

**THE CREDIT CRISIS AND SMALL BUSINESS
LENDING**

HEARING

BEFORE THE

CONGRESSIONAL OVERSIGHT PANEL

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

APRIL 29, 2009

Printed for the use of the Congressional Oversight Panel



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CONGRESSIONAL OVERSIGHT PANEL

PANEL MEMBERS

ELIZABETH WARREN, *Chair*

SEN. JOHN SUNUNU

REP. JEB HENSARLING

RICHARD H. NEIMAN

DAMON SILVERS

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SMALL BUSINESS LENDING IN WISCONSIN

WEDNESDAY, APRIL 29, 2009

U.S. CONGRESS,
CONGRESSIONAL OVERSIGHT PANEL,
Milwaukee, Wisconsin.

The Panel met, pursuant to notice, at 10:05 a.m. in the Wisconsin Room, University of Wisconsin Student Union, 2200 East Kenwood Boulevard, Elizabeth Warren, Chairman of the Panel, presiding.

Attendance: Elizabeth Warren [presiding], Damon Silvers, Willie Hines, Jr., Thomas Klink, Robert Atwell, Wayne Perrins, Peter Prickett, and David Griffith.

OPENING STATEMENT OF ELIZABETH WARREN, CHAIR, CONGRESSIONAL OVERSIGHT PANEL

The CHAIR. This hearing is called to order.

Good morning. Welcome to today's hearing of the Congressional Oversight Panel, "The Credit Crisis and Small Business Lending."

I want to thank Common Council President Willie Hines for joining us today. He will give remarks before we hear from our witnesses.

I also want to thank JoAnne Anton with Senator Kohl's office. Is JoAnne here? I want to thank JoAnne in person, if we can, from Senator Kohl's office, for her assistance to the panel in putting together this hearing.

In addition, I also want to acknowledge the help of Brady Williamson, a senior partner in Godfrey & Kahn law firm, both for his help in setting up the hearing and for his good counsel here.

My name is Elizabeth Warren. I am the chair of the Congressional Oversight Panel.

This is Damon Silvers. He is the deputy chair of the oversight panel.

Last fall, Congress established this panel to oversee the expenditure of funds from the so-called Troubled Asset Relief Fund—or Program, known as TARP. I have some trouble with these acronyms. I think that is how you can tell I am a true Washington outsider. I am having trouble acclimating to that.

We are here this morning in the spirit of one of the most famous native sons of Wisconsin, "Fighting Bob" LaFollette, who expressed the idea that the panel tries to live by. Government must be made more responsible to the people.

So we are here today to try to bring at least this little piece of Government to the people and to the people of Wisconsin and to learn something that we can take back to Washington and to help us in our oversight of this program.

Since our first report last December, we have asked Treasury a number of tough questions on behalf of taxpayers. When we have been unsatisfied with Treasury's answers, we have pressed them for more and for better ones. The panel's questions have covered a lot of ground, but we have consistently pushed for three things—greater transparency, more accountability, and greater clarity in Treasury's programs.

Treasury has announced multiple programs intended to restart consumer and small business lending, but are those programs working? For all the billions and billions of taxpayer dollars spent on various programs, is the average family or small business in Milwaukee feeling the effects?

These questions are important not only because of the scale of the taxpayers' investment, but also because of the scale of economic slowdown and uncertainty all across this country. Families from coast to coast are feeling the impact of the economic crisis, but it is important to study Milwaukee, in part, because it has not been swept into the boom-and-bust cycle that has hit some areas.

Instead, it has felt the impact of the slowdown as part of its steady state. Last month, unemployment here surpassed 11 percent, almost twice the unemployment rate of a year ago. At the same time, the Journal Sentinel recently reported that mortgage delinquency rates have continued to rise across the State, and home values here in Milwaukee have fallen 7.2 percent in just over the past year.

The convergence of unemployment, foreclosures, falling home values has reduced the confidence of American families and led to a vicious economic cycle, one that is understood here as well as it is anywhere. While Milwaukee has important perspectives on a wide range of economic issues, we have come here today for a specific purpose—to learn more about the impact of the credit crisis on small business lending here and across the State of Wisconsin.

As everyone in this room knows, small businesses are vital to our economy and will be a vital precondition of economic recovery. They are not only the engine of innovation in this country, they also produce more than half of the nonfarm jobs in our economy.

The challenges of small businesses are many, but the acquisition of credit is a vitally important one, especially in times of economic slowdown. Today, we have invited small business owners and bank officers to testify about the impact of the credit crisis on small business lending in Milwaukee. Their take on the local economy offers an important context for policymaking in Washington.

Our witnesses today include Tom Klink, president of Jefferson Electric, Inc. Jefferson Electric has been designing and manufacturing transformers in the Milwaukee area since 1915 and has grown from \$9 million to \$27 million in value just over the past 5 years.

Our second witness will be Robert Atwell, chairman and CEO of Nicolet National Bank. Nicolet National operates six branches in northeast Wisconsin, holds approximately \$700 million in assets, has been a recipient of TARP funds, and has reported lending \$54 million in new loans since the time of its acquisition of TARP money.

Wayne Perrins, general manager of Badger Trailer and Equipment Corporation, will be our third witness. Badger Trailer and Equipment makes refrigeration systems for trucks and other vehicles and has been family owned and operated in Milwaukee since 1916.

Peter Prickett, our fourth witness, is president and CEO of the First National Bank-Fox Valley. First National Bank-Fox Valley is based about 100 miles north of Milwaukee. It operates four branches in the region. The bank's assets total more than \$200 million, and it is also a recipient of TARP funds.

And our fifth witness will be David Griffith, the owner and CEO of Cross Towne Machining. Cross Towne Machining manufactures precision machinery for clients in the Milwaukee area. Although the company has qualified for a 7(a) SBA loan, it has been unable to find a bank willing to lend.

I want to thank each of you for being here, and I look forward to hearing more about your business and your perspective on the economic challenges in Wisconsin and in the Nation.

I also want to note that Richard Neiman, one of our panel members who is also the New York superintendent of banks, wanted to express his deep regret that he could not attend this morning. Consumer and small business lending is a topic that is of great importance to Mr. Neiman, and ensuring access to safe and affordable credit is a top priority for him.

He asked that I convey his gratitude to the witnesses for their testimony today, and he is looking forward to reviewing our discussion and the question-and-answer afterwards.

[The prepared statement of Mr. Neiman follows:]

CONGRESSIONAL OVERSIGHT PANEL

Elizabeth Warren, Chair | Sen. John E. Sununu | Rep. Jeb Hensarling | Richard H. Neiman | Damon Silvers

Opening Statement of Richard H. Neiman

Member, Congressional Oversight Panel

Milwaukee Hearing

April 29, 2009

Good morning. Thank you all for appearing at this hearing today on lending to families and small businesses.

Ensuring access to safe and affordable credit is one of the key factors in resolving the economic crisis and is a top priority for me personally, both as a member of this Panel and in my work as Superintendent of Banks for New York.

Through Town Hall meetings across New York State and in my role on Governor David Paterson's Economic Security Cabinet, I have heard firsthand how the financial crisis and the recession are impacting hardworking people. Focusing on the needs of working families, including the need for continued credit access and responsible lending terms, is high on my priorities as responsible people are finding it increasingly difficult to obtain the credit they need to power their businesses and run their households. I am interested to hear your personal stories on the situation here in Wisconsin and the Midwest.

From the earliest days of the financial crisis, I have been consistently urging banks to continue to make good loans. The Treasury's most recent snapshot report of major TARP recipients shows that mortgage lending increased, but other forms of consumer lending decreased from January to February. In some cases, such as student and auto loans, the month-over-month decline was a sharp 47%. There may be seasonal and other demand factors at work, but clearly we need to get to the bottom of these results. The Panel's next report will look closely at the issue of bank lending, as well as the role of the secondary market and securitization in the funding process.

It may come as a shock, but only about 46% of consumer loans are currently held by banks and other depository institutions. About 25% of all such consumer loans are in pools that have been securitized, and the remaining 29% is held by non-bank finance companies, businesses, and Sallie Mae. These facts demonstrate the critical importance of the secondary market, which has been largely frozen since last fall, in sustaining credit availability.

So we need to attack the problem from both sides - banks need to do their job in the primary market, and continue to lend. That's their business. But banks can't do it alone - we need a functioning secondary market to purchase loans, recycling the capital for banks to lend again.

CONGRESSIONAL OVERSIGHT PANEL

Some point to the securitization process as a contributing factor in the current crisis. There were excesses and breakdowns, primarily related to deterioration in underwriting standards, and I agree that reforms are needed. But, an effective, well-modulated securitization system is necessary for financial recovery, to keep the credit cycle in motion. The primary market on Main Street and the secondary market on Wall Street are part of the same neighborhood.

And despite our current difficulties, I remain confident that we can renew our financial system and preserve the credit tools that allow Americans to send their children to college, to buy a car, or to start a business or their own that will create new jobs. In short, the tools to prosper.

But serious challenges remain - a lot of damage has been done to our economy, and we have more hard days ahead. But even so, I believe that we are on the right track and that with the public's support we can emerge from these challenges stronger than ever. I welcome your contribution to the recovery process through your testimony today.

I now want to recognize my colleague and the deputy chair of the Congressional Oversight Panel, Damon Silvers, for any remarks that he would like to make.

[The prepared statement of Ms. Warren follows:]

CONGRESSIONAL OVERSIGHT PANEL

Elizabeth Warren, Chair | Sen. John E. Sununu | Rep. Jeb Hensarling | Richard H. Neiman | Damon Silvers

Opening Statement of Elizabeth Warren

Chair, Congressional Oversight Panel

April 29, 2009

Good morning. Welcome to today's hearing of the Congressional Oversight Panel, "The Credit Crisis and Small Business Lending."

I want to thank Common Council President Willie Hines, Jr. for joining us today. He will give remarks before we hear from our witnesses. Also, I also thank JoAnn Anton with Senator Kohl's office for her assistance to the Panel in putting together this hearing. In addition, I want to acknowledge the help of Brady Williamson, a senior partner in the Godfrey & Kahn law firm in Madison, Wisconsin, both for his help in setting up this hearing and for his good counsel in many things.

My name is Elizabeth Warren, and I am the Chair of the Congressional Oversight Panel.

Last fall, Congress established this Panel to oversee the expenditure of funds from the so-called Troubled Asset Relief Program, or TARP. We are here this morning in the spirit of one of the most famous native sons of Wisconsin, Fighting Bob LaFollette, who expressed the idea that this Panel tries to live by, "Government must be made more responsible to the people."

Since our first report last December, we have asked Treasury a number of tough questions on behalf of taxpayers. When we've been unsatisfied with Treasury's answers, we've pressed them for better ones.

The Panel's questions have covered a lot of ground, but we have consistently pushed for three things: greater transparency, more accountability, and greater clarity in Treasury's programs.

Treasury has announced multiple programs intended to restart consumer and small business lending, but are those programs working? For all the billions and billions of taxpayer dollars spent on the various programs, is the average family or small business in Milwaukee feeling the effect?

These questions are important not only because of the scale of the taxpayer's investment, but also because of the scale of economic slowdown and uncertainty all across this country.

Families from coast to coast are feeling the impact of the economic crisis, but it is important to study Milwaukee in part because it has not been swept into the boom-and-bust cycle that has hit some areas. But it has felt the impact of the slowdown nonetheless. Last month, unemployment here surpassed 11 percent – almost twice the unemployment rate just a year ago. At the same time, the *Journal Sentinel* has recently reported that mortgage delinquency rates have continued to rise across the state, and home values here in Milwaukee have fallen 7.2 percent in value just over the past year.

<http://cop.senate.gov>

CONGRESSIONAL OVERSIGHT PANEL

The convergence of unemployment, foreclosure, and falling home values has reduced the confidence of families and led to a vicious economic cycle – one that is understood here as well as it is anywhere.

While Milwaukee has important perspectives on a wide range of economic issues, we have come here today for a specific purpose: to learn more about the impact of the credit crisis on small business lending here and across the state of Wisconsin.

As everyone in this room knows, small businesses are vital to our economy and will be vital precondition to economic recovery. They are not only the engine of innovation in this country, but they also produce more than half of our nonfarm GDP and have produced more than half of new jobs over the past decade. The challenges of small businesses are many, but the acquisition of credit is a vitally important one – especially in times of economic slowdown.

Today, we have invited small business owners and bank officers to testify about the impact of the credit crisis on small business lending in Milwaukee. Their take on the local economy offers an important context for policymaking happening in Washington.

Our witnesses today include:

- **Tom Klink**, President, Jefferson Electric, Incorporated. Jefferson Electric has been designing and manufacturing transformers in the Milwaukee area since 1915 and has grown from \$9 million to \$27 million in value over the past five years.
- **Robert Atwell**, Chairman and CEO, Nicolet National Bank. Nicolet National Bank operates six branches in Northeast Wisconsin, holds approximately \$700 million in assets, has been a recipient of TARP funds, and has reported lending \$54 million in new loans in the time since.
- **Wayne Perrins**, General Manager, Badger Trailer and Equipment Corporation. Badger Trailer and Equipment makes refrigeration systems for trucks and other vehicles and has been family-owned and operated in the Milwaukee area since 1916.
- **Peter Prickett**, President and CEO, First National Bank-Fox Valley. First National Bank Fox Valley is based about 100 miles north of Milwaukee and operates four branches in the region. The bank's assets total more than \$200 million, and it is a recipient of TARP funds.
- **David Griffith**, Owner and CEO, Cross Towne Machining. Cross Towne Machining manufactures precision machinery for clients in the Milwaukee area. Although the company has qualified for a 7(a) SBA loan, it has been unable to find a bank willing to lend.

Thank you each for being here. I look forward to hearing more about your businesses and your perspective on the economic challenges that Wisconsin – and the nation – are facing.

I also want to note that Richard Neiman, one of our panel members who is also the New York Superintendent of Banks, wanted to express his deep regret that he could not attend this hearing. Consumer and small business lending is a topic that is of great importance to Mr. Neiman and ensuring access to safe and affordable credit is a top priority for him. He asked that I convey his gratitude to the witnesses for their testimony today and he is looking forward to reviewing our discussion from the Q&A session.

CONGRESSIONAL OVERSIGHT PANEL

I now yield to my colleague Mr. Silvers for any remarks he would like to make at this time.
Mr. Silvers?

**STATEMENT OF DAMON SILVERS, DEPUTY CHAIR,
CONGRESSIONAL OVERSIGHT PANEL**

Mr. SILVERS. Good morning, and thank you, Madam Chair.

I am likewise very pleased to be here in Milwaukee to learn about the impact of the Emergency Economic Stabilization Act, I think known to most of you as the financial bailout on the real economy.

I would like to express my gratitude to the University of Wisconsin-Milwaukee for hosting us here today, to the congressional delegation of Wisconsin and their staff for their assistance, and to the Small Business Administration's Wisconsin offices for their help.

I would also like to thank our staff for excellent work in putting this hearing together and in putting together this impressive list of witnesses.

I am particularly pleased that we have with us today two bankers from northern Wisconsin whose written testimony I found to be extremely insightful, and I am looking forward to their oral testimony. I have family roots in northern Wisconsin. One of the earliest photos we have in my family is of my great-great-grandfather and his sons working in a small business, a lumberyard in Mattoon, Wisconsin.

My grandfather, the Reverend Charles Floyd Fuller, grew up on that smallest of small businesses, a family farm in northern Wisconsin. More than any other person, my grandfather taught me what it is to be a public citizen in the tradition of "Fighting Bob" LaFollette, and I honor his memory here today.

Wisconsin is a kind of reality check for Washington. The Federal Reserve Board issued a paper last week describing the big bank stress tests, and it has been very much in the newspapers. The Federal Reserve said they had checked to see how the banks would do in what the Fed called "the adverse scenario," a scenario they described as the future we wish to avoid—a scary, distant possibility where unemployment might peak at just over 10 percent next year. Here in the City of Milwaukee, that future is now with unemployment at 11 percent.

When Congress enacted the Emergency Economic Stabilization Act with its Troubled Asset Repurchase Program, TARP, Congress did so clearly out of the concern that the panic in the financial markets that we saw last fall threatened the flow of credit to the real economy—to America's families and to America's employers, to employers like our witnesses today.

The purpose of TARP was not to rescue Wall Street or to make the world safe for derivatives traders. It was to stabilize the system that Main Street depended on to allocate savings, the savings of families here and around the world, so that other families could finance purchases. And so, employers could finance their operations on terms that were affordable and fair to both the lender and the borrower.

We are here today to ask are those purposes of TARP being fulfilled? Is the credit system working? In particular, is it working for small business? What impact has the over \$500 billion of public funds allocated under TARP had on the real economy and, again, in particular, on small business finance?

How are national financial institutions behaving here in Wisconsin? What has happened to the smaller banks that are the backbone of local credit and, in particular, the backbone of small business lending? Can small business access credit on terms that are sensible from banks? Can they access credit through SBA guarantees? Using personal credit cards?

