SMALL-BUSINESS LENDING: PERSPECTIVES FROM THE PRIVATE SECTOR

HEARING

BEFORE THE

SUBCOMMITTEE ON INVESTIGATIONS AND OVERSIGHT

OF THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES
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SMALL-BUSINESS LENDING: PERSPECTIVES FROM THE PRIVATE SECTOR

THURSDAY, JUNE 21, 2012

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INVESTIGATIONS AND OVERSIGHT,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:00 a.m., in Room 2360, Rayburn House Office Building, Hon. Mike Coffman (chairman of the Subcommittee) presiding.

Present: Representatives Coffman, Tipton, West, Schrader, and Hahn.

Chairman COFFMAN. Good morning.

On Wednesday, June 6th, the Small Business Committee held an oversight hearing with SBA Administrator Karen Mills to question this administration about its procedures for setting policy for its financial assistance programs. The Committee also examined SBA's procedures for lending oversight to make sure that SBA is protecting taxpayers by conducting proper oversight of its lending partners.

Today, we are here to follow up on that hearing. Testifying today are private-sector lending partners who will discuss the effect of SBA policy on loan processing and how SBA can be a better partner.

In addition to reviewing SBA policy and procedures, we will also hear about how other financial regulators are impacting credit availability for small businesses. The Committee consistently hears from both bankers and small businesses that the regulatory environment is harming economic growth. This is an opportunity to hear more about the regulatory burdens on banks.

We all know that economic growth will be led by small businesses. To encourage this important sector to grow and create jobs, we need an environment where small businesses can access capital and banks have the freedom to lend without consistent second-guessing by regulators.

I would like to thank our witnesses for taking time away from their businesses to testify here today.

If Subcommittee members have an opening statement prepared, I ask them to have it submitted for the record.

I would like to take a moment to explain the timing lights for you. You will each have 5 minutes to deliver your remarks. The light will start out as green. When you have 1 minute remaining, the light will turn yellow. Finally, at the end of your 5 minutes, it will turn red. I ask you to adhere to the time limit.

Our first witness is David Rader, head of small-business lending for Wells Fargo. Wells Fargo is SBA's top lender by dollars lent to small businesses and second in the number of loans. So far in fiscal year 2012, Wells Fargo has already made over half a billion dollars in loans to small businesses through the SBA's 7(a) Loan Program. David has been with Wells Fargo for 29 years.

David, thank you for being here, and we look forward to your testimony.

STATEMENTS OF DAVID J. RADER, BUSINESS EXECUTIVE, SBA LENDING, WELLS FARGO, MINNEAPOLIS, MINNESOTA; BRETT MARTINEZ, PRESIDENT AND CHIEF EXECUTIVE OFFICER, REDWOOD CREDIT UNION, SANTA ROSA, CALIFORNIA, ON BEHALF OF THE CREDIT UNION NATIONAL ASSOCIATION; TIMOTHY D. DIXON, SENIOR VICE PRESIDENT, HEAD OF SMALL BUSINESS ADMINISTRATION LENDING, CITIZENS BANK, WARRENSVILLE HEIGHTS, OHIO, ON BEHALF OF THE CONSUMER BANKERS ASSOCIATION; ROBERT L. MARQUETTE, PRESIDENT AND CHIEF EXECUTIVE OFFICER, MEMBERS 1ST FEDERAL CREDIT UNION, MECHANICSBURG, PENNSYLVANIA, ON BEHALF OF THE NATIONAL ASSOCIATION OF FEDERAL CREDIT UNIONS

STATEMENT OF DAVID J. RADER

Mr. RADER. Mr. Chairman, Ranking Member Schrader, and members of the Subcommittee, my name is David Rader. And for the past 5 years, I have been the business executive of Wells Fargo's SBA lending business. I have been employed at Wells Fargo for 29 years. Thank you for inviting me here today.

Wells Fargo, as the Chairman said, is the national SBA lender that offers all core 7(a) as well as the 504 loan products. We have over 350 dedicated SBA team members, and we are a growing and profitable business for the bank, holding loan balances of $7 billion.

As the Chairman said, for the past 3 years Wells Fargo has been the number-one 7(a) dollar lender, approving more than $1.2 billion in 7(a) loans, representing 3,142 loans. And we also made history by becoming the first institution to generate over a billion dollars of 7(a) loans in the program. Our lending trend continues today, and, through May, Wells Fargo remains the number-one 7(a) lender, approving $734 million, and we currently are the number-two unit lender.

These dollars represent significant numbers of both large and small loans. We believe that the flow of new dollars into our communities represents a very powerful statement for job creation and economic development. We want to lend more dollars to more creditworthy customers, and we believe the SBA agency is aligned with Wells Fargo to achieve that goal.

As the Nation's number-one SBA lender, we appreciate the very constructive engagement of the SBA and the interest it has in our lending perspectives. We regularly participate with the SBA in an ongoing dialogue on credit policy issues, oversight, and program enhancements. We also believe there are opportunities to improve the programs and streamline the very complex SBA Standard Operating Procedures (SOPs).

