Testimony
of
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Hearing on the Effect of the Credit Crunch on Small Business Access to Capital.

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Company Background

My name is Lawrie N. Hollingsworth. An electrical engineer and Certified Disaster Recovery Planner, I am the CEO and founder of two engineering companies, The Price-Hollingsworth Company, Inc. (PHC), and Asset Recovery Technologies, Inc. (ART). Headquartered in the suburban Chicago city of Elk Grove Village, both firms work nationwide with insurance companies and businesses after a disaster or property insurance loss. PHC employs four people including three engineers; and ART employs eight people. We add part-time and temporary help as needed up to another 20 people. Additionally, we have certified a pool of approximately 200 technicians nationwide with our certification program. draw Both are 100 % woman-owned and founded, and are certified Women's Business Enterprises (WBE). I founded PHC in 1987, and ART in 1994. Although small businesses, each is well-known in our industry and enjoys a well-respected niche position. ART is a disaster recovery firm that specializes in the evaluation, clean-up and recovery of technology equipment such as computers, communications systems, server networks, radio and television stations, hospital medical equipment, manufacturing equipment and machinery. ART was a responder to 9/11 for a Fortune 50 communications company, where we received numerous assignments to recover equipment and return it to use. In addition to numerous catastrophes and disaster recoveries nationwide for over 14 years, ART was also a responder to Hurricane Katrina, where we received many many assignments.

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The Impact of Tightening Credit on my Businesses

Both businesses are typical small businesses: We utilize bank loans, line of credit loans and credit cards to fund our business, in addition to a re-investment of profits. My employees are very hard-working, decent and honest Americans with families to support. Like all small (and large) businesses, the credit crunch affects us substantially. Money is simply less available; when it is available, it is at a new premium and cost for less money and more restrictive lending covenants.

In 2007, ART gross sales declined by approximately 50% over 2006. Most others in my industry have reported dramatic drops across the board. While fluctuation is the norm in the disaster recovery business in part due to weather patterns, I believe that this drop in sales was due in part to soaring interest rates and lack of credit. This is particularly likely as weather patterns for both years were similar. Something has to account for such a precipitous decline. When business are already operating on thin and vanishing profit margins, any sort of disaster will put them under. As will be discussed further in this testimony below, business seeking working capital and equipment loans from a bank to re-build after a disaster may find credit unavailable, insufficient or just too expensive. Faced with looming business failure, most businesses opt to "take the money and run" meaning they do not re-invest insurance proceeds back into the business, but pocket them and close their doors. This is one more sale of services I do not make, and one more business failure in America.

Alternately, businesses may have chosen to substantially under-insure themselves to save costs - a measuring almost guaranteeing their eventual failure in the face of a disaster by the way. Thus there is not enough money for rebuilding after a disaster which requires hiring a firm like ART, and again my business opportunity is lost.

This sharp decline in revenue has caused me to sustain an approximate decrease of 20% of my full-time work force. I have not re-hired employees lost due to resignation or termination. I did not hire any summer interns as I usually do I have also hired far less temporary workers as well, a total decline of 70% between 2006 and 2007.

ART interest expenses were 700% higher in 2006 over 2007. While we are fortunate enough to have a strong banking relationship with stable rates, this is no remedy for lost business. Less business translate into more borrowing for my firm. This translates into less equipment I purchase, smaller inventories I keep on hand, fewer people I employ, and less medical benefits I am able to offer my employees.

Tight Credit -- a Multifaceted Dilemma for Small Business

I believe the current credit crunch presents a multiple dilemmas for the small businesses:

- Added cost of debt service, including rising bank lending costs and untenable credit card costs reduces or eliminates profitability
- Less available credit for expansion
- Impediments to funding for starting new businesses
- Significant impediment to a business recovery after a disaster

What does this translate into? Small Business is buying less equipment, hiring less full-time people, eliminating part-time and student positions, shortening hours of employment, reducing or eliminating benefits, falling behind in debt service (thus further reducing small businesses' ability to borrow and manage cash flow well) and so forth. Naturally, reduced purchasing, less employment, and debt defaults contribute to the overall national impact of the tightening credit markets. Thin profit margins get thinner and vanish altogether. The vicious cycle perpetuates itself: More costly borrowing means smaller or no company profits, reduced employee compensation and joblessness, which in turn means less dining out, less personal purchases, less vacation travel, and so on. This continues the cycle of layoffs and unemployment, debt and despair.

Lost Opportunity for Business Start-ups

We are focused on the impact to currently existing Small Businesses, but I believe there is a second, substantial and somewhat obscured impact of the tightened credit markets. This hidden danger is the lost opportunity for more small business start-ups. Small business is the largest private sector employer in the U.S. The heart of small business, and in my opinion the American Dream, is the business start-up. From "mom and pop" endeavors to small technology firms, these are the life-blood of our nation. Start-ups are funded by savings and 401K's, gifts and loans from friends and relatives, the occasional governmental source, home equity loans, equipment loans, collateral-based working capital bank loans, and credit card debt.

