

U.S. DEPARTMENT OF THE TREASURY

Press Center



Treasury Secretary Timothy Geithner Opening Remarks – Small Business Conference November 19, 2009

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Good morning. Thank you all for joining us.

Three weeks ago, the President announced a series of new initiatives to help support small businesses.

He also announced that Karen and I would be bringing together businesses, lenders, policy officials and legislators to make sure we are doing everything possible to get credit flowing to small businesses that are seeking to expand and create more jobs.

That's why we are here today, to explore ways we can strengthen our existing programs and to discuss new ideas.

America's small businesses are critical engines of job growth and have historically led us out of recessions. But to play that role they need access to credit.

Over the past ten months, we have stabilized the financial system and brought down the cost of borrowing for businesses and families. Companies across the country are now able again to raise equity and issue bonds. Credit terms are easing as markets that were once frozen are beginning to open up.

But this process is incomplete. Small businesses, in particular, are still facing a very challenging credit environment.

The basic cycle of financial crises is that credit is cheap and easy to get for a time. Banks relax their standards too much, leading to excess lending and leverage.

When the credit crisis hits, they slam on the brakes and shift into reverse. Banks pull back, not just from those companies that are more at risk of failure, but from all companies. This hurts the prudent and the responsible as well as those who simply borrowed more than they could afford.

Although the demand for credit necessarily falls in a recession, particularly one following a long period of excessive borrowing, the risk is that banks over-correct, forcing viable businesses to lay off workers, reduce wages, close factories, and defer investments.

Left to the market, this process can feed on itself.

A credit crunch can amplify the recession, slow recovery, and cause more businesses to fail and unemployment to rise, putting more pressure on banks to cut credit lines for fear of higher defaults.

If this seems unfair, unjust and counter-productive to economic recovery and job creation, it is.

That's why it's so important for governments to act aggressively to break financial panics, to make sure that banks are able to fund at reasonable rates and that the overall banking system has enough capital to provide credit. And that's why governments must provide temporary support for private demand and the spark for a recovery in economic growth.

Now, we know that small businesses are more vulnerable to the after effects of financial crises.

They are more reliant on banks and the types of credit that take the most time to come back. Large businesses get only 30 percent of their financing from banks, compared to 90 percent for small businesses. So when banks pull back, small businesses take the hardest hit.

Also, small businesses have fewer resources to tide them over.

They often start on a personal credit card – as many in this room can attest – and finance expansion, in part, by borrowing against their personal assets and property. But if their bank made a lot of risky loans to commercial real estate developers or less viable companies, their credit lines could be cut and applications for new loans turned down.

This is a very hard problem to solve. It's not something we can fix easily. It takes a coordinated mix of different strategies and policies.

Let me briefly describe the critical elements of any successful response, alongside broader efforts to establish economic growth, and alongside the need to constantly evaluate our initiatives to make sure they are working as effectively as possible.

First, we need to provide direct help to small businesses. We've done that through the Recovery Act by establishing targeted tax relief to small businesses, allowing them to write off more of their expenses and to earn an instant refund on their taxes by 'carrying back' their losses five years instead of two.

And we've done that by implementing higher guarantees and lower fees for Small Business Administration loans, greatly increasing SBA lending, which Karen will talk more about in a moment.

Second, we need to support those who support small businesses. That's why the President announced a new program last month to provide low-cost capital to community banks that submit a plan to increase their small business lending and to Community Development Financial Institutions that serve the hardest-hit communities.

And that's why the Recovery Act provided \$100 million in additional support for CDFIs and an additional \$3 billion in New Market Tax Credit investments to support small businesses as they spur growth in those struggling communities.

Third, we need to continue improving the health of securitization markets that provide key channels of credit for small businesses. Since the government launched the TALF program, new issuance of asset-backed securities, including loans that directly help small businesses, has averaged \$14 billion per month, compared to less than \$1 billion last fall. Spreads have come down substantially.

Fourth, we need to make sure supervisors are providing guidance to their examiners to counter the risk of overcorrection. It is a delicate balance and we need to get it right.

Fifth, we must support expanded exports including through programs like EXIM.

And finally, we need our nation's banks to put the assistance the government provided to work and get back to the business of lending, helping companies raise capital and investing in the promise of American innovation.

We need banks to be working with us, not against recovery.

The recovery in earnings across the banking system, which is a necessary part of putting out the financial fire that caused huge losses to the savings of Americans, is not because the surviving banks are particularly smart and clever. It's because the taxpayers of the United States and their elected representatives decided that to save the economy, we had to save the financial system.

All banks, strong and weak, benefitted from those actions. Banks bear some responsibility for the extent of the damage caused by the crisis. And you carry a substantial obligation to help our communities get back on their feet.

I encourage Members of Congress to work with us to create the conditions so that small banks in their communities, the banks that do the greatest percentage of their commercial lending to small businesses, participate in our efforts to promote small business lending. That means providing them with the confidence that if they take capital today from our new programs, they will not face a change in the rules tomorrow.

Let me close by saying that we are entering a new phase in our response to this crisis, moving from rescuing the economy towards repairing and rebuilding the foundation for future growth.

As the financial system has stabilized, banks have repaid the government more than \$70 billion. We have earned more than \$12 billion from those investments. And we are now in the process of winding down and terminating some of the extraordinary government programs put in place last fall.

But even with such progress, even with our economy growing again for the first time in a year, we continue to face a daunting set of challenges, underscored by an unemployment rate now above ten percent.

Without increased access to credit for American families and small businesses, growth will be weaker, companies will defer long term investments and we will not be able to create a recovery that is self-sustaining and led by private demand.

That's why, as we wind down programs that help big banks, we are committed to doing more to help small businesses access the credit they need to grow and hire new workers.

We have taken positive steps in the past, and aim to take even more in the future.

The President wants to hear the best ideas and this conference – feeding into his jobs forum – is a critical way to get those ideas from across America and make sure that our recovery is shared by all American working families.

Let me now turn it over to Karen

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