Statement of the Naperville Area Chamber of Commerce

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To: House Committee on Financial Services

Regarding: Regulatory Reform: Examining How New Regulations are Impacting Financial Institutions, Small Businesses and Consumers in Illinois

By: John Schmitt
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Our Mission:

Through the commitment and engagement of our Members, the Naperville Area Chamber of Commerce provides leadership for the benefit of the business community by promoting economic growth, advocating the interests of business, providing service and education to Members and community, and meeting Members' needs.

The Naperville Area Chamber of Commerce is the second largest chamber of commerce in Illinois and has received the prestigious designation of 5-Star Accreditation from the United States Chamber of Commerce. An honor bestowed on only 75 Chambers in the nation, out of the nearly 7,000, for their Member's involvement and engagement in promoting free enterprise and strengthening their regional business community.

Statement of John Schmitt
President & CEO
Naperville Area Chamber of Commerce
November 22, 2011

Chairman Bachus, Ranking Member Frank, distinguished members of the Financial Services Committee and members of the Illinois delegation, thank you for the opportunity to speak with you today. My name is John Schmitt and I am the President & CEO of the Naperville Area Chamber of Commerce, a regional chamber in the western suburbs of Chicago.

Our Chamber is proud to have approximately 1,400 members of every size and sector. Our Chamber's diverse membership base includes small start-up companies, Main Street retailers, non-profits, and some of our nation's largest companies. This provides us with regular interaction with a wide spectrum of business backgrounds, needs, business models and challenges. On behalf of all of our members thank you for holding this field hearing and studying how recent legislative and regulatory changes are affecting the availability of credit for businesses.

Today's other panelists are issue experts about how the Dodd-Frank Act and creation of the Consumer Financial Protection Bureau are affecting the banking industry and affecting the accessibility of credit. These bankers are the experts because they are the businesses that are dealing on a daily basis with bank examiners, officials and of course, customers seeking loans.

Today, I am here to provide you with an update from the business community and to explain the environment small businesses are operating in, and the general themes we hear from our members about the availability and accessibility of credit.

Our Chamber firmly supports sound consumer protection regulations. Our national economy and global economy are still struggling to recover from the depths of one of the worst meltdowns in the history of civilized society. Small businesses, who are the vast majority of our membership and businesses in America, have been hurt mightily during the recession.

So while today we are discussing what changes to could be made to improve the accessibility, I think it is important to remember just where we've come from. The recession and its aftermath have decimated the small business community.

Small businesses are reeling from soft consumer demand, lowered home-values, a difficult economic climate, and difficulty maintaining and obtaining credit.

The cumulative result is that existing businesses have been pushed to the brink and many had to close. For reference, we recently completed a review and estimate that since January of 2008, 300 businesses that were members of our Chamber have closed and gone out of business.

New businesses are finding it difficult to get started. While small business is inherently a risky enterprise during the good times, the recession and the resulting softness in our economic climate has been a toxic mix for too many entrepreneurs.

While there was a need to save those "too big to fail," for the safety and soundness of America's and the global economy and financial system; today it is the small businesses, the smaller institutions and the American people that are paying the price to restore the financial system to health.

Thankfully, the credit markets are opening again, but I fear they are open only for some of our nation's business community. For the small business community there are too many hurdles and too much uncertainty in quickly obtaining loans – even for seemingly credit worthy businesses. There are additional examples of this sentiment available later in my statement.

I believe there are two competing desires that are seemingly at odds and are at fault for the difficulty in small businesses to obtain credit. From a macro-perspective there is the desire get the economy growing, which will require businesses to have ready access and availabile credit. This desire is juxtaposed with the continuing efforts of the regulatory community to ensure stabilization of our banking system, making sure it remains systemically healthy, averting failures, and of course, avoiding any further bailouts.

I'm reminded of my high school economics class and the lesson focusing on our inability to have our cake and it eat it too.

I don't know if regulators understand the perils and risks of having tunnel vision on their quest to ensure that the mistakes of the past aren't repeated are having on the business community. The Chamber doesn't fault them for this, it is the job of the regulatory community to regulate and prevent too much leverage from threatening our financial system – but we hope they are hearing from you, our elected leaders, on the importance of enabling banks to lend to small businesses and start up firms.

