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The Senate Committee on Banking, Housing and Urban Affairs: July 15th, 2008: Held at 10:00AM.

The SemiAnnual Monetary Policy Report to Congress.

Christopher Dodd, Chairman.

Federal Reserve Board Chairman Ben Bernanke testifying.

Question on Business Plans by Sen. Wayne Allard (R-CO)*.

Sen. Allard: Welcome to the Committee, I always look forward to hearing your comments, Chairman Bernanke.

Business lending... I want to talk about that a little bit. The big aspect of business lending historically I'm told, has been that business plans and their ability to execute those business plans has been a big factor in assessing credit in whether they get a loan or not. I'm told that in recent history that has been minimized considerably. First of all, I'd like to know if that's true? And the other question: if it is true, do you think we could help confidence if we had provisions that somehow brought more accountability to the business plan aspect when you apply for a loan?

Chairman Bernanke: Well, there's a general tightening of credit, and tightening in underwriting standards as you know, related to this pull back from credit risk in general. It has affected different groups differently. For example, prime corporate borrowers are able to access the bond market and loan markets pretty effectively. Riskier firms, smaller firms are having more difficulty accessing credit.

I think that I would encourage banks to continue to make sound loans and we at the Federal Reserve will not penalize banks that are making sound loans if we want them to extend credit. In assessing how to make a good loan to a business, certainly there are many factors, including financials and personal relationships and many other things, but the business plan is certainly an important part and one that a good bank lender would look at.

*This question prepared in part, by The Epicurus Institute, to establish the benchmark for the validity of business plan reviews in the process of business loans.

