

MAIN STREET

POLICY PULSE

**SMALL BUSINESS
VIEWS ON
FINANCIAL
REFORM**



The Main Street Alliance
January 2010

INTRODUCTION

The United States is seeing its worst economic crisis in decades, and among those hit hard are small businesses, long the backbone of our economy and a major source of jobs.

To alleviate the recession and help address its causes, Congress is now considering a number of financial reform measures, including the creation of a Consumer Financial Protection Agency. This report contributes to the public debate on these proposals by sharing the critical perspectives of Main Street small businesses.

BACKGROUND

Small businesses have long played a central role in the economy of the United States. However, according to recent reports, lack of credit options has hit small businesses particularly hard during this recession.

Since October 2008, business loans are down by 17 percent and still falling, and the credit squeeze is felt more acutely by small businesses than by large ones, which can issue stock or debt to raise money.¹ In addition to the credit shortage, small businesses must cope with a reduction in consumer demand, leading to what economist Lawrence Mishel calls a “double squeeze.”²

Small business owners and entrepreneurs now predominate among those filing for commercial bankruptcy, adding to job loss.³ According to Equifax, commercial bankruptcies among the nation’s more than 25 million small businesses increased by 44 percent from the third quarter of 2008 to the

third quarter of 2009.⁴ Between March 2008 and March 2009, small business bankruptcies nearly doubled.⁵

The recession’s toll on small businesses is widely felt. Typically, small businesses account for approximately half of all job losses in a recession. However, according to a new report by London-based Capital Economics, during this recession small business job losses have been responsible for about two-thirds of the employment decline in the U.S.⁶

Making matters worse, small business creation is not providing a cushion now as it has in previous recessions. In earlier economic downturns, many newly unemployed workers turned to self-employment for their livelihoods. But recent restrictions in the bankruptcy law have raised the stakes for potential entrepreneurs, so relatively fewer laid-off workers are starting new businesses.⁷

METHODOLOGY

Between October 2009 and January 2010, the Main Street Alliance conducted a survey of 1,237 small business owners from 13 states, including Arkansas, Idaho, Illinois, Indiana, Iowa, Montana, Nebraska, New Jersey, New York, North Carolina, Oregon, Virginia and Washington. Surveyors identified respondents through door-to-door canvassing of business districts and through phone calls and/or email invitations to lists of small business owners who had responded to previous survey and outreach initiatives. Respondents included small employers (62 percent) and self-employed business owners (38 percent). Of responding small employers, 99 percent had 50 or fewer employees.

"I started my salon here in Queens 17 years ago. Recently, I achieved my goal of opening a beauty school. I've overcome some difficulties. But one problem I continue to face is trying to get a loan to develop my business. I bring my folder with all of my information to a bank for instance, and many times they won't even look at it. They don't seem to care about small businesses."

- Carmen, owner of Salon Parisien, Woodside, NY

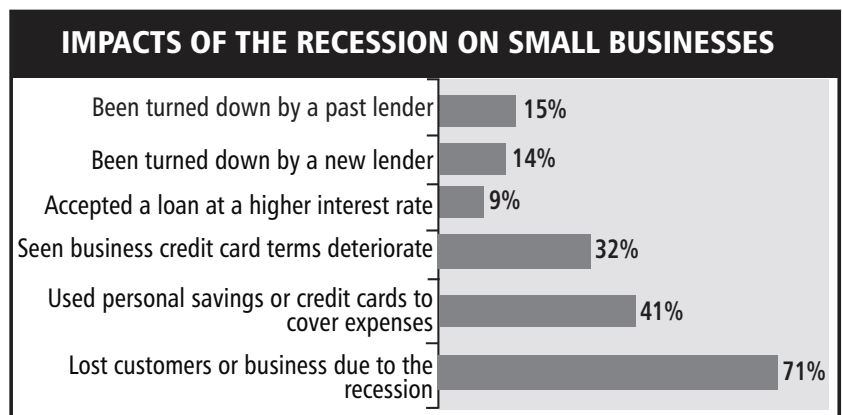
FINDINGS

This survey questioned Main Street small business owners about the recession's impacts on them and about their perspectives on proposals for financial reform, particularly the creation of a Consumer Financial Protection Agency.

The report finds that responding small business owners are experiencing a range of impacts from the recession, and a strong majority support Congressional action on financial reform, including the creation of a Consumer Financial Protection Agency.