In asking these questions, we are not seeking to return to the bubble years of 2006. Banks and credit markets cannot create viable businesses out of thin air. Excessive unsustainable leverage was present throughout our society in the bubble not just in home mortgages or credit cards, but in leveraged buyouts of companies large and small and hidden in complex capital structures and in hedge funds.

We also cannot ask our credit system to substitute for a successful national economic strategy or to make up for stagnating real wages. If we dismantle and outsource our real economy, cheap credit from our foreign trading partners will not substitute for what we have lost, at least not for long. We just tried that, and we ended up with the worst economic situation since the 1930s.

But the public and Congress rightfully need to know whether the bailout is working to ensure that viable businesses have access to credit. Some say it is not a matter of public concern what the terms of credit are as long as there is credit. That just seems silly to me.

If we are concerned about credit availability, if Treasury tells us they are measuring the success of TARP based, in part, on the London interbank lending rates—and they do, indeed, tell us that—we should also be looking in terms of our evaluation of TARP, on behalf of Congress and the American people, at least to some degree at the rates and time horizons of credit available here in Wisconsin and in communities like yours all across the country.

This brings me to the fate of our Nation's major financial institutions. More than half of all bank assets are now held by just four bank holding companies. The 19 banks subject to the stress tests account for a substantial majority of all bank assets. Business lending by those banks dwarf the SBA program.

Today, on my way here, I read that the major banks, who now hold hundreds of billions of dollars of public money in taxpayer assets and guarantees, would like not to be subject to stress tests after all, that they would like Government aid without conditions. Now how can we possibly avoid the fate of an economy dragged down by zombie banks if we cave into big banks' demands for more of the same?

More pretending that sick banks are healthy, more pretending that losses and things like subprime loans don't exist. More of the treatment where favored big players get infinite Government money while smaller banks must prove that they don't need Government money before they can get any.

Business lending, including small business lending, requires healthy banks, and we will never have healthy banks until we get clarity as to the real nature of big banks' balance sheets and until we get those balance sheets properly capitalized in a manner that is fair to the public.

The Obama administration's stress tests are the key initiative that has been taken in this direction. They should have been

tougher, but they are the right basic idea, and they must not be further watered down or the results ignored if we want to revive business lending.

We are very fortunate this morning to have a chance to hear about the reality of these issues through the experience of Wisconsin's small business people and community bankers. I am honored to be with the witnesses today, and I look forward very much to their testimony.

Thank you.

[The prepared statement of Mr. Silvers follows:]

**OPENING REMARKS OF DAMON A. SILVERS
DEPUTY CHAIR, CONGRESSIONAL OVERSIGHT PANEL
HEARING ON SMALL BUSINESS LENDING IN WISCONSIN**

April 29, 2009

Good morning. I am very pleased to be here in Milwaukee to learn about the impact of the Emergency Economic Stabilization Act on the real economy. I would like to express my gratitude to the University of Wisconsin-Milwaukee for hosting us here today, to the Wisconsin Congressional delegation for their assistance, and to our staff for the hard work of organizing this hearing and most of all to our witnesses for joining us today.

I am particularly pleased that we have with us today bankers from Northern Wisconsin, whose written testimony I found to be very insightful. I have family roots in northern Wisconsin, one of the earliest family photos we have is of my great great grandfather and his sons working in a small business – a lumberyard, in Mattoon. My grandfather, the Reverend Charles Floyd Fuller, grew up on that smallest of small businesses—a family farm in Wisconsin. More than any other person, he taught me what it is to be a public citizen in the tradition of Fighting Bob La Follette, and I honor his memory here today.

Wisconsin is a kind of reality check for Washington. The Federal Reserve Board issued a paper last week describing the big bank stress tests. They said they had checked to see how the banks would do in what called the “adverse scenario”—a scenario they described as the future we wished to avoid—a future where unemployment peaked at just over 10% next year. Here in the City of Milwaukee that future is now—with unemployment at 11%.

When Congress enacted the Emergency Economic Stabilization Act with its Troubled Asset Repurchase Program or TARP, known here outside of Washington as the financial bailout – Congress did so clearly out of a concern that the panic in the financial markets threatened the flow of credit to the real economy—to America’s families and to America’s employers—to employers like our witnesses today. The purpose of TARP was not to rescue Wall Street or make the world safe for derivatives’ traders. It was to stabilize the system Main Street depended on to allocate savings—the savings of families here and around the world—so that other families could finance purchases, and so employers could finance their operations on terms that were affordable and fair to both lender and borrower.

We are here today to ask—are those purposes of TARP being fulfilled. Is the credit system working? What impact has the over \$500 billion of public funds allocated under TARP had on the real economy and in particular on small business finance? How are national financial institutions acting here in Wisconsin? What has happened to the

smaller banks that are the backbone of local credit? Can small business access credit on terms that are sensible from banks, through SBA guarantees, on personal credit cards?

In asking these questions, we are not to return to the bubble years of 2006. Banks and credit markets cannot create viable businesses out of thin air. Excessive, unsustainable leverage was present throughout our society in the bubble—not just in home mortgages or credit cards, but in leveraged buyouts of companies large and small, and hidden in complex capital structures and in hedge funds. We also cannot ask our credit system to substitute for a successful national economic strategy or make up for stagnating real wages. If we dismantle and outsource our real economy, cheap credit from our foreign trading partners will not substitute for what we have lost for long. We just tried that and we ended up with the worst economic situation since the 1930's.

But the public and Congress rightfully need to know whether the bailout is working to ensure that viable businesses have access to credit. Some say, it is not a matter of public concern what the terms of credit are. That just seems silly to me. If we are concerned about credit availability—if Treasury tells us they are measuring the success of TARP based in part on the London interbank lending rates, we should be basing our evaluation of TARP on behalf of Congress and the American people at least to some degree on the rates and time horizons of credit available here in Wisconsin.

This brings me to the fate of our nation's major financial institutions. More than half of all bank assets are held by just four bank holding companies. The nineteen banks subject to the stress tests account for a substantial majority of all bank assets. Business lending by those banks dwarf the SBA program. Today I read the major banks, who now hold hundreds of billions of dollars in taxpayer assets and asset guarantees, would like not to be subject to stress tests, that they would like government aid without conditions. How can we possibly avoid the fate of an economy dragged down by zombie banks if we cave in to big banks' demands for more of the same—more pretending that sick banks are healthy, that losses don't exist, that for favored big players, there is infinite government money, while smaller banks must prove they don't need government money before they can get any.

Business lending, including small business lending, requires healthy banks. And we will never have healthy banks until we get clarity as to the real nature of big bank balance sheets, and until we get those balance sheets properly capitalized in a manner that is fair to the public. The Obama Administration's stress tests are the key initiative that has been taken in this direction. They should have been tougher—but they are the right basic idea—and they must not be further watered down or their results ignored if we want to revive business lending.

We are very fortunate this morning to have a chance to hear about the reality of these issues through the experience of Wisconsin's small business people and community bankers. We are honored to have you with us and look forward very much to your testimony. Thank you.

The CHAIR. Good. Thank you, Deputy Chair Silvers.

I want to say I understand that JoAnne Anton is here now in the back. Is that right? JoAnne, there you are. So that I thanked you before you arrived, but it is always better to thank people in person.

So thank you again for your help in setting this up. We appreciate it, and we appreciate the help that Senator Kohl has given us in making sure we could come to Milwaukee and do this hearing.

Thanks very much.

I would like now to recognize Common Council president Willie Hines, Jr., to address us. If you would come forward, please? And I think there is a seat right in the middle with your nametag on it. That way, you own the whole table.

Mr. President.

STATEMENT OF WILLIE HINES, JR., PRESIDENT, MILWAUKEE COMMON COUNCIL

Mr. HINES. Yes, first let me start out by thanking you, Madam Chairperson and Mr. Silvers, for coming to the City of Milwaukee. It is an honor and privilege to welcome you here on behalf of the City of Milwaukee Common Council. On behalf of the citizens and the mayor of the city, again, thank you for being here today.

I do want to thank Senator Kohl and his staff for making it possible as well.

Madam Chair, Professor Warren, thank you for taking time, and Mr. Silvers, to understand Milwaukee's perspective and the role in combating the credit crisis, especially in relation to the responsible small businesses and the current challenges in this economy.

In August 2001, former President Bush said most of the new employment in America comes from small business owners. Small business is the backbone of our economic system.

Last month, President Obama said small businesses are the heart of the American economy. He added that these jobs are responsible for half of all private sector jobs, and they created roughly 70 percent of all new jobs in the past decade. It would seem that we can all agree on the paramount place that small businesses have in sustaining our American economy.

I know that the Federal Government is taking great pains to infuse viable small businesses with fresh capital investment and to ensure that money is spent wisely. Believe me, Milwaukee's private sector needs that infusion as badly as anywhere else, if not even more.

We have a rich employment heritage in Milwaukee, to say the least. For decades, this was the incubator of industry that attracted so many European immigrants and many hard-working African-Americans from the South in search of the American dream. And it was here in Milwaukee, Wisconsin, that they found it.

Milwaukee is still well known in terms of Boeing, manufacturing, and motorcycles. But we have fallen on hard times, like so many other Rust Belt communities or, like the mayor would say, "fresh coast" cities, given the Lake Michigan and the fresh coast area that we are in.

Milwaukee was hit hard by globalization even before the economic crisis. Now it seems that forces have converged, and we are working tirelessly to better stabilize our economy not only in Milwaukee, but throughout the State.

While the stagnant economy represents many challenges, I think you will find Milwaukee also offers something else. The people here are hard working and humble. By and large, they will make the best of their situations, oftentimes not grumbling or complaining.

The companies that you will hear from today have done their best to push through uncharted terrain. But they do need your assistance in navigating the right route.

Again, thank you for taking time to hear their stories. We all greatly appreciate you being here this morning.

Hopefully, the information gathered here today and throughout the country will enable you to adequately communicate to Congress the challenges that America faces and its small businesses are dealing with on a daily basis. And hopefully, appropriate policies can be put forth to assist them.

Again, on behalf of the City of Milwaukee, welcome. Thank you again for being here.

The CHAIR. Thank you, Mr. President. We appreciate your remarks.

So I would like to call our five witnesses forward. We will have name cards here in front for everyone. If you all would come on up, I would appreciate it—all five of you.

So I am going to ask you, if you could, to hold your oral remarks to 5 minutes. You will see a little timer that will turn yellow when you have just 1 minute left. But your entire written statement is part of the public record.

So if there is anything we are not able to cover in the oral testimony, you should have confidence it will nonetheless be in the record. That will leave us enough time to be able to do some questions that I think will be helpful.

So, Mr. Klink, if I could start with you, please?

**STATEMENT OF THOMAS KLINK, PRESIDENT, JEFFERSON
ELECTRIC, INC.**

Mr. KLINK. Thank you.

Good morning, and I would like to thank the panel for inviting me to be here today.

My name is Thomas Klink. I am the president and owner of Jefferson Electric, Inc. Jefferson Electric has designed and manufactured dry-type transformers for almost 95 years. I have been employed by Jefferson since 1994, became a minority owner in '96 and majority owner in the beginning of 2008.

During my tenure with Jefferson, sales volume has increased steadily, with a 300 percent total increase since 2001. During calendar year 2008, we achieved the largest sales volume and the second-largest profit volumes that we ever had.

Also in 2008, the company was the recipient of a Future 50 award, given to us by the Metropolitan Milwaukee Association of Commerce, indicating we are one of the Future 50 companies of southeastern Wisconsin.

In January of 2008, when Jefferson was looking to redeem the ownership interest of the majority shareholder, original base lenders stepped up with funding that allowed us to do that, to do that with bank indebtedness.

In April of 2008, Jefferson added a manufacturing facility in Mexico to take advantage of the favorable NAFTA regulations, reduce costs, and remain competitive. To fund this necessary expansion, we approached our lender and were provided with an adequate increase in our lending limits to complete that transaction.

With this new production capacity and cost structure, Jefferson received the opportunity to increase its business with a brand-label customer. Part of the pre-qualification process was a representation that Jefferson maintain the financial capacity to support the increase in business if chosen as the supplier.

In August of 2008, armed with the preliminary approval from our lender, Jefferson pursued the bid opportunity and ultimately was the winning bidder on the majority of the business from this Fortune 100 company. This represented an increase of more than 30 percent in the total sales volume of Jefferson.

In September, needing formal approval on the increase in credit lines, the loan went to the bank's lending committee, where it was rejected. The committee supported its decision to reject the credit line increase by raising several issues.

Collateral concerns. We were adding a Mexican facility, and the collateral was moving there.

Growth concerns. The bank's outlook for the economic environment did not confirm Jefferson's growth plans. So they were concerned about the plan as presented.

And leverage concerns. Due to the debt that was added from the redemption of the shares, the lender requested we find a third party to provide Jefferson with an equity infusion or debt financing subordinated to them.

Since September, Jefferson has continued to meet with other lenders and investors. To date, nothing has come from these conversations for some of the same reasons as indicated by the lenders committee.

From Jefferson's viewpoint, little or no relief has been afforded as a result of the TARP funding, whether the lenders have accepted funds or not. During November of 2008, the company again met with its lender. The company needed and received the support of the lender this time, with a small increase in the line of credit as long as it was supported by our borrowing formula.

This increase was about one-third of the increase the company had previously sought but did allow Jefferson to continue to operate. This change only extended the line of credit into the middle of 2009, and the lender continued to indicate that an equity infusion was needed for Jefferson.

Since September, Jefferson has been hampered in the pursuit of our strategic plan to profitably grow the company with new customers and new products manufactured the most cost-effective way possible. All of my available time since September has been spent working on funding the company rather than addressing opportunities to grow.

Work that should be done now to afford growth at a later date is also on hold as we pursue external funding. Upon a successful long-term resolution to the funding issues, Jefferson should return to executing our strategic plan, a plan that includes investment in development of our products and our people.

Over the past several months in meetings with investors and lenders, there is a lot of excitement about Jefferson, what we have done in the past and what we are going to do in the future. Jefferson needs a good long-term, stable relationship with its lender that will allow it to pursue the long-term objectives of the company.

Although Jefferson will succeed, the anticipated relief from TARP legislation has not been noticed in our banking, vendor, or customer relationships. It is my sincere desire that this information helps the panel today to produce a better result for small businesses in the United States.

Thank you.

[The prepared statement of Mr. Klink follows:]

Jefferson Electric

My name is Thomas Klink. I am the president and owner of Jefferson Electric, Inc. I have held the position of president since January of 2008. From August of 1996 until January of 2008, I was a minority owner of Jefferson and served as the vice president of the company. My duties as both vice president and president have included lender relations. My understanding of the purpose of my testimony is to shed some light on the credit markets from my perspective as a small business owner in my community.

The Company History

Jefferson Electric has manufactured dry type transformers for almost 95 years, beginning operations in Illinois in 1915. From 1915 until the mid 1960's, Jefferson was privately held by the founder's family. During the mid 1960s, Jefferson was purchased by Litton Industries in a move that was part of a diversification strategy for Litton. Litton held the company until 1984, when it was purchased by MagneTek, Inc. MagneTek Inc held the company until 1996, when it was purchased taken private by me and another individual. That ownership structure remained in place until January of 2008, when Jefferson redeemed the majority investor's interest leaving me as the sole owner of Jefferson.

I have been involved with Jefferson since 1994, beginning my employment while it was still owned by MagneTek. During my tenure with Jefferson, sales volume has increased steadily with an over 300% increase since 2001. During calendar year 2008, we achieved the largest sales volume and the second largest earnings since I began working for Jefferson. In 2008, the Company received an award from the MMAC, Metropolitan Milwaukee Association of Commerce, as one of the "Future 50" companies of south eastern Wisconsin.

Jefferson's Business.

Jefferson designs and manufactures dry type transformers. A dry type transformer is a piece of electrical equipment that increases or decreases a supplied voltage. An example of this would be the conversion from 120 volts the utility supplies to 24 volts for under cabinet lighting in your home. Transformers are manufactured for a wide range of sizes and voltages, from as small as a product that would fit in the palm of your hand to as large as a small refrigerator. Jefferson's product line encompasses small product used in industrial control panels to very large units used to distribute power throughout an entire facility.

Jefferson uses three methods to sell the products it manufactures:

1. Wholesale Distribution. Jefferson has a network of 31 independent sales representatives, covering the entire continental United States. Distributors generally purchase and stock our inventory for sale as well as make just in time purchases of our catalog items. The distributors then resell the product to electrical contractors, industrial plants and equipment manufacturers.
2. Direct OEM sales. We design, manufacture and sell product directly to equipment manufacturers, in accordance with specifications unique to the manufacturer's application. This

manufacturer sells his product to end users.

3 Brand or Private Label. We manufacture and brand label a portion of our product line for companies who have chosen to buy and resell transformers rather than manufacturer them.

Jefferson currently leases facilities and uses them as follows:

- 1 – Franklin Wisconsin is a 5,000 square foot office space, with most of the customer service, accounting, sales, marketing and design engineering activities occurring from this location.
- 2 – Brownsville, Texas is a 33,000 square foot production facility that currently manufactures all products greater than 150kVA and all specialty products greater than 15 kVA.
- 3 – Pharr, Texas is a 22,000 square foot distribution facility that acts as the central hub to our logistics solution; and
- 4 – Reynosa, Mexico is a 50,000 square foot production facility that manufactures all standard products below 225kVA.