The statistics on small business failure are already severe: Failure rates of over 50% in the first two years are often cited. Already started on a "shoe string" and usually under funded, these small businesses depend on debt and credit to open their doors and thrive. What is happening now is that debt funding for new ventures is simply disappearing. Thanks in no small part to the subprime mortgage market collapse, lenders are very nervous about home equity lending, often substantially reducing available loan size. Further, once a business has a need for a bank loan in excess of the home equity-based loan, they are met with a number of restrictive covenants coupled with historically higher interest rates – if they find a willing lender at all. When they turn to credit card financing they will encounter interest rates from the high teens to the lower 20's of percentage rates. This is simply untenable.

When encountering the true cost of credit and its affect on their potential business, plus the difficulty or impossibility of obtaining a bank loan, I believe that many potential entrepreneurs will simply “walk away” from this opportunity to own their own business. This is a tragic collapse of the entrepreneurial American Dream.

Business Failure – the “Second Disaster” after a Catastrophe Exacerbated by Tight Credit Markets

Turning now to established businesses, I would like to touch on yet another hidden, ominous facet of the so-called credit crunch. That is the likely failure of a business after a catastrophe such as fire, flood, natural disaster, etc., and how that situation is further exacerbated by tight and expensive credit. Consider the following pre-credit crunch statistics:

- “The U.S. Department of Labor estimates over 40% of businesses never reopen following a disaster. Of the remaining companies, at least 25% will close within 2 years.”
- “Over 60% of businesses confronted by a major disaster close by two years, according to the Association of Records Managers and Administrators.”

How much will these statistics worsening? When our firm was working on the Gulf Coast on various recovery projects after Hurricane Katrina, I noted the inordinate number of small business that were lost, likely gone forever. From the devastated city of New Orleans across the entire Gulf Coast to Pensacola, Florida, I saw business after business in ruins. Gone were the local beauty parlors, hardware stores, fast food franchises, local computer repair companies, car dealers and more. Based on my observations and knowledge, I believe that it is likely most of these businesses have either not re-opened, or even if they have, fail within several years of their Katirna-related disaster. The above cited statistics prevail in the best of times and circumstance; in times of a vanishing small business credit market, we are almost guaranteed the demise of many many Gulf Coast small businesses. These businesses have likely lost their usual collateral for loans such as homes or receivables.

Even if they have maintained these, they are now faced with far higher interest rates and a well-documented reluctance on the part of lenders to write small business loans. I believe this scenario is being played out in mass numbers on the Gulf Coast; it is true anywhere a business has had a fire or flood or other catastrophe recently. It will be true if the US faces another catastrophic regional weather disaster.

Impact of the Credit Crunch on State Recoveries and the Effect on Small Businesses

Another, related effect of the credit crunch is the shortfall state catastrophic insurance funds are reporting. Last year, the State of Florida cited selling $3.5 billion in bonds versus a needed $7 billion. Besides bond funding, such funds depend on borrowing to fill in the differential, otherwise, a potential shortfall could loom in the face of another Hurricane Andrew, Katrina, or even Wilma. The state of Florida has cited a growing concern that the tight credit markets will give rise to this dreaded shortfall. Simply stated, the state may simply be unable to borrow enough money to pay on these catastrophic policies for home owners whose homes lie in pieces. As related above, the home equity line and/or single family home as collateral is a cornerstone of small business borrowing. Without a home to secure a loan against, the small business owner may have no choice but to shutter her business after a regional catastrophe

Summation and Suggestions

I could cite a number of statistics and scenario that validate the highly detrimental effect of the credit crises on small business. Sufficient to say, it is doing great harm to the backbone of American business, translating into higher unemployment, lost health benefits, lost opportunity and more.

Suggestion Number One -- Revitalize the Small Business Administration

The SBA is uniquely poised of all government agencies to assist in the establishment and maintenance of Small Business. Restore loan and funding programs and guarantees that will help quiet the fears of reluctant bankers and lenders.

Suggestion Number Two -- Credit Card Reform

Clamp down on predatory practices and excessive interest rates of credit card firms. This will benefit small business and consumers alike.

Suggestion Number Three – Subprime Mortgage and ARM Mortgage Reform

As the housing market continues to collapse, less and less home equity is available for small business funding. Banks continue to tighten credit and increase rates as they are faced with foreclosure after foreclosure. Besides the obvious consumer benefits, I believe relief in this area will also benefit the small business owner.

I believe that urgent reform is needed before small business is brought to its knees.
I thank you for the opportunity to come before this committee and testify.

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