Impacts of the Recession on Small Businesses

Since June 2008, more than two thirds (71 percent) of small business respondents reported losing customers or business due to the recession. More than two in five (41 percent) used personal savings or credit cards for expenses normally covered with external loans or business credit cards. Nearly a third (32 percent) saw their business credit card terms deteriorate. Meanwhile, 15 percent of respondents reported being turned down by a past lender, while 14 percent had been turned down by a new lender. Nine percent said they had accepted a loan at a higher interest rate than for past loans.



FINDINGS

Small Business Perspectives on Financial Reform

The survey next asked small business owners whether they believe enough steps have been taken to ensure that small businesses and the economy as a whole are protected from another Wall Street collapse.

"I'm trying to expand my business and running into a familiar obstacle: the banks won't give me any credit. We shouldn't have given them a no-interest loan if they weren't going to provide necessary credit to start-ups and small businesses like mine."

- Mario, owner of Lopez Enterprises, West Dundee, IL

Over three quarters of respondents (77 percent) do not believe enough steps have been taken, while one in twenty (5 percent) believe enough has been done. Seventeen percent were undecided.

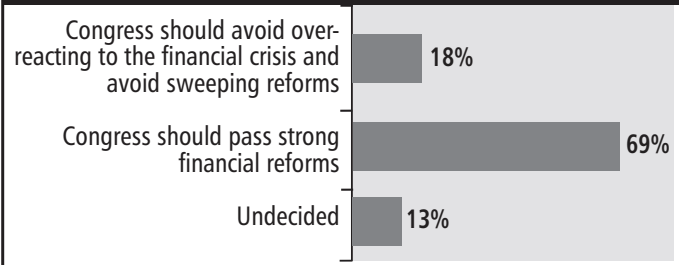
Testing small business perspectives on financial reform, the survey first presented respondents with two possible ways Congress could react to the financial crisis and asked which they agree with:

A) Congress should avoid over-reacting to the financial crisis and avoid sweeping reforms. Too many regulations would stifle business growth and threaten our recovery.

or,

B) Congress should pass strong financial reforms. Strong measures are needed to ensure accountability on Wall Street, promote fair access to credit for small businesses, and prevent another collapse.

SMALL BUSINESS OWNERS' PERSPECTIVES ON FINANCIAL REFORM

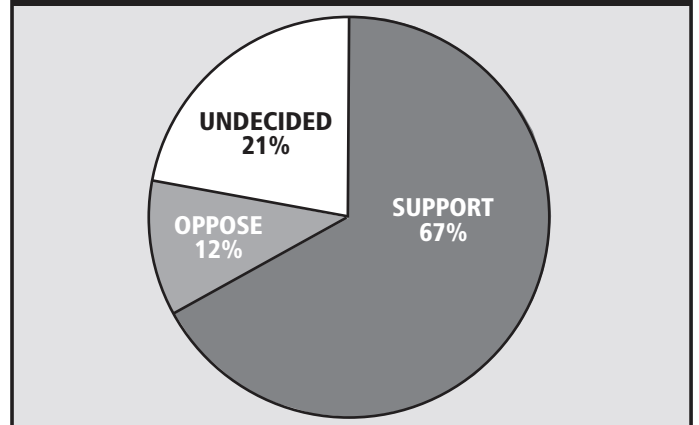


More than two thirds of responding small business owners (69 percent) support strong financial reforms, compared to less than one in five (18 percent) favoring less government involvement.

Respondents were then asked about their perspectives on a Consumer Financial Protection Agency (CFPA):

Currently, different federal regulators supervise different types of banks, while nonbank lenders (like payday lenders and mortgage and finance companies) have no federal regulator. One proposal would create a Consumer Financial Protection Agency to supervise all banks and nonbank lenders. This agency would promote transparency and access for small businesses and other consumers seeking loans and financial services. Would you support or oppose this approach?

SMALL BUSINESS PERSPECTIVES ON CREATION OF A CONSUMER FINANCIAL PROTECTION AGENCY



Most respondents (67 percent) said they would support the creation of a CFPA, with less than one in eight (12 percent) opposing it.

"If banks are allowed to continue operating without proper oversight, small businesses will continue to suffer. Many of us are already teetering on the brink of closure. We're not expecting a bailout... but we are expecting equity and access to the loans all those big bank bailouts were supposedly meant to provide."