Jefferson's Banking Relations.

Starting in 1996, Jefferson used a large regional bank which was servicing the Milwaukee market. They provided a term loan and a revolving line of credit to support the operations of the Company. Through acquisition, that bank eventually went on to become one of the larger banks in the United States. As they began to expand, the bank seemed to lose interest in or lacked the desire to focus on smaller companies. Based on this lack of interest, Jefferson began to look for other alternatives.

In 2003, Jefferson changed lenders. This change was made because the new lender appeared to desire to work with smaller companies and offered to refinance Jefferson's higher interest bearing subordinated debt with a conventional term loan.

This relationship remained in place until January, 2008, when Jefferson was looking to redeem the ownership shares of the majority shareholder. The existing lender declined to finance the redemption. However, another smaller regional based lender stepped up with funding that allowed this redemption to occur using only bank indebtedness. This type of deal structure was important because the majority shareholder was unwilling to receive any subordinated debt as part of this transaction.

This lender provided a term loan to refinance Jefferson's existing term loan and cost associated with the share redemption. This lender also provided a revolving line of credit for the daily operations of the company. The lending relationship would be characterized as highly leveraged from its inception as Jefferson was poised for stable and increasing growth that would have made the debt less significant in a short period of time.

Jefferson's Manufacturing Growth.

Most of the competition Jefferson faces comes from companies that are much larger and have an existing manufacturing presence in lower cost environments. To remain competitive, in April of 2008, Jefferson added a manufacturing facility in Mexico to take advantage of the favorable NAFTA regulations and reduce costs. This facility provides the lower cost structure that

Jefferson requires to remain competitive, specifically in the distribution and brand label markets. To fund this necessary expansion we approached our lender and were provided with an adequate increase in our lending limits to complete this transaction.

With this new production capacity and cost structure Jefferson received the opportunity to increase its business with a brand label customer. The contract Jefferson was supplying under was up for renewal and the Brand Label customer, executed a very thorough reverse auction process to qualify prospective supplies and obtain the most competitive bids. Part of the prequalification process was a representation that Jefferson maintained the manufacturing and financial capacity to support the increase in business if it was chosen as a supplier. The Mexican plant acquisition allowed Jefferson to qualify for this auction. At this time, I contacted Jefferson's lender and asked them for a preliminary determination regarding their willingness to support business opportunity. Without the lender's willingness to increase working capital lines, Jefferson would not have the working capital required to support this business increase. The lender's positive response to pursue the business came before the bid process was completed in August 2008.

Jefferson's Banking Dilemma.

Armed with this preliminary approval and its increase production capacity, Jefferson pursued the bid opportunity and ultimately was the winning bidder on the majority of the business. This represented an increase of more than 300% in their current business with Jefferson. This customer is a Fortune 100 account.

Following our winning bid our lender made several data requests with which the Company complied. This was done during September, 2008. I asked the lender if the banking issues affecting the nation might have an impact on Jefferson and was assured that they should not.

On September 18, the bank's lending committee met and rejected the loan request. In support of the committee's decision to reject the credit line increase, the lender highlighted several issues:

1. Collateral concerns. Jefferson would be moving more of the collateral of the company outside of the United States and was relocating it to Mexico. This was jeopardizing their loan to value ratios and they were concerned about this. It seemed odd to us that they would bring this up now as we had identified in April that with the purchase of Mexico production facility this was going to occur and the bank did not raise this concern or otherwise comment on this point at that time.
2. Growth. Jefferson was growing too fast and the lender had concern about Jefferson's ability to maintain this growth. Furthermore, in light of the bank's outlook for the economic environment, it did not want to increase its exposure at this time.
3. Leverage Concerns. The existing debt on the balance sheet from the redemption of shares transaction did not allow the bank to increase the line of credit. The lender advised us that to allow them to continue their relationship with Jefferson, we needed to find a third party to provide Jefferson with an equity

infusion or provide debt financing subordinated to the bank.

The net effect of these actions was: Jefferson now had a large amount of new business; and, no working capital available to address the costs associated with inventory build-up and accounts receivable carrying costs.

Because of the value of the contract, the decision was made to pursue financing alternatives to fund the project including: mezzanine financing; selling a portion of the Company; and, possibly refinancing the existing debt structure with an alternate lender. During the third quarter, each option was vigorously pursued. None bore any fruit.

In meetings with mezzanine financiers, they indicated the amount of capital we needed was not sufficiently large enough to warrant their interest in pursuing a transaction.

Meetings with investors for the company yielded no reasonable offers. . At the time our financial statements reflected reduced earnings, due to projects underway. Jefferson was forced to expend funds to cover increases in inventory and the lag between sale and collection of receivables. With reduced earnings, the formulas that prospective investors used suggested they needed to become majority owners of the company to provide the funding we sought. One investor even indicated that he needed to become a 100% owner of Jefferson. This was not acceptable to me for several reasons. I had always intended to sell a portion of Jefferson but wanted to wait until an appropriate time to complete a transaction so that this sale would not force me to lose the "lion's share" of the company. I had not redeemed my partner's shares to immediately bring in another majority partner. Also, there were several on going projects that needed completion, including the addition of the Mexican facility, that included significant initial expenses which reduced earnings in the current period. Over time, the expenses would be recovered and the earnings would increase, and that would be the time to sell part of the company. Selling Jefferson during 2008 and 2009, would have lead me to liquidate more of the Company to a third party for the same dollar investment.

In meeting with other lenders, we found that none of them wanted to participate. Among the reasons given were:

1. An unwillingness to lend on Mexican operations as part of the revolving line of credit, even though we are in full compliance with all regulatory requirements and NAFTA laws;
2. In early 2008, lenders seemed comfortable with senior debt levels at 8 to 10 times the earnings of the company. Our lender had accepted our transaction in this range. By the end of 2008, the threshold had shrunk to 3 to 4 times the earnings of the company. With the expenditure of costs associated with start-up of the private label contracts and the costs associated with the acquisition of cost effective manufacturing facilities outside of the United States reducing Jefferson's earnings new lenders were unwilling or unable to enter into a transaction at the same levels the current lender was at, much less provide additional working capital to support the growth of the company. We spoke to more than a dozen lenders with the same response.

Outside influences on Cash Flow and the Current Status of TARP

During November of 2008, the company met with its lender. Since September of 2008, the company was able to prepare for the increase in business with the existing line of credit available to Jefferson by significantly tightening its operations and extending trade credit from vendors. By the end of November, we needed to increase the line in order to satisfy those vendor obligations. During the second half of 2008, vendor trade credit started to significantly tighten up and vendors that had offered extended terms to Jefferson were now reducing these terms. Discussions with the vendors indicated that they were also having trouble with their lenders and needed to reduce our terms in order to have cash flow to support their businesses and meet their lender demands. This seemed to start a circle of everyone waiting to get paid before they paid someone else. With this reduction in trade credit terms, the Company needed and received the support of the lender with an increase in the line of credit, as long as it was supported by the borrowing formula. This increase was about 1/3 of the increase the company was looking for in September but did allow Jefferson to continue to operate while it sought another financial partner. This change extended the line of credit into the middle of 2009.

Jefferson has continued to meet with other lenders and investors. To date, nothing has come from these conversations, for the same reasons as indicated above. It appears from Jefferson's viewpoint that little or no relief has been afforded as a result of the TARP funding, whether lenders have accepted funds or not.

Currently, Jefferson is discussing a renewal of its credit facilities with its current lender. Business has fallen during the first quarter. As a result of this reduction in business, Jefferson has decided to close its Brownsville Texas facility and relocate all of its production to the Reynosa Mexico facility. It is the larger of the two facilities and will accommodate all of the production. The Brownsville Texas facility is not able to handle the entire production demands of the Company and the cost to produce our products in Texas would make our company unprofitable. While this action will substantially trim production expenses, it also exacerbates collateral issues with Jefferson's lender since all raw materials and equipment will now be located in Mexico. This relocation clearly allows the company to generate substantial profits at the reduced sales levels. The lender is presently evaluating this request. Jefferson also continues to look for private investors that are willing to participate in a long term vision for the company, under terms that are not so onerous as to eliminate any incentive for the Company to achieve this vision.

Implications to Jefferson's Business

Since September Jefferson has been hampered in the pursuit of our strategic plan to profitably grow the company with new customers and new products manufactured the most cost effective way possible. All my available time since September had been spent working on funding the company rather than addressing opportunities to grow. Work that should be done now to afford growth at later date is also on hold as we pursue external funding. Upon a successful long term resolution to the funding issues, Jefferson will return to executing our strategic plan. A plan that includes investment in the development of our products and people.

In meetings with investors and lenders, there is a lot of excitement regarding what Jefferson has been able to do in the past, and its plans for the future are even more exciting. Jefferson needs a food long term stable relationship with its lender and some investors that will allow it to pursue the long term objectives of the Company.

Although Jefferson will succeed and is presently doing an excellent job of keeping a valuable product in the stream of commerce in the United States, the anticipated relief from government intervention has not been noticed in our banking relationships, vendor relationships and customer relationships. It is my sincere desire that this information will help the Panel to evaluate and produce a better result for small businesses in the United State.

Thank you for your time and the chance to speak with you today.

Thomas Klink
President, Jefferson Electric

The CHAIR. Thank you, Mr. Klink. I appreciate it.

I want to go next, let us see, we have—I can't see. Mr. Atwell. I apologize. Oh, here it is. I had it written down.

And I need to start out by asking is it “Nico-let” or “Nico-lay”?

Mr. ATWELL. “Nico-lay.”

The CHAIR. Nicolet, I apologize. I show my Oklahoma roots with that flat “Nico-let”—and so, of Nicolet Bank.

Mr. ATWELL. That is the way everyone pronounces it outside Wisconsin.

The CHAIR. Okay. All right.

So, if you would, please, Mr. Atwell?

**STATEMENT OF ROBERT ATWELL, CHAIRMAN AND CEO,
NICOLET NATIONAL BANK**

Mr. ATWELL. Nicolet National Bank is a \$600 million community bank. Our customers are in the northeast Wisconsin region primarily.

We formed the bank in 2000 to kind of consciously align the interests of shareholders, employees, and customers. Therefore, we have 260 shareholders. About 35 percent of the shares are held around the board table, and our employees own 10 percent of the shares outright.

Many of our customers are shareholders, and most of our shareholders bank with us. In a rough sense, one could think of us as a commercial banking coop, except that we pay taxes.

In December, we received a \$15 million TARP investment, and we also raised \$9.5 million of private capital at that time. We participated in TARP because we believe in its social purpose, and we thought it would be beneficial to our shareholders.

We were and we are very well capitalized. We did not ask for and we did not need a bailout. Nicolet did not originate subprime loans. Since we own our own mistakes, why would we make them on purpose?

We have a low concentration of development real estate as a matter of philosophy. We don't have any problem assets in our investment portfolio. Our risk is in the loan portfolio, where it belongs.

We made money in 2008, and our nonperforming assets are at slightly over 1 percent. We did not pay management bonuses in 2008 for the simple reason that we didn't hit our profit plans. We are in short position the way a sound bank should be on the front end of a recession, which is where we think we are.

This recession has perhaps impacted our region differently, as you have noted. This crisis, the national crisis was confined to the real estate and finance sectors until September of 2008. In northeast Wisconsin, finance and real estate are really not core industries. They remain derivatives of the real economy.

So right up until last fall, people may have been rattled by the news reports and maybe concerned about their 401(k) but probably privately wondered what all the fuss was about. In the wake of the Internet bubble and in the wake of 9/11, it was explicit Federal policy to flood the economy with liquidity in order to stimulate real estate development so that it would lead to recovery.

Stimulus did, in fact, stimulate, and we were amazed at the scale of speculative real estate development in a market that historically had been a build-to-order market. Speculative real estate was really driven by a handful of developers and a handful of banks, all of which are problem institutions today. By 2005, we could observe the pattern of developers selling properties to each other in order to create appraisal equity for their lenders to lend against.

After 2008, things changed. The recession bit hard and deep, beginning in October of 2008 in our area. Our traditional core industries of paper, wood products, food processing, shipbuilding, specialized equipment manufacturing, and transportation actually continued to show strength, but they comprise a much lower proportion of total employment than they did several decades ago.

There are now a lot of competent, motivated people in our area without work. Unemployment exceeds 12 percent in the City of Green Bay, and this is a new problem for us.

The future, we are planning for two scenarios. We are hopeful that a gradual recovery begins in late 2009. We are also doing our own private stress test, which I think all institutions should be doing. Our stress test in our area is what we call “credit-driven stagflation.” This would be characterized by a collapse of the U.S. dollar as global investors lose confidence in our national credit worthiness.

The need to fund our structural deficits at the resultant high Treasury rates will make domestic private borrowing very expensive, and this stress would continue until global investors believe we have the political will to live in an economically responsible fashion.

What are our responsibilities? We understand that banking is a private business and a public trust. We are lending money, and we are gaining new customers. Deposits are growing especially fast.

We are also looking for acquisitions, which will strengthen our funding base. And we are aggressively seeking to tell our customers and our community how we see this crisis. Many of them have taken the tough measures necessary to manage their costs and strengthen their balance sheets. They are looking for opportunities beyond the moment, but, quite frankly, proceeding very cautiously.

Many are concerned about the fiscal and monetary stability of the U.S. and quite concerned about an atmosphere of hostility toward businesses. We are concerned that the coming regulatory changes will tend to punish the horses that didn’t leave the barn.

Lastly, systemic risk. We must manage the risks created by the “too big to fail” institutions, the Toobtofs. Rather than seeking to manage the external social costs created by the Toobtofs, we would strongly urge you to consider using the tax code to minimize that systemic risk. Size serves no social purpose. Instead of spending more money to regulate, Toobtof taxation will generate revenue, reduce risk, and level the playing field, which has consistently favored the larger institutions in recent decades.

Finance need not be as complicated as we have made it. It really ought to be a very personal, regional business, and we should adopt policy measures which decentralize the work, the ownership, the risk, and the return.

[The prepared statement of Mr. Atwell follows:]

Nicolet

NATIONAL BANK

Nicolet National Bank is a \$600M community bank. Our customers are in Northeast Wisconsin region. We formed the bank in 2000 to consciously align the interests of owners, employees, and customers. We have 260 shareholders, 35% of the shares are voted by our board members. Our employees own 10% of the shares. Many of our customers are shareholders and most of our shareholders bank with us. In a rough sense one could think of us as a commercial banking co-op; except that we pay taxes.

In December we received a \$15MM TARP investment and raised \$9.5MM of private capital.

We participated in TARP because we believe in its social purpose and we thought it would be beneficial to our shareholders. We were and are very well capitalized. We did not ask for, nor did we need, a bailout.

Nicolet did not originate subprime loans. Since we own our mistakes why would make them on purpose? We have a low concentration of development real estate as a matter of philosophy. We don't hold problem assets in our investment portfolio. Our risk is in the loan portfolio where it belongs. We made money in 2008 and our non-performing assets were 1% of as of 12/31/08 (about the same today). We did not pay management bonuses in 2008.

We are positioned the way a sound bank should be on the front end of a recession. The recession has impacted our region differently.

1. Before September 2008 - The crisis was confined to the real estate and finance sectors until September, 2008. In NE Wisconsin, finance and real estate are not the "core industries". They remain derivatives of the "real economy". Right up until last fall people may have been rattled at the news reports and concerned about their 401k balance, but privately wondered what all the fuss was about.

In the wake of the internet bubble and 911, federal policy was to flood the markets with liquidity so that real estate would lead the recovery. Stimulus stimulated. We were amazed at the scale of speculative real estate development in a market that historically had built to order. Speculative real estate construction was dominated by a handful of developers using a handful of banks all of which are now troubled institutions. By 2005 we could observe the developers selling properties to each other in round robin fashion to generate new appraisal equity.

2. After September 2008 - This recession bit hard and deep beginning in October, 2008. Our traditional core industries of paper, wood products, food processing, shipbuilding, equipment manufacturing and transportation continue to show strength, but they comprise a much lower proportion of total employment than earlier decades. There are a

lot of competent, motivated people without work. Unemployment exceeds 12% in the City of Green Bay. This is a new problem for us.

3. The Future - We are planning for two scenarios. We are hopeful that a gradual recovery will begin in late 2009 and early 2010. The "stress test" scenario is what we call credit driven stagflation. This would be characterized by a collapse of the US dollar as global investors lose confidence in our credit worthiness. The need to fund structural deficits at the resultant high Treasury rates will make domestic private borrowing very expensive. The stress would continue until global investors believe we have the political will to live in an economically responsible fashion.
4. Nicolet's responsibilities - We understand that banking is a private business and a public trust. We are lending money and gaining new customers. Deposits are growing especially fast. We are also looking for acquisitions which will strengthen our funding base. We are aggressively seeking to tell our customers and community how we see this crisis. Many of them have taken the tough measures necessary to manage their costs and strengthen their balance sheets. They are looking for opportunities beyond the moment, but proceeding very cautiously. Many are concerned about the fiscal and monetary stability of the US and quite concerned about an atmosphere of hostility toward business. We are concerned that the coming regulatory changes will punish the horses that didn't leave the barn.
5. Systemic Risk - We must manage the risks created by the too big to fail institutions (Toobtofs). Rather than seeking to manage the external social costs of the Toobtofs, we would urge you to consider using the tax code to minimize systemic risk. Size serves no social purpose. Instead of spending more money to regulate, Toobtof taxation will generate revenue, reduce risk and level the playing field which has consistently favored the larger institutions in recent decades.

