Testimony

Of

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My name is Roberto Barragan and I am President and CEO of VEDC, the Valley Economic Development Center. VEDC is the largest small business development organization in Metropolitan Los Angeles serving over 6,000 businesses annually with direct lending, technical assistance, training and workshops. VEDC is a certified Community Development Financial Institution with an existing $15 million small and micro business loan portfolio and recently secured capital available for lending of another $21 million. VEDC is a Small Business Administration micro lender for over 12 years, and operates the largest Economic Development Administration Revolving Loan Fund in California. VEDC is also the sponsor of a federally chartered low income credit union with $2.4 million in assets and ranks in the top 100 SBA 7(a) lenders in LA. Lastly, VEDC's affiliate the San Fernando Valley Financial Development Corporation is the leading SBA 504 commercial real estate lender in Los Angeles as well as a state guarantee loan program operator.

Over the last 24 months, VEDC has been at the epicenter of the worst small business credit crisis since the Great Depression. SBA lending has dropped 50% over that time and large national commercial banks that led small business lending for loans below $100,000 and who suffered millions in losses due to "stated income" have walked away from the market leaving huge gaps in credit availability. At the same time small business watched as the home equity lines, credit cards and lines of

credit they depended upon were terminated. Finally, here in Los Angeles, regional business banks, those responsible for supporting small and medium business, are facing millions in losses due to commercial real estate failures

After 2 years of recession, startup capital is nonexistence, and existing small business lending by national banks is limited to business credit cards and loans above $200,000. With 60% of California banks under some type of regulatory control, many banks cannot make small businesses or have to limit them to relatively risk free real estate refinancing at 50% LTV.

Just as we see the long term unemployed stop looking for jobs, we also now see small business stop looking for capital. As existing businesses come out of the recession and seek to become part of this sputtering recovery, they have given up looking for capital, tired of loan denials and, while they have real expansion possibilities, rather than borrow to support growth, they grow organically from profits. So rather than job creation in the desperately needed 10s and 100s, we have job creation in the 1s and 2s.

Finally, federal efforts to encourage small business lending either depend on those same banks who are under regulatory control or have suffered huge credit losses, or

Recommendations:

1. Allow credit unions to make small business loans up to 25% of assets and make Treasury resources available to them to expand their ability to lend. Ignore bank outcry regarding tax exemption! One has nothing to do with the other. If the banks cannot meet

the demand for small business lending, let the credit unions respond. Without an increase in that limitation, credit unions will not invest in the infrastructure needed for responsible business lending.

2. Eliminate Regulation B and the banks ability to meet CRA small business lending benchmarks through credit cards and other revolving debt. Loans below $100,000 and to businesses with revenues under $1,000,000 are no longer adequate indicators of either small business lending or lending to minorities. Transparency should be the minimum requirement of all lending, not the exception.
3. We must accept the fact that bank based solutions to our small business credit crunch ignores their own plight and encourages rhetoric rather than action. Accordingly, federal support to direct lending mechanisms, such as CDFIs must receive continuous and higher support. In addition, the regulating agencies should work with the CDFI Fund to target support not to just national intermediaries and proposal savvy organizations but to the communities suffering the brunt of this credit crisis, such as California, Arizona and Nevada. Over the last 5 years, 75% of CDFI Financial Assistance has been awarded east of the Mississippi blind to both the growth of these communities as well as the downturn they have experienced.

A recent Pepperdine study highlights much of what I have spoken today: the current ability of small business to grow and hire, and their inability to do so without capital. We have waited over 2 years for recovery to come and small business lending come back. By all indications, we have another 12 to 18 months before we see some new

normal. With 14% unemployment here in LA, we cannot wait that long, we need capital now, we need small business growth now and we need new jobs now.