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Testimony by Clarence Williams Before the FCIC

Clarence Williams

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Financial Crisis Inquiry Commission Hearing
September 23, 2010
Testimony offered by:
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Good Afternoon Mr. Chairman and Commissioners, my name is Clarence Williams and I am President of California Capital Financial Development Corporation, a non-profit organization that provides business development and financing programs for small businesses throughout Northern California. Thank you for allowing me to offer testimony related to the financial crisis that has so unforgivingly devastated many businesses, individuals and families.

As with the rest of the California and our country Sacramento is in the midst of a debilitating economic crisis, whose impact has reached far beyond the bounds of state budgets and big business. In Sacramento, small businesses are closing, long-term workers are losing their jobs, families are being forced from their homes,

individuals and families are losing their access to adequate healthcare¹, and the quality of public education is diminishing.

The testimony I offer today, related to the effect this financial crisis has had on the Sacramento economy, families and neighborhoods is through the eyes of California Capital and the stories of our clients. Historically, Sacramento's small businesses have played a vital role in our strong economy and employment. However, the critical role that small businesses have played in supporting Sacramento's economy has gravely diminished as a result of drastic cuts to small business loans. The number of Sacramento business vacancies has increased drastically since the beginning of the recession, with Sacramento County now having the highest business vacancy rate in the state². The Sacramento area has seen over 10,000 workers laid off -just in the private sector - since late 2007.³

California Capital was founded in 1982, and over the past 22 years I have had the privilege to serve as President. I can say without hesitation that this has been the most difficult, challenging 2 years we have ever experienced. California Capital, one of eleven Financial Development Corporations, provides capital and development assistance to increase economic opportunities for underserved communities and persons. We offer a wide range of flexible financial products and

¹ "Sacramento County faced a \$31.5 million budget hole last year and filled it mostly with program cuts. Beginning Memorial Day weekend 2009, the county took steps to ax its crisis stabilization unites and eliminate 50 of 100 beds at the Mental Health Treatment Center on Stockton Boulevard. The cuts saved the county about \$11 million but sent hundreds of psychiatric patients in crisis to local emergency rooms for care." Robertson, Kathy. 2010. "Mental Health Care on Edge: others seek integrated system of care to stem chaos" *Sacramento Business Journal*. August 27. Vol 27, No.26 pp.1;29.

² "Interactive: A Flood of Vacant Businesses," *The Sacramento Bee*, Mar. 26, 2010.

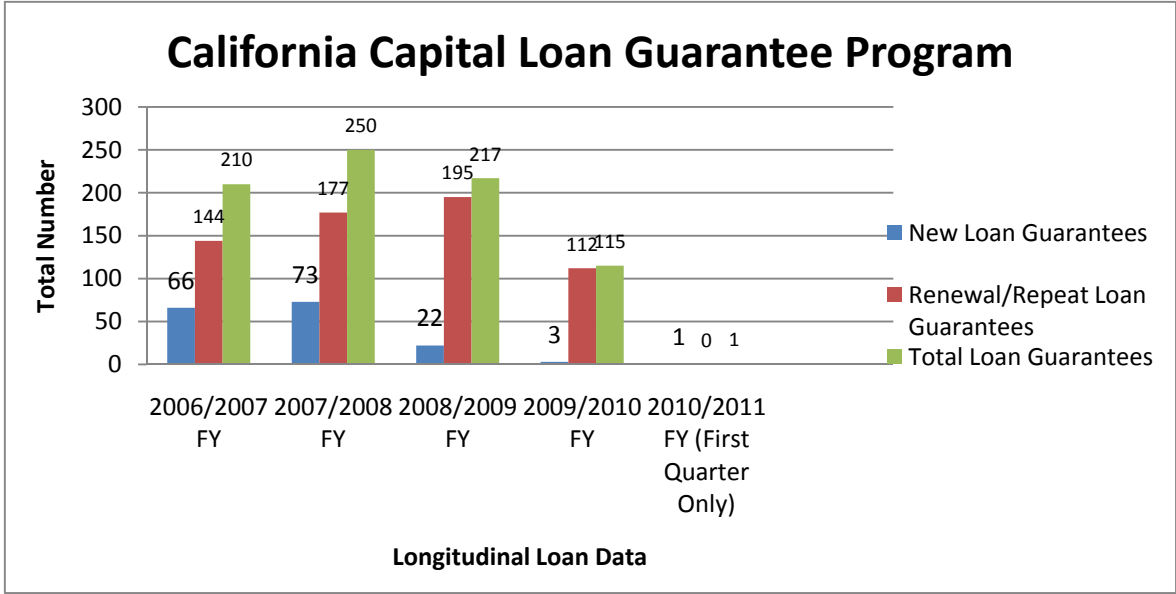
³ "Interactive Database: See Who is Laying Off Workers," *The Sacramento Bee*, Mar. 26, 2010

