

“Testimony in Paragraph Format”

I want to thank the Commerce Committee and Congressman Peter Daley for taking the time to convene this discussion.

I am Marilyn D. Landis, President & CEO of Basic Business Concepts, Inc. I founded the company in 2001 to provide CFO level services to small businesses that don't have a CFO. Headquartered in Pittsburgh, we currently have five offices in four states – Pennsylvania, Ohio, New England and California - and clients in more than eight states. Before starting my own business I spent 30 years as a commercial lender- the last seven of which working for three of the largest SBA lenders in the country. In 2009 I was the SBA National Financial Services Champion.

I actively advocate for small businesses. I am the immediate past chair of the National Small Business Association (NSBA) – the nation's oldest small business advocacy association - representing 150,000 small businesses nationwide. Representing NSBA I have testified before the US House and the Senate numerous times. I also participated in the credit crunch summit at Treasury last fall. Regionally I am the immediate past chair of SMC Business Councils.

As an active member of the NSBA Board and the NSBA leadership team, I have had the opportunity to observe the national impact of the current economic downturn. NSBA's December 2009 national small business survey provides very compelling insight into the current access to capital dilemma. 64% of small businesses reported decreased sales; 64% reported decreased profits. This is the first time a majority have reported decreases since 1933. Yet – 89% of small businesses reported they have growth strategies. First it is significant that these small businesses survived to this point to report. Even more significant is the fact that they have plans for growth - not just content to survive, the fact that they are planning for growth is a tribute to the resilience of small business. 59% of the businesses reported that they expect to see some growth as early as 2010.

Access to capital has always been tough for small business – we don't have capital markets to raise equity or sell commercial paper – we only have debt. This is especially true for the largest segment of businesses in our modern economy – technology and service companies. These are companies who need cash for payroll and innovation – not commercial real estate. These companies, therefore, have never had the collateral traditional lenders look for – real estate equity or heavy equipment. For these companies what was tough has become almost impossible. A recent report documents that total lending from US banks was down 7.4% in 2009. The Wall Street Journal on 3/15/10 reported on the small business lending outlook, “...the local banks they depend on -worried about borrowers' financial strength, scrutinized by regulators and slammed by souring real-estate loans – might not be willing or able to provide the credit they need....The stakes are particularly high for community banks, which tend to be much more active in commercial real estate than their counterparts. As of December 2009, such loans comprised about 42% of all loans held by the 7,344 banks with less than \$1 billion in assets...” This makes it even tougher for Pennsylvania businesses, where state economic development funds almost always require a 50% bank match – if the banks aren't available - the funds aren't available to the small business.

Small business owners continue to be financially stymied and unable to grow their business, thereby restricting their ability to create jobs. Fact - small businesses provide 65% of the nation's employment. Fact – companies with less than 100 employees created 45% of net job growth since 1992. The NSBA's

December Survey sheds light on what is currently limiting small business' job creation potential. 39% of those responding can't find adequate financing – that's more than 10 million US small businesses. 78% reported their business has been impacted by the credit crunch – causing 47% not to expand and 24% not to hire. The number of business owners who were able to provide capital to their business from a home equity loans are at an all time low of 7%. Further, 68% reported that their credit card terms had gotten worse. Only 46% of the businesses have any type of traditional bank loan.

But – a recovery has started. Remember there are 89% who have growth strategies. Small businesses aren't small because we're too stupid to be big. No one is born full grown – we start small and grow....or we stay small because the business model works best small. As early as December 2009, CFO Magazine, quoted a prominent business owner who said, "It's truly not a lack of work, it's a lack of working capital." I have clients in PA, Ohio, and NY who have orders but lack the capital to hire back employees, purchase the raw materials and do the work. These are businesses who burned through their savings, their reserves and even their retirement accounts to meet their obligations, scale down to the new reality – found new customers – shuttered unprofitable lines – added divisions with better sales prospects and margins. In short – did all the right – responsible things – they are here, receiving orders and unable to secure working capital

Traveling to my clients and offices around the country has given me a window into what other areas are doing to help small businesses in their region. I attended the Rhode Island Economic Summit, the California Business Roundtable, Ohio's Council of Smaller Businesses Government Relations meetings and other gatherings - I have seen what other states propose. These states are taking a hard look at what the state can do for their state's businesses. All of these states – any many others – have addressed the capital needs of their state's businesses. These states recognize the difference between subsidizing a declining business and funding assistance to a viable business with orders in hand. Pennsylvania businesses will be at a disadvantage if Pennsylvania doesn't recognize the need and step up to help the surviving small businesses fund the work they already have in hand.

What can the state of Pennsylvania do to help with access to capital? First – let me point out that SMC and its members are very aware of the financial stress the state is already experiencing - Our Legislative Action Committee carefully looked at many options – the ones we propose today are those we feel have merit but not a significant state funded price tag. Proposal number one - funding for small businesses awarded state contracts could be built into the process by modifying the payment schedule. Once a contract or purchase order is awarded to a qualified small business – if the state advanced the funds for the contractor to purchase the materials and meet the payroll to start that contract, then the contractor wouldn't need to borrow funds to pay for materials and labor while waiting to get paid by the state. When the contract is complete – if the state paid in full at completion – not 30 days later – the contractor would have the funds to start another job without debt. Normal 10% retainage would still apply – we're talking about the other 90% of the contract – no additional cost to the state – just a change in timing. The federal government has a limited mechanism for advances to contractors which is not widely utilized because of the stigma attached in the bidding process. The state must treat all bidders the same – whether or not they ask for the "on time payment option".

Proposal number two - state government, taking advantage of the infrastructure already in place to coordinate discussions between and among bank lenders, could facilitate creation of a non-government pool of funds. The state of New York worked with community banks, national banks and international

banks to form several pools of funds. Twenty six banks around the state agreed to pool \$7.5 million. Small businesses can apply for the loans - \$25K to \$150K – if they can prove they've been turned down for a loan by their primary lender. Banks, required to lend, and further required to meet CRA goals, are stymied by the inability to find borrowers who meet their limited credit requirements at this time. Contributing to these pools of funds puts their money into loans. Non-profit economic development groups could be contracted to originate, underwrite and service the loans made from these pools. The state of New York divided the loan pools into regions to facilitate the local administration of the funds by economic development groups who know their communities best. These funds are not for real estate loans or heavy equipment loans –the dollar amounts, therefore, do not need to be large. Even a good size small business may only need \$100,000 or less to execute on purchase orders or contracts they have – this is real business - that once funded and complete will generate cash to fund the next set of orders. These loans are seed money to prime the well – to get the flow of orders and work flowing again. Of note – the loan size is not tied to number of new employees. The state of California and Ohio have looked at this measure – it only rewards the least efficient businesses – top heavy businesses are not sustainable and therefore of greater risk.

Proposal number three is patterned after Rhode Island. The state of Rhode Island agreed to provide a tax credit for loan fees their small businesses incur when securing a US SBA loan. This is one more way to help the small business keep cash in the business where it can fund payroll and pay for raw materials. From 1994 to 2004 Rhode Island's data showed that for every \$32K worth of SBA loan funds one job was created. The potential cost to the state for their tax credit was 2% of the total capital amount injected into the state economy from the loan activity.

Small businesses are the spark of innovation – the drivers of green technology – the employers in the community. Small business owners who have survived to this point need cash to execute the orders they have in hand.

There is a vast array of state programs – but in today's reality, few are meeting the real – immediate needs of the business owner who is trying to re-grow their business.

Thank you for your time and interest. I would welcome any questions.