The agency's efforts to reduce regulation and process over the years, especially the SOPs, are welcome. In Wells Fargo's view, the SOPs can be simplified and clarified further for the benefit of all without added risk to the taxpayer. For example, the public September 2011 SOPs lack clarity surrounding stock ownership rules and Eligible Passive Company/Operating Company (EPC/OC) structure rules. As a result, many industry lenders sought standard processing approval rather than Preferred Loan Program (PLP) approval, resulting in customer delays and added processing expense for all.

When SOPs are made, the agency must provide the industry with enough lead time to educate, train, and develop internal risk systems so we are equipped to best serve our customers and make loans with enforceable guarantees.

We believe there can be much more transparency in the SOP vetting process, both with the SBA and the lending industry at large, as well as with the SBA and the SBA Office of Inspector General (OIG). From our vantage point, the OIG continues to be too deeply involved in the vetting process. We find the process unclear, and we are often surprised at the outcome, hampering our ability to react and train our teams effectively. We suggest that the SBA give lenders an opportunity to change the SOPs and give us time, at least 30 days, prior to any final release.

We also recommend that the agency revise the current SOPs. For example: Eliminate the requirement for blue-ink signatures on necessary SBA forms. Number two, allow loans to individuals when there is a change-of-ownership transaction involving a stock purchase rather than just an asset purchase. Number three, allow 7(a) loans under $350,000 to be approved and processed under the SBA Express program using lender's delegated authority. Those are just a few suggestions.

Wells Fargo continues to urge the SBA to focus its resources on streamlining existing programs, both 7(a) and 504, rather than creating brand-new programs that serve limited niches. The recently revised CAPLine program is a great example of SBA's progress in this regard.

Wells Fargo welcomes practical and prudent lender oversight. Strong lender oversight will level the playing field and make the programs more consistent, cost-effective, and easier to use. We view the SBA on-site review process as rigorous and an opportunity for us to improve. We take pride in our substantial compliance with SBA regulations.

We welcome the recent appointment of the Office of Credit Risk Management (OCRM) director and look forward to a new era of transparency and collaboration. OCRM's willingness to discuss key portfolio-monitoring tools is a welcome change that we appreciate.

There is much work to do. If we work together and share best practices, Wells Fargo continues to be optimistic about our ability to help businesses succeed financially while being good stewards of the SBA program. We look forward to our ongoing dialogue and partnership with the SBA.

And I would be happy to answer any questions. Thank you.

Chairman COFFMAN. Great. Thank you for your testimony.

Our next witness is Brett Martinez, president and CEO of Redwood Credit Union located in Santa Rosa, California. Brett is testifying on behalf of the Credit Union National Association, where he serves on their board of directors. In his 25 years of banking experience, Mr. Martinez served as a senior executive with the California Credit Union League with a large southern California credit union prior to joining Redwood in 2002.

Mr. Martinez, thank you for being here, and we look forward to your testimony.

STATEMENT OF BRETT MARTINEZ

Mr. MARTINEZ. Thank you.

Chairman Coffman, Ranking Member Schrader, and members of the Subcommittee, thank you for the opportunity to testify at today's hearing. Again, my name is Brett Martinez, and I am president and CEO of Redwood Credit Union, a $2 billion State-chartered credit union serving 220,000 members, located in Santa Rosa, California. Redwood is the largest credit union SBA lender in the country by loan volume.

Credit unions share the Small Business Committee's goal of increasing access to credit for small businesses through the reduction of statutory and regulatory impediments. At the end of the year, there were over 330 credit union SBA lenders. These credit unions collectively have $800 million in SBA loans outstanding. The average credit union SBA loan is roughly $100,000.

Since December of 2007, SBA loans have grown by 90 percent at credit unions throughout the Nation. SBA-guaranteed loans are important to borrowers who otherwise would not be able to get a conventional loan, but they are complicated to make. They require staff with a special kind of expertise. They cost the borrower and their lender more to make than conventional loans, and they take longer to complete.

My written testimony describes how we have been able to use SBA loan programs to help small businesses in our community. We find ourselves in a fragile economic recovery. Small businesses that have survived the recession have largely done so by rightsizing their business following a path of declining profits. Many have shown losses for several years. As a result of their ongoing restructuring, they are beginning to once again show profits. Ultimately, they are left with a need to restructure their balance sheets, consolidate debt, and free up cash flow to grow their business.

We have used SBA programs, including the 504 Refinance Program and the First Mortgage Lien Pool program, to help our members stay in business, preserve jobs, and survive through the economic recovery. These programs expire in September, and we encourage Congress to reauthorize them. Otherwise, small businesses will be adversely impacted.

My written testimony describes efforts that CUNA has taken to encourage SBA to improve its programs through reduced regulatory burden, increased transparency, and a streamlined application program. In general, we have seen improvements in this area over the last several years. However, other lenders who do not have the experience that we do still may find the process very complicated. To that end, it is important for SBA to continue its efforts in this regard and continue to engage lenders when it modifies SOPs and other policies.

