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# Bernanke: More Needed To Boost Small-Business Lending

By TOM BARKLEY

Federal Reserve Chairman Ben Bernanke urged banks and regulators Monday to seek out ways to ensure that small businesses get the credit they need to create jobs.

"Making credit accessible to sound small businesses is crucial to our economic recovery and so should be front and center among our current policy challenges," Mr. Bernanke said in prepared remarks to the Fed's forum on restoring credit to small businesses.

Declaring small businesses as "central" to tackling unemployment, the Fed chief said not enough is being done to ensure that financially sound companies can obtain loans.

Fed officials have become increasingly worried about the stubbornly high unemployment. The jobless rate edged down to 9.5% in June from 9.7% the previous month. But the economy shed jobs for the first time this year, with nonfarm payrolls falling 125,000 last month.

"The formation and growth of small businesses depends critically on access to credit," Mr. Bernanke said in the text of his remarks. "Unfortunately, those businesses report that credit conditions remain very difficult."

The forum is the culmination of a fact-finding mission the Fed launched in February to identify how to improve credit access for small firms, which account for about 60% of job creation.

Fed officials have hosted more than 40 meetings around the country with small businesses, bankers and community leaders to identify obstacles that have contributed to a continued contraction in lending.

Mr. Bernanke cited data showing that outstanding loans to small businesses have declined to less than \$670 billion in the first quarter of 2010 from about \$710 billion in the second quarter of 2008.

While major banks eased loan conditions for big firms during the first quarter, lending standards remained tight among the local banks that small businesses rely on, according to the quarterly Fed survey. Similarly, a survey by the National Federation of Independent Business found that the proportion of firms reporting tighter credit conditions over the past three months remained "extremely elevated," Mr. Bernanke said.

Some lenders participating in the meetings viewed the current lending standards a return to more normal conditions following a period of lax standards. But Mr. Bernanke said "it seems clear" that some creditworthy borrowers are having trouble getting credit, even when strong cash flow is compensating for a loss in collateral.

"The challenge ahead for lenders will be to determine how to assess the credit quality of businesses in an uncertain and difficult economic environment," he said.

Lending to creditworthy borrowers is in their interest, Mr. Bernanke said, since "that's how they earn their profits."

Meanwhile, he said regulators should continue to work with lenders to help improve credit availability to sound small firms.

The Fed has been encouraging banks to ensure that credit-worthy small businesses can get the credit they need. Reacting to complaints that its own bank examiners are contributing to overly tight standards, the central bank is also conducting training programs with examiners to drive home the message that encouraging loans to small businesses that can repay is positive for the banking system.

Still, Mr. Bernanke cautioned against "one-size-fits-all solutions," saying that the meetings confirmed that each small business has a unique combination of local economic conditions and relationships with creditors and customers.

He didn't make any comments on the outlook for monetary policy.

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