Finance need not be as complicated as we have made it. It really ought to be a very personal, regional business. We should adopt policy measures which decentralize the work, the ownership, the risk and the return.

The CHAIR. Thank you very much, Mr. Atwell. Appreciate your comments.

Mr. Perrins.

**STATEMENT OF WAYNE PERRINS, GENERAL MANAGER,
BADGER TRAILER AND EQUIPMENT CORPORATION**

Mr. PERRINS. Thank you, Madam Chairperson and Mr. Silvers.

I appreciate having the opportunity to serve here and to discuss the situation. Hopefully, we will all benefit from it.

Badger Trailer is a third-generation, female-owned and operated Wisconsin business by Ms. Jean Lee, who is the owner, and her daughter, Ms. Karin Lee-Fournier, president. Jean's father, Mr. Lubbert Lubbers founded Badger Trailer in 1916.

In approximately 1938, Mr. Lubbers became the first Thermo King transport refrigeration dealer in the United States and the world. As a Thermo King dealer, we sell, install, service, and repair all models of transport refrigeration equipment from Thermo King products and competitor products. We provide a complete line of repair parts for sale to the transport refrigeration industry and semi-trailer transportation industry.

We are a complete semi-trailer repair facility, performing all aspects of repair and service in accordance with the Department of Transportation regulations. Our company has been actively involved in the Wisconsin business community, providing employment for Wisconsin citizens for almost 100 years.

We now find ourselves engaged in a fight to obtain credit and financial support to stay in business and not file bankruptcy because of our current uncooperative banking institutions' policies. Our banking institutions' officers, who are the decision-makers in our affair and who have refused to renew our loan obligations, stated to us in December of 2008 that their institution received \$1.5 billion from the first TARP disbursement under President Bush.

Admittedly, there have been operational mistakes and complacency within our company for many years. After suffering continued loss of market share and revenue through the years, we reinvented and modernized our company in 2006 to be competitive in the 21st century market. Consequently, because of high fuel costs in 2007 adversely affecting our business and the transportation industry, the economic downturn in 2008, and the necessary modernization of our company, we incurred severe losses for 2007 and 2008.

Our situation is urgent and time is of the essence as our financial institution has given us a very short deadline to pay approximately \$2 million in loans, or they will call our loans and we will be placed out of business. None of our payments or obligations to our financial institution are behind, and they are the first ones to readily admit that we have not missed any payments. And we have made the necessary adjustments to lower our operating costs.

We are currently working with the Racine County Economic Development Corporation, an SBA consultant, our attorneys, and our outside accounting firm to hopefully acquire an SBA loan for the portion of our loan obligation that was made for our new business construction in Racine County, Wisconsin. We are also actively pur-

suing a new financial institution with which to do our commercial banking, which proves pretty difficult.

We have worked very hard and have initiated 20 to 30 years of needed improvements to our business practices in just 2 years. We are finally poised to succeed as we move forward into the future. However, we need a willing financial institution as our partner.

We have run out of time. Our financial institution is not extending credit and refuses to renew our loans, even though Badger Trailer is not behind in any payments.

Our financial institution's attorney, our attorneys, our accountant, and our leadership team met on April 10, 2009, and verbally agreed on an extension to September 30, 2009, on our existing loans. To date, a written agreement has not been finalized. The attorneys are negotiating this.

If the SBA does not fund our 504 loan in order for us to attract a new bank, which is imperative—we have to have the SBA 504 funded before a bank will consider working with us—our bank has stated they will not renew our loans or extend credit at the September 30th deadline.

It seems that our financial institution's strategy is to close our company, and our financial institution has regularly threatened a lawsuit if we do not sign a formally proposed forbearance agreement. Our busy season is April through September for revenue proceeds. We need the time, and that is why we got the extension to September 30th.

We do not have an effective line of credit. Our obsolete line of \$300,000 is maxed out. We have developed a comprehensive and realistic cash flow budget with our outside accounting firm, and through the first quarter of '09, we are ahead of budget.

We are working with other banks to develop a new financial business partnership. We have engaged a new legal counsel and are aggressively pursuing help through the Small Business Administration.

Without financial support from the SBA and a cooperative financial institution, Badger Trailer and Equipment Corporation may not survive. We have overcome severe operational issues during the past 2 years, modernized the company, upgraded our performance, and are poised for a successful future in Wisconsin. We need support from the Emergency Economic Stabilization Act, TARP, and the SBA as a small business that has been in operation in Wisconsin for almost 100 years.

We have held meetings with State legislators, Congressman Paul Ryan, Senator Russ Feingold's economic development liaison Ms. Hilary DeBlois, Congressman James Sensenbrenner, and sent a letter and a PowerPoint presentation to President Obama.

We closed our Milwaukee operations completely and permanently, reduced operating expenses by elimination of utilities, phones, insurance, and all operating expenses there. The owner has made a firm commitment to sell all property in Milwaukee to pay down debt, which is valued at approximately \$2 million.

We don't understand the unwillingness and adversarial attitude of our financial institution. We have initiated all the right actions to turn the company around. We need time.

Thank you.

[The prepared statement of Mr. Perrins follows:]

BADGER TRAILER & EQUIPMENT CORPORATION

ECONOMIC SITUATION

We are a third generation, female owned and operated Wisconsin business by Ms. Jean Lee, Owner and Ms. Karin Lee-Fournier, President. Mr. Lubbert Lubbers, Jean's father, founded Badger Trailer & Equipment Corporation in Milwaukee, Wisconsin in 1916. In 1938 Mr. Lubbers became the first Thermo King transport refrigeration dealer in the United States and the world. As a Thermo King dealer, we sell, install, service and repair all models of transport refrigeration equipment for Thermo King products and competitor products. We provide a complete line of repair parts for sale to the transport refrigeration industry and semi-trailer transportation industry. We are a complete semi-trailer repair facility performing all aspects of repair and service in accordance with DOT regulations. Our company has been actively involved in the Wisconsin business community providing employment for Wisconsin citizens for almost 100 years. We now find ourselves engaged in a fight to obtain credit and financial support to stay in business and not file bankruptcy because of our current uncooperative banking institution's policies. Our banking institution's officers, who are the decision makers and who have refused to renew our loan obligations stated to us they received 1.5 billion dollars from the first TARP disbursement under President Bush.

Admittedly, there have been operational mistakes and complacency within our company for many years. After suffering continued loss of market share and revenue through the years, we reinvented and modernized our company in 2006 to be competitive in the 21st century market. Consequently, because of high fuel costs in 2007 adversely affecting our business and the transportation industry, the economic downturn in 2008 and the necessary modernization of our company, we incurred severe losses for FY 2007 and FY 2008.

Our situation is urgent and time is of the essence as our financial institution has given us a very short deadline to pay approximately \$2,000,000.00 or they will call our loans and we will be placed out of business. None of our payments or obligations to our financial institution are behind and we have made necessary adjustments to lower our operating costs! We are currently working with the Racine County Economic Development Corporation, an SBA consultant, our attorneys and our outside accounting firm to hopefully acquire an SBA Loan for the portion of our loan obligation that was made for our new business construction in Racine County, Wisconsin. We are also actively pursuing a new financial institution with which to do our commercial banking.

We have worked very hard and have initiated twenty to thirty years of needed improvements to our business practices in just two years. We are finally poised to succeed as we move forward into the future; however, we need a willing financial institution as our partner.

- **WE HAVE RUN OUT OF TIME!** M&I Bank is not extending credit and refuses to renew our loans even though Badger Trailer is not behind in any payments. M&I's attorney, our attorneys, our accountant and our leadership team met on April 10, 2009 to negotiate an extension to September 30, 2009 on our existing loans. To date, an agreement has not been negotiated. If the SBA does not fund our SBA Loan in order for us to attract a new bank, M&I will not renew our loans or extend credit. IT SEEMS THAT M&I'S STRATEGY IS TO CLOSE OUR COMPANY AND M&I REGULARLY THREATENS A LAWSUIT IF WE DO NOT SIGN A FORMERLY PROPOSED FORBEARANCE AGREEMENT. OUR BUSY SEASON IS APRIL – SEPTEMBER FOR REVENUE! WE NEED TIME!
- We do not have an effective available line of credit – Obsolete line of \$300,000 is maxed out and our financial institution has refused to increase it.
- We have developed a comprehensive and realistic cash flow budget with our outside accounting firm. Through the first quarter of 2009, we are ahead of our budget.
- We are working with other banks to develop a new financial business partnership; we have engaged new legal counsel and are aggressively pursuing help through the Small Business Association.
- Without financial support from the SBA and a cooperative financial institution, Badger Trailer & Equipment Corporation will not survive. We have overcome severe operational issues during the past 2 years, modernized the company, upgraded our performance and are poised for a successful future in Wisconsin.

- *We need support from the Emergency Economic Stabilization Act, TARP and the SBA as a small business that has been in operation in Wisconsin for almost 100 years. We have held meetings with State Legislators, Congressman Paul Ryan, Senator Russ Feingold's Economic Development Liaison, Ms. Hilary DeBlois, Congressman James Sensenbrenner, Jr. and sent a letter and power point presentation to President Obama.*
- *We closed our Milwaukee operations completely and permanently. We reduced operating expenses by elimination of utilities, phones, insurance, taxes etc. and the owner has made a firm commitment to sell all property in Milwaukee to pay down debt as the real estate market improves with the economy. The property is being actively marketed for sale.*
- *We downsized from 43 personnel in 2006, to 29 personnel in 2007 and to 18 personnel as of January 2009. We eliminated 100% company paid pension contributions for non-union employees. Our President and General Manager voluntarily reduced salaries; Jean Lee, Owner has eliminated any income from operations in order to reduce expenses.*
- *We have approximately \$2,000,000.00 worth of collateral located in Milwaukee, Wisconsin which currently has a \$500,000.00 mortgage through M&I Bank. We have not missed a payment for any credit obligations; M&I Bank has complete control over the payments and directly debits our business account for payments.*
- *Our manufacturer, Thermo King, has faith in our performance and current direction, approved our dealer agreement for the next 3 years and on Friday, April 24, 2009 leadership from the credit department of Thermo King and Ingersoll-Rand visited our company and was comfortable with our progress in spite of our struggle with our financial institution.*

Badger Trailer & Equipment Corporation has invested and devoted extreme amounts of money and effort in becoming a progressive, viable employer in Wisconsin. We desire to remain in business, however, we need support from a willing financial institution and, if possible, TARP.

We have marketed and penetrated our sales area to reinvent Badger Trailer, reengage the customer base and successfully sell service, parts and units to existing and new customers. We have invested huge amounts of capital and time in sending our personnel for technical and sales training. The family has invested millions of dollars in the dealership to progress into the future as a modern, effective business enterprise.

We as a dealership team have faced the brutal facts about our business and have made the necessary decisions and taken the necessary actions to survive. Given the state of the economy coupled with the ultimatum placed on us by our banking institution we are subject to an unreasonable time line to acquire funding through the SBA and acquire a new banking partner or face litigation.

We have built an effective infrastructure and are positioned to grow our service and sales and are committed to being one of the most profitable small businesses in Racine County and the State of Wisconsin. Since our voluntary restructuring process, we are poised for profitability through lowered operating expenses and actions to increase sales volume. We now find ourselves in this dire situation with the powerful will to survive as a viable business entity. We have run the good race through the years; now, we need support as a capable business entity in Wisconsin and respectfully request support from the Emergency Economic Stabilization Act and TARP via the Small Business Administration to survive through these tough economic times.

We do not understand the unwillingness and adversarial attitude of M&I Bank; we have initiated all the right actions to turn the company around. We need time to progressively work into our profitable months to develop revenue growth. We need funding for our 504 loan from the SBA which, combined with our new direction and financial performance, will help attract a new financial institution with which to do our commercial banking.

"WE WILL EITHER FIND A WAY, OR MAKE ONE!"
HANNIBAL

Thank You,
Badger Trailer & Equipment Corporation's Leadership Team

The CHAIR. Thank you, Mr. Perrins. Appreciate it.
Mr. Prickett.

**STATEMENT OF PETER PRICKETT, PRESIDENT AND CEO,
FIRST NATIONAL BANK—FOX VALLEY**

Mr. PRICKETT. Thank you.

My name is Peter Prickett. I am the CEO of First National Bank—Fox Valley.

We are a full-service, community-based commercial bank headquartered in Neenah, Wisconsin. We have approximately \$230 million in assets. We serve the Fox River Valley, located in north-eastern Wisconsin, with our primary geographic market along a 25-mile corridor of U.S. Highway 41. We have offices in Appleton, Neenah-Menasha, and Oshkosh.

First National Bank—Fox Valley provides a complete offering of deposit and loan products and services to both retail and business customers. For retail customers, we provide conventional checking, savings, money markets, certificate of deposits, et cetera.

We also offer a full suite of Internet banking services, including Internet banking, bill pay, and mobile banking capability. From a credit standpoint, we provide mortgage loans, home equity lines of credit, traditional installment loans, and credit cards.

One of our primary strengths is serving businesses with depository services and credit needs in the amount of \$500,000 to \$3.5 million. Our deposit suite for businesses includes conventional checking accounts, money market, overnight sweep accounts. From a technology standpoint, we also have full Internet banking functionality, automated clearinghouse, and remote deposit services to our business banking customers.

Credit needs are provided through lines of credit, term financing, and real estate lending. We also provide financing to businesses through traditional and Small Business Administration loans.

During this time of economic contraction, First National Bank—Fox Valley has remained active in providing credit and other banking services to the small business sector. Our underwriting standards have not significantly tightened. Current economic and sector conditions are considered in our underwriting process.

However, each business customer is evaluated on their unique needs and prospective ability for repayment. As a community bank, our knowledge of the local conditions and of our borrowers' capacity and character remain paramount.

As evidence of our commitment to our communities and borrowers, our bank has experienced solid and significant loan growth. Over the last two quarters, our loan portfolio has increased \$20 million, representing a 12 percent increase. Over the last year, our loan portfolio has grown 20 percent.

Of the \$40 million in new loans that we made over the last two to three quarters, \$32 million was issued to commercial lending customers in the form of traditional commercial and industrial credit, as well as for some commercial real estate. The remaining loan originations were to retail customers—\$7 million in real estate mortgages and \$2 million in consumer credit.

Above and beyond the statistics above, we also supported our existing customer base through renewal of credits totaling over \$21

million. A total of 128 loans were renewed during this period, with over \$18 million issued to business customers, \$2 million to residential real estate, and \$700,000 to non real estate consumer lending.

Our active pipeline of commercial prospects and enhanced business activity remains strong, showing the potential of over \$30 million in new lending activity over the next 6 months. In addition to the residential real estate activity discussed above, we have also been active in supporting consumers with their real estate lending needs. We have originated 60 secondary market loans for over \$12 million since October 1st of 2008, although the majority of these were for refinancing activity.

Recently, we have seen some improved, increased activity in the real estate purchase market. We have also purchased several million dollars of municipal securities issued by Wisconsin localities, again in support of our local economies. The ability to do this was enhanced by the acquisition of TARP or Capital Purchase Program capital.

In summary, the TARP or Capital Purchase Program capital we obtained has already been leveraged almost three times based on our net loan growth and purchase of municipal securities over the last two quarters.

That is all I have.

[The prepared statement of Mr. Prickett follows:]

Testimony for the Congressional Oversight Panel
Milwaukee, Wisconsin
April 29, 2009

First National Bank – Fox Valley (FNB-FV)
Neenah, Wisconsin

First National Bank – Fox Valley (FNB-FV) is a full service community based commercial bank headquartered in Neenah, Wisconsin. We serve the Fox River Valley area located in Northeastern Wisconsin. Our primary geographic market consists of the cities located along a twenty-five mile corridor of U.S. Highway 41 with Appleton, Wisconsin to the north and Oshkosh, Wisconsin to the south. In addition to our Neenah office, we have three full service banking locations located in Appleton, Menasha and Oshkosh.

FNB-FV provides a complete offering of deposit and loan products and services to both retail and business customers. For retail customers, we provide checking, savings, money market, certificates of deposit, health savings and Christmas club accounts along with safe deposit services. We also offer a full suite of internet banking services including internet banking, bill pay and mobile banking capability. From a consumer credit standpoint, we provide mortgage loans, home equity lines of credit, traditional installment loans and credit cards.

One of FNB-FV's primary strengths is serving businesses with credit needs in the \$500,000 to \$3,500,000 range and depository services. Credit needs are provided through lines of credit, term financing and real estate lending. FNB-FV provides financing to business through traditional and Small Business Administration (SBA) loans. Our deposit suite of products includes analysis checking accounts, money market and overnight sweep accounts. From a technology standpoint, we provide full internet banking functionality, automated clearinghouse and remote deposit to our business banking customers.