Loans to small businesses didn't cause our economic meltdown, but it seems as if our natural reaction to the financial collapse and past abuses, may be hampering our ability to recover by making it too difficult for small businesses to obtain credit.

Unfortunately, I am afraid that we are just in the beginning of a long and difficult struggle for small businesses from obtaining the credit they need to stay open or to expand their operations, hire additional workers and invest in America's communities. I say this because we repeatedly hear that business owners are spending more of their time working on obtaining credit, rather than running their businesses or working on actually growing their business.

One of the most puzzling and disheartening stories we repeatedly hear at the Chamber is a bank turning away or revoking credit from longstanding and long-established customer. Often, with very little communication, small businesses are told that their existing arrangements must be reworked or will not be renewed, or that a business must infuse a significant amount of capital to get a loan renewed.

For a small business, this results in a frantic and difficult chase to secure financing. This is a distraction from running their business and weighs heavily on their decision to hire additional workers.

Reports From the Trenches

At this point, I would ask permission to enter the following anecdotes into the record. I would ask your permission in refraining from using the business names or organizations that they were seeking loans from. The Chamber isn't passing judgment on why their experiences turned out as they did, I just want to provide you with examples of what we have heard. And it is important to note that we heard from several organizations that have reported no problems accessing credit. Generally, these were long established organizations and a vast majority of our negative experiences come from businesses in the start-up phase of their business.

On Main Street and in general, the business community has seen a change in their banking relationship. There is a new party in the transaction and that is the banking regulator. Often, businesses seeking loans are told about this mysterious party and often bad news is delivered in the name of the regulator.

While I know the construction industry and real estate markets are widely credited with playing a major role in the financial meltdown there are two anecdotes that speak directly to this point.

The first is the example of one of a local construction and land developer who, despite never missing a payment and having 100 percent, again 100 percent occupancy, had to go to 22 banks before he could obtain the credit necessary to continue to run his business. Not a good experience and one that is directly attributable to the industry's changing valuations of certain assets.

Another is the example of one of the most prominent real estate development firms in our community. They were a conservative organization and were not overly leveraged. They had a path forward to survive the recession and remain a going concern. Instead however, banks stepped forward and would not renew their loans and instead sought millions of additional capital be infused to maintain the status quo.

Like the previous example, this business had never missed a payment and none of the properties were distressed. At the end of the day the owners faced a choice between infusing millions into the enterprise and slogging it out, or taking the option of simply walking way.

After review and debate by the business' owners they decided the path they would take would be to file bankruptcy and close down. Both the bank and the business were within their right to act as they did, but we did not achieve the desired result.

New Business Start Ups

Our Chamber is pleased to provide meting space and other assistance to the Fox Valley SCORE chapter. Every week the volunteers at SCORE meeting with individuals seeking the American dream, to start a business. Before the recession, generally the advice focused on the need to develop a business plan to submit to a bank.

Now however, many of these entrepreneurs struggle to find available credit for their concept. A SCORE counselor recently told me that they were advising clients to seek access to private capital, in lieu of the traditional course of brining their business plan to a bank. It's not to say that every person who thinks of starting a business is taking this path, but I think it speaks volume to the challenges facing new businesses.

One of the SCORE counselors advises clients on his experiences running a small business and the difficulty they face in financing. This counselor did not have a loan renewed for his business that was in the pharmaceutical industry, and a business with $9 million in revenue and 50 employees shut its doors.

Another very successful recent retail startup contacted me about my testimony today. This business owner has a great retail concept and has been doing very well since they opened their business over a year ago. As they have pursued a loan to expand, they have been repeatedly denied. They have been told it is because they don't have a three-year track record.

This is while they've put hundreds of thousands of dollars of their savings into the business to get it launched. They are growing increasingly frustrated at the inability to obtain financing. While retail businesses are a risky, if we want to fill the shopping centers, strip malls and downtowns of America with stores and workers - we need to have a ready supply of credit available to entrepreneurs with an idea and a concept.

This business owner I believe the business has been looking to obtain financing from private sources, alumni networks and others. However, the lack of access to credit has been frustrating and diverted significant attention away from growing their business.

The Need For Credit For Existing Businesses

Another example from our membership I would like to share with you is the story of one of our Chamber's Small Business of the Year Award winners and Chamber board members. He's been trying to do exactly what this county needs, purchase another business, invest in it, take a new retail space and hire additional workers.

