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December 14, 2009

The Honorable Harry Reid
Majority Leader
522 Hart Senate Office Building
Washington, D.C. 20510

Dear Majority Leader Reid:

I am writing in response to recent news reports indicating your support for a plan to provide TARP funds to community banks so they may increase lending to small businesses. While I commend your efforts to give community banks the resources they need to lend to small businesses, I believe this initiative would work best if it were supplemented with direct lending by the Small Business Administration (SBA).

As such, I would like to bring to your attention the *Credit Retains Employees And Triggers Economic (CREATE) Growth and Jobs Act*, which I introduced earlier this week. This innovative legislation would authorize the Small Business Administration (SBA) to lend up to \$20 billion to otherwise creditworthy small businesses that are unable to access credit through ordinary means. Based on statistics compiled by the SBA on its 7(a) program, the CREATE Growth and Jobs Act could potentially save or create more than 1.1 million jobs during its two-year authorization. With more than 15 million Americans currently unemployed, this legislation would be a perfect initiative to include in the upcoming jobs package that is being crafted.

As you know, small businesses are the engine of economic growth representing more than 99 percent of all employers and generating more than half of our non-farm GDP. They have created more than two-thirds of all new jobs over the past 15 years, including 40 percent of high-tech jobs. Despite their continued need for affordable and accessible credit, banks continue to balk at lending to small businesses. Indeed, the 22 banks that received the most assistance from TARP have actually reduced lending to small businesses by \$10.5 billion over the last six months. Overall, 70 percent of banks reported that they have tightened their lending standards for small firms. As a result, fewer than half of the small businesses that tried to get a loan in the fourth quarter of 2008 were able to get one. This rate was even worse for firms that tried to obtain a new line of credit, with only three in ten succeeding in their effort. While the Small Business Administration's (SBA) guaranteed loan programs are a valuable resource for small firms, they are expected to guarantee only about \$10 billion in loans this year, down from their historic norm of about \$20 billion per year.

In order to reverse this trend, the government needs to fill in the breach and use TARP funds for the purpose they were intended: to provide credit to small businesses so they can expand their operations and hire new workers. Simply throwing money at banks and hoping that they lend to small businesses has not worked in the past and will not work in the present. Even community banks, which would be most likely to make these important loans, have expressed serious reservations about accepting TARP funds while the current restrictions on excessive executive compensation still apply. I believe these prohibitions on excessive salaries and bonuses are crucial to making sure the American taxpayers are protected and getting the most bang for their buck. While some community banks will accept funds under these conditions, many will not. That is why we need the SBA to fill this demand so we may reach all small businesses that need capital, regardless of where they are located.

Instead of exclusively relying on banks to increase lending to small businesses, why not take out the middleman and explicitly require the SBA to lend it directly to the firms that need it the most? One of the SBA's primary responsibilities is to ensure small businesses have access to credit. The Agency already has experience in administering direct loans through its Economic Injury Disaster Loans (EIDL) Program. With the number of small businesses filing for bankruptcy rising 54 percent from 2007 to 2008, many if not most small business owners would classify the current credit atmosphere as an emergency. In such critical situations, it is imperative for the government to step in and do what Wall Street and the financial industry either cannot or will not do.

If we're serious about creating jobs and developing policies that benefit Main Street, then we need to support the primary engine of economic growth: small businesses. We need to encourage the entrepreneurial spirit that makes America great, by ensuring small business men and women have the credit they need to grow their businesses and thrive. I urge you to strongly consider supporting the *CREATE Growth and Jobs Act* and look forward to working with you to craft a comprehensive proposal to assist small businesses and create jobs.

Sincerely,



ROBERT MENENDEZ
United States Senator

cc: President Barack Obama