services, including loan guarantees, microloans, advisory services, business technical assistance, and financial literacy education programs. Through collaboration and creativity, we deliver effective solutions in a changing economic environment. We serve as an intermediary between banks and borrowers, making it possible for small business owners to secure financing unavailable through traditional financial institutions. Historically, loans guaranteed by California Capital have provided small businesses with working capital, which facilitates the acquisition of capital assets all with the goal of stimulating business development, expansion and employment.

California Capital works with small business entrepreneurs to overcome language, education, and economic barriers to accessing financing and to connect them with potential lenders through a network of over 50 banks and banking institutions. In guaranteeing loans for small businesses, California Capital not only helps area small businesses obtain credit they otherwise couldn't, but helps business owners establish favorable credit history with lenders. In addition to financing, California Capital provides small businesses access to education and technical assistance while encouraging the cultivation of asset building strategies. Based on our solid placement in the communities we serve and our commitment to providing hands-on technical assistance and quality community and economic development programs, California Capital aims to help more businesses thrive and grow into industry leaders.

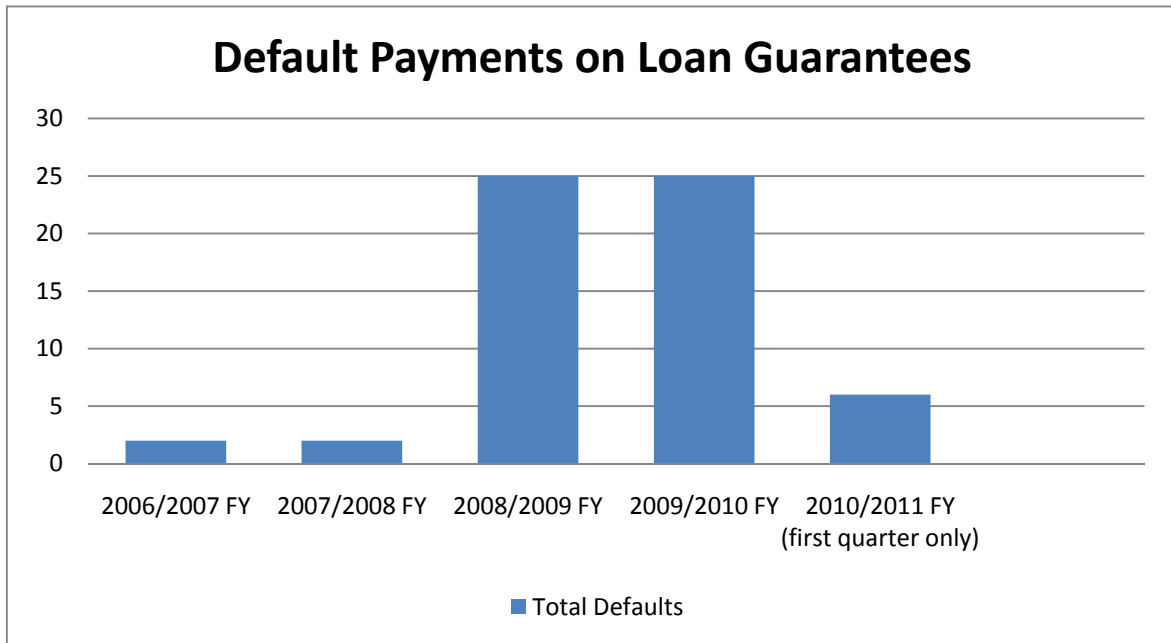
California Capital has been guaranteeing loans for the past 27 years. Between 2006 and 2009, we guaranteed an average of 230 loans per year, creating and retaining over 1,800 jobs. The loans we've guaranteed have ranged in size from \$5,000 to \$1.7 million for small businesses ranging from one to three hundred employees. The types of businesses we finance range from retail to contracting and professionals (including doctors, dentists, and attorneys), including many minority and women-owned businesses.

