



April 23, 2009

The Honorable Timothy F. Geithner  
Secretary  
U.S. Department of the Treasury  
1500 Pennsylvania Avenue, NW  
Washington, D.C. 20220

Dear Secretary Geithner:

With the United States in the midst of the worst financial crisis since the Great Depression and America's entrepreneurs—existent and aspiring—suffering through a crippling credit crunch, I am writing to urge the Administration to continue pursuing policies that will assist the country's small-business owners.

While NSBA thus far has been pleased with the Administration's efforts to address the small-business credit crisis, which recent reports suggest already is paying dividends, it is clear that more work remains to be done. The credit crunch continues to undermine the survival of countless existing firms and threatens to curtail the creation of crucial new ones.

The first quarter of 2009 witnessed a massive decline in the number of U.S. Small Business Administration (SBA) loans. There were 57 percent fewer 7(a) loans in the first quarter of 2009 than they were in during the same period in 2008 and 62 percent fewer than 2007. Total dollars loaned fell by 40 percent, to almost \$2 billion. The number of loans made through the 504 program (which finance real estate and other fixed assets) was down 46 percent from 2008.

According to an analysis by the *Wall Street Journal*, lending by the nation's largest banks declined between the third and fourth quarters of 2008. During this time, 10 of the 13 biggest beneficiaries of the U.S. Department of Treasury's Troubled Asset Relief Program (TARP) reduced their outstanding loan balances by an approximate total of \$46 billion, or 1.4 percent—even as they received \$148 billion in taxpayer capital that was intended to help the economy by making loans more readily available.

While applauding the small-business initiative the Administration announced in March and welcoming the recent reports that leading secondary-market indicators are pointing towards a thawing of the secondary market, NSBA believes that the full potential of this initiative has not yet been fully realized. Accordingly, NSBA reiterates its call for the call for federal government to directly purchase SBA 7(a) pooled securities, which already are government guaranteed, to help unfreeze the secondary market for SBA loans. This approach seems much quicker and less complicated than the notion of creating a (technically non-governmental) "vehicle" that could buy the loans on behalf of the government and exempt participating sellers from the TARP restrictions.

The small-business members of NSBA believe that the following measures possess the potential to significantly address the credit crisis:

NSBA also endorses the following measures:

- Utilize TARP funds to guarantee existing lines of credit for “qualified” small businesses, as called for by Sens. Mary Landrieu and Olympia Snowe. In exchange for the government guarantee, banks would be required to temporarily modify the terms of the credit line to help the distressed, but otherwise viable, small-business borrower.
- Consider expanding the Term Asset-Backed Securities Loan Facility (TALF) program to non-bank small-business lenders and the eligibility for TALF beyond SBA loans and AAA-rated securities.
- Relax “Mark-to-Market” accounting rules by applying existing accounting rules that apply to loans held in portfolio to asset-backed securities and other debt securities for which the institution has the intent and ability to hold.
- Create a new category for classifying loans currently viewed as substandard but whose borrowers are still making payments and ease current bank classifications for Non-Performing Assets (NPA). For instance, loans for which borrowers are continuing to make timely payments should be classified as “performing” even if the value of the underlying assets have been devalued. Regulators should be allowed to take the continued performance of the borrowers into account so that banks are not forced to demand pay down of the loans.
- Consider permitting banks to hold a “small basket” of character loans from borrowers who have a strong record of meeting contractual obligations with the bank and satisfy other indicators of likely repayment. These loans would be exempt from strict underwriting standards and could not be criticized by examiners so long as the loans are performing.
- Reign in overzealous and overreaching field examiners by adopting more reasonable, flexible, transparent evaluation criteria and strengthen the appeals process and ombudsman determinations.
- Expedite the Federal Deposit Insurance Corporation (FDIC) review and approval process, as a backlog exists of potential TALF recipients awaiting FDIC approval.
- Employ a more equitable assessment base for the FDIC’s Deposit Insurance Fund, namely a formula that uses assets minus tangible equity.
- Seek a funding alternative to the one-time 20 basis point special FDIC assessment.
- Adopt a more flexible FDIC approach to broker deposit waivers requests from banks that have unexpectedly been classified as “adequately capitalized.”

- Expedite the U.S. Securities and Exchange Commission (SEC) review process for Peer-to-Peer (P2P) lending and consider shortening the mandatory “quiet periods” of P2P firms seeking SEC registration. Given the nations’ dire capital circumstances, small-business owners are increasingly turning to non-traditional sources of financing, many of which are themselves small businesses.

If America’s small businesses are to play their historic role in lifting the nation out of its economic doldrums, capital must be available to them. As non-bank entities increasing are supplying this capital, the Fed must act now to lift these limitations. The fate of thousands of small firms and their employees hangs in the balance.

Sincerely,

A handwritten signature in black ink, appearing to read "Todd McCracken". The signature is stylized with a large, sweeping initial "T" and "M".

Todd McCracken  
President

Cc: The Honorable Mary Landrieu

The Honorable Olympia Snowe

The Honorable Christopher Dodd

The Honorable Richard Shelby

The Honorable Nydia Velazquez

The Honorable Sam Graves

The Honorable Barney Frank

The Honorable Spencer Bachus