "When I looked at the list of attendees at the pre-walk, I was astonished to see the names of five large primes that in no way qualify as small businesses."

The OIG goes on to say, "The SBA needs to ensure the contracting personnel are adequately trained on small-business procurement and are reviewing this data prior to awarding contracts."

I would add the SBA should be undertaking significant training of government contracting personnel relative to all small-business programs. Most important to my constituents at the U.S. Women's Chamber of Commerce is the training and use of the Women-Owned Small Business and Economically Disadvantaged Women-Owned Small Business set-aside program.

Many of our women-owned small businesses report that contracting officers remain unaware, untrained, and unmotivated to make use of the program that was put into place to end the more than a decade of shortfalls and the paltry 5 percent goal for contracting for women-owned firms. Another member shared, "I have to express my extreme frustration with access to contracts. The WOSB targeted set-aside is one of the most complicated set-asides to procure. Very few agencies are using this program."

And, finally, I implore you to help the health of the economy by avoiding undue fiscal austerity and fiscal calamity that will impact the growth of small businesses through reduced Federal spending, Federal layoffs that will drive down consumer spending, and cuts in important programs that add revenues to our economy.

Thank you.

Chairman GRAVES. I appreciate everyone's testimony, and we are going to start our questions off with Mr. Collins.

Mr. COLLINS. Oh, thank you, Chairman.

I want to thank the witnesses for coming. Your stories are compelling.

Mr. Falk, thank you for sharing your entrepreneurial story. And many congratulations on your success.

Let me go back to myself for a second. With the exception of my time as Erie County executive, I have spent my entire career as a small-business owner. So, like you, I do understand the obstacles, the hurdles that are facing small companies and people that are, like yourself, trying to grow.

The competing interests of putting a first-rate product or service to customers, managing employees, raising capital, and maintaining a solid balance sheet are a balancing act. Every day, nearly 28 million small-business employers employ 60 million people in this country; it is half of the private-sector workforce. I can assure you, I will work with my colleagues to make sure that we do what we can to make sure small business has a voice here.

My specific questions may be twofold. You touched on the Affordable Care Act, Obamacare. I have heard and I have met with other franchise owners that they are actually right now cutting the hours of many of their workers from 40 hours to 29 hours as a workaround to the penalties. And, if so, that is going to be having a negative impact on families in this country. They may now have to get a second job, where currently they have a full-time job.

I would like you to share with us if you have heard the same or if you are looking at that same issue in cutting hours.

Secondly, if there were one, two, or three things we could do here to change, a regulation or otherwise, do you have a top one, two, or three? I would appreciate your comments.

Mr. FALK. I assume the one or two that you are talking about is in reference to the Affordable Care Act, or just any regulation in general?

Mr. COLLINS. No. Any of them.

Mr. FALK. Okay.

In regards to the managing the hours, I have full-time employees that will remain full-time employees even after the implementation of the ACA. However, there are many businesses that are trying to manage those hours. I don't know if it is necessarily with the people who are truly full-time and always have been full-time, but it is definitely some people who are working 31, 33 hours a week. They are going to manage those to get down to 29 to avoid a full-time classification for that employee. Forever, a full-time employee has always been considered 40 hours, but now we have to look at it in a much different way.

So, yes, I will manage that aspect, but I really won't cut my full-time employees down to 30 hours just to avoid that.

But specifically with the ACA and regulations, if we could change the 30-hour requirement so that a full-time employee is a different amount of hours, that would be more helpful for us.

And then also raising the 50 full-time equivalents. I don't understand how that impacts small businesses. That is not a small business. I have 12 locations; they employ 6 to 10 people at each location. I am still very small compared to some big employers. So if that number could be raised, it would be significant for me.

Mr. COLLINS. Thank you for sharing that, because that is some of the workarounds I think we could at least propose. So I appreciate those comments.

Mr. FALK. Absolutely.

Chairman GRAVES. Nydia?

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

Dr. Kroszner, last month, the Wells Fargo Small Business Index jumped 20 points from the previous quarter. Key drivers of this include greater optimism about revenues, capital spending, and jobs.

Given this, do you believe that 2013 will be a better year for small businesses than 2012?

Mr. KROSZNER. Well, I think we are starting to see some optimism in certain areas, but we are also seeing some challenges both in surveys of small businesses and in the economy more generally.

So I think, as I had described in my testimony, the number of surveys of both large and small business have suggested that they may be reducing their capital spending for the next year. There was a survey that was just reported in the Wall Street Journal earlier this week and also from the Duke and CFO Magazine survey that suggests there will be some reduction of capital spending relative to last year.

Hopefully, with resolution of uncertainty about some of the policies that are before the Members of Congress today, we may be able to——

Ms. VELÁZQUEZ. Isn't that more directly linked to the lack of demand than consumers walking through their doors?

Mr. KROSZNER. Well, certainly, one of the concerns is the impact of all this uncertainty on consumer demand and the consumers' willingness to buy. Unfortunately, there is, as economists call it, a simultaneity. When there is a lot of uncertainty hanging over people's heads, consumers are a little bit less willing to buy, firms are less willing to hire and invest, and it makes it more difficult to have the general takeoff.

Ms. VELÁZQUEZ. Okay. Thank you.

In the most recent Federal Reserve senior loan officer survey, it is clear that the credit standard for all firms, including small businesses, have been easing, while demand for loans has been increasing. What do you attribute this positive development in the small-business lending markets to?

Mr. KROSZNER. So I think there are a variety of factors, but I think some of it has been the policies that the Federal Reserve has pursued to try to provide sufficient liquidity for the markets and confidence that we will not get into a deflation situation, as Japan had gotten into. Taking out that tail risk of deflation I think has been important in instilling some confidence in the financial sector.

I think we have also had some reduction in some of the uncertainties related to Europe, or at least temporarily we have, and I think that has been helpful.

Ms. VELÁZQUEZ. Thank you.

Ms. Coyne, since the Small Business Jobs Act of 2010 increased the maximum SBA loan size to $5 million, the percentage of smaller loans, defined as those $150,000 or less, has declined from 17 percent of total lending dollars in 2009 to just 9 percent in 2012.

What can we do to reverse this trend and prevent a gap in funding for these new and emerging businesses that need smaller amounts of capital?

You know, in previous recessions, what we saw, it was that people who were laid off, they went on, they got capital, it was much easier to access capital, they opened up startup businesses. This time around, we are having trouble in terms of business formation.

But as you can see, when the SBA and the Federal Government step in and guarantee those loans and increase the cap, financial institutions lend. But you lend and you make those big loans because they are more profitable than those less profitable lower amount of dollars, $150,000.

Ms. COYNE. Yes.

Ms. VELÁZQUEZ. When you look at the portfolio of the 7(a) loans, the demand is not for the big loans, the $5 million loans. The demand is for those smaller loans. What can you the, financial institutions do, to address this gap?

Ms. COYNE. I think that is an excellent question, and I think that the SBA program is particularly useful for those startup companies that you referenced.

In my written testimony, I had referred to a client of ours in Cleveland, Laticia Ortiz, who a little less than 2 years opened Tortilla La Bamba with a $15,000 SBA loan. She is doing great. We are talking with her now on potentially—she has outgrown the 7,000 square feet that she is in. We are talking with her about a 504 loan to buy a building.

I think we have to take advantage of—use the full range of the spectrum of what is available to us in the SBA.

I can name instances of coffee shops in Tacoma and lots of other client transactions that we have done that are across the whole size gamut.

I agree, we have to be active with the small, with the medium, and with the large-sized loans and continue to support SBA. I think it is a wonderful tool, especially for startups and especially for companies that have collateral values that have declined or they have had other impairment through the recession.

Ms. VELÁZQUEZ. Do you know the problem I have with the financial institutions lending to small businesses? That even when the Federal Government steps in and guarantees those loans to 90 percent, you are going to go and make the big loans, but then there is a gap.

Ms. Dorfman, in 2009, the American Recovery and Reinvestment Act increased the SBA guarantee on loans to 90 percent as an incentive for private lenders to increase small-business lending. While the outcome was a temporary spike in SBA activity, since the incentive ended last year lending has returned to the lackluster levels of 2009.

Do you think the money used to incentivize private lenders would be better spent on an SBA direct lending program?

Ms. DORFMAN. I would say absolutely yes. We have seen the banks for years now cherry-pick the businesses that they feel that they can make the most money on.

And I personally in my former years was a recipient of an SBA loan, but I was declined from many a bank because we were looking for $75,000. And the banker told me pointblank, If it was a $10 million loan you were going after, we could work with you. At the time, it was an 80 percent guarantee, and they said no way. We had double collateral sitting there. We had to go to an alternative lender. That continues today. It is still the cherry-picking.

I believe there was a hearing a few years back and the focus was, the key issue was the cost to doing the loans. So if we go to the student loan way of doing things, have the loan done by the SBA, get it set up, and then sell off the paper, then those costs for the banks won't be there and we can actually see the levels of lending that are needed at the smaller levels to be satisfied.

Thank you.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman. I yield back.

Chairman GRAVES. Mr. Chabot, do you have something to submit?

Mr. CHABOT. Yes. Mr. Chairman, I would ask for unanimous consent to speak out of order.

Chairman GRAVES. Sure.

Mr. CHABOT. Thank you. I have a meeting out in the hallway, and I just wanted to enter into the record a letter from the credit union industry relative to capital access.

Chairman GRAVES. Absolutely. Without objection——

Mr. CHABOT. Thank you.

Chairman GRAVES. We will put that letter in the record.

Mr. Tipton?

Mr. TIPTON. Thank you, Mr. Chairman.

I would like to thank the panel for taking the time to be able to testify here today.

Dr. Kroszner, I guess I would like to start with you. I am a small-businessman. That has been my real life. And when I was listening to your testimony, you had noted that there is probably not going to be a double-dip, no dramatic growth, a sideways slide that you describe.

Would it be a fair characterization that you are pretty much couching this as that it is not as horrible as it was but it is really not getting any better?

Mr. KROSZNER. We have seen very little progress in the unemployment rate. As I mentioned, we have spent roughly a year right around 8 percent. I think gradually we will be moving down. But I just don't see the impetus for growth coming.

As I mentioned, a number of the surveys of both large and small business have said, because of uncertainties and concerns about costs and regulation, they are very concerned about increasing capital spending this year. I think that makes it a difficult environment to think we are really going to get much of a takeoff.

Mr. TIPTON. So we even probably really agree. You know, when we are talking about 7.9 percent unemployment, we all know it is really much higher. You know, in my district, my two largest communities, the real unemployment, those that are underemployed, those who have simply given up, we have our two largest communities right now, as we boast of jobs created in the State of the

Union last night, we are sitting at almost 20 percent unemployment. We haven't been able to get this going.

And it resonated with me when you were talking about what Japan was going through in terms of spending in relation to GDP. It is absolutely essential that this Nation start to truly address getting this fiscal house in order. It is not spending not one more cent, but reducing what we are spending in Washington, D.C.

Mr. KROSZNER. I think it is also very important to think about what the spending is on. In Japan, there was, as I mentioned, a very large increase in spending, often under the guise of stimulus, but it didn't really help to generate increases in GDP—the classic bridges to nowhere.

I think government spending can be helpful when it is focused on areas where there are bottlenecks, where there are high productivity benefits of that spending. But one has to do a very careful analysis, and I think in many cases that is not the case. And I think just saying we need to spend more is not an appropriate response. We need to spend smartly and spend how we can increase growth in the U.S. economy.

Japan is a great example where a lot of spending has not helped increase GDP.

Mr. TIPTON. I will tell you, one thing that I would like to explore a little bit, you made the comment that the rate of inflation is still low. But in terms of core inflation rate, we do not include food prices, we do not include energy prices. We have just seen a spike in fuel costs again in this country, which is increasing the cost of being able to deliver pretzel dough coming in, which is not factored into real inflation.

Are these some of the hidden mine traps that this economy is really facing that is really stunting growth?

Mr. KROSZNER. Well, the numbers that I quoted were the Personal Consumption Expenditure Index, so that included all prices, including energy, foodstuffs, and such. If you just look at the core prices that were most recently reported in the GDP report, it is actually a bit lower. It is 1.5 percent, rather than 1.7, or an average of around 2 percent for the full headline number.

I think we do have to be mindful of inflation pressures and that they could come at some point in time. Right now, if we look at both market-based and survey-based measures, we don't seem to see them there, but we need to be ever vigilant on that.

Mr. TIPTON. Thank you.

Ms. Coyne, I would like to visit with you just a little bit in terms of access to capital. Key is a pretty big bank, but we have a lot of small community banks that are out there, as well, that can certainly lend themselves to being able to loan to small businesses, startups as well, in addition to the SBA.

When we talking about Dodd-Frank, and now probably of more concern to me even is Basel III coming through, and the capital requirements that are going to be imposed on all of the banks, be it the big guys and the little guys as well, how constrictive is that in terms of banks' ability to be able to make loans?

Ms. COYNE. Well, thank you for your question. I would add a couple things.

First of all, even big banks are focused on serving small business. You know, we have just added 225 bankers who do nothing but transactions of $150,000 and less. They are housed in our business-intensive branches. So even big is very responsive to the community.

I think my concern around Basel III has not so much to do with the capital levels at my bank, which are very solid, but more so what it would do to borrowers who use home equity as collateral. Because the rules around Basel capital will require you to hold more capital if there is a greater than 80 percent loan to value. So that could, in fact, have a negative impact on any borrower who uses—it could make that capital more expensive.

So there are a lot of nuances to Basel III that, you know, have us a little bit have a watchful eye. And I think as an industry, we are in business to lend money, and we definitely want to support the communities that we do business in.

Mr. TIPTON. Thank you.

I see my time has expired. I yield back, Mr. Chairman.

Chairman GRAVES. Ms. Kuster?

Ms. KUSTER. Thank you very much. Thank you, Mr. Chairman and Ranking Member Velázquez. It is nice to be a part of the Small Business Committee. So, welcome.

I just had a quick question. Mr. Falk and Ms. Dorfman also mentioned the issue of health care. I have also spent 25 years in the small-business world.

And I am just wondering, Mr. Falk, when you talked about the burden of health insurance regulation, I am curious, as a small-business owner, how do you insure your employees? And what is the impact of illness or disability either of the employees or members of their family on your business?

Mr. FALK. My full-time employees have access to health care from me. I supplement a plan for them to insure themselves and sometimes their family if they need it.

Ms. KUSTER. And the employees that are working 6 hours a day, 5 days a week?

Mr. FALK. Well, in reality, I don't have a lot of those. We have a very part-time staff. We have a lot of 16-year-olds to 21-year-olds. They are really not using this as a career. Usually my managers and assistant managers are kind of career people, so that is maybe two people per location. Everybody else is kind of a transition employee. They give me 3 to 12 months. They are really not looking for health care. They are either on their parents' plan or, you know, they are just starting out in the business world, maybe going through college or looking for a better opportunity.

