

**Testimony of David Hoyt
Head of Wholesale Banking
Wells Fargo & Company
House Financial Services Committee and House Small Business Committee
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Chairwoman Velazquez, Chairman Frank, Ranking Member Bachus, Ranking Member Graves, and Members of the Committee, I'm David Hoyt, Head of Wholesale Banking at Wells Fargo & Company.

Thank you for the opportunity to be here today to discuss lending and credit – topics that are critical to business owners, our business at Wells Fargo, and the economic recovery.

For 158 years, Wells Fargo has focused on working with customers and building long-term relationships in the communities where we do business.

As the number one small business, middle market, and commercial real estate lender in America, we have tens of thousands of people in our company dedicated to serving the needs of these business owners.

At Wells Fargo, we have small business lenders throughout the United States located in our 6,600 stores in 39 states. We also have 95 offices nationwide solely dedicated to serving the needs of middle market companies.

Wells Fargo serves more than two million small businesses and has relationships with over 15,000 middle market businesses nationwide. We bank approximately one out of every ten small businesses and one out of every three middle market businesses in the country. When businesses need credit, we are prepared and eager to lend to them.

In many cases we have banking relationships with customers that have spanned multiple economic cycles. We proactively work with borrowers that may be experiencing difficulties and encourage them to have conversations with us as early as possible so that we are able to explore alternatives.

Many business owners in America are hurting. Our recent Wells Fargo/Gallup Small Business Index surveyed in January showed us that business owners' current financial situation – which in our survey, is comprised of business owners' perceptions on cash flow, revenues, capital spending, credit availability and job hiring – is at a seven-year low.

At Wells Fargo we are doing our part to get consumers and businesses back on their feet by making credit available to credit-worthy borrowers in the communities where we do business. In 2009, we extended over \$40 billion of new credit to our business borrowers.

While credit availability has improved since early 2009, we continue to read media stories and hear directly from business owners who are concerned about being able to obtain the credit they need to run their businesses.

We also see that demand for business credit has remained soft through the fourth quarter of 2009.

In our opinion, the reality of weaker loan demand as well as the perception of the lack of availability of credit is rooted in several factors.

First, the economy has taken a toll on the credit and financial capacity of many businesses, reducing their cash flow and capacity to repay debt. At Wells Fargo, we rely on the fundamentals of sound credit underwriting and, as a responsible lender, only extend credit to borrowers that demonstrate the ability to repay it.

Second, asset values have declined from much higher levels which existed at the top of the economic cycle. In particular, the commercial real estate market has seen significant declines – which I will discuss later. Businesses that relied on the value of these assets to borrow can't borrow as much against them today.

Third, given the uncertainty of the current economic environment, we see our borrowers being more conservative – stocking less inventory and

making fewer capital investments – which reduces their need to borrow. On average, utilization rates of our middle market customers' lines of credit have dropped from normal rates in the 40s to 35 percent.

This behavior is consistent with prior economic cycles and we would expect both line usage and demand for credit to normalize as the economy improves.

Finally – loan structures and terms are more conservative now than at the peak of the economic cycle – and we believe appropriately so. The increasingly aggressive extensions of business credit were partially responsible for the current financial crisis. Borrowers that accessed credit on those terms find the terms of credit extended today more restrictive. We believe that a return to more prudent lending standards is important to a sound financial system.

Turning to the commercial real estate market, we hear a lot of concern about the availability of credit. The commercial real estate industry has been particularly impacted as asset values have decreased significantly leaving many borrowers and lenders in a position where loans exceed the value of the property securing them.

During the last decade, the commercial real estate market saw substantial amounts of liquidity entering the market which reached an all time high in 2007. As a result, valuations increased as investors were willing to accept a lower return on a given stream of cash flow. Returns to investors – which generally had been in the eight to nine percent range historically– dropped to six percent or less – a level which, in our experience, was unsustainable. As the economy slowed, returns reverted to normal levels. Adding to the problem, weaker tenant demand and tenant failures are resulting in a decline of cash flow generated by individual properties. The combination of these issues has resulted in declining property values, in many cases 40 to 45 percent. Lenders and property owners alike are now faced with the difficult reality of significantly lower asset values.

Our recent experience is that there is substantial liquidity available in the market to deal with these issues on a macro level – although these resolutions are often economically painful to individual owners and lenders. In our opinion, this is not a short-term problem and our expectation is that it will take some time for the problem of overvaluation of commercial real estate to work its way through the system.

Being Part of the Solution

There is work to be done and we want to be a part of the solution for individual business owners and the economy in general.

More than ever, our bankers are staying close to their customers to understand and help them with their current circumstances as well as their future borrowing needs.

Over the last year, Wells Fargo hired 1,500 store bankers to service the needs of our customers. We expect to add at least 700 more this year.

When lending to small businesses, we are taking time to re-evaluate the loans we have declined. We take a second look at declined loans because we want to make every good loan we can.

We are also educating small business owners so they can make better financial and credit decisions. Through the education section of our dedicated small business website we offer a comprehensive library of online advice tools including videos covering important business topics such as credit, financing, retirement planning, expense control and revenue growth. Additionally, through Wells Fargo's Diverse Business Services programs, we are providing outreach and education to the fast-growing women and diverse business owner segments.

We also support provisions in the America's Recovery and Reinvestment Act of 2009 intended to incentivize small business lending. Specifically, we have

found that the fee waivers on the SBA 7(a) and 504 programs, as well as the 90 percent guarantee, have proven to be successful and effective in helping small businesses owners access the credit they need. We encourage Congress to extend the reauthorization and funding of these provisions when they expire at the end of the month.

Moving Forward

There are some positive signs in the market. While loan demand is still soft, it has improved over the last several months.

- **Businesses that are applying for credit are generally stronger than a year ago.**
- **Competition for well-underwritten loan opportunities has increased over the last few months – leading to healthy and strong competition between financial services providers.**
- **Liquidity in the markets has also improved – particularly in the commercial real estate industry.**
- **Business owners reported in our last Small Business Index that they are more optimistic about the future and expect future revenues, capital spending and cash flow to improve over the next 12 months.**

As we all travel along the road to economic recovery, Wells Fargo maintains our commitment to helping businesses owners – large and small alike – succeed financially.

Madame Chairman, Mr. Chairman and Members of the Committee, thank you and I would be happy to answer questions.

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