The work of California Capital is best reflected in the stories told through businesses we've served over the past 27 years. These stories include: a daycare center that has allowed single mothers to maintain their jobs; a 33-year-old family-owned restaurant that started out as a small drive-in and now has seating capacity for over 250 customers; a management consulting firm that began with one employee and is now global; a small technology firm that is now a publicly-traded company. This is merely a sampling of the impact California Capital has had on the vitality of California's small business community.

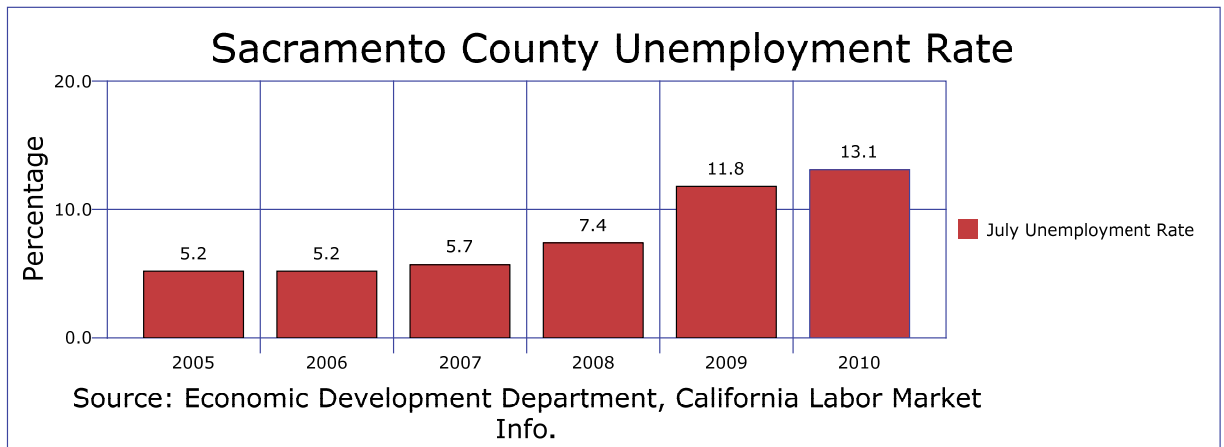


More recently, in the 2009-10 fiscal year, 45 of the loans we guaranteed were made to minority owned businesses, 65 were made to women owned businesses, and 23 were made to minority/women business entrepreneurs. However, in the past year our ability to infuse wealth into the community has decreased as a result of the financial crisis and ensuing budget cuts. A quick look at our loan guarantee data paints a bleak picture of the detrimental effects of the financial crisis. In the 2007/2008 fiscal year California Capital guaranteed a total of 250 loans, of which 73 were new loan guarantees and there were a total of 2 default payments on the guarantees. In the 2009/2010 fiscal year California Capital guaranteed a total of 115 loans, a 54% decrease. Of these loans, only 3 were new loan guarantees. In addition, in the 2009/2010 fiscal year there were 25 default payments on the guarantees, a 1250% increase from 2007. You've asked me to explain how small businesses in Sacramento have been affected by the financial crisis-- I can tell you from my experience that that impact has been

devastating.



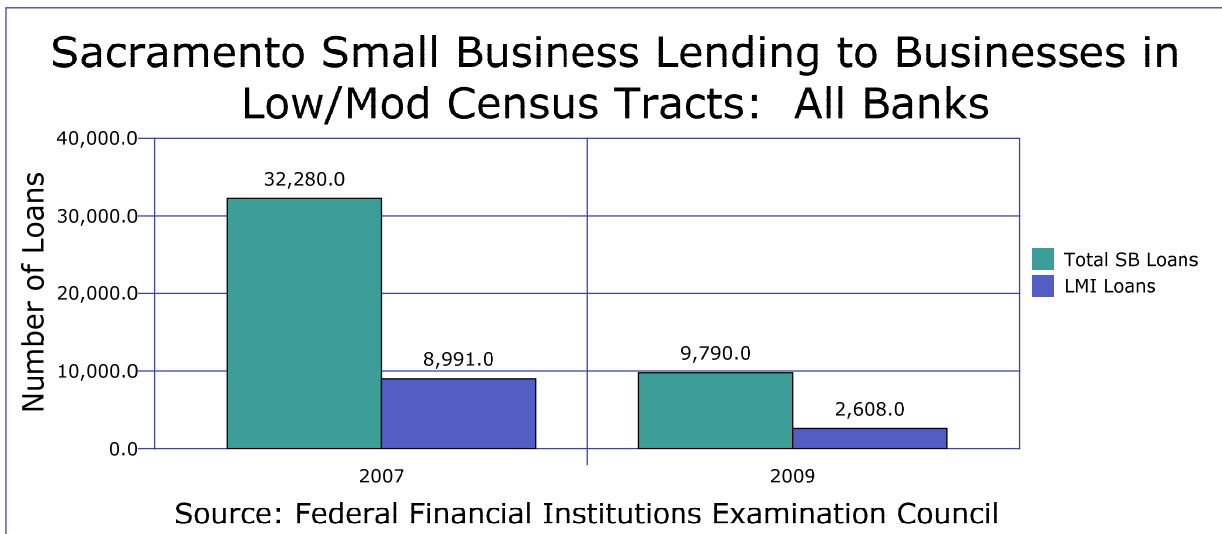
In particular, the ability of California Capital to meet the needs of small businesses has been steadily decreasing as a direct result of cuts to the loan guarantee program precipitated by the financial crisis. These cuts affect numerous small businesses and the state in general. According to a study published by UC Davis, “every dollar the state spends on the Guarantee Program results in 2 dollars in tax contributions from the businesses it finances. In addition, the Guarantee program is a vital source of job creation in Sacramento and throughout the state of California. Therefore, cuts to the Program negatively affect job growth in the local economy.