Ms. KUSTER. Thank you.

And just one more. Ms. Dorfman, with your membership—and I was in a woman-owned business, so I am just interested in that question for you, about your experience on how employees get their health care and what the impact of illness, both for the employee and the family, is on the business.

Ms. DORFMAN. Right. Currently, our members try to provide benefits for their employees because that is the only way that they can be competitive in the marketplace, in Federal contracting. So this is something they really want to do.

In the past, we have heard from them that their cost of the premiums have been skyrocketing. And so we are hopeful, with the new act, that we will be able to mitigate some of those costs and bring that down. Now, it is too soon to say because not everything is up and running and probably there are some changes going on that the dust still hasn't settled on.

I would like to point out that that is not the only affordable benefit that my members want. They also want to provide retirement plans. And there is nothing out there that a small business can access.

We tried to leverage our scale and put together a multiple-employer plan for our members and their employees, and the Department of Labor came out with a letter last year that virtually we had to close it down before we even got it off the ground. And what we were able to do with it was provide a way to get in without spending a lot of money, where we aggregated the cost. So if you are looking at a Lockheed Martin or a Boeing, they have a lot of people, they have lower costs. Well, you have the scale of the Chamber, you can do the same thing.

So those are the types of things. We need to go beyond just health care, but the retirement, especially for women business owners because they live longer, they need to support themselves, their families, their employees, and their employees' families.

Ms. KUSTER. Thank you. Thank you very much. That is my experience, as well, was the skyrocketing cost of health care in a small-business environment.

Thank you. I yield back the balance of my time.

Chairman GRAVES. Mr. Luetkemeyer?

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

Just for Ms. Coyne—that is an interesting name for a banker, by the way.

Ms. COYNE. I have heard that before.

Mr. LUETKEMEYER. I have a banking background, and they call my daughter, who is Nicole, "Little Nickel," so I understand where you are going there.

Just kind of curious, you talked about, you know, as the top lender with SBA, what is the average size of the loans that you are making? Do you know offhand?

Ms. COYNE. I don't. I do know, though, that, you know, something—in 2012, 43 percent of the loans that we made were actually under $50,000. But I can't give you an average size off the top of my head.

Mr. LUETKEMEYER. Okay. So 43 percent of all your commercial loans, or is that just SBA loans?

Ms. COYNE. In our small-business space.

Mr. LUETKEMEYER. Okay. What percentage of your commercial portfolio are SBA loans? Just roughly.

Ms. COYNE. Twenty percent, roughly.

Mr. LUETKEMEYER. Okay.

Ms. COYNE. Yeah.

Mr. LUETKEMEYER. Is that an average across the industry?

Ms. COYNE. I think we have been very committed to the SBA program. So those that are active in the program, I would say, at this point, of where we are in the economic cycle, that is probably pretty typical for the industry.

Mr. LUETKEMEYER. Okay. And you indicated that some changes needed to be made, and the other thing you mentioned was streamlining the process. Are there other things that you would suggest to the Committee here? Because this is the Committee that actually oversees of the SBA, and if you have ideas, we would certainly like to hear them.

Ms. COYNE. We do. CBA and the Roundtable has a pretty exhaustive list that we would love to share with you after the——

Mr. LUETKEMEYER. An exhaustive list.

Ms. COYNE. Well, they are mainly around improving the application process——

Mr. LUETKEMEYER. Very good.

Ms. COYNE.—and then around more transparency around the SOP——

Mr. LUETKEMEYER. Okay.

Ms. COYNE.—and, you know, allowing us to be more helpful and getting more public opinion around the SOP and more kind of regularity in when those changes are made.

Mr. LUETKEMEYER. Okay. You indicated that some of your customers are having some difficulty in expanding. They are concerned about the economy and actually willing to sit on the sidelines until the economy gets better.

Is that a general statement that can go across the board, or is that just isolated instances? Or how do you feel your business customers and the climate they anticipate is out there?

Ms. COYNE. I would say that is something that the whole industry has seen over the last, say, 2 to 3 years, that the most creditworthy borrowers are the ones that are sitting on the sidelines waiting until they see more stability in the economy. They are holding back on that next investment, hiring that next person, buying that next piece of equipment until they feel that things have settled more.

Mr. LUETKEMEYER. The biggest problem in the stability and uncertainty, is that regulatory problems?

Ms. COYNE. Regulatory problems, tax uncertainty, all of the things that have been mentioned earlier—health care. All of those things I think are weighing on the minds of business owners.

Ms. VELÁZQUEZ. Mr. Luetkemeyer, I have, if you are interested, the answer to your question about the loan size for KeyBank.

Mr. LUETKEMEYER. I am giving up my time here, but that is fine. Go ahead.

Ms. VELÁZQUEZ. The trend shows that it continues every year to make larger and larger loans.

Mr. LUETKEMEYER. Well, reclaiming my time, I think that the size and inflation and types of businesses out there, microbusinesses, mom-and-pop shops, are very difficult to get started anymore. So you are looking at bigger loans because it takes a bigger business to cash flow, to spread your costs over. I mean, it just makes sense.

Ms. Dorfman, you made a comment a while ago, you had four things that were problems for getting businesses going: access to capital, affordable business benefits, access to Federal contracts, and the government needs to spend more money.

With regards to the access to Federal contracts, are there barriers now for women-owned businesses that are not there for any other businesses?

Ms. DORFMAN. There are. The government has never met the 5 percent goal for doing business with women-owned firms. Since 1994, there has been a goal set. And so the challenge is that——

Mr. LEUTKEMEYER. And what is the reason for that? Are there not enough people applying, or——

Ms. DORFMAN. Oh, no, we have——

Mr. LEUTKEMEYER.—they are just being turned down, or they are not qualified individuals to be given contracts to, or is there another barrier there?

Ms. DORFMAN. The barriers include trying to get the access to the contracts. Typically, in the past, women-owned firms have had to compete against the large corporations. Now, with the woman-owned small business set-aside program that has been implemented, while that has helped, there are a lot of flaws that still remain that need to be changed.

And I can continue, if you want, with the different flaws.

Mr. LUETKEMEYER. Well, that is a whole other issue we could get into. I have one real quick question with regard to Dr. Kroszner here.

Cost-benefit analysis, in your testimony you said it is very important and needs to be understood better, and there seems to be a lack of the administration to be willing to go down that road. Do you want to elaborate for just a few seconds here? I am out of time though.

Mr. KROSZNER. I think this is a very, very important issue, and I think it should be a high-priority issue.

As I mentioned, Executive orders from Ronald Reagan through President Obama have talked about the importance of cost-benefit analysis. And I think having that as a priority, making sure that when regulatory changes occur that Members of Congress think about including cost-benefit analyses, or requesting cost-benefit analyses, I think would be very helpful.

Mr. LUETKEMEYER. Very good. Thank you.

And I yield back. Thank you, Mr. Chairman.

Chairman GRAVES. Mr. Payne?

Mr. PAYNE. Thank you, Mr. Chairman.

Let me see. Ms. Dorfman, I apologize if you have already elaborated on this, but something that was concerning to me is you say about 90 percent of small businesses have fewer than 20 employees, which means they are not subject to the mandate in the Affordable Care Act.

However, these businesses are eligible to receive tax credits towards the purchase of health insurance. Given those realities, do you believe that the concerns regarding its impacts on small business are overblown?

Ms. DORFMAN. I do believe that to be true. We had connected with our members during the healthcare debate, and what we found was many of them were paying mortgage payments for each person, monthly mortgage payments for each person that they had.

And they said, you know, with the mandate, the cost of that fee would be a lot less than what they are paying currently.

One member recently cited that they have five employees and they are paying $42,000 annually for health care, so that is——

Mr. PAYNE. Okay. Thank you.

Mr. Falk, you know, many people have limited access to capital, and in our continued economic trend of uncertainty many venture capital firms are hesitant to invest in startups. Should Congress consider any tax policies?

Mr. FALK. I am sorry. Repeat your question?

Mr. PAYNE. You know, because a lot of companies have limits to access to capital and there is uncertainty in the economy, many venture capital firms are hesitant to invest in startup firms.

Should Congress consider any tax policies, such as some sort of investment tax credit, to encourage firms to invest in new enterprises?

Mr. FALK. You know, in my case, I don't think that the answer is to change things with venture capitalists. I think that the traditional, conventional loan process is still the best way for me to go. So if we can make either the SBA process or some of the regulations on the bank less, so that they can maybe take into account relationship and prior history of payment of loans rather than just a calculation from the government standpoint of what qualifies and collateral and assets, that would make my life a lot easier.

I used to be able to go in on a Tuesday and apply for a loan. It would take me 20 minutes to describe my business prospect. And they would call me back on Thursday with the money. And now it takes me 6 months through an SBA process to get the money. And all along, all those times, I either paid my loans on time or aggressively in advance. But now, after 2011, they don't take the relationship into play anymore, and that hurts me. And I understand that that is not always the best way to lend money, but it worked for me, and now I suffer because of it.

Mr. PAYNE. And why do you think that is?

Mr. FALK. I think it is because of the regulations that have now fallen down on the banks on what they need to put in reserve to back that loan. So the banks see a big expense. When they have to move money in reserve, more money than they used to have to, they have to put money in reserve to back that loan, and they do not get to experience the income until the loan is paid off.

Ms. VELÁZQUEZ. Would the gentleman yield, Mr. Payne?

Mr. PAYNE. I will yield.

Ms. VELÁZQUEZ. Thank you.

Ms. Coyne, what is the average length of time for an SBA loan guarantee?

Ms. COYNE. From application to booking?

Ms. VELÁZQUEZ. Yes.

Ms. COYNE. You know, at KeyBank we have SBA specialists in each one of our markets, so we try and expedite that process. And it will depend on if there is real estate involved or not. If there is not real estate involved, we can get it underwritten and closed in a couple of weeks. If you have to wait for an appraisal, then you have to go through that.

Ms. VELÁZQUEZ. The reason I am asking is because when I hear a statement that it takes 6 months for an SBA-guaranteed loan, it really worries me. So we have to do something about it.

What would be the average length of time for processing such a loan?

Ms. COYNE. The average is between 30 and 60 days.

Ms. VELÁZQUEZ. Okay. Thank you.

Mr. PAYNE. Thank you.

Chairman GRAVES. Mr. Hanna?

Mr. HANNA. The general impression I get here is some people like the way things are, some people would like things to be better. But, just generally, is it everybody's feelings that somehow the government should be a bigger backstop?

I mean, my understanding of what banks used to do and still do is become a filtering place for good loans, bad loans, marginal loans, and that SBA—the marginal risks that the SBA took was related to that somehow. But people need to realize that the government can't simply be the backstop for everything that banks used to do.

I am interested in how you feel about it, especially—my sister is a WBA, and I respect the position you are in. But do you think there is a point at which the WBA relationship is less necessary? Or apparently you think it is more necessary, ma'am?

Ms. DORFMAN. I am sorry. I wasn't sure of the question.

Mr. HANNA. Well, it is essentially a way to advance women-owned businesses that presumably wouldn't have that same advantage any other way.

Ms. DORFMAN. You mean the women-owned small business program for access to Federal contracting?

Mr. HANNA. All of that.

Ms. DORFMAN. There has been inherent discrimination. Federal contracting is one; access to capital. I can tell you, I still have members who come to me and say, can you believe I wanted to take out a business loan and they want my husband's signature? It still goes on today. So there are inherent challenges.

We would love everything to be equitable. We are not asking for a leg up above the other, but we need a level playing field so that we can grow. Women own one-third of all businesses in the United States. If we can help women-owned firms grow, we can turn the economy around. And that is my goal.

Mr. HANNA. Sir? Do the franchises—your story is an interesting one. I give you a lot of credit.

Mr. FALK. Well, Mr. Hanna, I would actually prefer the government to get out of the way a little bit more. When I had my relationships with the bank, they based it on the relationship.

Mr. HANNA. And your worth, your ability to work, produce, be successful——

Mr. FALK. That is correct.

Mr. HANNA.—was somehow relevant, right?

Mr. FALK. That is correct.

Mr. HANNA. So it was a backstop that somebody could look at and say, this guy is a reasonable loan.

Mr. FALK. A local bank decision backstop, not a government one. And so they knew from my history that I had a good business model, that I was a great operator, and that they were able to lend me money and I would pay it back on time.

Mr. HANNA. So let me just ask kind of an obscure thing. Do you think that the government is in the business of—or creates businesses that might not otherwise be created and, by definition, are much, much more likely to fail?

Mr. FALK. I don't know that to be true, sir, no.

Mr. HANNA. Uh-huh. Kind of my opinion, just by the way.

So thank you. I am good.

Mr. FALK. Sure.

Chairman GRAVES. Ms. Chu?

Ms. CHU. Yes, I would like to ask questions that pertain to how well our current government programs are working for small business.

And, first, Ms. Dorfman, if I can ask you about the women-owned small business set-aside. Of course it is aimed at expanding Federal contracting opportunities for women-owned businesses, but you reported that many of the U.S. Women's Chamber of Commerce's women-owned businesses say that many of the contracting officers are unaware, untrained, and unmotivated to make use the program.

You were starting to talk about some of the flaws in the program. So could you talk about what is the flaw in the program and what could we do to change it?

Ms. DORFMAN. Sure.

The first one, as you mentioned, is the contracting officers are not using the program as they should be. The program itself has a—one of the technical things is they actually have to certify the self-certified women-owned firms, and it rests on their backs or their shoulders. If there is a problem with that contract, ultimately if it is challenged, then they are the ones that are responsible. So we would love to see some legislation that would take that off their shoulders and put it back into the SBA's lap.

The other thing is the ones that claim that they don't know about the program, I know that there are a lot of folks that may not have been trained. Early on, the training was, I would say, weak. There wasn't a lot of training out there just because they didn't have the funding to get the training out there. So there could be more to be done. Right now they put it on the Web site and say, go to that. We know that it is complex and the contracting officers will need to ask questions about it. So that is one key area.

Another thing is, when we talk about leveling the playing field, components in some of the other programs that are not in this are the sole-source and also the Mentor-Protege Program.

And then, overall, if we want to really help small businesses grow, which will help the economy grow, is we need to raise the goals to a level that resonates with the actual demographics of our community and of the country. And so, okay, you are not going to give us a 30 percent goal, I know that, but raise the women-owned small-business goal to 10 percent and raise small business overall to 35 percent.

The other thing is contracts for small businesses overall. There are a lot of exclusions going overseas. If there is a contract that is fulfilled overseas, those contracts are not held to the goaling. And we are losing billions of dollars in lost opportunities for small businesses.

So there is quite a number of things that can be done to strengthen this.

And then the NAICS codes, we know they are going to be looking at them. But the NAICS codes as they are, a number of the agencies can't use the program because the NAICS codes aren't inclusive of what they buy.

So, thank you.