During this time of economic contraction FNB-FV has remained active in providing credit and other banking services to the small business sector. Our underwriting standards have not significantly tightened. Current economic and sector conditions are considered in the underwriting process. However, each business customer is evaluated on their unique needs and prospective ability for repayment. As a community Bank our knowledge of the local conditions and of our Borrowers capacity and character remain paramount.

As evidence of our commitment to our communities and Borrowers, FNB-FV has experienced solid and significant loan growth. Net growth in our loan portfolio has exceeded \$20 million from the period October 1, 2008 through April 23, 2009 – representing a 12% increase. During this period, FNB-FV originated 191 new loans for a total principal balance issuance in excess of \$40 million. Of the \$40 million, over \$32 million was issued to commercial lending customers in the form of traditional commercial and industrial credit and as well as commercial real estate lending. The remaining loan originations during this period were to retail customers – over \$7 million in real estate mortgages and \$2 million in consumer credit.

Testimony for the Congressional Oversight Panel
Milwaukee, Wisconsin
April 29, 2009

First National Bank – Fox Valley (FNB-FV)
Neenah, Wisconsin
Page 2

Above and beyond the statistics shared above, FNB-FV also supported our existing customer base through renewal of credits totaling over \$21 million. A total of 128 loans were renewed during this period with over \$18 million issued to business customers, \$2 million to residential real estate customers and \$700,000 in non real estate based lending to consumers.

Our active pipeline of commercial prospects and enhanced business activity remains strong – showing the potential of over \$30 million in lending activity over the next six months.

In addition to the residential real estate activity discussed in our above testimony - FNB-FV has also been very active in supporting consumers with their real estate lending needs. We have originated sixty secondary market loans for over \$12 million since October 1, 2008. The majority of these originations were for refinancing activity. Although, we have recently seen some increased activity in real estate purchase market.

We have also purchased several million dollars of municipal securities issued by Wisconsin localities again in support of our local economy. The ability to do this was enhanced by the acquisition of CPP capital.

The addition of the Treasury's Capital Purchase Program investment has supported increased lending at FNB-FV. Specifically, the additional capital has supported an increase of \$600,000 in our legal lending limit.

In summary the "TARP" capital we obtained has already been leveraged almost three times based on our net loan growth of over \$10 million in the first quarter of 2009 and our purchase of municipal securities.

Sincerely,

Peter J Prickett
President/CEO

The CHAIR. Good. Thank you very much, Mr. Prickett.
Mr. Griffith.

**STATEMENT OF DAVID GRIFFITH, OWNER AND CEO, CROSS
TOWNE MACHINING**

Mr. GRIFFITH. Good morning. Thank you for letting me be a witness to the oversight panel. I certainly appreciate the opportunity.

Cross Towne Machining was started in 1989 and is celebrating its 20th anniversary this year. While our company does a wide array of machining, we specialize in precision machining and exotic metal machining. Exotic metals would include metals such as titanium, Hastalloy, cobalt, nickel, and Inconel.

Our company serves many industries, such as food and sanitary, transportation, energy, military, and heavy machinery. Myself and another owner, Layne Meyers, purchased the company on February 1, 2007. Our purchase was financed largely by bank debt and owners' equity holdback notes.

One of the reasons that we purchased the company is because we felt they had a strong niche and that there were significant growth opportunities within the industries they served. We found this to be correct early on.

In 2006, which was the last year before we purchased the business, with the previous owners, Cross Towne Machining had \$1 million in sales. By the end of 2007, which was our first year, we increased that to \$1.9 million in sales, a 90 percent increase.

In 2006, they had 11 employees. By the end of 2007, we had 16 employees. We are growing quite well.

And because of our results in 2007, we were also awarded the Future 50 award by the Milwaukee Chamber of Commerce. We are very proud of that.

One of the challenges with the excessive growth is having working capital available to purchase the materials to machine the parts for our customers. As our company proceeded through 2008, sales were still growing, but the burden on our cash flow from the significant amount of material being purchased was becoming a problem at our company.

Sales continued strong through 2008, with the year finishing 15 percent above our 2007 sales results. But beginning in October of 2008, we were beginning to see a softening in our sales orders, and our customers were telling us that they were seeing it also.

We had also borrowed, by that time, the maximum amount that the bank would loan us to this point. We are now struggling to pay vendors on a timely basis, and our company's growth was now being stalled by both the economy and our cash flow predicament.

This is when I approached our bank, Johnson Bank of Racine, Wisconsin, about giving us some additional working capital in the amount of \$75,000 and/or restructuring our current debt to help our now long-running cash flow situation. We had several meetings with them over the next couple of months. But by January of 2009, Johnson Bank informed us that they were no longer willing to do anything more for our company. They would not extend any more credit to us, and they would not consider restructuring our current debt with them.

Soon after the decision from Johnson Bank, I began a search for a new bank, and that was six banks in the Milwaukee area. They were Associated Bank; Wells Fargo Bank; U.S. Bank; Mid-America Bank out of Janesville, Wisconsin; Foundations Bank in Pewaukee, Wisconsin; and Investors Bank in Waukesha, Wisconsin.

Between February 1st and March 31st of 2009, I met with the business bankers from each of those banks. The initial meetings were very positive. Several bankers showed me how our company could save \$50,000 to \$70,000 a year in debt servicing by having a relationship with their bank and their bank teaming up with the Small Business Administration through a 7(a) program that they offered.

A couple of them also told me that we could receive some working capital through the 7(a) program also, which would alleviate our cash flow situation. These discussions, combined with the recently passed American Recovery and Reinvestment Act, had me hopeful that there would be a solution to our situation.

I was told that the American Recovery and Reinvestment Act was established to encourage banks to do small business lending through the SBA by guaranteeing a greater percentage of the loan amount and waiving most of the fees associated with the program.

Well, when the business bankers went back to their underwriters and/or loan committees for approval at their respective banks, the responses were not good. After a long discussion with one bank, they didn't want to pursue our loan situation further because, "Our bank is only doing ultra clean loans."

One banker declined me by telling me that he "has not had any loans approved in the last 3 months and that they need to be perfectly clean" for his bank.

Another banker told me that they would not approve my loan request. I asked him, "If this was 2 years ago and our company's financial situation is exactly the same as it is today, would you do the deal?" The banker replied, "Absolutely. But things are different now. The bank is more stringent."

When I asked a couple of bankers why they would not consider our company, even with the SBA 90 percent loan guarantee from the American Recovery and Reinvestment Act, the responses were, "Just because the SBA guarantees 90 percent of the loan does not mean that there isn't a lot of cost to the bank if the loans default." Also, "The SBA is not easy to deal with."

Another banker told me that there is so much paperwork and bureaucracy involved with the SBA that it is not worth their time.

The last banker told me that a couple of years ago, his bank had to recover assets from a liquidated company with an SBA guarantee and, "The experience really had our bank not look favorably toward SBA lending."

In the end, there were not any banks that were willing to underwrite my banking relationship even with an SBA guarantee.

While the economy has affected our sales, we have aggressively managed our expenses, and Cross Towne Machining has had three straight quarters of operating profits—quarter three of '08, quarter four of '08, and quarter one of '09.

But we are in a severe cash flow situation. We have not had any working capital for 7 months and have had to pay all of our ven-

dors out of our cash receivables that we have collected. Our company is paying interest rates on our loans that average 8 percent, which, by today's standards, are fairly high.

We have explored capital investors, but the amount of money that we are seeking is far too low for capital investors to want to explore. Unless we can find a means to fix our long-running cash flow situation, the future of Cross Towne Machining in this economic environment is bleak.

Thank you for the opportunity.

[The prepared statement of Mr. Griffith follows:]



Written Statement

For

Congressional Oversight Panel

April 29, 2009

History of Crosstowne Machining

Bottom Line: Purchased the business in February of 2007, financed by a large amount of bank debt. Recession began in December 2007.

Crosstowne Machining is located in Muskego, Wisconsin. We are a machining business that specializes in precision machining and exotic metal machining (i.e. Titanium, Hastelloy, Nickel, Inconel, etc.). We take castings or bars of metal and machine them into finished parts for OEM's (Original Equipment Manufacturers) such as Caterpillar, Deere and CaseNH. The company dates back to 1989 and was led by two owners. Over the next seventeen years, the two owners built a small business that by 2006 had employed a total of ten people and had around \$1 million dollars in sales. In 2006, they approached my co-owner (Layne Meyers) about buying the business. Layne was director of operations for a customer of Crosstowne Machining and had used Crosstowne as a vendor for many years. Layne and I bought the business and began our ownership on February 1, 2007. Our purchase was financed through a combination of bank loans and owner equity holdback notes.

Financial Background

Bottom Line: Fast sales growth in 2007. In 2008, industry changes mandating purchasing material to machine strains our capital needs. In 2009, a decline in overall sales began to occur due to the economic recession. Three straight quarterly operating profits, 3Q2008 thru 1Q2009.

While there were many challenges with taking over a company, we had a successful 2007. Even with a large amount of non-cash expenses such as Depreciation and Amortization Expense, our company still reported a small profit in our first year as we grew sales 90% to \$1.9 million dollars. In 2007, we purchased two machines to help with the continued sales growth. While we were happy with our sales growth, we were seeing an increasing amount of our customers forcing us to purchase the material to machine their parts. This is a change that had been occurring in the machining world. Traditionally, machine shops were provided the material that they would machine from their customers. As companies continue their desire the shed inventory, they will ask machining businesses to "purchase complete". In other words, the machine shop buys the metal, machines it, outsources any other steps that may need to be completed and provides the finished product to the customer. This creates a difficult cash flow challenge for smaller machine businesses like ours. While we had a working capital line of credit in place through our existing bank (Johnson Bank of Racine, Wisconsin), the excessive amount of material that we had to purchase was far more than the financial status of our company could handle. By May of 2008, we had accumulated an excessive amount of inventory and our company's cash flow was under immense strain. We went to our customers who asked us to purchase this inventory and told them that we were financially unable to continue this. After much discussion, they agreed and in May of 2008, we liquidated our inventory and took a charge off of \$158,000. Because of this, we had an operating loss in the second quarter of 2008 of \$170,000, but followed that up with an operating profit in both Q3 and Q4 of 2008. At the end of the year, we still increased our annual sales in 2008 to \$2.3 million, an 18% increase over 2007's sales. We ended the 2008 year with 16 employees at our company, six more than when we brought the business in 2007. We felt that our

Q3 and Q4 performance, in light of the economic recession, demonstrated that our company was a very viable entity that had strong management. We also thought that maybe we had “weathered the recession” because of our strong Q4 sales and earnings. But almost overnight, by the middle of January 2009, we began to see a strong drop in sales due to the recession. Our backlog was rapidly dwindling. While our customers were still ordering parts from us, the volume was going down rapidly, with sales for Q1 of 2009 down 24% from Q1 of 2008.

Management of Current Situation

Bottom Line: We have aggressively reduced expenses while maintaining a strong marketing presence.

We faced this, as many businesses have, by aggressively managing expenses. We followed up Q3 and Q4 of 2008 with another operating profit in Q1 of 2009, an achievement our management team is very proud of. But unfortunately when you aggressively manage expenses, it usually comes at the cost of employees and our company was no different. By February, we needed to lay-off three employees and in March, we laid off two more. We currently stand at 11 employees. While this was tough, we did have some successes in Q1. We brought on two new customers, one of which is going to be very strong for us in the future. We were also asked to take on another line of business from one of our existing customers, starting in June 2009, which would amount to \$1.5 million a year in sales, almost doubling our size. We have also been very aggressive in our marketing tactics, rebuilding our website, conducting several online marketing tactics to bring in new customers and executing a bi-monthly mailing campaign to potential customers. We have also purchased a booth at a large trade show in Chicago in May in which 3,000+ purchasers and engineers will be attending. While we are managing expenses, we are not cutting our marketing through this challenging economic period. These are all signs that our company is “here to stay” and unlike many competitors in our field, we will weather this storm.

Availability of Credit and our Banking Situation

Bottom Line: Johnson Bank is unwilling extend any additional credit, leaving us without any access to working capital. They are also unwilling to restructure our existing debt, leaving us with high debt servicing, due to high interest rates and short amortization terms.

The combination of having to pay down our inventory charge-off, significant amount of debt and our sales slow-down was having detrimental financial effects by October of 2008. Our working capital line of credit was “maxed out” and while sales were still going strong, we could see our sales forecast beginning to slow down. Financially strained from our debt, I proactively approached Johnson Bank in late October 2008 for more working capital and/or to restructure our existing debt with them (approximately 80% of our debt is with them). By hoping to restructure our debt, I was hopeful that it would both lower our monthly debt servicing and provide the possibility of additional working capital. The working capital is extremely important to us because we will often have to purchase material for jobs that may require several internal and/or outsourced operations, which means we may not get paid until 90-120 days after the material has been purchased. Until last October, we used our working capital

to provide the payment of that material. Since then, we have struggled to pay our material vendors with operating cash as we have no further access to any financing. We continued to have several meetings with Johnson Bank, but by January of 2009, they told us that they were not willing to do anything more for our company - no more money and no debt restructuring. One of the lenders said "I know that these are difficult conversations to have. I have had many of these conversations recently with companies whose sales are down 40 or 50%". But in January, our sales were not down 40 or 50%. They were going into their "bunker" and just hoping our company would make it through the recession. Not only was I disappointed in the lack of action in assisting our company, but I was even more disappointed that my strategy of getting my banker to have a better understanding our business was not effective. Prior to purchasing Crosstowne Machining, I spent fourteen years working in the Retail/Small Business Banking sector and I understood very well that most business owners shunned their banker. They only wanted to meet with the banker when they needed money and the banker had to "drag" financials and company information out of them. When we brought Crosstowne, I thought I would take a different approach of communication with my banker that included regular email updates on the business, spending hours with him onsite showing new equipment, discussing production, explaining the parts that we machine, how we do it and the economics of running the shop. I felt that if my banker knew us and our business, it would make him a "voice" of Crosstowne when he would go to loan committee or for some corporate need. I was even complemented and thanked on the updates that I would send him. But despite all of the hours of meetings, tours and email updates that I would send to my banker, in the end it did not matter. For while I felt that "my banker" wanted to help, I soon found out that he and the corporation were not interested and would just as soon have Crosstowne take our relationship elsewhere.

Trying to Find Another Bank for Assistance

Bottom Line: Six local banks, no new banking relationship for Crosstowne.

Given the nature of the situation, I decided in February of 2009 to try to find another bank that may want to help Crosstowne. I was well aware that in this economic and banking environment, it would be difficult. But I was also aware that besides the TARP program, the American Recovery and Reinvestment Act was just approved that gave a lot of incentives to both banks and businesses to look at loans through the Small Business Administration. I felt that with the TARP money and the SBA guaranteeing up to 90% of certain loans, banks may be more eager to lend to Crosstowne Machining.

I contacted six banks in the Milwaukee area to discuss their interest in assuming our banking relationship. They are:

1. Associated Bank-Milwaukee, Wisconsin
2. Wells Fargo Bank-Milwaukee, Wisconsin
3. U.S. Bank-Muskego, Wisconsin
4. Mid-America Bank-Janesville, Wisconsin
5. Foundations Bank- Pewaukee, Wisconsin

6. Investors Bank- Waukesha, Wisconsin

Between February 1st and March 31st of 2009, I met with business bankers from each of those banks. The initial meetings were very positive. Several bankers showed me how we could save \$50,000 to \$70,000 a year in debt servicing by having the relationship at their bank and teaming up with the SBA. The savings would come from restructuring our debt to more favorable interest rates (6.00% versus the 8.00% I am paying now) and having longer loan terms (seven and/or ten years versus the five that I currently have). A couple of them also told me that we could add some working capital from the SBA program (one banker told me that we could possibly get an additional \$100,000 in working capital thru the SBA program). But when the business bankers “ran it up the flagpole” at their respective banks, the responses were not good. One banker declined me by telling me that he “has not had any loans approved in the last three months and that they need to be perfectly clean” for his bank. After another banker told me that they would not approve my loan requests, I asked him “If this was two years ago and my financial situation is exactly the same, would you do the deal?” The banker replied “absolutely....things are different. The bank is more stringent now”. When I asked a couple of the bankers why they would not consider our company even with SBA’s 90% guarantee from the American Recovery and Reinvestment Act the responses were. “Just because the SBA guarantees 90% of the loan does not mean that there isn’t a lot of cost to the bank if the loans default....SBA is not easy to deal with”. Another banker told me that “there is so much paperwork and bureaucracy involved with the SBA that it is not worth it”. A third banker told me that a couple of years ago his bank had to recover assets from a liquidated company with an SBA guarantee and “the experience really had our bank not look favorably towards SBA lending”. In the end, there were not any banks that were willing to underwrite my banking relationship, even with a 90% SBA guarantee.

The CHAIR. Thank you. Appreciate it, Mr. Griffith.

I also understand that Sheila Payton is with us now? Is that right? We want to be sure to recognize her. She is the outreach coordinator for Congresswoman Gwen Moore, who was also very helpful.

