Statement of William G. Hall, CFE
Chief Executive Officer
William G. Hall & Company

Before the House Committee on Small Business

Hearing on *Access to Capital: Can Small Businesses Access the Credit Necessary to Grow and Create Jobs?*

June 1, 2011

1501 K Street, N.W. Suite 350 Washington, DC 20005
Telephone: 202/628-8000 Fax: 202/628-0812 E-Mail: ifa@franchise.org Internet: www.franchise.org

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CEO, William G. Hall & Company
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Good afternoon Chairman Graves, Ranking Member Velázquez and members of the committee. My name is Bill Hall. I am the CEO of William G. Hall & Company and I am also a franchisee of International Dairy Queen, currently operating five locations in Texas. I am grateful to have the opportunity to speak to you today about the credit challenges facing small business entrepreneurs and the efforts of leaders in the private sector to address these challenges.

In addition to my experience as a small franchise business owner, I have owned and operated community banks, independent restaurant concepts, a nationwide transportation company, financial services companies and real estate investments. Currently, I serve on the Board of Directors of the International Franchise Association (IFA), as well as chair the IFA's Credit Access Committee.

As the largest and oldest franchising trade group, the IFA's mission is to safeguard the business environment for franchising worldwide. IFA represents more than 11,000 franchisee, 1,100 franchisor and 575 supplier members nationwide. According to a recent study conducted for the IFA Educational Foundation, there are over 825,000 franchise businesses across 300 business lines providing nearly 18 million American jobs and generating over $2.1 trillion to the U.S. economy.

Franchised businesses play an important role in the overall health of the U.S. economy, and in past years they have led the economy out of recession and into recovery and growth. Franchising grew at a faster pace than many other sectors of the economy from 2001 to 2005, expanding by more than 18 percent. During this time, franchise business output increased 40 percent compared to 26 percent for all businesses.

But this recovery, following the worst Recession since the Great Depression, is different. Unemployment rates remain high long after the recession technically ended. Credit markets froze in 2008 and have not bounced back. In 2009, members of the IFA testified before this Committee and you supported legislation that would help increase the flow of loans to small businesses through the Jobs Act via loan guarantees and waivers for borrowing fees in the SBA loan programs.

The Small Business Jobs Act (P.L. 111-240), and especially the SBA provisions were a lifeline to franchise small businesses by providing credit where none existed in the market. But while that legislation was a good start, serious challenges remain. There is very little credit flowing to small businesses except for SBA loans, which are an important but still limited part of the market.

Small businesses that survived the recession, as you know, did so by squeezing every efficiency they could from their operations. Employees became more productive and worked longer and harder. Nonessential employees were cut. Investments and upgrades were delayed.

The small businesses that create 6 out of every 10 jobs in America – they can't squeeze any more blood out of the stone. They need to borrow to keep up with the competition. Yet, commercial credit, as FDIC Vice Chairman Martin Gruenberg told some of this Committee's staff at the IFA's recent Small Business Lending Summit, is not flowing to small businesses.

What does this mean? For our industry, the continued lack of available commercial credit is putting a chokehold on our ability to expand to meet demand and create the jobs our country so urgently needs.

A study commissioned by the IFA showed that franchise businesses will require $10.4 billion in new lending capital to fulfill 100 percent of the forecasted demand for new and transfer units in 2011, but credit flow may fall short by 20% or more.

Under normal circumstances, small businesses could tap financing from a number of different sources, including national and community banks as well as many non-bank lenders. But due to increased capital reserve requirements, heightened regulatory scrutiny of commercial banks, depressed home equity values and other traditional forms of collateral, and generally increased aversion to risk, commercial credit is not flowing. The SBA, previously a small portion of the credit market, has become the lender of first resort. In some cases, it is the lender of **only** resort.

A recent Wall Street Journal report estimated that every time the average franchise opens, it creates 10 jobs directly and 20 jobs in the economy. If franchisees could borrow all the money they need this year, they could purchase over 41,000 new or transfer businesses and create an astounding 333,000 new jobs.

We are grateful for the Small Business Jobs Act, which we strongly supported. We are grateful for the leadership the Small Business Committee provided in highlighting the importance of the SBA loan programs. The new law permanently increased the maximum loan guarantee limits from $2 million to $5 million. As a result of the enhanced loan guarantees, waived fees and new maximum limits, the SBA witnessed historic loan volumes in the final quarter of 2010. The enhanced programs allowed the SBA to leverage over $500 million in taxpayer dollars into just under $12 billion in new loans to small businesses. While that is welcome news, we are nowhere near where we should be given the demand needed in franchising.

More engagement by Congress, the administration and financial regulators is needed. Congress should examine capital reserve requirements and regulatory scrutiny by the FDIC, the Fed and the OCC that may be unintentionally, unnecessarily and harmfully holding back credit access by small businesses.

Congress should examine how SBA loan guarantees are considered by financial regulators. If regulators are not giving due consideration of SBA loan guarantees when capital reserves are calculated, this pressure can discourage or event prevent banks from lending to small business despite Congress's intent to expand credit access. We urge the committee to examine these critical issues, up to and including hearings on financial regulation and small business credit flow.

Meanwhile, the IFA has launched a Nationwide Credit Access Campaign to strengthen borrower and lender education, increase awareness of this issue, and promote pro-lending, pro-business policies to support the small businesses that create the majority of our nation's jobs. As you may know, IFA organized and hosted a Small Business Lending Summit in conjunction with the National Association of Government Guaranteed Lenders (NAGGL), the Consumer Bankers Association (CBA), CIT Group and the National Restaurant Association (NRA). Nearly 200 leaders of the financial, franchising and policy communities gathered to begin a dialogue to address this critical issues.

But our work has just begun.

Our Credit Access Roadshow will be taking our message to lending groups and franchising events across the country, including June's meeting of the U.S. Conference of Mayors in Baltimore and CBA's upcoming annual meeting in Orlando.

Our coalition is scheduled to meet with the FDIC to discuss some of the hurdles small businesses and lenders face. We will also support "Discovery Days" to assist lenders in learning more about franchising and scrutiny that goes into vetting franchisees before they seek financing. Our campaign partners will develop webinars to assist emerging franchisors and prospective franchisees to be better prepared when they walk through the doors of their local bank.

As you can see, the private sector has taken advantage of the enhanced tools Congress granted the SBA in the Small Business Jobs Act. But we need the engagement of our Congressional leaders to advocate for policies that will improve this situation. The IFA looks forward to working with this Committee throughout the legislative session to ensure SBA's programs are adequately funded and working efficiently. We also stand ready to support Congress in its efforts to reduce or streamline the regulatory burdens facing small businesses and especially those that restrict access to capital. Working together, in our view, is critical to the recovery of small businesses and our economy. So we thank you for this opportunity.

I look forward to answering any questions you may have.