Ms. CHU. And also you said that there are problems with making sure that small businesses get their share overall, and not just women-owned businesses, but overall small businesses get their share of the Federal contracts. And yet we have programs like the Office of Small and Disadvantaged Business Utilization and procurement center representatives who are supposed to enforce this. So what——

Ms. DORFMAN. And the issue there is, the small-business offices, they are wonderful, they do what they can, but they are only as good as the Secretary's commitment to doing business with small businesses. So that is their piece.

When you look at the PCRs, the procurement center representatives, I heard that we are down to something like 20 or 25 people leaving and such. And at the height I think we had 150. Those are the people who make sure that the contracts coming down, if it can be set aside to a small business, it will be. We need to hire a lot more of those to make sure that we are getting our fair share.

Ms. CHU. Thank you.

And, Ms. Coyne, has your bank participated in the SBA's 504 loan refinancing program?

Ms. COYNE. We have. And we were big fans.

Ms. CHU. Do you feel it was beneficial to small business?

Ms. COYNE. Extremely beneficial.

Ms. CHU. Because it has expired as of last September. And it was created under the Small Business Jobs Act. Would you like to see this program reauthorized or made permanent?

Ms. COYNE. We certainly would. We would love some legislative help on that.

Ms. CHU. And why is that?

Ms. COYNE. Well, there were many instances where we were able to help borrowers, you know, in many ways consolidate some of their debt and add additional financing and really grow their businesses, really add jobs, really be able to take their firm to the next level. We have lots of examples of businesses that would not be where they are today were it not for that program.

Ms. CHU. Thank you.

I yield back.

Chairman GRAVES. Mr. Mulvaney?

Mr. MULVANEY. Thank you very much, Mr. Chairman.

Very briefly, Mrs. Dorfman, I think I heard your testimony just a few minutes ago. I urge you to consider the possibility that when one of your members is asked by a lender for her husband's signature on a loan that that is not automatically a sign of discrimination. I can assure you that my wife has been asked to sign several loans, and I have never considered it to be a sign of discrimination against me. It is probably just because we have marital assets being offered as security for that loan.

You work for an excellent organization, one that I have had before my panel last year several times. And I do believe there is discrimination, especially in things like the construction industry, towards women-owned businesses. But I encourage you to find a better example than simply cosigning a note or cosigning a guarantee because, as any banker will tell you, especially in States where there are marital assets or joint assets, it is not at all unusual for the man and the wife to be on the note together.

But that is not what I want to talk about. I want to talk to Mr. Falk.

Mr. Falk, thank you for coming in today. I have eaten at several of your restaurants. I was a little disappointed that my chairman mispronounced the restaurant that I used to own and operate, Salsarita's Fresh Cantina.

Thanks a lot, Mr. Chairman.

And, yes, we do need to get samples so clearly the folks can understand how to pronounce the name.

Mr. FALK. Absolutely.

Mr. MULVANEY. I am going to do something different this year. I have spent the last 2 years trying to draw attention to exactly what you all are here to talk about today, which is the impact of our Federal Government on, specifically, small-business owners. And the very cynical position that I have arrived at right now is that not nearly enough people in this town care. People on this Committee care, people in both parties on this Committee care about you as small-business owners, but, generally speaking, this town doesn't care about you. And I know that because my party just ran a national campaign and tried to draw attention to the plight of small-business owners and job creators and we got killed.

So I am going to do it differently this year. I am not going to talk about your bottom line, Mr. Falk. I am not going to talk your ability to grow, your return on assets, because, quite frankly, people don't care. We just passed a tax law here that supposedly was against just rich people but grabbed people in your particular circumstance.

Again, people don't care about that. What do they care about? What do I care about? I care about your workers. I care about the folks who work for you. And I want you to tell me what it means at your business. My guess is you probably hire the same sort of folks I did. You hire a mishmash of young people who were maybe going to community college, maybe a single mom, maybe a guy who is supporting a family, younger folks.

And tell me what it means to them when you are dealing now with the Affordable Care Act, you have to cut back on their hours or have to look at possibly restricting the growth of your permanent employees.

Mr. FALK. Well, I agree with you wholeheartedly that it is not about taxing me as a business owner; it is about me employing more people and those people earning money and having payroll taxes that go to the Federal Government and also having money that gets back into the economy to buy more things and create the demand that would raise all of our boats at the same time.

So when we look at some of the regulations that are coming down, specifically the ACA, you are absolutely correct that, as I mentioned earlier, we will start managing those hours of those people that are close to that 30-hour threshold. And they will have to get two jobs now instead of one, and we will have to coordinate schedules when they are at one job or the other. And they still won't have health care.

And so it just creates a difficult situation for us as employers, not being able to hire someone that is committed to our organization and wants to make us get better and help us all do better in the workplace and in the business environment. But now they have troubles as a family, trying to work two jobs, still not making a good wage.

Because, quite frankly, as I mentioned, I pay my full-time employees much more than the minimum wage, but my brand-new 16-year-olds to 23-year-olds that are only going to be there 6 months or so, they do make the minimum wage. And because they are not committed and don't have an interest in my business because they are only working 15 hours a week or 30 hours a week, now they will work two minimum-wage jobs instead of having the opportunity to grow with me, become assistant manager, become a keyholder or a shift leader, whatever it is, and make more money with me alone and possibly get health care eventually.

Mr. MULVANEY. I think it a great point. I am thinking back to the folks who worked at my restaurant when I ran it. And, you know, there is a 25-year-old mother of two who comes to you and says, My kid needs braces, can I get a couple more hours for the next couple of weeks? The answer is going to be no.

Mr. FALK. Absolutely.

Mr. MULVANEY. The answer is going to be no. Go someplace else if you want to take care of your family. Take on another job. Take on another burden. And then try—you are absolutely right—try and mesh this work schedule with that work schedule, with the schedule to pick up the kids. We have unintended consequence on top of unintended consequence.

And I am done talking about the impact on small business because not enough people care. And they are going to start talking for the next 2 years about the impact on real workers, because it is hurting them just as badly.

Thank you, Mr. Chairman.

Chairman GRAVES. Mr. Rice?

Mr. RICE. Thank you very much for being here today.

Thank you for allowing me to serve on the Committee. It is an honor to be here.

I appreciate you all taking your time to come here and educate us.

I come from a background of local government, county commissioner, and recognized early on that if our county was going to attract jobs, that we had to be competitive. And looking at this on a national scale, I am concerned that the United States had better start taking that attitude as a country. And maybe then we will stop hemorrhaging some of the American jobs that we have been hemorrhaging.

Mrs.—I can't—Coyne? Mrs. Coyne?

Ms. COYNE. Yes.

Mr. RICE. I can't read with my glasses on, and I can't see far away with my glasses off.

What would you say is the primary source of capital for a small business?

Ms. COYNE. I would say it depends on what stage they are in in their lifecycle.

Mr. RICE. Just beginning.

Ms. COYNE. Just beginning, most small businesses are actually started out of personal savings, borrowing from friends, family, taking a partner, credit cards, home equity. Typically, that is how most people start a small business.

Mr. RICE. At what point do they get to the banks?

Ms. COYNE. Once they have about 2 years of financial statements and they have had good counseling on keeping good records.

They should have a relationship with a banker from the start, I would contend. Even if they aren't ready to borrow from a bank, I think it is really important that they get the advice of a banker on how you get ready to borrow from a bank.

Mr. RICE. Would you say it is easier today to get access to capital through a bank than it was 2 years ago?

Ms. COYNE. I would say that, you know, we have plenty of capital to lend, and I think we are not—you know, many of my peers in the industry feel the same way, that we are in business to lend money. So I think that, yes, there is probably much greater—in fact, it is pretty competitive right now in the small-business lending.

Mr. RICE. So you don't think Dodd-Frank has slowed your lending down at all, made it harder for you to loan?

Ms. COYNE. I think that Dodd-Frank has added more regulatory burden to the organization as a whole. And how any bank looks at how they allocate resources has been impacted by Dodd-Frank because we certainly have lots of folks, you know, worrying about compliance and making sure that we are——

Mr. RICE. And you don't think that affects your lending practices at all?

Ms. COYNE. Not explicitly.

Mr. RICE. Okay. All right.

What about the regulatory structure as a whole, Mr. Kroszner? Let's talk about the corporate tax structure. Do you think our corporate tax structure is competitive worldwide?

Mr. KROSZNER. Unfortunately, I have to say no. We have very high corporate taxes relative to most of the major countries around the world, and we have an extremely complex tax system.

Mr. RICE. All right.

And, Mr. Falk, what do you think about our regulatory structure as a whole and the hoops we make small business jump through? Do you think that makes us more or less competitive worldwide?

Mr. FALK. I think it makes us less more competitive—much more less competitive.

And here is the reason. Every time I talk to a franchise owner, I am heavily involved in multi-unit franchising and seeing multi-unit owners, and I see a lot of different franchisors. The vast majority of the deals that they are signing today are international.

They always come up and say, We just signed a 30-store deal in Abu Dhabi or in Aruba or Brazil. They are never saying, We just signed 15 or 20 in Tennessee or Kentucky or Michigan. Those just don't happen.

And I think it is because our, in the United States, our business model has continued to erode. In the late 1990s and early 2000s, we could pretty much guarantee maybe a 15 to 20 percent profit that fell to the bottom line. Today we are in the single digits of 5 to 8 percent, something like that. And anything can upset that cart to where we are not making any money whatsoever.

Mr. RICE. Is it getting better or worse, do you think?

Mr. FALK. It is getting worse.

Mr. RICE. Uh-huh.

Mr. FALK. Like Dr. Kroszner said, when we look at the cost of inflation, we are really not taking into account fuel costs and the cost of food. I used to buy a bag of dough for my pretzels in 2000, let's say, for about 8 bucks. It is $24 now.

And so our margins continue to be eroded by fuel costs, unemployment insurance, the cost of commodities, minimum-wage increases, all those things. So our profit margin is down. So we are trying to make a decision on whether we want to open up any locations whatsoever.

Mr. RICE. Okay.

And one last question. You know, we went through an argument about whether we were going to extend the payroll tax cut last year for 3 months or 9 months, and we have just extended the debt ceiling for 3 months and all these things. Do you all plan on anything longer than a 3-month time horizon?

Mr. FALK. I would love to; however, I cannot. And that is what makes it so difficult, is trying to understand for me to try to make a long-term business plan and make a decision about whether I should open a business. My return on investment is typically 3 to 7 years. And if I can't figure out if I am going to get a return on investment because the regulations are so short-term, then I am not going to open up anything right now until I know what the regulations are going to be.

Mr. RICE. All right. So last question, and I know my time is up. Do you see the United States Government as a benefit to your business or a hindrance to your business, something you have to overcome?

Mr. FALK. Absolutely a hindrance, unfortunately.

Mr. RICE. Thank you.

Chairman GRAVES. Mr. Huelskamp?

Mr. HUELSKAMP. Thank you, Mr. Chairman. It is a pleasure to be on the Committee with you this year and to be here today and to hear from some very interesting testimony.

I have a few questions. I want to follow up first with Ms. Coyne on—there were some Dodd-Frank questions, as well.

Do you have a guesstimate in your bank of how many folks are engaged in compliance efforts, regulatory stuff, out of your total workforce?

Ms. COYNE. I couldn't give you a percentage off the top of my head, but I can definitely assuredly tell you that the ranks have grown, and the number of folks we have in compliance and risk management overall have probably doubled over the last, you know, 3 to 5 years.

The other thing I would add about Dodd-Frank is there are still some unknowns which may ultimately impact lending in the small-business area because the rules haven't yet been defined on how we are going have to collect certain information and so forth. So it may be too soon, actually, to say how some of this is going to play out. But there certainly have been lots of resources devoted to compliance.

Mr. HUELSKAMP. Doubled in the last 3 to 5 years.

Ms. COYNE. Yes.

Mr. HUELSKAMP. And if I understand, I think your bank, combined employees, probably employ more folks than every bank and credit union and other financial service company in my entire congressional district. It is very big. How many employees do you all have?

Ms. COYNE. Fifteen thousand people.

Mr. HUELSKAMP. Fifteen thousand.

Ms. COYNE. Yep.

Mr. HUELSKAMP. And when you were testifying earlier about the impact of Dodd-Frank and how that was impacting your ability to continue to loan money to small businesses, it was a different story than I was hearing from my small banks and my community banks.

Ms. COYNE. Yes.

Mr. HUELSKAMP. Credit unions, just an enormous effort of compliance. And I haven't heard about doubling, but in terms of that effort, just making it extremely difficult.

In many cases, the established customers not able to continue, like Mr. Falk indicated—practices that had been working, they are current on their loans and coming in—and are unable to continue that. Even though the banker would like to do that, the examiner says, Too bad. And so, yeah, there is a lot of capital to loan, thanks to the Federal Reserve, but the ability to get it out the front door seems extremely limited. So I appreciate that.

But, Dr. Kroszner, a follow-up on the Federal Reserve. And we have seen an enormous increase in the money supply since 2008. Didn't see any information in your testimony. What do you expect will happen with that? Because I am particularly troubled by that. This is an unprecedented increase, and we still have a—well, the economy went backwards last quarter. I wonder if you could shed some light on that.

Mr. KROSZNER. Sure. I would be delighted to.

So the size of Federal Reserve's balance sheet has grown dramatically, more than tripling, and it is likely to grow even further as they continue to buy more assets.

Now, that has led to a large increase in the amount of reserves that are on banks' balance sheets. And KeyCorp and many others have a lot of excess reserves that they are, I would assume, hoping to lend out and at some point will be lending out. But fortunately that has not led to a very large increase in the money supply or inflation because people are—both individuals holding a bit more cash and firms holding a lot of the excess reserves.

The key question is going to be, will the Federal Reserve be able to make sure that, in the transition, that these excess reserves don't turn into very high money growth and high inflation down the line?

Right now we are not seeing evidence of that. The inflation rate has been quite tame over the last few years, despite the very large growth in the reserves and the balance sheet of the Federal Reserve. The expectations of where inflation is likely to go—both individual-consumer-based surveys, professional forecasters, and market-based, have not suggested high inflation is expected. But I think it is very important to keep a laser focus on that to make sure we don't get into a high-inflation environment.

Mr. HUELSKAMP. And I appreciate that. And hopefully, as was indicated, the measures don't capture everything in the inflation rate. But, you know, this is really unprecedented. Monetary policy like we have with actually no economic result, or very little, coming out at the same time is so unprecedented.

One other thing with Mr. Falk. I appreciate your being here as a real-life owner of a small business.

The Federal Reserve Bank of San Francisco put out a study in the last few days, I think it was, that said concerns over taxes, regulations, and the President's healthcare plan were not having a measurable impact on hiring. Would you agree with that study coming out of the Federal Reserve of San Francisco?

Mr. FALK. I think that can be answered in a couple different ways. It does not impact me hiring currently from my locations. I have a minimum staffing requirement. I mean, I can't reduce my staff. However, it does impact me in making a decision to open up new locations, therefore affecting hiring in the long term.