After being told by his bank where he had a longstanding relationship that financing would not be possible, this entrepreneur has spent the past ten months trying to find someone else who would step forward and provide the financing. He is awaiting final approval from an SBA lender. However, the inability to obtain the financing has delayed the expansion and investment in this business.

Another example I would like to share is one I learned from speaking to one of our community's most prominent business leaders. They have a 25-year track history and have several successful business ventures in town.

Their business, a hybrid showroom and retail storefront is a partnership with another prominent and successful business partner. They saw opportunity in the marketplace and wanted to expand into a new product line. While seeking a loan from an institution where they have significant deposits they were told they could get a loan for the amount they requested, but only if they put the same amount of money in a cash deposit at the same bank.

Thankfully these entrepreneurs had the means to make this arrangement work, but it does not speak well to the availability of credit to creditworthy individuals.

The Role of Credit

It is important to remember that many small businesses – unlike large corporations, often rely on an "all of the above" means of financing their business. They use and risk their personal credit, cash, home equity loans, collateral, credit cards, anything and everything, to get their business through the lean times.

Small businesses, entrepreneurs and start up companies most need credit to be available and cheap during their lean times. Small businesses need banks to give them loans when the small businesses need it, not when it works for a bank's ratio or when they have a proven track record.

Unfortunately it appears that our banking system and banking regulators have grown risk averse and unwilling to take a chance on small businesses when they most need it. We need a capital structure that finances the hopes and dreams of America's entrepreneurial class.

As I said before, small business is an inherently risky enterprise. It brings with it the greatest reward possible in the American dream. We need a system that can evaluate and review concepts and new ideas and find a way to quickly and promptly provide an answer. Our Chamber believes endless and lengthy delays in obtaining credit are negatively impacting our economic recovery.

There is no regulatory structure, loan classification system or ratio that can define whether a small business concept will be successful. We have tens of millions of small businesses in this country because we have entrepreneurs willing to risk it all, and people willing to invest in this opportunity.

We hope these examples today echo what you have heard as you visit with your constituents so that it leads this committee towards taking action to make it easier for small businesses to obtain and access credit. Our economy relies on trial and error, success and failure. We urge you to keep close eye on the regulatory and banking system to make sure that it is not stacked against funding the American entrepreneur. Our nation desperately needs this talented group of people to bring us back to prosperity.

Compliance Costs

Our Chamber asks the members of this committee to ask the regulatory authorities, agencies implementing new regulations, to continue to focus on the impact new mandates have on small businesses.

Overall the small Business Regulatory Enforcement Fairness Act panel has been successful at reworking regulations that would have a significant and burdensome cost on our nation's small businesses. The Chamber and our members hope that you would ask that all of the rules, regulations and mandates required in Dodd-Frank be considered on the impact they have on the small business community.

Small businesses do not have a compliance department, or the benefits of economies of scale. Every regulation and the time it takes to comply shows up directly on their bottom line.

Please remember that small businesses use every means possible of financing their business and any actions which increase the costs of borrowing or credit, directly impact the ability of small businesses to open and ultimately compete in the marketplace.

Conclusion

We hope you will continue you efforts to understand why small businesses are finding it so difficult to obtain loans. If at the end of your examination you feel that the regulatory community is taking an inappropriate, or overly conservative approach towards the availability of credit to small businesses, we urge you to use your regulatory and oversight authority towards making changes that will increase the lending and availability of loans to budding entrepreneurs and small businesses.

Thank you for the opportunity to speak with you and I am happy to respond to any questions you have. Thank you for your service to our nation.

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United States House of Representatives

Committee on Financial Services

"TRUTH IN TESTIMONY" DISCLOSURE FORM

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

1. Name:	**2. Organization or organizations you are representing:**
John Schmitt	Naperville Area Chamber of Commerce
3. Business Address and telephone number:	
55 South Main Street, Suite 351 Naperville, IL 60540-5381 P: 630-355-4141 F: 630-355-8335 W: www.naperville.net	
4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?	**5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?**
☐ Yes ☒ No	☐ Yes ☒ No
6. If you answered .yes. to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.	
7. Signature:	
John Schmitt	

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

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