

**Testimony
of
Margot Dorfman, CEO
U.S. Women's Chamber of Commerce**

Before the House Small Business Committee

**The State of the Small Business Economy and
Identifying Policies to Promote an Economic Recovery
January 14, 2009**

Chairwoman Velázquez, Ranking Member Graves, Members of the Committee. Thank you for this opportunity to speak on behalf of America's small business owners at this important time.

The future of America's small businesses is in your hands. Through your earnest work towards the promotion of economic recovery, you will profoundly influence the future of millions of small business owners, their employees, families, and their communities. Literally – the future of the American Dream is in your hands today.

We all know too well the challenging economic times we are in and the need to act swiftly, strongly and with focused precision to bring about an economic recovery. Time is of the essence for Congress and the incoming Administration to act. Consumer spending is down. Many of the states, cities and counties have budget shortfalls which will cause local government spending to decline. Unemployment is up. Business lending is in a freefall. Commodities and health care costs are rising. And, business margins are declining.

To promote an economic recovery we encourage you to consider policies and investments that will energize consumer, business and government spending; jump start lending and return liquidity to the lending markets; and bring down the cost of doing business. The Small Business Administration and targeted small business policies can have a great impact in these areas.

Targeted Spending

I encourage you to support targeted small business spending. As we leverage infrastructure investments, investments in new energy technology, and health technology – it is vitally important that we assure an appropriate percentage of these investments in our future be made with small business. It has been discussed that a sizeable amount of the investment in our economic recovery will come through funding state and local government infrastructure needs. This committee should assure that these funds (at both federal and local levels) require the federal mandated twenty-three percent participation by small business and that all socio-economic goals be met without exception.

Business Lending

Small business lending is in a freefall that will require very strong action to stop. Loan volume has dropped dramatically, thanks in large part to the collapse of the secondary market for small business loans. And, this freefall has brought about other negatives. For instance, over the last months and years we have seen a decline in the number of lenders in the 7(a) and 504 loan programs. And, those lenders that are in the SBA programs have downsized – potentially laying off hundreds if not thousands of experienced lending personnel.

To stop the freefall we must grasp and accept the severity of the problem, commit a high level of conviction and manpower, and deploy a sizeable amount of capital directly into the small business lending marketplace.

We strongly recommend that the SBA be positioned as a catalyst to spur small business lending. The SBA should be given the authority to directly process small business loans and, when necessary, provide high government guarantees. Let the SBA fully process and close loans providing the loan as an asset for purchase by the bank. This greatly reduces the banks resource needs to process loans and assures that businesses seeking loans are at least getting the opportunity to avail themselves of the full capacity of the SBA lending programs.

We recommend that funds allocated towards unfreezing secondary markets include appropriate requirements for inclusion of small business lending. This goes hand in hand with the SBA closing loans and positioning these loans as assets for bank purchase. There must be secondary market participation so that lenders can sell portions of these assets to make new funds available for loans. This process is what brings liquidity to the market. The SBA should also establish programs and guarantees to bolster confidence in the secondary markets so as to encourage investor participation and increased liquidity.

To further drive liquidity and prevent against the potential of rising defaults, the SBA should be able to engage in refinancing and underwriting enabling lenders and borrowers to leverage this option to save the loan relationship and prevent default or bankruptcy. The SBA should also relax the rules on refinancing and be able to raise their guarantee so as to bring greater elasticity and save loan relationships. For example, many small business owners may have turned to credit cards to cover their cash flow shortfalls. And, in many instances, the equity in their home that was leveraged to establish the loan may have declined.

We also recommend that the SBA relax some of the rules that add costs and delays to securing a loan like life insurance requirements and job creation requirements.

Bring Down the Cost of Doing Business

The final area of attention should be bringing down the cost of doing business. We recommend a combination of tools be used to decrease the cost of doing business generally, and decrease the costs associated with keeping employees. We support the reduction and short term suspension of payroll taxes, the abolishment of the self-employed tax on health insurance, giving small businesses the ability and incentives to form their own health insurance groups, and extending the net operating cost carry back rules for longer terms.

While I know the new Congress and the new Administration have broader strategic goals, we recommend that you first focus on what can bring more cash into a business immediately. By increasing cash immediately you protect jobs, protect businesses, and spur consumer and business spending.

Act Quickly and Boldly

In closing, I ask you to act now. As we watch the falling business lending statistics and the climbing unemployment numbers, I can assure you that the next fatality will be marked by a declining number of small businesses and increased number of business and personal bankruptcies. The majority of the recommendations I have outlined today are short term positions aimed at getting small business lending moving, quickly improving business cash flows, and assuring that the one-time big investment in infrastructure includes small business.

As you complete the work on legislation to spur an economic recovery, please save the broader strategic moves for later. For now – just focus on specific steps to help small businesses get moving back in a positive direction.