Like I said, every location I open, on average, employees 8 to 10 people. I have four agreements, open franchise agreements, that I would open tomorrow if I had access to capital and if I didn't have the decision process of how these regulations are affecting me and whether I even want to open them in the first place. And so if could open those 4, I could employ 50 more people immediately.

Mr. HUELSKAMP. Okay. Thank you.

I yield back.

Chairman GRAVES. With that, I would like to again thank all of our witnesses for being here today to discuss the current state of the economy and access to capital. And I look forward to using your testimony to help guide us in the coming year when we work on legislation.

Ms. Dorfman is no stranger to this committee, but I will take issue with one thing you said, and that is that women live longer than men. I think we should have equal access to longevity.

Having said that, I would ask unanimous consent that all Members have 5 legislative days to submit statements and supporting materials for the record.

Without objection, that is so ordered.

And, with that, the hearing is adjourned.

[Whereupon, at 3:11 p.m., the committee was adjourned.]

APPENDIX

Testimony of

Randall S. Kroszner

Norman R. Bobins Professor of Economics

Booth School of Business, University of Chicago

Before the

United States House of Representatives

Committee on Small Business Committee

Hearing on

"The State of the Small Business Economy"

Wednesday, February 13, 2013, at 1:00 p.m.

Rayburn House Office Building, Room 2360

Chairman Graves, Ranking Member Velázquez and members of the Committee, I am delighted to be invited to testify before you on the state of the overall economy and the economic outlook. I will touch briefly on only a few of the aspects of our economy and our economic challenges in my remarks but look forward to your questions on a wide-range of issues.

Introduction and Overview

I characterize the U.S. economy as being in a "sideways slide" and this is likely to continue, unless we experience a major shock to the downside or have an important resolution of uncertainty. Over the last year, the unemployment rate has changed little, hovering around 8 percent. The job growth averaged about 180,000 per month in 2012. That is just about the number that offsets the gradual increase in the population and the labor force, which explains why the unemployment rate has stayed stubbornly high despite this job growth.

In 2012, GDP grew by 2.2 percent and has been growing at roughly a 2 percent pace since the recovery began in mid-2009. The GDP estimate for the fourth quarter of 2012 implied a slight contraction in growth. I do not, however, think this portends a "double-dip" because the poor overall economic performance last quarter was likely due to a number of temporary factors including Hurricane Sandy and a sharp contraction in federal government spending following a sharp increase in the previous quarter.

I believe that we are likely to see growth in the low to mid 2s going forward, continuing our "sideways slide," and thus unlikely to achieve a robust bounce-back that would rapidly bring down the unemployment rate. Most private sector and official forecasts see U.S. GDP growth in a range from the mid 1s to the mid 2s for 2013 and have the unemployment rate declining painfully slowly.

The rate of inflation continues to be subdued. Since mid-2009, inflation as measured by the personal consumption expenditures (PCE) index has averaged roughly 2 percent per year. It was 1.7 percent for 2012. Certainly, swings in energy, food, and other commodity prices have important short-term impacts on the prices that consumer pay, but the overall rate of inflation has been moderate and I believe is likely to stay that way over the near to intermediate term. Surveys of consumers, surveys of professional forecasts, and data from markets all imply that inflation-expectations are well-anchored. None of these measures suggest expectations of high inflation but, of course, it is important to be alert to changes in inflation pressures and inflation expectations as the economic situation evolves.

I would like to see the US achieve a more robust non-inflationary recovery and believe that we can. I will next provide more details and background on current economic conditions and some factors that are holding us back from a more robust recovery and then briefly touch on ways in which policy actions and the resolution of policy uncertainty might strengthen economic growth.

Economic Conditions and Outlook

Consumption continues at a steady pace. Real personal consumption expenditures grew 2.2 percent in the fourth quarter of 2013. Real disposable personal income increased 6.8 percent last quarter, but this sharp rise reflects some one-time factors. In particular, many firms accelerated dividends or paid special dividends in anticipation of increases in the personal tax rate. The personal saving rate, calculated as a percentage of disposable personal income, was 4.7 percent, roughly in line with the average savings rate since the crisis.

The housing market has an important impact on consumption behavior. A key headwind that explains the relatively slow pace of recovery is housing. Typically, housing rebounds relatively quickly and robustly after a recession, and this in turn helps to increase consumer wealth and confidence. During the last five years, housing prices across the US have fallen by one third and the residential construction sector shrank considerably.

The low interest rate policy of the Federal Reserve, coupled with the purchases of mortgage-backed securities and longer-dated Treasury securities, have helped to bring mortgage rates to historically low levels and support the housing market. We are seeing signs of stabilization and even recovery in markets across the country. (See S&P/Case Shiller Table). In the last quarter of 2012, overall real residential fixed investment increased at a respectable15.3 percent. Such stabilization and recovery provides a foundation for growth, but is unlikely to provide a sharp boost to growth in the near future.

- S&P/Case-Shiller Home Price Index for 20 Major Metropolitan Areas (Jan 2000 = 100)

Metro Area	November 2012 Level	Monthly Change	Annual Change
Atlanta	95.68	0.1%	7.6%
Boston	153.74	-0.9%	2.3%
Charlotte	115.41	-0.3%	5.1%
Chicago	113.35	-1.3%	0.8%
Cleveland	100.68	-0.8%	1.8%
Dallas	120.55	-0.1%	5.7%
Denver	134.50	0.4%	7.8%
Detroit	80.33	-0.3%	11.9%
Las Vegas	100.56	0.4%	10.0%
Los Angeles	176.58	0.4%	7.7%
Miami	151.13	0.8%	9.9%
Minneapolis	126.41	1.0%	11.1%
New York	162.86	-1.1%	-1.2%
Phoenix	124.16	1.4%	22.8%
Portland	142.13	-0.2%	6.7%
San Diego	163.58	0.9%	8.0%
San Francisco	146.23	1.4%	12.7%
Seattle	142.53	0.5%	7.4%
Tampa	133.77	-0.2%	6.8%
Washington	189.11	-0.6%	4.4%

Sources: S&P Dow Jones Indices, Fiserv, and WSJ.

The housing market also may have an important impact on small businesses. To the extent that potential entrepreneurs rely on housing wealth as a source of capital for starting businesses, stabilization and recovery of the housing market also is significant for small business formation. The Census Bureau's 2007 Survey of Business Owners provides evidence on this linkage: "62.0 percent of employer business owners reported tapping into their personal savings to start their businesses, and 8.3 percent reported using a home equity loan taken out against their personal residences....Among the most recently formed firms, personal savings and home equity were even more important, with 67.1 percent of firms using personal assets or savings and 12.4 percent using a home equity loan," (Federal Reserve Board, *Report to Congress on Availability of Credit to Small Businesses*, September 2012, p. 52).

In addition, access to credit can be crucial for the health of the housing market and for new business formation and expansion. With the onset of the financial crises, credit standards for all types of borrowing increased significantly, and credit became difficult to obtain.

Recently, we appear to be making some progress on the credit availability front. The 2012 Senior Loan Officers Surveys from the Federal Reserve, for example, suggest that lending standards are becoming less restrictive. In addition, the National Federation of Independent Businesses (NFIB) found in their most recent survey: "Only 1 percent [of small businesses surveyed] reported that financing was their top business problem, tied for the lowest reading in survey history, compared to 23 percent citing taxes, 19 percent citing weak sales and 21 percent citing regulations and red tape," (NFIB, *Small Business Economic Trends*, January 2013, p. 2).

While credit access appears to be less of a concern than a few years ago, investment spending continues to face a number of headwinds, including those cited in the NFIB survey above. Real nonresidential fixed investment and spending on equipment and software grew by roughly 9 percent in 2012. Surveys suggest, however, that firms are scaling back their investment plans for 2013. The latest Duke University/*CFO Magazine* survey (December 2012) finds that CFOs in the US are forecasting only a 2.5 percent increase in investment spending in the year ahead. In contrast, in December 2011, they forecast a 7.8 percent increase for 2012. A survey of large firms just reported in the *Wall Street Journal* (Scott Thurm, "Companies Fret over Uncertain Outlook," February 11, 2013) also suggests a scaling back of investment plans: they forecast 2 percent increase in investment spending for 2013, in contrast to their report of an 8 percent increase during the first three quarters of 2012.

Federal government policies, the federal budget, and costs of health care are among the top concerns reported in the most recent Duke/*CFO Magazine* survey. There is evidence that uncertainty related to these types of policy concerns has been an important headwind to a more robust recovery.

My colleague Steven Davis and his co-authors Scott Baker and Nicholas Bloom ("Measuring Economic Policy Uncertainty," January 2013) have created an index of Economic Policy Uncertainty (EPU) and found that since the 2008 financial crisis, the EPU has risen considerably and that the increase has been "driven mainly by tax, spending, and healthcare policy uncertainty," precisely the factors mentioned in the Duke/*CFO Magazine* survey. They estimate that the increased policy uncertainty that occurred from 2006 to 2011could have reduced GDP by up to 2.3 percent, investment by 14 percent, and employment by 2.3 million jobs.

Since so much has already been written about the fiscal cliff and fiscal uncertainties, I want to provide a concrete illustration of the health care policy uncertainty weighing on business is related to the Supreme Court ruling that permits states to opt-out on Medicare. As described in the *Wall Street Journal* earlier this week (Louise Radnofsky, "In Medicaid, a New Health-Care Fight," February 11, 2013): "If states don't expand the Medicaid programs, the cost of covering millions of uninsured full-time workers will fall to employers. But state lawmakers also worry their budgets can't absorb the costs of participating over the long term." Amanda Austin, director of federal public policy for the National Federation of Independent Business, which brought the Supreme Court suit against the law, is quoted: "Business owners may be exposed [to higher costs] if the [state Medicare] expansion does not go through....On the other hand, business owners are generally concerned from a macro-entitlement perspective that these costs are going to be passed onto businesses indirectly." Obviously, this type of uncertain does not help revive economic growth.

Reducing Policy Uncertainty and Pursuing Pro-growth Policies

Going forward, it is crucial for the Congress and the Administration to understand the toll that policy uncertainty is taking on the economy. Clear, clean resolutions of uncertainty about federal fiscal and regulatory policies would undoubtedly help to spur recovery. It is not only the resolution of uncertainty that is important, but also how it is resolved. In particular, the government should be examining all of its policies through the lens of economic growth and focus on pro-growth policies.

I will give only a few illustrations of the many pressing policy issues we face. First, the tax system should be seen not simply as having important consequences for government revenue, but also for economic growth. Corporate tax reform, for example, should be a priority on a pro-growth agenda. Corporate taxes are relatively high in the US compared with most other major countries and the corporate tax system is extraordinarily complex.

Recent research suggests that corporate taxes reduce investment and entrepreneurship. "The Effect of Corporate Taxes on Investment and Entrepreneurship," by Simeon Djankov, Tim Ganser, Caralee McLiesh, Rita Ramalho, and Andrei Shleifer (*American Economics Journal: Macroeconomics*, July 2010) examines the corporate tax rates that new businesses face in 85 countries. The authors conclude: "Our data reveal a consistent and large adverse effect of corporate taxes on both investment and entrepreneurship. A 10 percentage point increase in the first-year effective corporate tax rate reduces the aggregate investment to gross domestic product (GDP) ratio by about 2 percentage points (mean is 21 percent), and the official entry rate by 1.4 percentage points (mean is 8 percent)."

Second, on government expenditures, I believe it would be more productive to move the debate away from the broad "austerity" vs "stimulus" discussion and redirect attention to the most important issue, namely, boosting sustainable economic growth. In a short-term accounting sense, more government expenditure will temporarily raise measured GDP but, of course, this has to be weighed against the costs of the project that will be borne by taxpayers.

The key question is whether such expenditure can help support sustainable recovery in the private economy and what is its effectiveness in doing so. Japan, for example, has for two decades undertaken numerous rounds of government "stimulus." The result has been a tripling of the Japanese government debt to GDP ratio to an astonishing 250 percent and anemic growth. (Japan has also suffered from chronic deflation during this period, importantly contributing to its growth woes.) For infrastructure-type programs, for example, we should ask whether a particular project going to reduce a bottleneck and increase the productivity of the economy. Such a perspective could be very beneficial for shaping a pro-growth policy.

Third, when resolving regulatory uncertainty, it would be extremely valuable to undertake cost-benefit analyses. Executive orders from the Reagan Administration to the Obama Administration recognize the benefits and importance of subjecting regulatory change to cost-benefit reviews. Cost benefit analysis is crucial to ensuring reasonable and sensible outcomes of the regulatory rulemaking process. "Cost-benefit analysis should be understood as a method for putting "on screen" important social facts that might otherwise escape private and public attention." (Cass Sunstein, "Cognition and Cost Benefit Analysis," *Journal of Legal Studies*, June 2000, p. 1060). It provides a framework to investigate the likely consequences, both intended and unintended, of a proposed regulation and to assess the net impact on society and the economy as a whole.

Scholars and policy-makers associated with both sides of the aisle argue for the importance of cost-benefit analysis for improving regulation and regulatory reform. Robert Hahn (a senior staff member of the Council of Economic Advisers under Presidents Reagan and Bush) and Cass Sunstein

(President Obama's former head of the Office of Information and Regulatory Affairs) co-authored a paper in which they considered the question:

> "How can regulation be moved in more sensible directions? This is a large question, and we will not attempt to answer it thoroughly here. But it seems to us that much of the answer lies in improved institutions, and, in particular, in institutional reforms that increase the role of cost-benefit analysis in regulatory policy as a way of drawing attention to the likely effects of alternative courses of action....the commitment to cost-benefit analysis has been far too narrow; it should be widened through efforts to incorporate independent regulatory commissions within its reach. (Robert W. Hahn and Cass R. Sunstein, "A New Executive Order for Improving Federal Regulation? Deeper and Wider Cost-Benefit Analysis," University of Chicago Law School, Law and Economics Working Paper 150, April 2002, p. 3).

Thus, to increase the likelihood that we can break out of the "sideways slide," reducing policy uncertainty is important but resolving that uncertainty in ways that promote sustainable economic growth is just as critical. I will be delighted to take you questions.

TESTIMONY

Of

MARIA COYNE,
EXECUTIVE VICE PRESIDENT,
KEYBANK

On behalf of

THE FINANCIAL SERVICES ROUNDTABLE and
THE CONSUMER BANKERS ASSOCIATION

for

The U.S. House Committee on Small Business

Hearing on

"The State of American Small Businesses"

February 13, 2013

Introduction

Chairman Graves, Ranking Member Velazquez, Members of the Committee, thank you for inviting me to today's hearing and giving me the opportunity to testify on the state of small business today. My name is Maria Coyne, and I am the Executive Vice President of the Branch Network which includes Small Business Lending at KeyBank. While I appear here today as a representative of KeyBank, I am also testifying on behalf of the Financial Services Roundtable (Roundtable) and the Consumer Bankers Association (CBA).

