TESTIMONY BEFORE THE UNITED STATES CONGRESS
ON BEHALF OF THE

NATIONAL FEDERATION OF INDEPENDENT BUSINESS

NFIB
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Testimony of

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before the

Committee on Financial Services Subcommittee on Financial Institutions and Consumer Credit

on the subject of

State of Bank Lending in America

on the date of

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Good morning Chairman Luetkemeyer, Ranking Member Clay and members of the Subcommittee on Financial Institutions and Consumer Credit. Thank you for the opportunity to testify today on the "State of Bank Lending in America".

My name is Holly Wade, and I serve as the Director of Research and Policy Analysis for the NFIB Research Center. NFIB is the nation's leading small business advocacy association, representing members in Washington, D.C. and all 50 state capitals. Founded in 1943 as a nonprofit, nonpartisan organization, NFIB's mission is to promote and protect the right of its members to own, operate, and grow their businesses.

Small businesses are the bedrock of the U.S. economy with roughly 28 million small firms, of which, 5.8 million are small employers.[1] Small businesses account for about half of U.S. gross domestic output and about half of the private sector employment. Their contribution to the U.S. economy is vital to the creation of a strong foundation for the middle class, offering job opportunities and contributing to their local communities. Small businesses provide goods and services in every market, in every geographic region, and throughout every demographic across the country.

General Small Business Conditions

Over the past nine years, small-business owners have struggled to bounce back from the great recession with the economic recovery being painfully slow for many. NFIB's Small Business Economic Trends survey found small-business owners stuck in a below-average rut, with the survey's headline optimism index exceeding its 43-year average reading on a monthly basis only six times since July 2007, four of those recorded in the last four months.[2] Owners' optimism failed to improve, depressing their hiring and spending, keeping average GDP growth relatively flat at 2 percent over the last eight years. Over this time, government regulations proliferated, increasing the cost of doing business. In response to the combination of policy constraints and anemic GDP growth, few small-business owners found economic conditions and policies supportive of investing in or growing their business. This has translated into below average levels of borrowing among small businesses.

However, post-election, small-business owner sentiment improved dramatically with more owners optimistic about the outlook for business conditions and business expansion. The rosier outlook has translated into more favorable expectations for sales growth and hiring to support expected gains in sales. As owners' confidence in the economy and economic policies rise, they will be more likely to invest in and grow their business. Owners hold high expectations that Congress will now create a friendlier business climate for them to succeed.

Small Business Financing

[1] Small Business Administration, Office of Advocacy, Frequently Asked Questions. https://www.sba.gov/sites/default/files/advocacy/SB-FAQ-2016_WEB.pdf

[2] Dunkelberg, William C. and Holly Wade, *NFIB Small Business Economic Trends*, Series, NFIB Research Center.

One area of critical importance in facilitating growth in the small business sector is small-business financing. Small business's ability to access financing is a vital component of a healthy small-business sector. Small businesses rely on financing for general business operations but also expansion activities and reinvestment. NFIB regularly studies banking activities and borrowing trends among small-business owners. NFIB's Small Business Economic Trends survey offers a monthly update on borrowing and lending trends among a random sample of NFIB's 325,000 small-business members, a survey NFIB has conducted since 1973. Since the recession, loan demand has remained historically weak, even with record low interest rates still available. The percent of "regular borrowers" has remained in the low 30s with little pick up throughout the recovery whereas previous expansions experienced a level of "regular borrowing" closer to 40 percent. High numbers of firms remain on the "credit sidelines", seeing no good reason to borrow. The survey also asks owners if they were able to satisfy their borrowing needs over the last three months. While most are not interested in borrowing, the vast majority of borrowers were able to access desired financing. In recent years, about 4 percent report that they were not able to satisfy their borrowing needs each month, but this measure climbed to a record high of 11 percent in 2010.

These trends are further reflected in NFIB Small Business Problems and Priorities survey that asks small-business owners to evaluate 75 business-related problems.[3] Four years ago more small-business owners experienced difficulty obtaining financing due to tougher lending policies including an increased number of distressed borrowers due to the economic slowdown. Since 2012, financing has become a less significant issue for many owners with fewer interested in borrowing due to slow economic growth but also due to better balance sheets for those seeking credit. "Obtaining Long-Term (5 years or more) Business Loans" and "Obtaining Short-Term (less than 12 months or revolving) Business Loans" both fell precipitously from their 2012 rankings. The former fell from a ranking of 56th to 69th and the latter from 58th to its current ranking of 70th. The percent of owners ranking obtaining long-term and short-term loans as critical issues also fell from 2012 to 2016 from about 11 percent reporting each as a critical issue to 6 percent in the 2016 report. Federal Reserve policies continue to flush banks with cheap money to encourage consumer and small-business lending, but small-business owners are not experiencing the type of economic growth to support increased borrowing. And it appears that those who are interested in financing are generally able to access adequate levels of credit.

But there are a few pockets of small businesses that do have more difficulty accessing credit than the general population: businesses experiencing declining sales of more than 10 percent and those experiencing rapid growth of 50 percent or more in the last three years. The difficulties of the former are generally self-explanatory but the latter is of bigger concern as those businesses generate jobs and economic growth. Previous editions of the survey show similar patterns but far less severe than in 2016. For example, obtaining short-term and long-term loans currently ranks 39th and 42nd respectively for high growth firms compared to 70th and 69th for the overall population. Sixteen percent of this group find obtaining short-term loans a critical issue, and 14 percent say the same about obtaining long-term loans, more than double the percent of the

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[3] Wade, Holly, *NFIB Small Business Problems and Priorities,* NFIB Research Center, series.

overall population. This disparity is also shown in the 2012 and 2008 issues, but far less pronounced.

The reasons why high growth small businesses are having a more difficult time obtaining credit compared to years past are less obvious, but the decline in the number of small, community banks is of particular concern. Small-business owners are far more successful accessing credit through smaller, regional banks than larger banks.[4] The downward trend is not new but over the last eight years the number of commercial banks has dropped from about 7,000 in 2009 to its current level of about 5,000. The importance of these banks cannot be overstated for small businesses but also for the banking system itself. Five thousand small banks cannot be systemically risky because they invest in local communities and in firms that are not nationally linked. NFIB worries that over regulating these smaller, community banks will create more bank consolidation and deter new bank formations. Loans to these small businesses are critical to the health of local communities and, collectively, to the health of the small-business sector.

Small businesses are in a good position if the positive expectations for real sales and business conditions over the last three months are translated into actual spending on capital equipment, expansion and inventory investment. If this occurs, borrowing activity should pick up. Market forces, not regulators in Washington, should manage the supply and price of banking services and loans so that small business financing remains available for a potential increase in small business borrowing.

Conclusion

NFIB hears from small-business owners year-round about the various challenges they face operating their business, including access to credit. The primary step in developing pro-growth policies is to first, “do no harm”, especially when it comes to making it more difficult to operate their business whether due to regulations or creating a more difficult environment for firms to access financing. Small-business owners are in great position to invest in and grow their business given the right set of policies.

I appreciate the opportunity to discuss the current state of the small-business economy and the challenges it faces going forward. I look forward to working with the Committee to support small businesses and strengthen the U.S. economy.

[4] Dennis, William Jr., *Small Business, Credit Access, and a Lingering Recession*, NFIB Research Center, January 2012.