CHAMBER OF COMMERCE
OF THE
UNITED STATES OF AMERICA

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The Honorable Michael Crapo
Chairman
Committee on Banking, Housing, and
Urban Affairs
United States Senate
Washington, DC 20510

The Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing, and
Urban Affairs
United States Senate
Washington, DC 20510

Dear Chairman Crapo and Ranking Member Brown:

The U.S. Chamber of Commerce ("Chamber") welcomes this week's hearing, *Fostering Economic Growth: Regulator Perspective*. Promoting economic growth should be a top national priority. To put our economic potential into perspective, if our economy moved from 2% growth to 3% growth, our gross domestic product (GDP) would double 12 years faster (23 years vs. 35 years), while the rise in our national debt over the next decade would be slowed by over $3 trillion. If the economy went from 2.5% growth to 3% growth, average annual incomes would rise by $4,200 and 1.2 million jobs would be created over the next decade. The Chamber has long argued that existing financial regulations have limited economic growth by constricting and in many cases raising the cost of credit for small and medium sized businesses–major engines of economic growth and job creation.

There is a wealth of new research that may inform the Committee's consideration of this matter. In the Chamber's 2016 survey of more than 300 corporate financial professionals, nearly four in five reported that financial services regulation has directly affected their financing activities. One half reported that bank capital charges have increased their costs, and one third expected the regulatory effect to worsen in the next three years.

In April, the twelve Federal Reserve Banks reported the results of their annual survey of small business credit. While finding "widespread demand" for small loans–45 percent of firms applied for funding–there were substantial financing shortfalls. 60 percent of firms obtained less than the amount for which they had applied, and almost a quarter of small businesses were unable to obtain any financing at all.

Recent research has connected small business credit gaps to bank capital and liquidity rules. In May, a team of economists concluded that "small business lending in all size categories is statistically significantly less at stress-tested banks"–consistent with the hypothesis that stress-tested banks reduce the supply of credit in order to reduce bank risk–after analyzing Community

Reinvestment Act loan origination data. Researchers at The Clearing House came to the same conclusion after analyzing loan data in Federal Reserve and FDIC call reports. In March, a study from Harvard Business School linked the decline in small bank lending at the four largest U.S. banks to stress tests' relatively severe assumptions about the losses on small business loans, as well as the sheer amount time and effort required of senior managers to comply with the full array of regulations implemented after the financial crisis. Professor Hal Scott, also of Harvard and an authority on prudential regulation, recently implicated liquidity requirements as a key constraint on small business lending.

The Committee–and regulators–should rigorously examine the impact of bank capital and liquidity rules on small and medium enterprises' access to credit. Such examination is necessary to balance the equally important goals of financial stability and growth–the twin pillars of true prosperity. Again, the Chamber commends the Committee for holding this hearing, and looks forward to hearing regulators' perspectives on this important matter.

Sincerely,

Neil L. Bradley

cc: Members of the Committee on Banking, Housing, and Urban Affairs