KeyBank is a regional bank headquartered in Cleveland with approximately $89 billion dollars in assets. KeyCorp's customer base spans retail, small business, corporate, and investment clients. KeyCorp has 15,000 employees, and approximately 1,087 KeyBank branches spread across 14 states in our branch footprint.

The Roundtable and CBA collectively represent many of the nation's leaders in small business lending. The Financial Services Roundtable represents 100 integrated financial services companies providing banking, insurance, and investment products and services to the American consumer. Member companies participate through the Chief Executive Officer and other senior executives nominated by the CEO. Roundtable member companies provide fuel for America's economic engine, accounting directly for $98.4 trillion in managed assets, $1.1 trillion in revenue, and 2.4 million jobs.

I am also a member of CBA's Board of Directors. For more than 90 years, CBA has been the recognized voice on retail banking issues in the nation's capital. Member institutions are the leaders in all areas of consumer financial services, including small business lending. CBA members include most of the nation's regional banks, as well as bank holding companies that collectively hold two-thirds of the industry's total assets.

Banks Continue to Support Small Business

First and foremost, KeyBank and the entire financial services industry are committed to small business lending. Small business lending is a core component of our overall business, and small businesses are the cornerstone of the American economy and its communities. Historically, small businesses have led job creation during previous economic recoveries and will play a leading role in helping our country through the still-challenging economic climate. For the last 20 years, small businesses have created two-out-of-three net new jobs in the country, and today more than half of working Americans own a small business or work for one. Banks are a crucial partner to businesses and are stepping up lending so small businesses can do what they do best – invest in communities. Given their significance in creating jobs and innovation in the U.S., KeyBank understands that it is critically important that businesses, including franchise owners, have access to financing so that aspiring entrepreneurs and existing small businesses can help lead our country's economic recovery. We are committed to making loans in the communities we serve, and we continue thoroughly to review the creditworthiness of each borrower with the goal of making small business loans where prudent.

Economic Uncertainty

As our country continues to recover from the economic crisis of a few years ago, there are a number of factors that will have a direct impact on small businesses and small business lending in 2013 and beyond. These challenges, which in many cases are global in nature, threaten the long-term health of the economy of the United States. These challenges must be resolved quickly in order to provide a stable path forward for consumers, businesses, and lenders.

Federal policy is an important factor in whether our economy reaches its full potential or continues to grow incrementally. More specifically, the continued uncertainty surrounding federal policy on taxes, sequestration, the debt ceiling, and regulations signals to the private sector that our leaders are unable to play their critical role in creating an economic environment that will allow entrepreneurs to thrive.

According to the National Federation of Independent Business's January 2013 Optimism Index,[1] Congressional inaction has left "small-business owners with no new information about the economy's future." In short, small businesses, lenders, and most importantly consumers are challenged to understand how federal spending cuts or other federal polices might impact them. We urge Congress and the Administration to address these challenges directly as soon as possible in order

[1] http://www.nfib.com/research-foundation/surveys/small-business-economic-trends

to minimize negative economic consequences and place the United States on a path for sustained growth. Our economy needs stability, predictability, and certainty. It is incumbent upon our elected leaders to create an environment where small businesses can thrive and expand.

Where We Came From

From its peak in 2008, small business lending saw a steady decline until early 2011. Since that time, lending has stabilized with slow and steady improvement experienced month over month nationally throughout 2012. We anticipate similar growth rates in the coming year to mirror 2012 with applications for business credit continuing to grow if GDP and consumer confidence continue to grow as well.

Roundtable and CBA members are consistently hearing from their small business clients that general economic conditions make them less inclined to take on additional debt. Actual events combined with media reports of a potential double-dip recession are often mentioned as concerns. Stronger companies have found ways to weather the storm either by finding new revenues or by cutting expenses, but weaker companies that weren't prepared for a downturn have been exposed. Many companies have accepted that the current environment is one of stabilization vs. growth opportunities.

A key issue is consumers' lack of confidence, resulting in lower sales, particularly on the smaller end. We are hearing from small businesses that they just cannot hire, expand or make major purchases because they do not have enough "wiggle room" to remain profitable and are not willing to take on additional expense.

A secondary problem is the diminished credit profiles of many small businesses due to the current economic environment. Collateral has declined; with limited collateral, small businesses that are otherwise creditworthy have had to rely increasingly on loans backed by the U.S. Small Business Administration (SBA) to get the funding they need.

Collateral insufficiencies are highlighted by the diminished value in a traditional form of collateral used by many small businesses – home equity. The values of personal assets are a critical component to the success and ability of small businesses to grow. The decline in home values has constrained the ability of small business owners to obtain the credit they need to finance their businesses. As a result, many formerly qualified borrowers are now struggling to find other sources of collateral needed by lenders properly to underwrite loans.

How We Improve

KeyBank, the Roundtable and CBA have supported, and will continue to support, the various efforts of this Committee and Congress to expand small business lending (i.e., SBA program enhancements) and to stimulate economic development. As a result, many small business lenders have instituted aggressive second-look programs to ensure no stone is unturned when finding ways to make more quality loans. These second-look programs are resulting in more approvals.

Additionally, many lenders have announced enhanced lending programs and increased lending commitments for small businesses, which include enhanced employee training and incentives to improve production through local branches. Many lenders have also hired additional small business bankers specifically tasked to improve delivery of SBA guaranteed loans and to determine additional opportunities.

At KeyBank, additional staff have been and will continue to be hired to assist in our efforts to increase small business lending. We have dedicated considerable resources to strengthening our small business loan officer ranks and their training so that we can improve our small business lending production. As I will describe, our efforts have produced positive results for our borrowers.

For example, two years ago, Laticia Ortiz started Tortilla La Bamba, a-woman owned, Hispanic business specializing in the production of corn tortillas for local restaurants and grocery stores in Northern Ohio. KeyBank provided the company with a $15,000 start-up loan to purchase a tortilla-making machine. As a result, the company was able to meet the demand in the area that had been filled by producers outside of the state of Ohio. The company is outgrowing its leased space of 7000 square feet and is now looking to move its business to another local location and expand its operations. In the next 12-18 months, Laticia plans to purchase a new building that would be large enough for Tortilla La Bamba to expand into another product line of flour tortillas to expand its product offering to existing customers and attract new customers. KeyBank is currently exploring the possibility of extending a new loan to Ms. Ortiz for the purpose of expanding and growing the business.

Since 2005, Key has loaned more than $6 billion to women-owned business owners (WOBs), and this is the third time that Key has exceeded a goal of lending to WOBs. KeyBank surpassed its goal to provide $3 billion in loans to women-owned businesses by April, 2012 – three months ahead of its target.

Third, in 2011, KeyBank, along with 12 other banks, made a commitment to increase small business lending by $20 billion over three years. In September 2012, SBA announced that the 14 banks, including Key Bank, are more than halfway to meeting that commitment well ahead of the three-year deadline.

Finally, in May 2012, the SBA named KeyBank the top SBA Large 7(a) Lender of the Year. The award – the SBA's highest recognition – is based on factors such as portfolio performance, year-over-year growth in loan approval volume and on lender size, and ongoing commitment to the growth and expansion of small businesses. We believe that SBA National and local District offices play a key role in helping small businesses obtain the capital they need to meet their financial challenges. SBA programs posted the second largest dollar volume ever in FY 2012, supporting $30.25 billion in loans to small businesses. However, despite the positive results SBA programs have produced the last several years, changes are needed to ensure the continued success of SBA's programs. For instance, streamlining the application process for the 7(a) and 504 program would reduce response times and paperwork. In addition, bringing more transparency to the SBA's standard operating procedures (SOP) would provide more public feedback to SBA and help guide its decision-making when SOPs are updated. The National Association of Government Guaranteed Lenders (NAGGL) has also been instrumental as a centralized voice for its members in helping the SBA streamline its processes that helps small business obtain capital. As well as provide technical assistance and training for all lenders that has resulted in more lenders participating in the SBA programs.

At the height of the recession, KeyBank committed to increase small business lending. When we made this commitment, we were counting on the resiliency of the business owners we serve every day. Their hard work has made us match their dedication and has made us a better lender and institution.

Where We're Going – Trends & Projections

It is a myth that banks are holding back the economy by refusing to loan to small and large businesses. In fact, overall domestic loans increased 5% by the end of 2011, reaching $2.1 trillion by the end of the second quarter of 2012. However, today's economic environment remains a challenge for many small businesses.

We expect small business loan demand to remain stable at a relatively low level in 2013 with flat to slightly better results from 2012. Over the last few years, the NFIB consistently reported that the overwhelming majority of small business owners continue to report that their finance needs are met or they are not interested in borrowing. We've seen no significant signs of improvement, and small businesses have routinely reported (NFIB, Gallup, etc.) that they are willing to sit on the sidelines until the economic environment settles. Until owners see more positive sales results, they are generally not convinced they would receive a positive return on investment. In addition, they feel no sense of urgency to borrow since they believe the low-interest-rate environment will persist well into 2014. Line utilization and business card balances are at all-time lows as small business owners continue to keep more liquidity on hand.[2] Customers are still not borrowing enough, and we will need to see some expansion and leveraging up to really get things moving. Banks are aggressively looking for new loans, and competition between lenders for customers is fierce.

We continue to look at SBA and other Government Guaranteed programs as important levers in generating loan volume. We expect SBA 7(a) volume to be elevated over 2012 production. We also expect the SBA 504 program to continue to play an important role in the current business real estate market.

While we expect some slight improvements in credit metrics, without the significant growth in balance sheets, we expect percentages of non-performing loans, charge-offs and delinquencies to continue to stay static at acceptable levels. In other words, charge-offs and delinquencies continue to improve and are at acceptable levels and the credit quality of borrowers is generally very good.

[2] According to data compiled through the second quarter of 2012 by the Small Business Financial Exchange and attached hereto as addendum >>>> , the number of small business line of credit originations began dropping prerecession, continued to drop through June 2009 and remains below prerecession levels. Also, business card balances continue to decrease and line of credit balances have dropped, driving utilization rates to their lowest point in recent history. This decrease in card balances and declining line of credit utilization indicates small businesses remain conservative in their use of credit.

While the outlook for small business is improving, it parallels our national economy, which means that more needs to be done to connect lenders with borrowers. Therefore, the industry continues to take affirmative steps to connect lenders with creditworthy borrowers. For instance, last year the Roundtable, CBA, the International Franchise Association (IFA) and other trade associations hosted a Small Business Lending Summit, which was widely attended by representatives from franchise and lending banks communities. Through the summit and the ensuing dialogue, the Roundtable and CBA aimed to partner with key stakeholders in the small business, financial and government policy/regulatory communities to seek ways to unleash the power of small businesses and aspiring entrepreneurs to create jobs through increased access to credit. Preparations for another Summit are already underway, and the Roundtable also expects to work with the IFA to host regional events around the country.

Additionally, CBA and IFA have developed the Small Business Loan Accelerator[3] – a tool used to prepare and guide potential borrowers through the lending process. The Accelerator is now in use and is helping lenders better understand the franchise business and what franchise lending entails, thereby encouraging more investment.

Conclusion

KeyBank, the Roundtable and CBA support the committee's efforts to review areas where it can support small businesses, as well other alternative avenues, to help create business opportunities through innovative policy solutions that will help create a foundation to build a strong and prosperous economy. While the efforts to increase small business lending by Key and the industry overall have produced a variety of positive outcomes, we know more work has to be done to make sure capital reaches the aspiring entrepreneurs and small business owners who need it.

KeyBank is ready to continue to work with the small business community, Congress, and the Administration to help our nation's economic maximize its potential.

[3] http://www.franchiseregistry.com/

This concludes my testimony and I am ready to answer any questions posed by members of the Committee. Thank you.

CBA CONSUMER BANKERS ASSOCIATION
The Voice of the Retail Banking Industry

SBFE®
SMALL BUSINESS FINANCIAL EXCHANGE
INC.

Small Business Lending Trends
Q2 2012

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Foreword

CONSUMER BANKERS ASSOCIATION
The Voice of the Retail Banking Industry

- Small Business Lending Trends is a complimentary version of the SBFE® Small Business Lending Trends.
- Small Business Lending Trends utilizes SBFE Data™ with sophisticated business intelligence and analysis from Equifax, to provide a holistic view of the small business market.
- Small Business Lending Trends provides unparalleled insights into the overall health of the small business lending industry and highlights growth opportunities and risk trends.
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Small Business Lending Originations: units

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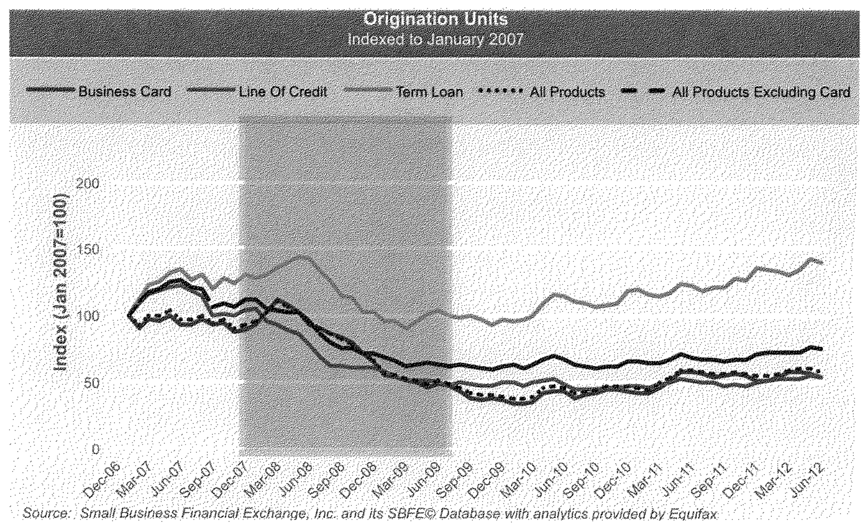
- The number of Line of Credit originations began dropping pre-recession and continued to drop through June 2009
- Line of Credit and Business Card origination remain below prerecession levels
- Term Loan originations have been increasing since first quarter 2010 and are slightly above prerecession levels
  - The increase in Term Loan originations is partially impacted by termed out Lines of Credit (i.e. conversion from Lines of Credit to Term Loans)



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Small Business Lending Originations: balances

