



Testimony of

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Before the

**Committee on Financial Services
Subcommittee on Oversight and Investigations
United States House of Representatives**

“Improving Responsible Lending to Small Businesses”

Lawrence Technological University

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Mr. Chairman and Members of the Committee, thank you for this opportunity to testify regarding our concerns of small businesses getting adequate access to capital.

My name is Tammy Carnrike, and I am chief operating officer of the Detroit Regional Chamber.

With over 20,000 members, the Detroit Regional Chamber is the largest chamber of commerce in the country. The chamber's mission to power the economy of Southeast Michigan is carried out through business attraction efforts, advocacy, strategic partnerships and valuable benefits to members. Our members range in size, scope, and sector...they contribute significantly to the vitality of our region.

Approximately 75% of our member firms are small businesses with 50 employees or less. Recognizing the impact of staying connected with the small business sector and its needs, the chamber maintains a Small Business Advisory Committee, made up of members that volunteer their time to keep the chamber abreast of issues that are most important to small businesses. The chamber has received a clear message, through focus groups and small business representatives who have shared their experiences, that the credit crunch and cash flow challenges have placed increased stress on their daily operations.

Access to capital has been a strategy on our small business agenda for over the last five years. This has been a long-standing issue for us. But it has been compounded by the financial crisis that struck the state of Michigan, and the entire nation, in the past year. Without question, the economic crisis we're in is stunning. Increased availability of capital to small businesses can support retaining jobs and also provide opportunity for job growth and business expansion.

Our country is in the midst of the largest entrepreneurial surge ever witnessed. Considering the Small Business Administration projections of more than 1.3 million new companies with employees started in the last two years, this represents one of the largest growth rates in history – even outpacing the height of the dot-com craze. When it comes to the vitality and economic prosperity of our country, there is nothing “small” about small business.

The pace of change in the banking industry is being matched by the unprecedented growth of small business and we find ourselves in a situation that requires attention. As of August there were eighty bank closures nationally and analysts are predicating more than three hundred bank failures over the next couple of years. Yet, we believe that this crisis presents an opportunity.

Today we're here discuss Southeast Michigan's small business community and their need for access to capital, but we also want to recognize that there are many supportive lending institutions that contribute regularly to small business success in this region. Besides their programs and services, these institutions also provide support and resources to our small business programs and resources. They serve on committees, boards, are engaged in

economic and community development activities, and focus on our region's need for automotive supplier diversification.

We need both our small business sector as well as the banking industry to be successful in order to strengthen our economy and create jobs. Create an opportunity for solid working relationships between them, and organizations like ours commit to be there to provide support and connection to resources.

The Detroit region is more economically stressed than many other areas of the nation. Just look at our high unemployment rates and the staggering loss of jobs. Regardless of where the job loss occurs, it ultimately impacts the small business community.

Michigan lost more private sector jobs since the year 2000 than any other state – nearly half of all private sector jobs lost in the U.S. during this time. The Detroit Regional Chamber, along with many other business organizations, are focused on the need for transformation of our economy through new targeted sectors for growth – and for helping small businesses to diversify their business to support these new sectors. Additional resources to support supplier diversification would have a significant impact and help expedite economic transformation efforts. Small business can and will create jobs with the available resources.

We recently reached out to a targeted segment of our membership with a survey on access to capital.

Based on the survey results, small businesses are currently looking at a number of methods to gain access to capital.

Nearly half (41.9%) had applied for financing in the past 12 months, and 70.2% anticipate a need for financing in the next 12 months. The diversity of financing used in the past by these small businesses range from lines of credit/working capital loans, to term loans, SBA Guaranteed Loans, asset based financing, equipment leasing, commercial mortgage and various other financial services. Not surprisingly, 67% are relying on credit cards and 45% relying on friends and family.

When asked which sources would be utilized in the future, there was an indication of increased interest in SBA guaranteed loans (29.6% vs. 14% in the past). This shows growing interest and an opportunity for the expansion of SBA programs.

Over half, 56%, indicated that banks not lending is the biggest barrier regarding access to capital. The second biggest barrier, at 38%, is “trouble getting non-traditional business model approved,” and third, at 29.9% cited ‘amount of funds available’ as their biggest barrier to accessing capital.

Seventy-three percent of those responding indicated that financing is necessary for general working capital. 23.8% indicated they would look for financing for a new project; 16.8% for acquiring equipment; 12.9% for expansion or acquisition of facility; 6.9% for buying a business and 5.9% to start a new business.

Additional concerns shared include rising interest rates on credit cards and lines of credit and the continued strain on capital due to growing receivables as a result of economic crisis experienced over the last year.

We appreciate the attention by President Obama to the problem and applaud the administration's effort to provide flexibility to SBA loans and make it easier for some banks to access capital from Treasury. Other ideas would be to continue to provide flexibility through the SBA and promote lending without over burdensome new regulations.

The small business community of Southeast Michigan is suffering from the economic crisis, and needs help now. Michigan is suffering more than any other state in the nation with loss of jobs. Expansion of opportunities for access to capital is critical for small business survival.

Even before there was a full-scale credit contraction, there's always been a pervasive Catch-22 in the banking industry when it comes to financing small businesses.

The start-up phase is often the most crucial time when small businesses need capital...but it's at this delicate stage when bank financing is rarely an option.

Industry-standard underwriting criteria usually include the ability to repay based on cash flow and collateral...an established credit history...business equity and experience.

Startup businesses simply don't have a financial track record.

So that's where the rubber meets the road for banks...finding a way to support small businesses at their most critical time of need even when you can't lend to them.

America – and Detroit, for that matter – has always been at its best in times of crisis and challenge. This is one of them ... and it offers us an opportunity to change...innovate...and ultimately lead.

Thank you for allowing us this opportunity.