Thank you very much. I am sorry that I didn't include that earlier. But we appreciate your being here and appreciate your help in setting up this hearing and appreciate the Congresswoman's help. So thank you and please convey that to her.

So what we would like to do now is just ask some questions while we have the record open, and this is helpful to us to be able to take things back to Washington. But we want to make sure—we are both going to be sort of going back and forth here with the questions. What I would like to do is to start with an overview question, if I could?

We have five people here who have been in business or in banking for a very long time and representing institutions that have obviously been in business for, in some cases, many generations. What I would like to do is ask you if you could just set the scene for us a little bit?

You have lived through other downturns. You know, life has not always been what it was in 2007 or you have been here for a long time. Can you say a little bit about—both here in Wisconsin and as you see it across the country, to the extent you are otherwise connected, a little bit about what you see as the depth and reach of the economic problems we are facing today? If you would be willing to do that?

Mr. Klink, if I could just start with you? You are probably going to get stuck on all these at first. We will see if we can rotate that a little bit.

Mr. KLINK. I would appreciate that. We sell nationwide. Our trading market is the entire United States. And what we are seeing right now is a huge volume of quote activity. There is a lot of—

The CHAIR. I am sorry, a huge volume of—

Mr. KLINK. Quote activity. We are one of the few manufacturers of dry-type transformers that will make nonstandard product. So we are seeing a lot of people come in for quote, looking to potentially reduce their cost structure. A lot of opportunity there.

The other thing we are seeing is on standard product, a lot of people coming in looking for a better price, if you will, a lower quoted price. Our quote desk has never been busier. Those quotes are not turning into orders, and the feedback we are getting from the distributors out there is the projects are being held up because nobody can get any money.

They have a building on the books. They have a machine on the books. They have an expansion on the books. And the money is not available to them to do that. So we are—our sales volume, our growth is tied a little bit to the commercial industrial sector. We fortunately have had no product in the residential side of things. So that, I can't comment on.

But what we are seeing this time around is, again, there is a lot of demand. It is just not turning into orders. Overall, Jefferson, I have been involved with it since 1994. This cycle downturn is a lit-

tle bit different in that in previous downturns, we did not see that quote activity.

The quotes started falling off, and you could start to plan for things to get slower 3 to 6 months from now. There is still a lot of—this time around, there is a lot of activity yet, indicating to us that there is still demand. It is just that it can't get funded. Big difference this time around.

The CHAIR. Very interesting. Thank you.

Mr. Atwell, could you say something about how you see it?

Mr. ATWELL. Yes. And again, my focus is northeast Wisconsin, which is somewhat different than southeastern Wisconsin. We are historically a very recession-resilient area. That is partly due to the nature of the industries there, partly due to the characteristics of the people. Generally, historically, a very strong work ethic and not given to irrational exuberance and, therefore, typically not suffering from when bubbles burst.

'91, '92 and 2001, 2002 are the last national recessionary periods, and I would say the impact in northeast Wisconsin was relatively muted. Clearly not this time, and I am a little bit at a loss to explain why.

There is part of me that has got sort of the Midwest populist streak, I guess, that we are kind of used out here to problems being generated elsewhere and having to participate in the cleanup of parties that other people enjoy. We kind of know that. We are not that stupid that we don't see it happen.

This is just radically different, and I guess the best observation I can make is that something very dramatic happened in the '90s. From the mid '90s on, we experienced just a radical outsourcing of the diversified manufacturing, traditional base of business in Wisconsin, and lots of us asked what is the new emerging core industry that is going to replace all these things that people did and built?

And so, we have lost kind of a bit of that base. And we are not here to address trade policy, but one has to wonder whether our free trade policy has really been based on freedom or whether we have not, in fact, outsourced employment to places that don't enjoy the freedoms we do. That is maybe a bigger subject than we have here.

But clearly, the proportion of people employed in our traditional industries is substantially lower today than it was then, and clearly, our employment base is much more fragile and the problems are much deeper. And to a great extent, when I listen to the stories here from my fellow witnesses, there is a sense in which our State is suffering from a party we didn't participate in for the most part.

The CHAIR. Thank you very much.

Mr. Perrins, please ignore the red light. I didn't tell the people who are doing timing. We are just going to go back and forth and not pay attention to that.

Mr. PERRINS. Does that mean I should ignore it when it comes on? [Laughter.]

The CHAIR. So, please, Mr. Perrins, we would like to hear your point of view.

Mr. PERRINS. Our industry is also a nationwide, actually worldwide. But the transport refrigeration industry has been impacted

by—well, in '07, the high fuel costs dramatically affected the trucking companies and the ability for them to keep vehicles on the road, the refrigeration units that run diesel. High costs there impacted our industry and our ability to sell more products.

Like Mr. Klink, a lot of quotes, a lot of proposals for new equipment. However, because of the credit issues, banks not lending for whatever reason, a lot of trucking companies have either gone out of business, parked rigs up against the fence, and have not expanded.

Then 2008, with the subprime problem and the nationwide issue, that also affected our business. It just seems that the overall economic situation, I have talked to other dealers—our manufacturer Thermo King is firmly behind us. In fact, they just gave us a 3-year dealer agreement. They are a very good corporation.

But other dealers across the Nation are experiencing the same issues of unit sales, trucking companies that need to buy new equipment, the Clean Air Act. CARB starting in California, which is migrating east, is affecting a lot of manufacturing. We have had to upgrade our equipment to comply with that regulation, which means that the trucking companies and owner/operators have had to buy new equipment. If they don't have the funds to do it, it negatively impacts us and every other dealer.

Now there are pockets of success stories here and there, but overall, we believe that if this TARP and this economic stabilization process is brought down to the small businesses, be it a Badger Trailer or an owner/operator or whoever, and it is a viable business, that the economy should turn around. I don't see it and many of the colleagues that I talk to across the United States have not seen it affecting their businesses.

So the issue with credit, I believe, is the underlying factor with companies going out of business, people losing their jobs. The home mortgage problem—people lose their job, they can't pay their mortgage. It is just a large ripple effect.

The CHAIR. Got it. Thank you.

Mr. PERRINS. You are welcome. Thank you.

The CHAIR. Thank you.

Mr. Prickett, could we hear from you on this?

Mr. PRICKETT. I think the recent recession was certainly deep and fast. However, I think there could have been opportunities to come out of it quickly, as I think our first witness said, and I would echo that. Our borrowers have indicated that they have requests for quotes and a lot of potential activity. But there is a fear all the way up the chain to make a move.

Could some of this be associated with the lack of credit? Possibly. But a lot of it is just uncertainty. And a lot of this uncertainty, as my clients tell me, is not just the economic uncertainty, but regulatory uncertainty, tax policy uncertainty.

This will stop your average businessman from investing more of his capital and going forward if he is not sure of the new regulatory or tax burdens that are on him. And it will also cause banks to question further as we look at extending credit because we don't know what the regulatory burdens will be on us or on our customers.

So there is potential out here. We are not making any less people, which means overall demand will have to go up and pent-up demand will be evident. Will we clear the way for economic activity to forge ahead?

The CHAIR. That is very helpful. Thank you.

Mr. Griffith.

Mr. GRIFFITH. Yes, within our industry, what we certainly see, and I concur with several of the comments, is the uncertainty of the recovery. Our customers are—their inventories are down to the ground. They have really reduced inventory, and they really are ordering now on an as-needed basis at the time that it is needed.

And a lot of that, when we talk to them, points back to I don't know what things are going to look like 3 months, 6 months, 9 months from now. So if I have an order coming in today, I will call you and place the order, and that is when I need the parts.

Our industry as a whole, obviously, over the years, has been hurt a lot by overseas, the machine tool and die industry. And one of the things, though, that we are seeing, especially in the smaller machining companies like ours, is the larger companies that are doing combining and very aggressive inventory, they are pushing that down now even to the smaller companies.

Where years ago, many machine shops were provided with the material, provided with the castings to do the machine, now it is go out and purchase all of that for us and then just give us the finished product at the end. So we have seen a lot more pushdown of inventory and material purchasing over the last few years that I think traditionally hasn't been there as much.

But overall, it is definitely the uncertainty of the length of the recession. We used to get forecasts from our customers on a 1-month, 3-month, 6-month basis. We don't get any more forecasts at all anymore for sales. It literally is, "Next week, we need this." Or, "Two weeks from now, we need that."

The forecasts, if they do come out, they are not accurate at all. It is kind of pie-in-the-sky type of forecasting, and that is kind of the environment we are in now. And no one can really say when we are going to come out of it.

The CHAIR. Thank you.

Mr. Silvers.

Mr. SILVERS. Thank you.

First, I just want to say I thought that set of comments was extremely helpful. It is precisely the sort of thing that we come here to learn about. It is very difficult to get that sort of grounded experience in these sorts of processes in Washington.

Let me begin by asking you this. There has been a great deal of debate, and I am sure you all are somewhat familiar with this, as to the cause of the credit crunch for business and the cause of the sort of data the Wall Street Journal reported, 24 percent fall in lending by banks to businesses.

On the one hand, there is the argument that banks are simply not providing the credit, that the door is closed to anybody. And there are many explanations given for that, but that is that argument.

On the other hand, there is the argument that essentially the credit quality of borrowers is deteriorating, and banks have no

choice but not to lend to borrowers who it would be imprudent to lend to and that that is the result of the overall deterioration in general economic conditions.

I am not going to make all of you answer this question, but I would be happy if you did. How do you—in looking at that dichotomy, are those the right set of choices? Is one clearly true and the other not true? Are both true?

And what are the policy implications of the truth? Meaning, if one balances those things, what should that mean in terms of the way in which the Treasury Department and the bank regulators handle the authority and the money they have under the bailout bill?

Mr. PERRINS. Anybody?

The CHAIR. Anyone.

Mr. SILVERS. Feel free. Step forward.

Mr. PERRINS. Well, listening to the national news and hearing all of the stories about the big auto companies and the financial institutions that have gotten billions and billions of dollars. You know, too big to fail? We are too small to fail.

I think that a bank—and I may be naive in my thought process here, but if a company who has made all the right moves, have downsized, and I have heard all of these people on the national news testify in front of the Congress about downsizing, not taking pay bonuses, et cetera, et cetera. We have done all of that at Badger Trailer.

Admittedly, in the process of modernizing the company, there have been losses in the last 2 years. It has been a 2 and ½ year process to upgrade our company. Well, our banking institution has stated that they can't—they don't believe that the company will survive so they are not going to extend the loans.

Well, that is a double-edged sword. If a bank tells a company we don't think you are going to survive, although we have broken even and are ahead of our budget so far this year, you are going to collapse. You are going to not be able to make your payments without operating capital.

So I don't understand if a company is in good standing, has made their payments, has done all the right things, is not a good risk. I don't know if that answers your question. I don't know what a bank—and maybe these two gentlemen can explain that. What is a good risk? What isn't a good risk?

Another question I have is in our process, our bank is pushing us to find another bank. In the event that the SBA funds the 504 loan, which we have got an extension until February 2010, all banks are looking for that 504 funding before they will talk about taking up any of the other loans.

The family has, like I said in the opening comments, approximately \$2 million in collateral that is in Milwaukee. Well, if we find another bank and takes the loan and the liabilities from our current bank, our current bank wants to hit us with prepayment penalties. Now does that make sense?

Now I spent 20-some years in the Army, and that, to me, is un-American. Forcing you to get another bank, and when you do get another bank, you get hit with prepayment penalties because the

new bank—I mean, what—I don't know if that answers your question, but—

Mr. SILVERS. It is certainly relevant, but I invite other responses.

Mr. ATWELL. I would like to—I think it would greatly aid our thinking on this matter if we could realize that the vast majority of the TARP money went into banks not so much to stimulate tomorrow's opportunities as it did to pay for yesterday's mistakes. I just think that is one of the unspoken elephants in the room that needs to get out on the table.

So if your bank—and the other thing that I think we have got to keep square in front of us is this crisis was caused by easy money loaned by those institutions who are now flat on their back at a time when we are facing a recession. And if they needed TARP funding to pay for all the easy money they dumped out on the street several, 3, 4, 5 years ago and they are not prepared to assist their customers through a recession, I just think they are not in the position they need to be to help their customers during difficult times.

And I guess maybe another truth is the banks that are not entering this recession flat on their back had to exercise quite a bit of discipline in '04, '05, '06 when everybody thought we were stodgy and stupid for not dumping money out the way everybody else did. So we are going to go through the brain damage of preparing ourselves for tough times in order to fix other banks' problems.

Our first responsibility is to our customers and to our shareholders to defend the value that they have invested in our institution, and our voluntary participation in TARP doesn't affect our fiduciary responsibility to our customers and our shareholders.

We are actively looking at other situations. We are looking at new customers, but we have to have the conversations. What you need, what borrowers need is a bank that has the discipline to keep its head screwed on straight while the party is going on so that they have a bank that will work with them when it is not.

And I am sure Peter, well I don't want to speak for Peter, but our bank, we have \$460 million of assets loaned primarily to businesses, and these stories sound not all that different than a lot of what our customers are going through. Our first responsibility is to be working with them through tough times instead of kicking them out.

So are we selectively looking at new opportunities? We are.

And the last comment I want to make, since you have invited commentary, is I really think, the main thing is how do we recover today? But there is a much more important debate, which is what have we learned about how we got here?

And I firmly believe that the regulatory framework has favored the aggregation of risk and the minimalization of capital in the large institutions. And I am very fearful that the regulatory lessons we are going to learn are going to have as an unintended consequence the further aggregation of risk in those institutions.

Mr. SILVERS. And why do you believe that?

Mr. ATWELL. Because I believe that an intense—

First of all, large institutions tend to develop a core competency in regulatory compliance. My first job out of college was working for Cummins Engine Company. I was an intern in their environ-

mental policy group. They were the largest manufacturer of over-the-road diesel engines then, and I think they are today.

We had a seven-person environmental policy group. They were very good people, very serious about working with the EPA. They were also the largest in the industry and best at it, the one that was most consulted by the regulatory authorities in designing the regulations and the one that had the most volume to spread the cost of regulatory compliance over.

And all I am saying is that regulation is a form of taxation. I am not arguing against it. I am saying we have a lot of regulation, and I had a very telling conversation with a regulator I have known well. I asked him, "What happened? You guys had 40 or 50 people at Citicorp or Chase or any of these other organizations. What happened?"

He looked at me, and he said, "Bob, I don't think management knew what was going on."

The organizations are too big, nobody understands them, and we don't understand that we have policy measures which favor the creation and the maintenance of large organizations.

Mr. SILVERS. That is very helpful. I would recommend to you this panel's regulatory reform report. One of the leading recommendations in that report is that rather than name specific institutions as systemically significant, which I think we all understand to be code for too big to fail, that rather than do that, we ought to have a capital regulatory scheme and a tax regulatory scheme and an insurance regulatory scheme. By insurance, I mean FDIC insurance scheme that ratchets up as you get bigger, and I think this is pretty much precisely, Mr. Atwell, what you were saying.

As you get bigger, those costs increase, both in order to counteract all the dynamics you were talking about from a competitive basis, but also to ensure that if one of these large institutions does blow that we have the adequate insurance funds, essentially, to deal with it.

Mr. ATWELL. I think that is a very sound direction. I think it is good to think—you know, we had to compete against those institutions in 2005 at a time when they enjoyed implied capital support from the Federal Government and at a time, by the way, when I think the official Federal policy was there were no too big to fail institutions. But everybody knew there were, which is kind of why I would respectfully—am I allowed to respectfully disagree with you?

The CHAIR. Of course, you are.

Mr. ATWELL. If we got them, name them. I don't care if they are an insurance company, a car company, anything. Name it. If it is too big to fail, it poses an external social cost. It ought to be named and taxed and treated appropriately.

The CHAIR. Right. Actually, let me just add to what Mr. Silvers said. The report is available to anyone who wants to look at it online. It is at [www.cop—C-O-P](http://www.cop-C-O-P), which is our acronym, Congressional Oversight Panel—so www.cop.senate.gov. And there is a whole list of the reports.

So all of our monthly reports are on there, but, in particular, our regulatory reform report. You can pull it down. It is free access to

anyone. You can download it. There is even a video that talks about what some of the reforms are.

But I will say this. It aims very much in the direction you are talking about. We cannot have—this was the recommendation of the Panel—these implied guarantees for which the people who will never be the beneficiaries of those implied guarantees, that is, the smaller institutions, end up bearing the cost and those who are imposing those risks on the rest of the economy end up bearing the benefit.

So I think that is a good point. Did you want to go on, Damon, or—

Mr. GRIFFITH. Can I answer your question real quickly?

The CHAIR. Go ahead, please, Mr. Griffith.

Mr. GRIFFITH. My thoughts are when you talked about are the banks too tight or is there deterioration in the companies, there clearly are businesses such as mine whose sales have declined over the last few months. And as I talk to bankers, and they would say, “We are concerned your sales are down 20 percent. You have a high amount of debt. That is an issue.” There is no doubt that there should be concerns there.

That being said, though, what my experience has been in talking with the bankers is that they are not looking for solutions to make the deal work. I have heard banks say, “Yes, we are, yes. Yes, this is what we want to do.”

