

Commentary

Rebuilding Main Street, Through Small Business And Banks

Reps. Ed Perlmutter, Steve Kagen and Ron Klein 07.19.10, 4:13 PM ET

All across America small businesses and small banks are being asked to pay for the mistakes of speculators and gamblers on Wall Street. People we represent in Colorado, Wisconsin and Florida believe that's not fair: Responsible parties should clean up their own mess and pay for their own mistakes. After all, small businesses and small banks on Main Street did not cause the recent economic meltdown; speculators in big financial institutions on Wall Street did.

Small businesses need our help now, for they are the real economic engines of our economy. They generate over 50% of our nation's annual gross domestic product and are responsible for nearly two-thirds of all new jobs. We've heard time and again from our small businesses at home that they need access to credit to stock inventory, hire workers and weather the storm so they can innovate and grow and drive our economy forward. But they are at a logjam with small banks, who can't and aren't extending the credit they need.

Federal Reserve Chairman Ben Bernanke recently acknowledged that banks need to lend to small businesses. "Lenders should do all they can to meet the needs of credit-worthy borrowers," he said. "Doing so is good for the borrower, good for the lender and good for our economy."

However, to fix banks facing a tough economy, the Federal Reserve, U.S. Treasury and other banking regulators have only been pursuing three options: 1) force banks to raise new capital; 2) force banks to call in loans and stop lending to credit-worthy small businesses; or 3) force the bank to close altogether. This approach has not been working well on Main Street, where credit remains frozen and jobs are hard to come by.

And so, during these unusual economic conditions, we believe there is a better way forward, a fourth option to get credit moving to small businesses: Allow small banks to amortize, or spread, potential real estate losses over time, giving small banks and the small businesses they serve a foundation to build upon and opportunity to work out their challenges over time--not instantaneously. This option was successful during the farm loan crisis in the 1980s, as was a similar program using "net worth certificates," which, according to Former FDIC Chairman William Isaac, saved the FDIC millions of losses during the 1980s.

The House recently passed the Small Business Lending Act, which included our plan. However, during the passage of our amendment in the House of Representatives, Bernanke, Treasury Secretary Tim Geithner and others raised their concerns that allowing small banks to spread potential real estate losses over time might decrease transparency, and that it might cause small banks to take on more risky investments. We respectfully disagree. Our plan guarantees complete transparency of all accounting transactions by banks and continues to empower federal regulators to provide effective bank oversight.

Our plan allows critical capital levels and prudent regulation to be maintained and for credit to be granted to qualified borrowers. It provides some time for a bank to manage problem loans vs. the current practice of harsh, immediate write-downs that will sink many banks and the businesses that depend on them when both can be saved.

We have confidence in the Main Street entrepreneurs, small businesses and the small banks that serve them, and we also have confidence in the regulators' ability to continue to do their jobs effectively, providing the necessary oversight to keep banks honest.

Small-business owners and small banks on Main Street are not looking for a handout; they are not asking for a bailout or a free deal. They are asking for a fair deal, to be able to compete and work out their difficulties over time, difficulties caused by irresponsible Wall Street speculators.

Our plan will work, and it is the responsible way to help small businesses weather the storm, set the foundation to rebuild Main Street, and create the jobs we need to work our way back to prosperity.

Ed Perlmutter is serving his second term in Congress and represents the Seventh Congressional District of Colorado. He is a member of the House Financial Services Committee. Ron Klein represents the 22nd Congressional District of Florida. He is a member of the House Financial Services Committee. Steve Kagen, M.D., represents Wisconsin's Eighth Congressional District and is a member of the House Agriculture and Transportation and Infrastructure Committees.