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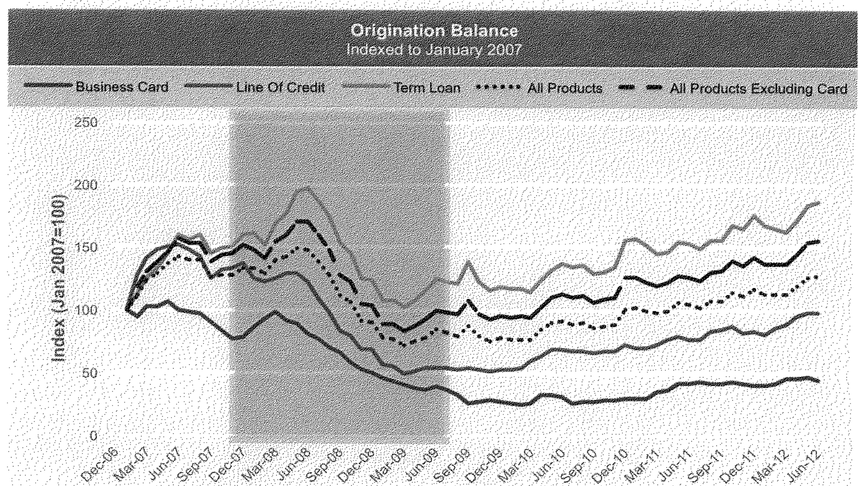
- Origination Balance indices on new accounts are observed after the origination date to allow for the natural lag in reporting of the data and usage on revolving accounts
- Origination Balance levels contracted significantly in 2008
- Term Loans have recovered to levels from five (5) years ago
  - The increase in Term Loan originations is partially impacted by termed out Lines of Credit (i.e. conversion from Lines of Credit to Term Loans)



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Small Business New/Existing Accounts: unit ratio

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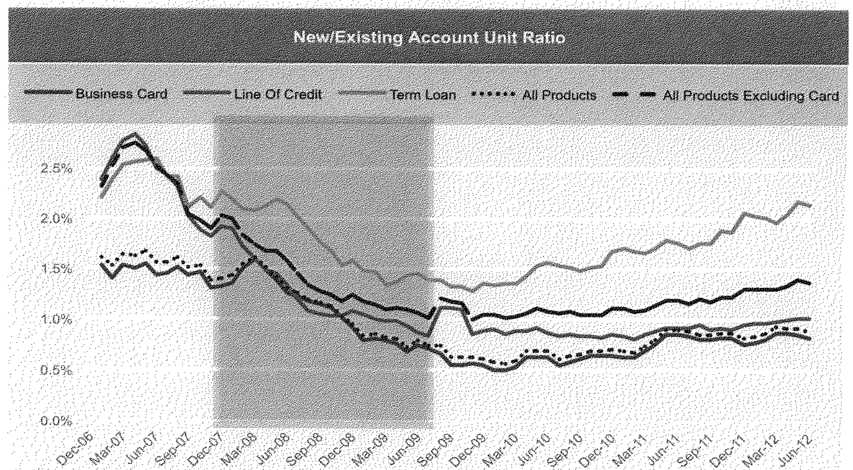
- The ratio of new accounts existing accounts indicates the relative size of new activity entering existing portfolios
- Business Card and Line of Credit new to existing account ratios are increasing slightly, but remain lower than prerecession levels
- Term Loan new to existing account ratio has returned to prerecession levels
  - The increase in Term Loan originations is partially impacted by termed out Lines of Credit (i.e. conversion from Lines of Credit to Term Loans)



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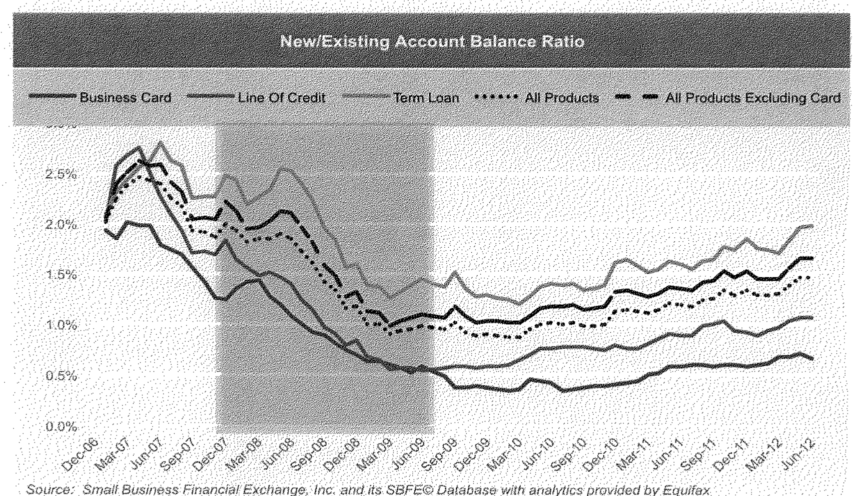
Small Business New/Existing Accounts: balance ratio

- The ratio of new accounts to existing account balances indicates the relative size of the new balances entering portfolios
- Business Card balance ratios have been moderately increasing since Q2 2010
- Term Loan and Line of Credit balance ratios have been increasing for the past two (2) years
  - The increase in Term Loan originations is partially impacted by termed out Lines of Credit (i.e. conversion from Lines of Credit to Term Loans)



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Small Business Business Cards: utilization

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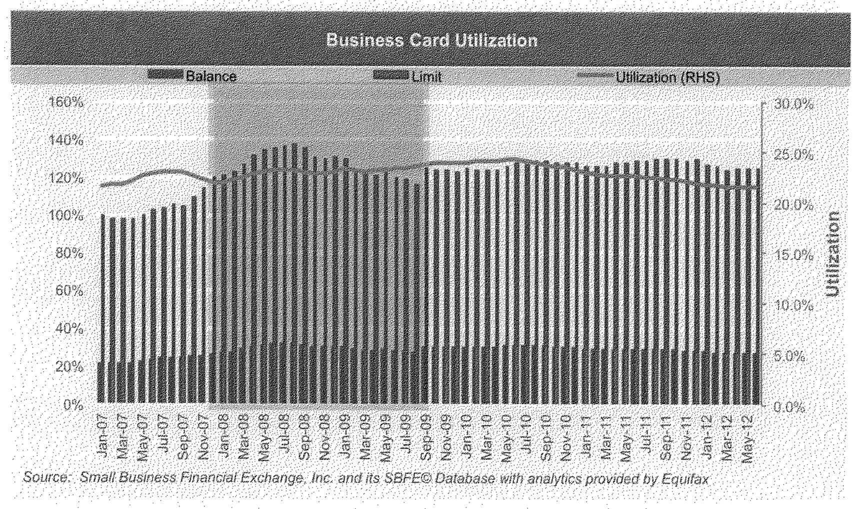
- Business Card limits peaked in August 2008 then experienced a subsequent decline, although there has been relative stabiliztion over the last two (2) years
- Business Card balances continue to decrease resulting in declining utilization levels
- The decreased balances and declining utilization indicates that small businesses remain conservative in their use of credit



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Small Business Lines of Credit: utilization

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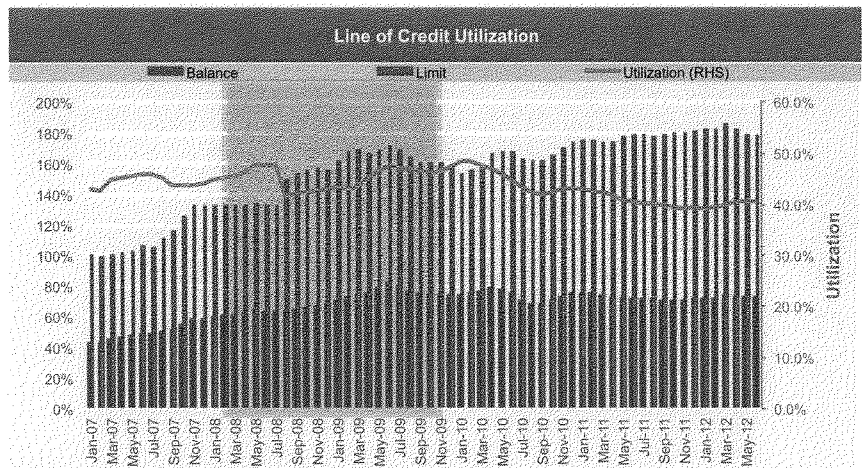
- Line of Credit limits have grown over the past twelve (12) months
- Line of Credit balances dropped driving utilization to its lowest point since July 2008
- Declining Line of Credit utilization indicates that small businesses remain conservative in their use of credit



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Small Business Lending Annualized Charge Offs: units

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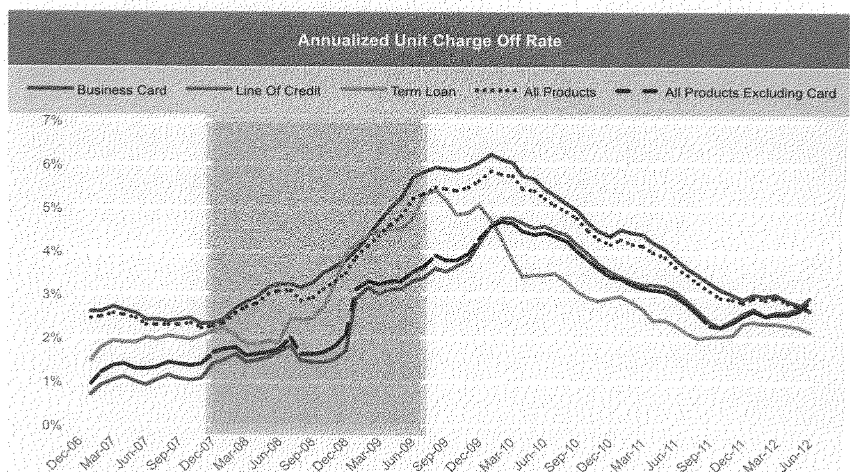
- Business Card unit charge off rates peaked in 2009 and have been steadily declining since
- Peaks in Business Card and Line of Credit unit charge off rates coincides with similar peaks in unit delinquency rates for those loan types
- All charge off unit rates are well below recession levels indicating continued stabilization of the portfolios



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Small Business Lending Annualized Charge Offs: dollars

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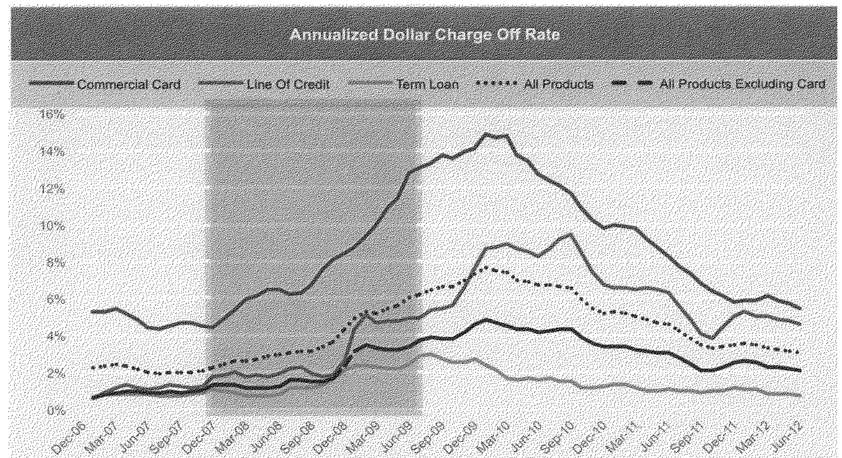
- Business Card dollar charge off rates experienced a steeper increase than Business Card unit charge off rates indicating the severity of the impact to these portfolios
- Line of Credit Dollar charge off rates have declined steadily except for an increase in Q4 2011
- Term Loan dollar charge off rates have remained relatively steady for the last twelve (12) months



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About the Small Business Financial Exchange, Inc.

SMALL BUSINESS FINANCIAL EXCHANGE INC.

The SBFE seeks to be the leading advocate for the exchange of business financial information used for risk management activities of small business lenders and financial entities.

SBFE has four primary objectives:

- Promote the growth, health and success of the small business community that includes our members and the small businesses they serve.
- Establish operating rules and standards that focus on protection of sensitive small business data, control of its use by lenders, and maintaining its value.
- Establish reporting standards and operating practices that insure the highest data quality, data integrity, and data security.
- Provide effective self-governance as an independent organization that is a trusted advocate and guardian on behalf of all parties.

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Testimony of Sean Falk
President and Owner of
WolfTea, LLC and NachoGang, LLC
Before the

U.S. House of Representatives Committee on Small Business

"State of the Small Business Economy"

February 13, 2013

Chairman Graves, Ranking Member Velázquez, and members of the Small Business Committee, thank you for your invitation to testify at today's hearing. I am honored to have the opportunity to speak with you regarding the current state of small business in America. I believe my role as a small business owner qualifies me to provide my perspectives regarding this important business sector. I believe that small businesses are the economic cornerstone to every community. Thank you for your service and commitment to fostering small businesses in the Unites States House of Representatives.

My name is Sean Falk and I own and operate 12 franchised business units. With 43 full-time employees, I am a proud participant of the diverse franchise community which supports over 8 million jobs per year. You may recognize some of the businesses I operate: *Salsarita's Fresh Cantina, Great American Cookies, Mrs. Field's Famous Brands, and Pretzelmaker.* I bought my first franchise in 1998 and through 2008 I was opening, on average, one store per year.

With supportive economic policies in Washington, franchising is poised for significant success, even given the recent economic downturn. According to the International Franchise Association's Franchise Business Economic Outlook for this year, our industry is poised for modest growth in 2013 of about 2 percent, an estimated 162,000 new jobs and 10,000 new establishments, but could grow even faster creating more new jobs and businesses, if Washington addressed the tax, spending and regulatory uncertainty plaguing the small business community in a more meaningful way.

Small Business Industry Today

The small business community is still facing trying times. As profit margins are lower than ever, it is much harder to open more stores—even when the desire to do so is present. In today's economic reality, small business owners are forced to make time consuming measures to grow their business like visits to multiple banking institutions in search of one simple business loan. The same incentive of years past no longer exists for entrepreneurs to purchase franchise agreements and work 80 hours per week. Profit margins in the 1990's were 10-15% of all sales. Today, that number is about 5%.

Small business owners are also faced with many other factors and forces in which government plays a direct or indirect hand. As a business owner, we have no ability to plan for the future when Congress passes and extends regulations for only one year at a time. The constant moving target created by short-term fixes makes it extremely difficult for me to evaluate an opportunity to see if it will be worth my time, money, and effort to expand my business. This uncertainly makes it next to impossible to execute a long-term plan to do so.

There are also the impacts of the new health care law, commodity prices, fuel prices, unemployment insurance rates, U.S. dollar exchange rate and others. All of those factors cut into shrinking profit margins and create disincentives to business growth. Raising the price of our product for the consumer is not an option. They will choose to not expend their limited, discretionary income for this purchase.

Access to Credit

Prior to 2008, I had a very easy time working with local banks to secure financing on business loans to open new stores. As I mentioned earlier, opening one store per year meant I was in frequent contact with my banking institution. Often times I would be approved with delivery of a check in one business day. I cultivated good relationships with these banks because I always paid my loan on time or early.

In 2008, when the financial markets started to go south, so did my ability to access capital. Banks began to tighten their budgets at a time when I was still growing. Unfortunately, from 2008-2011 my business did not grow and I opened no new stores. I certainly felt the credit crunch because after visiting six area lenders I learned they were not approving any loans. I had several active loans in good standing that were paid regularly and on time. Since loans were not being processed, I even tried, with no success, to refinance some of the current debt that I held. Banks were certainly not very consumer friendly during this time.