Bankers, my impression is that if it is not a solid deal, they are not interested. It is not a, “Let me look at it and let me talk to the SBA. Are there other avenues that we can explore? We may not be real comfortable with it, but there might be other things that we can take a look at.”

It clearly is, “Our bank is not, in this environment, comfortable with your situation, and we are not going any further.” That has been my frustration with the situation.

The CHAIR. What is your sense of—I take it this is a significant change—

Mr. GRIFFITH. Right.

The CHAIR [continuing]. Than, say, a year ago, 2 years ago.

Mr. GRIFFITH. Two years ago, mm-hmm.

The CHAIR. What is your sense of why that change is there?

Mr. GRIFFITH. I believe that—my impression, whether it is right or wrong—

The CHAIR. That is all I am asking for.

Mr. GRIFFITH. Banks are obviously scared of the losses that they may incur. They don’t want to look at companies that could possibly be another loss in the future and, as a result, I think are content to not be in the lending mode at this particular time until the economy fixes itself, things shake out, and things go their separate ways.

But we have had three straight operating profits. And yes, our sales are down, but we are managing expenses. And I talked to bankers and said, look at—you talk about character and things like that. Look at the management team of the business, and are they doing the right things?

Obviously, the economy is impacting many businesses. There is no two ways about that. But go beyond the net income. Look at is

this business viable? Is the management team strong? Are they doing the right things? Those are things that they absolutely are not looking at this point in time.

The CHAIR. I would like to focus, if I could, on Mr. Atwell and Mr. Prickett, just for a minute. To ask a question, you both took TARP funds?

Mr. PRICKETT. Yes.

The CHAIR. And you explained a little bit about the reasons why you took the TARP funds, what you thought was appropriate. If I could, just for a minute, what do you think has been the consequence of taking those TARP funds? Did it work out the way you expected? Are you glad you took the funds?

You know we are here to talk about how that program is working.

Mr. PRICKETT. Sure.

The CHAIR. And so, I would like both a ground view, and then, if you can, we will go to the next question about comparing the differences in experience.

Mr. PRICKETT. In one respect, we are pleased we took the funds. We took it with what we think all the right reasons were. We were encouraged to take it. We were encouraged to take it to use it to fund lending, to fund growth in our bank. Good growth, careful growth, as Bob said.

But we didn't need the capital either at my bank, as Bob did not. So he is absolutely dead on that we took the money not to patch a problem, but to try to do the right thing. And I believe both of our banks have. We have both shown it through our loan growth.

And I feel poorly for my fellow witnesses for their particular travails. I can't obviously speak to them. Our particular philosophy is we make money by lending money. We are not unlike any other business. So do we have a risk issue that other businesses may not? We do, but we are actively seeking where we can help our communities and our borrowers at an acceptable risk with an acceptable return.

That is the bottom line for us, and I think Mr. Atwell also states it eloquently that the large banks, as you have said, there were four banks controlling 50 percent of the market. Their impersonal delivery or inability to personally get involved at the grassroots level, I think, is a systemic issue, causes them to do things in bulk and in excess.

But down here in the community bank level, I can assure you that the majority of our community bank counterparts are actively involved in their community and looking for opportunities to constructively move forward.

The CHAIR. Mr. Atwell, can you just spend a minute talking about your experience with TARP?

Mr. ATWELL. Yes, we voluntarily participated. Again, we raised private capital along with the TARP, a lot of which came from around the board table, basically came out of our community, people who believe in the mission.

TARP hasn't exactly worked out the way we thought. The finances of it are fine. It essentially costs us 8 percent after tax or pre-tax equivalent. And I don't think the public can understand we are paying for it. It costs us \$80,000 a month roughly, \$75,000,

\$80,000 a month, and I think they are used to thinking of it as a bailout. I don't blame them for that because, quite frankly, for most of the institutions that received it, it is a bailout.

And maybe we were not—did not think enough about the public perception of the whole program. I can tell you about every other week, I get another letter from some office I have never heard of with all kinds of questions about what we are doing with the money and this and that.

And I think you are aware there have been some unilateral changes to the contractual arrangements we entered into on December 23rd, specifically attempting to insert themselves into a matter that is board controlled relating to our compensation philosophies and all those kinds of things. And that, I would be—to be candid, that is very troublesome to our board and to myself.

The CHAIR. If you were redesigning TARP from the beginning, what would you have done differently about it? Or what would you do at this point?

Mr. ATWELL. I think the idea is fundamentally sound. I think what was lacking is the candor that most of the institutions who took it needed a bailout, and it should have called as such. And differentiate between those institutions that are really doing it to serve a social purpose, namely to—I mean, what is the social purpose? If it is costing me 8 percent a month to have \$15 million invested, I have got some pressure on me to actually generate a return to our shareholders.

Now most of the things we might actually do to generate a return for our shareholders would—you know, if I said, for example, I am going to buy a troubled bank. "What do you mean? You are using bailout money to buy a bank?"

The public would not understand, and I understand why they don't understand. I don't think they have really been told the truth. Or if they have, it has been told very slowly, in a very veiled way.

Mr. PERRINS. I have a question.

The CHAIR. Mr. Perrins?

Mr. PERRINS. Yes. Our bank, and it came from two bank officers, got \$1.5 billion under the first. I mean, that is a lot of money. Allegedly, it was used to fix some of their own mistakes internally in the subprime issue in the Southeast and out West.

If that is what it was for, that is fine. But what is the new process under the present administration supposed to do when millions of dollars have been assigned allegedly to the SBA to help banks help companies like ourselves who are viable and have a good future to succeed?

I mean, I don't understand it. I really don't. And anyone that I speak to in my area doesn't understand it either. If the money has been given to the SBA to guarantee loans to the banks, why aren't the banks giving small businesses that have done all the right things—downsized, lowered their operating expenses, the whole nine yards—why aren't they helping them succeed?

The CHAIR. Thank you, Mr. Perrins.

Mr. Silvers.

That is very helpful, by the way. Thank you very much.

Mr. SILVERS. Just two comments before my question. First, Mr. Atwell, your comment about candor. Again, this panel's February

oversight report, again, available on the same Web site, was a look at the—frankly, in my opinion, this is my view of that report—a look at the financial consequences of the lack of candor.

We looked at the subsidy given to weak institutions who were given money under the pretense that they were strong and under terms that were given to strong institutions. And when you do that, you basically give away the public's money. And we got the best people in the world to price it, and we put a price on what lack of candor cost the United States.

Mr. ATWELL. I am glad to hear that.

Mr. SILVERS. And our power is the power of the pen. We can tell people what has happened. That is what we did. But I could not agree with you more about the issue of candor in the structure of TARP.

Secondly, this hearing is about small business and business finance, and we are sticking to our knitting in this hearing. But I can't help but comment because it has come up a couple of times, and I know that it is a reality here in Milwaukee, that there is another whole issue about subprime and about people losing their homes. And this panel is extremely focused on that other than today, and our report on that subject is our March report.

And so, if there is anyone here in the room, in the audience for whom that is the primary focus, understand it is ours as well, but not today.

Let me come back again to the sort of line of discussion we were just having. I am very appreciative, and certainly my appreciation for this has been heightened by the testimony so far, that you cannot ask—you cannot fundamentally ask private firms to lift up our economy at the expense of their shareholders, the people that fiduciary duties are owed to. It is just not fair. It is just not how things work, at least not directly.

There are ways in which we can use public policy to facilitate some win-win situations, but I am very appreciative of Mr. Atwell and Mr. Prickett's testimony about their responsibilities. But it seems to me that we have—the testimony thus far describes a common pattern among the small business people present at the table, which is that each of your firms in different ways sought to expand or modernize operations during a good time. The good time being 2006, 2007, 2008.

And that during—and that as a result and then partly Mr. Griffith talks about issues of inventory finance being pushed down. There are some other outside factors. But essentially, you were in a position where you needed stable, long-term financing at a time when suddenly it wasn't available.

Now my question is we have done through TARP, in a number of ways people have commented that the Treasury Department and the Federal Reserve have created essentially parallel credit markets in a number of areas, in credit card issuance, through securitized offerings to the TALF program, and to some significant degree in mortgage finance. In a variety of areas, we have created parallel credit markets and tried to bypass or reform markets, credit markets that are frozen.

In looking at the problem—and I am asking this of not just the three small business people, but also the two bankers at the table.

In looking at the problem defined by these three firms in common, which is this problem of having set expansions in motion, needing long-term credit, and facing serious uncertainty, and taking at their word that their firms may face failure and that we will see significant job loss, and aggregating that pattern, we will see significant problems, what is the right policy response here?

Is it to ask more of the banks, particularly community banks, such as yourselves, at the table? Is it to ask more of the big banks? Should we be thinking about a kind of parallel Government-sponsored credit market for these types of situations? Is the real problem here that small businesses in these circumstances need equity, not credit?

I put those possibilities on the table, but I am open to others. Tell me what you all think.

Mr. ATWELL. Wow, that is a lot.

Mr. PERRINS. We are working, and I had a discussion with the vice president of a bank that is very favorable towards our future. His primary concern is the SBA funding that is about \$640,000, the portion of the construction loan to build the new facility. Once that happens, they are willing to work with us to provide commercial credit.

And I must say, the man is an honorable man, and I hope we can pull this off. But I think banks are really leery of taking on complete debt. And that is at least the gentleman's expertise.

But there has to be some way through TARP, the Stabilization Act, through the SBA to help small businesses work with a banking institution to provide the funds needed for operating capital, payroll, inventory, the whole nine yards. And I don't know that that is happening to any degree that is helping small businesses.

So I don't know what the Federal Government can do about that. I hear what is said on the news. What is said on the news and what is happening out here are two different things, as far as I am concerned. So that is my point of view on that.

Mr. ATWELL. I think there is this whole question of distressed debt and the market for distressed debt. There has to be a solution in there somewhere. We see it in real estate. I am familiar—a guy I serve on a board with is out in Michigan. He is a real estate developer. Does \$200 million, \$300 million worth of projects.

Here is a guy who was financed not by a bank, but by one of these big—I don't want to name names, but a real estate lender. Wanted out of the project, \$23 million note. After 2, 3 months of negotiations, he bought his own note back, his own \$23 million face amount note back from that institution at, I believe, a \$10 million price with financing from another institution.

So the policy implications of this isn't, number one, banks—there needs to be a recovery of the banks' fiduciary sense of responsibility to its customers. And to a great extent, this crisis is housed in a collapse of that fiduciary responsibility.

Mr. SILVERS. Can you expand that a little bit? Talk about that.

Mr. ATWELL. Well, just look at subprime. I mean subprime, in a sense, is an offense against the borrower. When a lender makes a loan that they ought—either know or ought to know the borrower can't repay, there is something fundamentally morally wrong with that, not just economically wrong with that. It is a betrayal of your

fiduciary responsibility to the person who you are supposed to be serving, whether it is a person or a company.

So this isn't going to help guys who are on the ropes right now, but banks ought to when they make a loan, when I make a loan—and we do make bad loans sometimes. We make loans to companies that don't work out. We don't always—at the end of the day sometimes, we collect them.

But by and large, we have a fiduciary responsibility to try to work with that borrower. Why? Because we made the loan.

Now maybe more practically, if we have banks that are so absorbed with their own problems that they don't have the patience to work with the people that they put in a leverage position a year and a half ago, we ought to have policy measures that facilitate a transference of that risk. Because, quite frankly, some of those banks may have written those loans down. They might be happy from the standpoint of their math to sell those loans at something less than 100 cents on the dollar.

How does the Federal Government approach that from a policy point of view? I don't know. But a loan that I might not make at 100 cents on the dollar, I might well make at 50 cents on the dollar, and it might be a good decision for our shareholders. And it might serve the interests of the borrower, and it might solve a problem for the bank that is apparently so up to their eyeballs in their own problems that they don't have time to deal with their own customers.

The CHAIR. Please, Mr. Klink.

Mr. KLINK. From the Chair, going back, I think, to your other question as well as this, trying to tie them together, what seems to have happened in the case of Jefferson Electric is the bank changed the rules and didn't bother to tell anybody. A loan that 8 months ago they seemed perfectly happy to make to redeem the majority shareholder, 4 months after that, adding a capacity to that loan to facilitate the acquisition of an operation in a lower cost environment, Mexico, suddenly became an issue.

And it wasn't an issue in August when I asked them for approval to bid on a contract, but it became an issue in September. Something happened in there. I don't know what it was. And since that time, the struggle that I have had in talking to other lenders is the rules seem to have changed for everybody. Any bank that I have talked to has pointed out the same issues. "Your collateral is in another country."

I am sorry. It is four miles in another country. We have become a global economy. We have to find a way to collateralize that and allow me to borrow against it. There has got to be a way to do it. It is not a third world country or the end of the world. It is four miles away. They have identified a way to do that. The indication then was, "Well, we don't want to because the legal cost to get it back when you fail, if you fail, is too much. So we are not going to do it."

A loan ratio, a debt-to-equity ratio that they were happy with and a timeframe to work it out in early 2008 suddenly became unacceptable. And I am being told, "You need to sell part of your company." At a time when I was out there looking to grow the company, incurring extra costs, going out and talking to investors at

that time, the ratios are wrong. The amount of company I have to sell is inflated, the percentage I have to sell is inflated to entice somebody.

I think, Mr. Silvers, you indicated is investment needed? Yes. I think in a company like mine, there is some investment that is needed. I don't—I guess the issue I am having is being dictated to that I need to bring in an investor, and the investors that are out there looking to take advantage of that.

I had one investor that said, "Sure, I will take your company. Bring along a check for \$2 million, and I will do it." [Laughter.]

Not an answer.

The CHAIR. Right. If I can, I want to just slightly modify and sharpen the question that Mr. Silvers was asking in a somewhat different way. If you think of the Government has having only a limited amount of money that—

Unidentified Speaker: Do they?

[Laughter.]

The CHAIR. That is why I paused. You noticed I paused before I started this question.

So this is a question about where you concentrate resources if you are trying to get small businesses, you are trying to help small businesses survive. You are trying to keep them up and operational.

So we talked a little bit about the difference between concentrating resources by actually using it to pay off yesterday's mistakes, to subsidize, to bail out companies, financial institutions that made mistakes in the past versus putting money in that genuinely is designed to try to support additional lending and to try to move forward. But I want to ask the question in two other ways, in addition to the subsidization question.

The question about the difference between putting money in large financial institutions and small financial institutions, and other than subsidization, there may be no difference. I just want to ask this. And then the notion of whether or not Government resources, instead of going directly into financial institutions, instead should be used, as you may have heard about with TALF in another one of these Government acronyms, to try to stimulate securitization of small business loans, which would be an alternative way for the Government to try to infuse. Or I say alternative. Obviously, you can pursue them simultaneously, but there are only so many dollars to go around here.

If you could speak to that, what kind of differences we might see, depending on where the money goes? That could be very helpful. Mr. Prickett, Mr. Atwell, or anyone else who would like to talk about this?

Mr. PRICKETT. Securitization right now is probably—may not be the way to go because everybody has been burned by past securitizations. So unless you have got, again, an explicit guarantee on that, what have you accomplished? I don't know what market.

Mr. Silvers may be onto something, and maybe there is something to pursue in direct equity in small business. Capital is an issue as bankers look to borrowers. Just as the Government looks

to us and our capital, capital structure and capital cushion in a small business is important as to how we evaluate it.

So maybe that is a road you should look at is are there more direct equity pieces available to certain borrowers? And I am sure that opens up Pandora's box of a lot of things, but capital is king.

The CHAIR. Mr. Prickett, can I back up, though, on a question? You said securitizations, you know, everyone got burned. Can you speak for a minute about why you think everyone got burned?

Mr. PRICKETT. The whole subprime thing was basically a securitized train of disaster.

The CHAIR. I understand that. I am asking a little bit different question, and that is why do you think the securitization market has shut down, say, for small business loans?

Mr. PRICKETT. Probably everything else, fear, of what is in them.

Mr. ATWELL. Well, I think we have learned that lending ought to be personal. Part of the problem with securitization is what we need is simple intermediation. Securitization is a form of disintermediation, which disconnects the actual borrower from the people who hold the risk.

And the person with the risk problem never has to face the borrower that has got the problem as well. That is one of the huge problems of subprime is how to even physically unwind these instruments where the risk has been sliced and diced so many ways, and it is so impersonal.

The CHAIR. I take it that you think that in the long run, it is not a sensible approach for trying to support small business—

Mr. ATWELL. I think we ought to stop doing things that depersonalize commerce and create a framework that repersonalizes commerce.

Mr. PERRINS. What is the definition of "securitization?"

The CHAIR. Damon?

Mr. PERRINS. That is a serious question.

Mr. SILVERS. Yes. I mean, when we talk about—it is interesting, all of these discussions, which are very much about very tangible, real personal things can very easily turn into conversations that nobody knows what anybody is talking about.

When we are asking about securitization, we are asking about the process by which loans are made, any kind of loan. It could be a mortgage loan, a bank business loan, a facility for credit card. Loans are made out there in the world by banks or by finance companies. They are collected by somebody, often on Wall Street. They are collected in a pool, and then slices of the pool are sold off. And then that process is repeated.

