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July 10, 2024

The Honorable Jerome H. Powell
Chair
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, D.C. 20551

Dear Chairman Powell,

During the March semi-annual hearing on monetary policy before the House Financial Services Committee I asked if you would commit to conducting an analysis of the impact of the Basel III Endgame capital proposal on credit for small businesses, including small dollar credit.

I made this request based on more than twenty years of experience as a small business owner in the IT Industry. While it has become a hackneyed trope to describe niche industries as having some structural relation to our economy, each industry represents thousands of small business owners collectively forming the true ‘backbone’ of our economy. If the Basel III Endgame capital proposal results in a significant contraction in bank lending, small businesses will seek alternative means of financing, often at a higher cost. This would affect all industries. As I alluded to in the March hearing, a recent study¹ found that credit cards have already become a major source of small business financing. As you know, credit cards typically have higher interest charges than bank loans, and thus may not be the most cost-effective form of financing for small businesses.

I am now writing to reiterate my request for such an analysis. Before the Basel III capital proposal is finalized, I believe it is imperative that the Federal Reserve Board analyze the impact of the proposal on credit for small businesses. This analysis should address:

- (1) the impact of the proposed rule on credit to small businesses that are not publicly traded, as most are not;
- (2) the impact of the proposed rule on credit to small businesses that qualify as small-or-medium sized enterprises (SMEs);

¹Intuit QuickBooks Small Business Index Annual Report 2023

- (3) the impact of the proposed rule on lines of credit or credit facilities for small businesses;
- (4) the potential for the rule to have an indirect impact on banks not subject to the rule that causes those banks to tighten credit to small businesses; and
- (5) the potential for the proposed rule to cause small businesses to turn to alternative sources of credit other than bank loans, including small dollar loans.

I believe these specific points of analysis will enable the Federal Reserve Board to better understand the impact of the Basel III capital proposal on credit to small businesses, and craft appropriate changes to the proposal that ensure sufficient and affordable access to credit for our nation's small businesses. I urge you not to overlook this critical component of the proposal and give each of these points their due consideration.

Sincerely,



Barry Loudermilk
Member of Congress