- Jacqueline, owner of Nina's Nuances Interior Designs, Montclair, NJ

FINDINGS

Finally, respondents were asked if they believed a Consumer Financial Protection Agency would:

A) Help small businesses by ensuring access to credit on fair terms and making sure all lenders are playing by the same rules.

or,

B) Hurt small businesses by limiting access to the widest array of credit options and applying a “one-size-fits-all” approach to oversight of lenders.

A majority of respondents (61 percent) felt the CFPA would help small businesses, while approximately one in seven (13 percent) believed it would hurt small businesses.

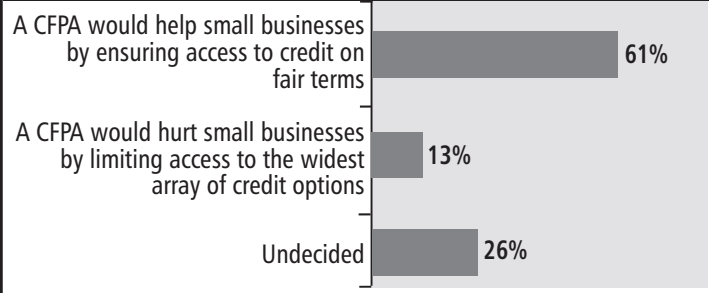
“It is sad that we as small business owners have trouble getting loans from banks to start a business. Then when we go to a smaller company to get a loan, we have to pay 27 percent interest or more, when we could have gotten about 7 percent from a bank. We need an agency that will set rules that will help small business owners and put a cap on those outrageous interest rates. A stable financial system with fair rules of the road best serves the economy as a whole and the customers who patronize my business.”

- Wilson, owner of Siete Mares Mexicanos Restaurant, Charlotte, NC

CONCLUSION

The current recession has battered small businesses in the United States, harming a vital source of employment and community vitality. The Main Street small business owners who participated in this survey believe by a decisive majority that Congress should pass strong financial reforms to protect their sector and the economy as a whole. Additionally, a majority support creation of a Consumer Financial Protection Agency and believe it would help small businesses succeed.

OWNERS' VIEWS ON IMPACT OF A CONSUMER FINANCIAL PROTECTION AGENCY ON SMALL BUSINESSES



- 1 Rana Foroohar, “Small Businesses Still Suffering,” *Newsweek*, December 14, 2009, <http://blog.newsweek.com/blogs/wealthofnations/archive/2009/12/11/small-businesses-still-suffering.aspx>. Accessed December 22, 2009 [Hereinafter Foroohar].
- 2 Lawrence Mishel, et. al, “American Jobs Plan: A Five-Point Plan to Stem the US Jobs Crisis,” Economy Policy Institute, December 2009, http://www.epi.org/index.php/american_jobs/understanding_the_jobs_crisis. Accessed December 22, 2009.
- 3 Christine Dugas, “Small Businesses Vital to Economic Recovery Go Bankrupt,” *USA Today*, July 2, 2009, http://www.usatoday.com/money/smallbusiness/2009-06-30-small-businesses-bankruptcy_N.htm. Accessed December 22, 2009 [Hereinafter Dugas].
- 4 Equifax, “Small-Business Bankruptcy Filings Up 44% Year-over-Year, Equifax Data Shows,” November 2, 2009, http://www.equifax.com/cs7/Satellite?c=EFX_News_C&childpagename=US%2FEFX_News_C%2FPressReleasePage&cid=1187892109611&p=1182374863790&packedargs=locale%3Den_us&pagename=EFX%2FWrapper. Accessed December 22, 2009.
- 5 Equifax, “Small-Business Bankruptcy Filings Continued to Increase in March, Equifax Data Shows,” June 8, 2009, http://www.equifax.com/cs7/Satellite?c=EFX_News_C&childpagename=US%2FEFX_News_C%2FPressReleasePage&cid=1187890610254&p=1182374863790&packedargs=locale%3Den_us&pagename=EFX%2FWrapper. Accessed December 22, 2009.
- 6 Foroohar.
- 7 Dugas.



The Main Street Alliance

A big vision for small business

The Main Street Alliance is a national network of small business coalitions in 15 states supporting small business owners to bring their values into the public dialogue on pressing policy issues. Members of the Alliance network share a vision of public policies that work for small business owners, their employees and the communities they serve. The Alliance and its member coalitions create opportunities for small business owners to speak for themselves on issues of common concern.

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