That is securitization. And you can slice—there are all kinds of different ways of slicing. And then you can take the slices and repool them and reslice them. That is called a CDO-squared.

The question we are asking is kind of a very general one about this. And Mr. Perrins, since I have given you a kind of answer, you obviously had something on your mind to say about that.

Mr. PERRINS. Yes, I consider real estate free and clear owned by the family security. I don't know if that is defined.

Mr. ATWELL. Nobody knows what real estate is worth right now.

Mr. PERRINS. That is my point. The property that the family has in Milwaukee was valued in '07, appraised at approximately \$2 million. There is a \$500,000 mortgage on it.

Now the gentlemen that I was explaining to you that I spoke to yesterday from this bank says, well, you know, that real estate, banks are not too hopped up about using real estate as collateral because nobody is buying. I mean, it is just sitting there.

So that collateral or security, in my opinion, is weak in the financial world. I say it is worth \$2 million. That is worth more than what we owe. But banks don't look at it as real strong security. Does that make sense?

Mr. ATWELL. Yes, you can have a situation, though, where if the enterprise is struggling and losing money, despite the fact that you have collateral, the loan goes on the bank substandard list. And any banker that puts a loan on their list today that they ought to know is going to be substandard would have to be brain-dead.

Mr. PERRINS. Well, if they are making money and you still have all this value, what is wrong with that?

Mr. ATWELL. I am not familiar with the situation, but if you are profitable, yes. I don't know.

Mr. SILVERS. Can I come back for a moment to the—I mean, it is a really profound—it is a really serious problem right now that we—and I think using the term “securitization” and the term of creating securities, publicly traded securities, not what Mr. Perrins was talking about, which is security for loans.

Mr. PERRINS. Right.

Mr. SILVERS. All right, which is two very different things, but they sound exactly the same. Looking at the use of impersonal credit markets as opposed to personal credit institutions, all right? Mr. Prickett and Mr. Atwell, you are in the personal credit institution business. Mr. Klink, Mr. Perrins, Mr. Griffith, you have each been trying to source credit from personal credit institutions, banks.

Mr. PERRINS. Right.

Mr. SILVERS. By the way, that is pretty much the way small business operates, right? It is only big business that can go into the impersonal markets directly.

Mr. PRICKETT. I disagree.

Mr. SILVERS. You disagree.

Mr. PRICKETT. Some of the names that they have put out here are very large institutions whose perhaps direct contact they have is a personal—an individual. But the decisionmaking may be far, far away.

Mr. SILVERS. Fair point.

Mr. ATWELL. And the ownership. And the management.

Mr. SILVERS. A very fair point. The contrast I am drawing is between—is not so much, say, between national banks and community banks, but between banks as a group and credit markets. Credit markets, typically securitized credit markets as a different way of providing funding.

It is a problem that a lot of people in Washington can't figure out what to do about that our credit markets, even when they don't appear to be, are heavily—have been heavily funded by securitized processes. And those processes are broken.

Most people seem to understand that 100 percent securitization takes any incentive to manage the credit risk off the table. It takes any ability to understand what you are dealing with on either end of the credit relationship off the table. But yet there is great pressure to restart those markets because no one seems to know what the alternative is.

There is also the belief, and I think this is contrary—I am not saying it is my belief. But it is a widespread belief. And I think this is contrary to what Mr. Atwell said. There is the belief that shifting toward heavily securitized credit markets, impersonal markets, impersonal provision of credit has generally been a good thing, that it has expanded credit, dramatically lowered cost, diversified risk.

Mr. ATWELL. At least it looked cheap up until recently.

Mr. SILVERS. Yes, well, that is a wonderful thing about risk is that it is not—it looks okay until it is not.

My question to you all is how would we get from here to there? If we wanted not to contract our economy any more than we have to and we wanted a more sustainable, responsible system of credit provision, right, one in which good credit and viable businesses get funded on reasonable terms and what, Mr. Atwell, you described as the fiduciary duty to the borrower is attended to, how would you get there from here?

Mr. ATWELL. I don't know that I am smart enough to answer that. I would start by—first of all, I am a big believer that how you think affects how you act. And I would start, one of the questions when we were sitting out here watching manufacturing, the manufacturing base of Wisconsin go away, and we would ask the question what are the new core industries in the United States? We got two answers—technology and finance.

And I was struck by a phrase in 2004 that John Thain, when he was head of the New York Stock Exchange, said, I believe, in the Wall Street Journal, wrote a very flowery piece about how the New York capital markets are the fountainhead of world prosperity.

I think a simple place to start would be to think of finance as simpler financial intermediaries, and they, quite frankly, don't really create any wealth. They are not the fountainhead of anything. What is the fountainhead are the people who do the work, the entrepreneurs who take the risk, and the people who actually run businesses that make things and serve people.

So to think of finance not as an autonomous engine of value creation and a new core industry in the United States, return to a concept of finance as a financial intermediary. And if you start with that concept and then work toward what are the policies that support a straightforward understanding of financial intermediation, then you are consciously working toward those policies, I think that there are plenty of smart people in Washington that could figure it out.

There is an unspoken problem here, which is in 2005—in many ways I could say the last year and a half has been the most challenging year of my career in banking. But quite frankly, the most difficult was probably 2005 because investors and lenders were throwing money at anything that wiggled. And we had our cus-

tomers coming in and saying, "Well, gee, I can get this loan at LIBOR plus 150. Why do you want 225 over LIBOR?"

And the answer is, in some sense, I said the bank has a fiduciary responsibility to its borrowers. A borrower has somewhat of a responsibility to themselves to find a bank that can support them and to be willing to pay a just price that it takes to generate capital to support financial intermediation on a real basis.

So I do think securitization "lower borrowing costs" or at least appear to until it all blows up in our faces here, and then we find out the costs that they were saving were really going to be borne by the public.

Mr. GRIFFITH. If I could add a comment, just going back a little bit here when you talked about kind of what are the means for small businesses to—for a company our size, that is \$2 million or so in sales, there is no capital firms that will give us money because what we would require is too small for them.

For us to get \$200,000 or \$100,000, \$300,000, which would be a large amount of capital into our company, there is no firm that will do that. And I have explored that avenue because my bankers have told me that capital would be a good thing.

What I believe needs to happen is that I think that the—I think the SBA is the perfect vehicle for small businesses like mine to try to obtain financing to help banks offset the risk of a loss. And as critical as I have been of banks, I certainly understand their position in that they have to assess risk. That is part of their deal.

And I think the SBA is the perfect vehicle to do that. The challenge that I have is that why do borrowers have to first go through the bank in order to go to the SBA?

I think that there needs to be if you want to explore it through the bank first, and the bank says you know what, I don't think that that is the way to go. I think that maybe the SBA as a first step for small businesses, and maybe you start there? Or maybe they work side-by-side, a bank and the SBA to—there is a disconnect between banks and the SBA.

Mr. SILVERS. Can I stop you there?

Mr. GRIFFITH. Yes.

Mr. SILVERS. I just want to make clear something because I am not an SBA expert, and I just need to learn a little bit here. When you were going around to the six banks that you talked about, what they have said to you is we are not going to take you through step one of the SBA process, essentially?

Mr. GRIFFITH. Correct.

Mr. SILVERS. And that is the gate. That gate comes down.

Mr. GRIFFITH. I have been told that the bank has to—must feel comfortable with the loan before even going to SBA. And obviously, at that point, then they will send the loan to SBA. The SBA approves it or not. But what I have been told is that the bank is the gatekeeper, the first step of trying to obtain financing, and the bank works with SBA.

And so, just a couple of weeks ago, which is one of the reasons I am here, I contacted the SBA directly, the local Milwaukee office, because I felt why is this agency there that I think has terrific opportunities for small businesses to help them out. And yet I cannot or at least was told that I can't access that opportunity.

The CHAIR. Thank you. It is very helpful.

I am finished off here. I want to say how very much we appreciate your taking the time. We know this is difficult to talk about businesses that are struggling, struggling for their finance. We know it is difficult to talk about what it means to be a banker in America right now.

And we appreciate very much your thoughtful comments, your candid comments here. And I guarantee coming out of this, we take this information back to Washington. As Mr. Silvers says, our power is limited to the power of the pen, but we think that the stories are important, and we think the messages that you have given to us today are very important. And we will be taking those back with us, and they will be reflected in the reports that we are writing.

So we are very grateful for your having taken the time to do this. We are very appreciative.

I also want to say I wish we had left more time, but we have left a little bit of time here at the end. One of the benefits we have by doing these field hearings is that we get at least a small chance to hear from anyone who would like to talk to us. And so, we have a microphone set up? Here we go. We have a microphone that will be coming around.

I am going to ask, so that we have an opportunity to hear from as many as we can, that we keep the comments to one minute, and then we will try to do it at least until 12:00. It won't give us very much time, but we will do our best here.

If you would identify yourself, please, sir?

Mr. MERTENS. Hi. My name is Greg Mertens. I am a small business owner. I also used to work for the SBA. I have been on both sides of the fence.

Lenders do have a fiduciary responsibility. There is no good guy/bad guy here. We are in a situation there is a problem for small businesses that needs to be fixed. Lenders are looked at by the FDIC, the State regulators, the Federal regulators, everybody. They do have a responsibility to protect all of our money, and I agree with that.

As small businesses right now, we are risk takers. We have taken risks, and we are caught in a situation. As some of these businesses have said here, we have no credit available to us to get through a hump. We have gone through humps in this country before. Please allow us to get over the hump, and we will be okay. We will be okay again.

But the SBA programs start with the lender. They have to put the brakes on. The regulators tell them to put brakes on. So there is a double-edged sword.

And at the same sense, the SBA does not do direct lending anymore. They have a program in the past where they made loans directly to businesses that banks would not make. The banks now have direct lending ability themselves, and they are risk averse right now.

And so, my suggestion is let us get over the hump. How about maybe reinstituting the program that was there, direct lending? Where the Government is doing that for the big companies, why not the companies that employ 70 percent or more of the employees

in the country? Because we are on a verge, you have heard, of an economic pandemic here.

Thank you.

The CHAIR. Thank you, sir. Thank you.

[Applause.]

The CHAIR. Yes, sir? If you would identify yourself?

Mr. WICKERT. Good morning. My name is Brian Wickert, and I am the majority owner and chief honesty officer of Accunet Mortgage. Accunet Mortgage is headquartered right here in Milwaukee. We are a 10-year-old independent mortgage banking firm, and I want to promise you we never did one subprime loan.

We are going to lend about \$600 million direct to consumers this year in Wisconsin and Illinois. And I would like the committee to know that there are numerous high-quality residential loans that are being routinely denied in today's market because of what I call "appraisal paranoia syndrome."

These loan denials are caused solely by that. And they not only hurt my small business, Accunet Mortgage, but they also hurt the consumer and drive them to the point of righteous indignation.

Thank you.

The CHAIR. Thank you very much. Thank you, Mr. Wickert.

Yes, ma'am?

Ms. PARMENTIER. Good morning. I am Victoria Parmentier, and I am the national chairperson for the Legislative and Public Policy Committee for the Institute of Real Estate Management, which is based out of Chicago. I have a small real estate management firm in Green Bay, Wisconsin.

You will receive many letters from members of our institute regarding the credit crisis. The real estate management industry over the United States employs hundreds of thousands of people who are at risk. We have right now approximately \$3 trillion worth of debt that is going to be coming due in the next few years. If there is not an answer to this problem, the enormity of it is going to be amazing.

The CHAIR. Thank you very much.

Do we have anyone else who wanted to speak before we leave? We have someone else.

Yes, sir?

Mr. DEPULL. Hey, my name is Nicholas DePull. I am just a student here. And I am definitely not as well versed in all this as I would like to be, although I try to stay informed as well as possible.

I guess I would just like to emphasize the need for complete transparency as much as possible in all of this. I think that the power is or could be in the hands of the people to really show exactly what is going on in this entire situation much more so than has been provided to the people so far, if the data was provided in an easy-to-access way to all the people that want it.

And I just think that there is way too much secrecy around the entire thing. I know that I have heard about how AIG is just being used as like a vehicle to funnel money secretly to other places, and I just know that the Federal Reserve refuses to release all the details of how everything is going on, all the trillions of dollars that they are giving out.

So I just think that I would like to voice my emphasis on transparency in the entire process because I think it is really lacking so far.

The CHAIR. Thank you very much.

And I want to say again that this has been a central theme that the Congressional Oversight Panel has, some might say, hammered on in each of our reports and one that we will continue to address.

I remind people the way Congress designed the system is they gave a lot of flexibility to the Treasury Department in how to spend the \$700 billion, but they also set up an outside group, and we are the outside group. And that means we push over and over for transparency, for accountability, and for clarity in what these programs are about.

Have we heard from everyone? Is there anyone more?

Then I want to finish by thanking the University of Wisconsin-Milwaukee for this room and for their support in helping us set this up. We very much appreciate it. The congresswoman, the Senator, who have been very helpful to us. And thanks once more to our witnesses who came and engaged in thoughtful conversation with us about it.

This is a crisis of—on a scale that most of us have not known in our lifetimes, and we recognize the great risks facing our country at this moment. The \$700 billion TARP plan is just a piece of what is happening, but it gives us an opportunity to talk about the role of Government, the role of regulation, the role of small business, the role of the financial institutions. It gives us a chance to talk honestly about our past mistakes and about what kind of regulatory road we need to construct going forward to make sure that we do not re-create these problems.

I am grateful to everyone who came here today, and this hearing is now adjourned.

[Whereupon, at 12:04 p.m., the hearing was adjourned.]

[The prepared statement of Paul S. Beideman, Chairman and CEO, Associated Banc-Corp. follows:]



Associated Banc-Corp
Written Testimony for the Congressional Oversight Panel

Paul S. Beideman
Chairman & CEO

May 14, 2009

Madame Chairwoman and Members of the Troubled Asset Relief Program Congressional Oversight Panel:

Thank you for giving Associated Bank the opportunity to provide perspective and comment as you seek to determine the impact the Troubled Asset Relief Program, specifically the Capital Purchase Program, has had on the availability of credit here in Wisconsin and throughout the Midwest.

Associated Bank is a wholly owned subsidiary of Associated Banc-Corp (NASDAQ: ASBC), a diversified bank holding company with total assets of \$24 billion headquartered in Green Bay, Wisconsin. Associated has more than 300 banking offices serving approximately 160 communities in Wisconsin, Minnesota, and Illinois. We employ more than 5,100 colleagues in our service area.

Associated traces its roots to 1861, providing a full range of traditional banking services and a variety of other financial products and services to our communities for more than 130 years.

First, it is important to know that Associated Bank is profitable. We reported a positive net income in 2008 of \$165 million, with earnings per common share of \$1.29. For the first quarter of 2009, we reported net income available to shareholders of \$35.4 million, or \$0.28 per common share.

We continue to focus on traditional, core lending practices, and we have not, and do not, engage in sub-prime lending. While troubled loans have increased due to economic conditions, we continue to enjoy a well-capitalized rating as defined by our regulators. Our tangible common equity is above 6 percent.

In October, Associated sold \$525 million of senior preferred stock and common stock warrants to the U.S. Department of the Treasury under the Capital Purchase Program. The acquisition of this additional capital reserve has made it possible for us to increase the total credit available in the communities we serve.

Following are a few highlights of our recent efforts:

- For the fourth year in a row, Associated Bank was named as the #1 Small Business Administration (SBA) lender in Wisconsin – the ninth time in the last 11 years that we have earned that honor.
- Overall, Associated Bank ranked 22nd in SBA lending out of 2,245 participating banks nationwide.



Associated Banc-Corp
Written Testimony for the Congressional Oversight Panel

Paul S. Beideman
Chairman & CEO

- Our SBA lending activity grew by 41% across our three-state region in 2008, while SBA lending nationwide decreased by 30%.
- Our overall loan balances grew by more than 8% in 2008.
- Since the infusion of Capital Purchase Program funds, Associated has originated more than \$3 billion in new loans.
- 90% of our loans are to customers within our service region of Wisconsin, Minnesota, and Illinois.
- Mortgage loan origination alone exceeded \$1 billion in the first quarter of 2009, a record for Associated Bank.
- We have launched what we believe is a first-of-its-kind Extended Deferral Program for homeowners who are unemployed. This program is available to any customer whose first mortgage or first lien on their primary residence is owned by Associated. If they are otherwise credit-worthy, customers will be able to defer their mortgage payments for up to 12 months while they seek employment, provided they pay one-twelfth of their escrow and insurance each month during the deferral period. When a new job is obtained, we will work with the customer to establish payment terms based on the new income level.

Since our decision to participate in the Capital Purchase Program, we have created more than \$6 of new business and consumer loan activity for every \$1 the U.S. Treasury invested in us through this program. We have been able to grow the number of loans and the amount of credit available to our customers while conservatively preserving assets.

We believe this approach is what the U.S. Department of the Treasury envisioned when they developed the program and encouraged banks like Associated to participate. We will continue to utilize the taxpayers' investment responsibly, and in a manner that will contribute to the economic recovery.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Paul S. Beideman".

Paul S. Beideman
Chairman and Chief Executive Officer