However, in 2011, I felt a change in the economic tide. Banks were reaching out to me offering loans. The caveat was that the loans must be backed by the SBA. The application and loan approval process for an SBA loan took over six months. The process was costly as it forced me to push back the opening of my stores. I finally opened two new franchised businesses in April and May of 2012. During the SBA loan process, I had signed and purchased four new franchise agreements. Two of the franchise agreements I had entered into have unfortunately since expired with no refund for me due to difficulties in securing appropriate lending.

Affordable Care Act Implementation

Implementation of the Affordable Care Act (ACA) is a burdensome and complex business challenge for me in 2013 and beyond especially given the constant changes, waivers, extensions, regulations and clarifications of an already cumbersome new law. Already, I have to worry with the legalities of health care exchanges, employer shared responsibility (ESR), and full-time equivalents. Now I am familiarizing myself with the government's Federal Register, waiting to see what new regulations will become final from The Department of Health and Human Services or the Treasury regarding implementation. All of these tasks take me away from my core mission of growing my business.

Two specific issues that I am concerned about are:

1. The 30-hours of work threshold that qualifies an employee as full-time status
2. The 50 full time equivalent employees threshold that requires employees to participate in ESR

Currently, I employ 43 full-time equivalent employees. If my business grows and I employ more people, I will be forced to pay for their health care insurance through the ESR section of the law. This has a large economic impact on my bottom line and may cause me to cease further growth. Also, I may be forced to keep my staff from working more than 30 hours per week so that they do not acquire full-time status to help avoid paying costly health care costs. As a business owner I will need to learn how these percentages are calculated and applied to my work force. I fear that it may be a struggle just to keep the doors open on my 12 existing businesses.

Summary

Although I would relish the opportunity to grow my business, the recent burdens placed on small businesses and the uncertain economic climate have given reason for pause. I plan to weigh the pros and cons of ACA before deciding on future growth and closely follow the negotiations on tax reform this year as those issues will also have a great effect on my bottom line. How Congress treats LLCs and addresses AMT during the tax debate will greatly impact my operations. The state of the small business economy is fragile. I hope policymakers will consider focusing their energies on addressing the burdens we face like securing capital access and implementing ACA in a business friendly manner. Its' time to address these fundamental challenges facing our economy that are keeping business owners like me and and prospective investors on the sidelines.

Thank you for this opportunity and I look forward to answering any questions from the Committee.

U.S. Women's Chamber of Commerce

Testimony of Margot Dorfman, CEO
U.S. Women's Chamber of Commerce
Before the House Small Business Committee for the Hearing "State of the Small Business Economy"
Wednesday, February 13, 2013, at 1:00 p.m.
Rayburn House Office Building, Room 2360

Chairman Graves, Ranking Member Velázquez and members of the Committee, thank you for the opportunity to speak today on behalf of the U.S. Women's Chamber of Commerce and our 500,000 members, three-quarters of whom are American small business owners and federal contractors. In preparation for today's hearing, we surveyed our members.

We see that small businesses are anxious to get moving forward. They are looking for opportunities, resources, connections and a positive business environment. While business budgets are tight, and access to capital is in the top three needs of our small businesses, access to contracts and affordable benefits are clearly the most requested when our members are asked how we can help them reach the next level.

On The Hill, the budget obstacles you face impact our members. According to one member, "Budget uncertainty on the part of our clients in federal, state and municipal sectors is a big issue. Many of them cannot move forward to get their projects going because they do not know what is going to happen with agency budgets." Even so, there are a number of things you can do today to help small businesses grow, prosper and fuel our economic recovery.

Help small businesses secure affordable access to capital, and not just for the larger "small" businesses and the gazelles. Help access to capital get down to mainstream businesses including women-owned, veteran-owned, startups and rural businesses. For example, women own nearly 30% of all firms in the United States, but are still receiving only 12 to 13% of SBA backed loans. One member states, "Access to capital is very difficult in this lending environment. I am finding that unless you are established, have assets on hand banks will not loan you money."And another member says, "lending is now taking place outside of the box- with private lenders and investors. For small business this is a risky situation because they usually ask to take controlling interest in your company." You have it within your power to compel the SBA to significantly increase their commitments to helping all small firms access the capital they need to grow their businesses and fuel the growth of our economy.

Help small businesses secure affordable business benefits so that we can compete for quality workers and support our own families. We still need access to affordable health care and related insurance products like disability insurance, access to affordable business insurance, and access to affordable workplace retirement programs. Many industry barriers exist, and big business privileges enable large businesses to access these important and necessary benefits far more affordably than tight-budgeted small business.

U.S. Women's Chamber of Commerce

Help small businesses secure access to federal contracts. While the SBA claims small businesses are receiving nearly 23% of all federal contracts, their efforts need to be stronger to assure our fair share of contracts is really being awarded to small businesses. The Small Business Administration Office of Inspector General reports that there are still a large number of big businesses included in those statistics, as well as large businesses that establish pass-through companies to funnel federal expenditures through small business programs.

The Inspector General's October 2012, "Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration In Fiscal Year 2013," states, "Previous OIG audits and other governmental studies have shown widespread misreporting by procuring agencies since many contract awards that were reportedly awarded to small firms were actually being performed by larger companies. While some contractors may represent or erroneously calculate their size, most of the incorrect reporting results from errors made by government contracting personnel, including misapplication of small business contracting rules. In addition, contracting officers do not always review the online certifications that contractors enter into the governmental database prior to awarding contracts. One member pursuing a $50million dollar job at Camp Pendleton stated, "When I looked at the list of attendees at the pre-walk I was astonished to see the names of (5) large primes that in no way qualify as small business."

The SBA needs to ensure the contracting personnel are adequately trained on small business procurement and are reviewing this data prior to awarding contracts." The OIG goes on to say, "The SBA (has) made little progress on this challenge."

I would add, the SBA should be undertaking significant training of government contracting personnel relative to all small business programs. Most importantly to my constituents at the U.S. Women's Chamber of Commerce is the training and use of the Women-Owned Small Business and Economically Disadvantaged Women-Owned Small Business set-aside program. Many of our women-owned small businesses report that contracting officers remain unaware, untrained and unmotivated to make use of this program that was put into place to end the more-than-a-decade of shortfalls in the paltry 5% goal for contracting with women-owned firms. Another member stated, "As a WOSB and EWOSB company, I have to express my extreme frustration with access to contracts. The WOSB targeted set-aside is one of the most complicated set asides to procure. Very few agencies are using this set aside to target WOSB."

And, finally, I implore you to help the health of the economy by avoiding undue fiscal austerity and fiscal calamity that will impact the growth of small businesses through reduced federal spending, federal layoffs that will drive down consumer spending, and cuts in important programs that add revenues to our economy.

Thank you.

**Further Comments are below.

U.S. Women's Chamber of Commerce

What is your number one obstacle to growth?

- Discrimination against WOSB. More must be done to target, assist and support existing/new WOSB contractors in securing contracts. Not short-term, but long-term contracts. Long-term is essential, as it provides continuous cash flow, thus ensuring we maintain jobs for existing staff, create more jobs, provide fringe benefits to keep our staff, business expansion (nationally/internationally) and secures a solid foundation for our family (the future).

- This country's lack of a requirement for ultra-precision, production manufacturing. Due to the global outsourcing of manufacturing jobs, our customers are concerned with price as their first consideration in order for them to compete on with China and India's low labor rates. With rising minimum wages, increased group healthcare costs, stifling regulations on manufacturers and a stagnant economy, we are not growing. Additionally, many of the larger companies are passing along the financial risk to the supplier via the means of horizon purchase orders for small-quantity jobs; consignment inventory requirements, etc. The entire "culture" of manufacturing does not value the vendor/supplier. And it's hard to find experienced help.

- Not enough business (clients) and operating costs are skyrocketing; actually, downsizing continually. Accessing new contracts would support growth.

- Budget uncertainty on the part of our clients in federal, state and municipal sectors is a big issue. Many of them cannot move forward to get their projects going because they do not know what is going to happen with agency budgets.

- Access to CONTRACTS is the most challenging.. as in our field (mostly USAID oriented, as we work in communications/marketing for public health and environmental projects), there are very few set asides that are technical in nature, and we have wasted so much of our time and resources responding to sources sought, as well as the limited set asides (such as TASCIV -- over two years ago.. and it still has not been awarded!) We invested approx. $50K in that bid and since it has never been awarded, it gives us pause to know if RFPs are really worth the time and investment.

- Funding seems to always be in the forefront of our 'growth'. Our banking relationships will only lend if the cards are stacked completely for them- lending is now taking place outside of the box- with private lenders and investors. For Small business this is a risky situation because they usually ask to take controlling interest in your company. For small business that has certifications to maintain, it is not an option. For my business (manufacturer), we are searching for lending to establish our own manufacturing facility. To secure a private lender loan, without them having any interest in my company, I have to provide them with 'proof' / contract that shows the payback is there. (That is what we are working on now).

- THE CONTINUING RESOLUTION IN WASHINGTON DC!!!!!!!!!!!!!! As a small contractor I am experiencing the wrath of contracting personnel trying to justify their

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existence. They are delaying processing of paperwork in order to appear busy; they are using new policies to evaluate old tasks, without fully comprehending the basis for or intent of that new policy; they are issuing limited contracts and these are going to "favorite son" contractors. We are surviving off of old projects and pursuing everything we can private and public works sector to survive.

- There has to be a fundamental change in the way government contracting is handled. While there have been policies put in place to aid in leveling the playing field (i.e. F.A.R.) the bases here in Southern California are finding ways around it. There are numerous 8(a) companies that are graduating out of the program only to start up again under another names. The bases are aware of this and prefer it because it means their work is easy.

- When you have a small business set aside it should stay small business. We are going to be pursuing a large project at Camp Pendleton. It is a $50million dollar job. When I looked at the list of attendees at the pre-walk I was astonished to see the names of (5) large primes that in no way qualify as small business. This concerned me and was going to follow up with NAVFAC when I received an article in my inbox talking about how "Large Primes see the writing on the wall with Federal work drying up. They will be pursuing all projects regardless of set aside status." PLEASE ASSURE ME THAT THE FEDERAL GOVERNMENT IS NOT GOING TO ALLOW THESE LARGE PRIMES TO PLEAD MERCY FOR THE LAST FEW YEARS. IF THEY DID NOT MAKE GOOD USE OF THEIR RETAINED EARNINGS THEY SHOULD NOT BE ALLOWED TO EAT UP THE ONE AND ONLY PROJECT THAT WOULD ALLOW SOME OF US SMALL CONTRACTORS TO START BUILDING OUR OWN RETAINED EARNINGS!!!

- As a WOSB and EWOSB company, I have to express my extreme frustration with access to contracts. The WOSB targeted set-aside is one of the most complicated set asides to procure. Very few agencies are using this set aside to target WOSB and I am told again and again by Procurement Officers it is a very complicated procurement. There are a total of 9 steps you have to take before you can "target" a WOSB company. This needs major reform to simplify the procurement process if SBA or the gov is going to make real progress in awarding contracts to more WOSB or EWOSB companies.

- As a tiny company (less than 10 employees) competing with the big boys so to speak becomes near impossible. My exp over the last 7 yrs is large and medium size businesses are there for you but ONLY if you demonstrate to them "what is in it for me". They really do own the contracts and getting ahead to compete with them is very complex. The gov for years and agencies have continued to push for small business procurements but at the end of the day, if those small businesses don't have a large business on their side we don't win. Most set asides require PF and in some cases requires the prime SB to carry all the PF which makes it impossible to win without a large business on your team. Once you get involved with the large business they dominate you. I have example after example where I have pulled in a large business to help me win something and give me significant work share then months, years go back and they give nothing in return. They say they will but when it comes down to giving work share, they just don't. I hear this again and again from my small biz colleagues. Until someone holds the large business "feet to the fire" they do nothing. I am facing a situation right now with a very large IT partner I pulled in to win an IT project and they have never achieved our agreed up on work share, now they are having to cut the project and they are cutting MY positions (not theirs) even though they never achieved the work share agreement. This happens all the time to small businesses.

- Access to capital is very difficult in this lending environment. I am finding that unless you are established, have assets on hand banks will not loan you money. I was recently able to secure a line of credit for 100,000 for my company which was a huge win for me. I wanted 200,000 but they only gave me ½ of what I requested. My financials were strong, I showed a 30% profit end of year cash on hand and grew 200% last year. I was told by the bank that I am a "high risk because I grew too fast" . Weird.... I think access to capital for small companies like mine who are disadvantaged and don't bring very many assets to the table are difficult.

- Affordable benefits are just out of the question. I have 5 f/t employees I cover right now with CareFirst insurance (PPO and HMO), I am paying for those 5 people $42,000 per year to cover them! I just met with my broker and she told me the CareFirst premium is increasing because of Obama care by 30%! This is just fundamentally wrong. 3 of my 5 employees NEVER go to the doctor but only 1 a year. They are not considered high risk covered employees. I can't reduce my benefit plan to bring my premium down because they are very valued long standing employees and I don't want to lose them. Access to affordable benefits for a company of my size is nonexistent.

- Many times a small business contractor may not have the capital to fund a project the first 45-60 days of a contract, which is the amount of time that normally transpires before the contractor will obtain their first revenue draw. In order to compete effectively, there needs to be a contract based loan product available from commercial lenders backed by the SBA for small businesses once the contracts are successfully acquired from a federal agency. The underwriting guidelines for the contract based loan product can be structured in such a way as to limit and or significantly reduce the chance of default by the contractor.

- Obtaining a loan without contract revenue would merely mean a small business entity might spend a significant amount of the loan principal servicing debt rather than using the proceeds to grow their business.

- There has been a major slowdown in government contractor revenue growth because of significant budget reductions. With the slowdown in government contractor revenue, we need to be sure that the small business participation and specific socioeconomic category goals are met. Enforcement and accountability actions need to be in place in case the federal agencies do not meet the procurement set aside goals. Right now, many federal agencies consistently do not meet their small business set aside goals. The message this

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sends is that expectations for doing business with small and disadvantaged businesses is not a priority for every agency.

- I want to see:
  - Contract based loan product backed by the SBA needs to be created which will allow Small Business Concerns working capital once a contract is awarded.
  - Enforcement mechanisms and accountability of small business procurement goals needs to be enhanced in case the outlined small business set aside goals are not met.(Increase Enforcement—ensure existing small business goals are actually met)
  - There needs to be an increase in contract acquirement assistance from the local SBA District offices.

STATEMENT OF CONGRESSWOMAN GRACE MENG

Chairman Graves, Ranking Member Velázques, and my esteemed colleagues, I am honored to be here today and I welcome the opportunity to be a member of this important committee. We have been entrusted with a critical mission, and that is to create the conditions in which our economy can thrive. I look forward to working with each one of you in a bipartisan manner to achieve our goals.