A typifying example of the impact of the financial crisis is the struggle faced by one of our clients, who had experienced positive growth in their membership, which led them to apply for and receive a guaranteed loan. With the onset of the financial crisis, this business lost many clients. Most devastating was the loss of a major client in the real estate sector. Due to this loss, the client was forced to trim a significant number of staff. In addition to layoffs, the client found it harder and harder to pay their rent in a timely manner, which led to discussions with their landlord concerning how to pay back rent. Finally, the client's situation worsened to the point where they had no choice but to contact their banking institution to negotiate a restructuring of their loan so that they could attain a reduced payment in order to stay in business. This client continues to struggle to remain in business and is attempting to reinvent themselves, and adapt to the constantly changing economic environment. This is a prime example of the struggles that many of our businesses have faced as a direct result of the financial crisis and also provides a rare example of a bank "grinding it out" with a client through a very

difficult financial time. The pattern of growth previous to the financial crisis with a resultant decline is a familiar story throughout many Sacramento businesses. According to an article in the August 2010 Sacramento Business Journal, the real estate boom spanning from 2003 to 2007 resulted in an increase of more than 500 restaurants in the Sacramento area. With the onset of the financial crisis, from June 2008 to June 2009 the Sacramento restaurant industry lost a total number of 104 restaurants.

A look at the statistics of the biggest banks in the Sacramento region provides evidence that the struggles our businesses have faced are not isolated incidents but instead reflect a larger negative trend in the local economic climate. According to the FFEIC, among the largest banks in Sacramento (including Bank of America, Citibank, US Bank, and Wells Fargo) small business lending to businesses in low/moderate income census tracts has dramatically decreased from 2007 to 2009. For example, Bank of America provided 2,957 loans to small businesses in low/moderate income communities in 2007, compared to 161 total loans to the same population in 2009. In other words, in 2007 60.5% of Bank of America's small business loans were directed towards businesses in LMI's, while in 2009, only 25.9% of their total small business loans were provided to LMI businesses.



According to the Sacramento Business Journal, “A total of 9,434 cases of [bankruptcy] were filed from January [2010] through June [2010], up 23.3 percent from 7, 651 for the same period in 2009. Yet the hike pales in comparison to the 50 percent increase between the first half of 2008 and 2009.” One such bankruptcy case was a medical equipment supplier. In general, the medical equipment industry has “seen the cost of business go up and demand fall due to changes in the way federal health programs pay providers and process claims, sources say.” Finally, another example of economic decline can be seen with the Southgate Plaza in Sacramento. The Southgate Plaza is a large shopping center that has since foreclosed and is currently attempting to reinvent itself. Again, prior to the economic downturn, the Plaza was experiencing a period of growth and currently only 20% of the shopping center space is leased (*Sacramento Business Journal*. September 10. Vol.27 No.28 pp.2.).

In conclusion, the impact on the Sacramento area has been devastating and reaches far beyond the realm of business. Those on Main Street and throughout the community have been negatively affected in countless ways. You have invited me to speak on the impact of the financial crisis on Sacramento and I trust I have conveyed the severity of the situation. Thank you for your time and interest in our community.