And to those that are here before us to testify at today's hearing, good afternoon and thank you being here.

As a daughter of small business owners, I know that

Small businesses are the engines that drive our economy. From family-owned restaurants to high-tech startups, entrepreneurs and small-business owners are chief components to our communities and to our economy. They are responsible for creating 65% of net new jobs in the past 17 years, paying 43% of the US private payroll, and representating 99.7% of all employer firms.

One of the most important and bipartisan efforts Congress has is providing small business owners with the confidence they need to succeed. Confidence that capital will be readily available, confidence that interest rates remain low and steady, and confidence that their voice will be heard at this hearing and many more.

Undergoing the worst economic disaster since the Grat Depression is a tremendous obstacle to overcome. Despite this immense challenge, we are slowly but surely revitalizing our economy. At this juncture it is more vital now than ever that we as Americans understand, every dollar a small business owner makes does not go to a multimillion dollar pension for a CEO, but goes to a much needed soccer jersey and cleats, it goes to the home renovation for an expanding family, and it goes to one of our nation's most effective employers.

Not only do I support small businesses in my day to day personal life, but I will commit myself in Congress to supporting initiatives that encourage growth and stability for small business owners.

I look forward to your testimony and thank you for your time.

February 12, 2013

The Honorable Sam Graves
Chairman
Committee on Small Business
United States House of Representatives
Washington, D.C. 20515

The Honorable Nydia M. Velazquez
Ranking Member
Committee on Small Business
United States House of Representatives
Washington, D.C. 20515

Re: Small Business Job Creation and Economic Growth

Dear Chairman Graves and Ranking Member Velazquez:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents the interests of our nation's federal credit unions, I write in conjunction with tomorrow's hearing entitled "State of the Small Business Economy." NAFCU applauds the committee's ongoing efforts in identifying opportunities for and obstacles to job creation and economic growth.

The key to economic growth, particularly with regard to small business, is access to capital. Our nation's credit unions stand ready to facilitate additional business lending and help get more Americans back to work. Unfortunately, the arbitrary member business lending cap credit unions face continues to hinder their ability to help speed the recovery from one of the worst economic downturns in our nation's history. This artificial cap also can hamper SBA lending, as non-guaranteed portions of SBA loans made by count toward the arbitrary cap.

NAFCU strongly supports legislative efforts to raise the credit union member business lending cap and we urge the members of the Small Business Committee to do the same. Credit unions have increasingly become not only the lender of choice for a number of business owners, but also the lender of last resort for some, as a number of banks have reduced their lending to small businesses during the economic downturn.

We thank you for your attention to this matter. If my colleagues or I can be of assistance to you, or if you have any questions regarding this issue, please feel free to contact me or NAFCU's Vice President of Legislative Affairs, Brad Thaler, at (703) 842-2204.

Sincerely,

B. Dan Berger
Executive Vice President, Government Affairs
National Association of Federal Credit Unions

cc: Members of the House Committee on Small Business

AEO Association for EnterpriseOpportunity
THE VOICE OF MICROBUSINESS

Testimony of The Association for Enterprise Opportunity
Before the House Small Business Committee

Hearing Entitled "The State of the Small Business Economy"

February 13, 2013

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The Association for Enterprise Opportunity (AEO) is pleased to take this opportunity to share our views with the Committee in response to the February 13, 2013 hearing, titled "State of the Small Business Economy." On behalf of the nation's 25.5 million microbusinesses, which generate receipts totaling $2.4 trillion (17% of GDP) and employ more than 31 million people, AEO applauds the Committee for its continued engagement with the small business community. We hope this testimony will help guide these and future efforts to assist our nation's job creators.

State of the Small Business Economy: Encouraging Signs, Uncertainty Remains

According to the recently released Wells Fargo/Gallup Small Business Index, which surveys small businesses on current and future perceptions of their business financial situations on a quarterly basis, small businesses are more optimistic about 2013, with a growing number of respondents signaling that they intend to hire additional employees over the next twelve months.[1] This report was followed by the President's announcement that six million jobs have been created since the end of the recession in his State of the Union address. That our nation's small businesses are leading the path comes as no surprise. For the second year in a row, the U.S. Small Business Administration (SBA) set an all-time record by supporting more than $30 billion in small business loans in FY2012.[2] Demands for SBA Microloans reached their highest level since FY2005. As evidenced by these reports and other indicators such as government-reported data on monthly jobs figures and jobless claims, the economy is strengthening.

And yet, despite this encouraging data, there are few small businesses that do not think that the economy is churning along at a frustratingly slow pace. The constant state of crisis under which our government has been operating since 2011, from debt ceiling debates and tax fights to the succession of continuing resolutions and the shadow cast by the looming threat of sequestration, has created widespread uncertainty among small and large business alike.

Failing Our Entrepreneurs: A Matter of National Security

Over the last twenty years, small businesses have created fully two-thirds of net new jobs – nearly 12 million jobs. Between mid-2009 and 2011, the last year for which accurate data is available, small firms have led the economic recovery, creating 67 percent of net new jobs.[3] And yet, constant uncertainty undermines the entrepreneurial drive to start or grow a business, causing many would-be job creators to conclude that the risks outweigh potential rewards. In our increasingly

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[1] http://www.gallup.com/poll/160199/small-businesses-cutting-workers-hiring.aspx (Feb 11, 2013).
[2] SBA FY2012 Agency Financial Report,
http://www.sba.gov/sites/default/files/files/FY%202012%20AFR%2011%2015%202012%20.pdf
[3] SBA Office of Advocacy, Frequently Asked Questions, http://www.sba.gov/advocacy/847, (September, 2012).

globalized and interconnected world, failing to provide our nation's job creators with the tools they need is a matter of national security.

Entrepreneurship: A Means To Wealth Generation

AEO is committed to entrepreneurship because it is a key driver behind wealth creation, especially in underserved communities. According to *The Power of One in Three*, a report released by AEO in 2011, the median net worth of business owners is almost two and a half times greater than for all non-business owners.[4] For an African American male, the difference is nearly eight times higher for business owners compared to non-business owners. For an African American woman, the difference is more than ten times. For a Latino male, the difference is five-fold.

In that same report, AEO found that if just one in three microbusinesses hired a single employee, the U.S. would be at full employment.[5] The benefits of entrepreneurship are evident, and yet, these individuals are especially challenged to access credit due to low household net worth. We consider this to be at the crux of the access to capital challenge: if an individual does not own anything, they have no collateral against which to back a loan. If an individual does not own anything, his/her credit scores will reflect it. That is why, at the end of last year, AEO took a novel approach toward meeting the needs of our nation's entrepreneurs.

TILT Forward™

The private sector, as well as the public sector, can help. AEO launched a private initiative called TILT Forward™, which is an online lending platform designed for entrepreneurs and microbusinesses who have struggled to secure capital from mainstream lending institutions. TILT Forward™ is an innovative underwriting technology platform powered by On Deck Capital, in partnership with AEO, that allows microbusinesses to apply for working capital loans of up to $150,000 and lower. Loans of this size, as the Committee knows, are typically too small, too risky, and too expensive for mainstream lending institutions using traditional commercial underwriting standards. Once approved, borrowers can then customize their loan package to fit their unique needs.

In addition to applying for loans, approved business owners are also able to access an online portal that pairs them with nonprofit business assistance organizations that provide business counseling services to help them build their businesses. Mainstream financial institutions do not provide this sort of business assistance, mostly because it is too expensive. In effect, the platform has been designed to serve as a virtual "one-stop shop" for entrepreneurs and budding microbusinesses that face significant barriers to entry.

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[4] The Association for Enterprise Opportunity, "The Power of One in Three," http://aeoworks.org//pdf/one_in_three.pdf.
[5] Ibid.

TILT Forward™ was launched in St. Louis, Missouri in October 2012, and is operated locally by Justine PETERSEN, a local nonprofit lending and business assistance organization and AEO strategic partner.[6] We are working to scale this pilot nationally.

The Government Can Help: Strengthen the Entrepreneurial Ecosystem

The federal government can be a catalyst for growth. By continuing to provide support to organizations that lend and assist the smallest of businesses, by removing barriers to growth, and simplifying rules and regulations, the government can play a big role in strengthening the entrepreneurial ecosystem.

Business Assistance and Capacity Building

The U.S. Small Business Administration (SBA) provides support to many of these nonprofit organizations in the form of grants, including through the Program for Investment in Micro-Entrepreneurs (PRIME) and the Microloan Program. AEO found that businesses that receive counseling from one of these organizations have median annual revenue growth 30 percent higher than businesses that did not. They also tend to be more successful: 88 percent are still in business after five years, compared to a 50 percent success rate among businesses that did not.[7] In addition to the programs mentioned above, Women's Business Centers (SBA), Small Business Development Centers (SBA), the Community Development Financial Institutions Fund (Treasury), the Rural Microentrepreneur Assistance Program (USDA), and the Department of Labor's Employment & Training Administration provide critical business assistance services to entrepreneurs nationwide.

Much can be done at the state level as well. Assisting local nonprofit organizations bolster their capacity to provide counseling services is a smart, efficient means of getting services to those that need them. Capacity building includes initiatives to allow organizations to build upon successful models by increasing reach, providing online services - such as long-distance learning programs - and targeted outreach. AEO launched the Southeast Initiative to build the capacity of business assistance organizations in a region of the United States with the smallest representation of microbusiness.[8] The Southeast is home to nearly seven million microbusinesses, representing 88 percent of all businesses in that region. AEO is partnering with local organizations to improve their ability to reach more of these individuals in

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[6] The Association for Enterprise Opportunity, Press Release, October 19, 2012, http://www.aeoworks.org/index.php/site/press_single/justine_petersen_steers_st._louis_entrepreneurs_to_new_online_lending_tool/

[7] FIELD/The Aspen Institute, "Facts About Business Ownership," http://fieldus.org/Stories/FastFacts.html.

[8] The Association for Enterprise Opportunity, Southeast Initiative, http://www.aeoworks.org/index.php/site/page/category/capacity_building_in_the_southeast/.

their communities despite the significant constraints that make capacity building a challenge.

Despite the importance of these programs to closing the wealth gap, Congress continues to show diminished support for these community-based non-profit organizations by shrinking funding. In testimony before this Committee and other of the U.S. House of Representatives, AEO has shown the effectiveness of many of the programs named above.[9] For example, the PRIME Program delivers big returns on very modest investments. In FY2011, $8 million was awarded to 92 organizations in 43 states, Puerto Rico and the District of Columbia with an average award of $87,000. On average, each organization used its grant funding to serve 210 clients, typically providing 15 hours of counseling per client. This works out to $415 per client, or about $27 per counseling hour. Not only is this a wise investment in future job creators, but reducing funding – as has been the case over the last few years – or eliminating it altogether – as has also been proposed – would create a barrier for those who need these services the most. We urge the Committee to recommend that adequate funding is made available to these vital business assistance programs.

Access to Capital

In 2012, Congress came together to enact the bi-partisan JOBS Act (H.R. 3060), which included a novel means to accessing capital: crowdfunding. By removing disclosure requirements for small firms, small businesses will now be able to raise smaller amounts of capital on the open market. Unfortunately, the Securities & Exchange Commission (SEC), which has been charged with overseeing the development of crowdfunding rules, missed the December 2012 deadline to publish its proposed rulemaking. We urge the SEC to act swiftly to implement the necessary regulations and unlock an innovative means of capital for microbusinesses.

Another proposal to immediately increase capital access for small businesses would be the reduction of small business lending restrictions placed on credit unions. Legislation introduced in the 112th Congress (H.R. 1418/S. 2231 – the Small Business Lending Enhancement Act) would have increased the credit union lending cap to 25.7 percent (from the current 12.5 percent), allowing the private sector to fund small business growth – at no cost to taxpayers.

Credit unions are intimately familiar with their communities and have continued to lend in underserved communities, making loans that mainstream financial institutions would not. According to the Credit Union National Association (CUNA), if the lending limits were raised, credit unions could inject an extra $13 billion into

[9] Testimony of the Association for Enterprise Opportunity, Before the Subcommittee on Financial Services and General Government, House Appropriations Committee, Hearing on the FY2013 Small Business Administration Budget, March 21, 2013.

the economy, giving small businesses the fuel they need to create 140,000 new jobs within one year of enactment.[10]

Workforce Development

Starting a business is job creation. Workforce Investment Boards (WIBs), authorized by the Workforce Investment Act of 1998 (WIA), assist job seekers in state unemployment systems. However, an unemployed person who wants to start a business is not eligible to receive training because of assessment and evaluation metrics used by WIBs. The Department of Labor supports amending the regulations, but Congressional action is needed. Legislation introduced in the last Congress (H.R. 5805 - the Entrepreneurial Training Enhancement Act) would have allowed WIBs to amend their assessment metrics allow a Tax Identification Number (TIN) or letters of incorporation as sufficient proof of employment. This is a simple fix at no additional cost to taxpayers. We strongly encourage Members of the Committee to support this issue.

Healthcare

Healthcare coverage and compliance costs remain a top concern for many small business owners. The complexity and ambiguity surrounding the implementation of the Affordable Care Act (ACA) remain primary concerns for small businesses as we move further into 2013 and the required launch of state healthcare exchanges. Although many small business owners are looking forward to the new marketplace created by the exchanges, nearly three years have passed since it became law and only now are businesses beginning to receive instruction from regulatory agencies on how they must conform to new requirements. With the enrollment period for the healthcare exchanges only eight months away, these promulgated rules are not enough for the small business community to properly prepare for the potential impact.

We are particularly concerned about the timetable for state exchanges. Small businesses need the purchasing power that comes with the strength of numbers—we cannot afford to let the exchanges fail. We implore the Committee to ensure that new healthcare regulations promulgated by the federal government are neither overly burdensome, nor complex. If not done correctly, excessive regulation could result in low enrollment and rob small businesses of the benefits of healthcare exchanges, which are so desperately needed.

Conclusion

AEO is dedicated to helping individuals create wealth through entrepreneurship. At AEO, we like to say that starting a business is job creation. As the *Power of One in Three* shows, entrepreneurship is a means to a job and remains one of the best ways

[10] The Credit Union National Association, http://www.cuna.org/issues-advocacy/.

to financial security and creating wealth. Collaboration between the public and private sectors can play a critical role in creating jobs, both through models such as the TILT Forward™ platform and government programs such as those at the Small Business Administration. Strengthening these services and programs, while exploring ways to increase access to capital to microbusinesses will go a long way in enhancing the entrepreneurial ecosystem for those looking to start, operate, and grow businesses – and unleash *The Power of One in Three.*

We applaud the Committee for its continued leadership, and look forward to assisting Members of the Committee with creating strong policies that support our nation's job creators.

About AEO

AEO is the national member organization and voice of microbusiness in the United States. For more than two decades, AEO and its members – 400 nonprofit lenders and business assistance organizations – have helped more than two million entrepreneurs contribute to job growth and economic growth as they support themselves, their families, and their communities.