Enhancing access to credit for small businesses is an important part of promoting job creation and the economic recovery. There is significant demand for credit from small businesses. During the financial crisis, credit unions expanded business lending to their members while other lenders pulled back. Many credit unions that contributed to the vast majority of this growth are now becoming severely constrained by the statutory cap on credit union business lending.

Redwood is one of these credit unions. We are at 75 percent of our capacity, and we will only be able to lend to business members for the next 18 months. The cap will not only affect our ability to offer conventional loans but also our ability to offer SBA loans. That is why we are strongly encouraging Congress to increase the statutory cap on credit union business lending.

Representatives Ed Royce and Carolyn McCarthy have introduced legislation to allow experienced credit unions operating near the cap to apply to NCUA for authority to lend beyond that cap. We estimate that the Royce-McCarthy legislation would inject $13 billion into new capital and to small businesses in the first year after enactment and create 140,000 new jobs, all at no cost to taxpayers. We appreciate the several members of the Subcommittee that have cosponsored the legislation.

Some banking trade associations strongly oppose the Royce-McCarthy bill. They suggest it is unnecessary because the guaranteed portion of an SBA loan does not count against the cap. However, SBA is not a solution to the cap limitations. Notwithstanding their merits, SBA loans clearly are not a substitute for conventional business loans.

At the same time, increasing the cap on credit union business lending would almost certainly lead to an increase in SBA-guaranteed lending. Some small businesses, both that qualify for a conventional loan and those that require a government guarantee, would have more access to credit to start growing their business and create jobs. We encourage Congress to enact the Royce-McCarthy legislation.

Thank you again for the opportunity to testify today, and I am happy to answer any questions.

Chairman COFFMAN. Thank you for your testimony.

Our next witness is Timothy Dixon, senior vice president and head of SBA lending at Citizens Republic Bancorp. Citizens serves customers in Michigan, Ohio, and Wisconsin. Tim has close to 30 years of commercial banking experience, serving as executive vice president of commercial banking at SkyBank before joining Citizens Republic. Tim is testifying on behalf of the Consumer Bankers Association.

Tim, thank you for being here today, and you have 5 minutes to present your testimony.

STATEMENT OF TIMOTHY D. DIXON

Mr. DIXON. Chairman Coffman, Ranking Member Schrader, and members of the Subcommittee, my name is Tim Dixon, and I am senior vice president and head of Small Business Administration lending for Citizens Bank. Citizens Bank serves communities located within Michigan, Ohio, and Wisconsin, with 219 branches and 249 ATMs. We are a community-oriented institution, with a majority of our revenue being derived from our core bank, which is heavily oriented toward small business.

Citizens is a preferred SBA lender, with dedicated specialists to fast-track the process, and we also have expertise in other State and local loan programs. While we utilize a number of the SBA loan programs across the bank, the majority of our loan volume is 7(a) Express, with an average loan size of $60,000.

I am also a member of the Consumer Bankers Association's Small Business Banking Committee, which includes the top business bankers in the country, who share the common goal of helping small businesses meet their financial needs.

Headlines highlighting weak consumer confidence and high unemployment have created a great level of uncertainty for small-business owners. Many business owners are cautious to take on additional debt or to hire new employees with the current level of economic uncertainty. Continued reports of a possible double-dip recession only further the concerns of business owners and the confidence of American consumers.

SBA lending has played an important role in helping small-business owners meet their financial needs in difficult times. While SBA lending remained strong in the first half of 2012, overall numbers appear to be lower than those of 2011, a banner year for SBA. Much of the difference can be attributed to the expiration of loan enhancements provided under the Small Business Jobs Act.

Short of reinstating these temporary provisions, today's hearing is an opportunity to highlight positives and identify ways to improve the SBA programs. CBA's Small Business Banking Committee compiled a list of recommendations focused on the SBA's 7(a) and 504 programs and sent them in a recent letter to the SBA and Congress, highlighting our suggestions to improve the efficiency and effectiveness of these valuable programs. The SBA incorporated a couple of our recommendations in its most recent revision of its standard operating procedures, or SOP. However, CBA believes there are still a number of changes the SBA can make to help increase lending.

As detailed in our written testimony, the Consumer Bankers Association suggests a number of enhancements to the 7(a) and 504 programs. Most notably, we suggest a streamlined 7(a) process by allowing preferred lenders to use Express loan forms and processes for all 7(a) loans. For 504 loans, we encourage the reauthorization of the Refinance Program, which is currently scheduled to sunset in September.

The SOP is a complicated document, and while having the ability to make slight tweaks can be beneficial at times, quick and frequent changes to the SOP process can create real-world challenges. As the terms of the SOP are ever-changing, it creates practical challenges to interpret revisions, train staff, update systems, and be in compliance if these changes are coming too frequently. The ability of an institution to keep up with changes to the SOP can have large compliance cost implications, which can adversely affect lending.

Furthermore, the clarification of SOP terms can be time-consuming and difficult. For example, the improvements to the CAPLine program issued in late 2011 do not provide clear terms for loan qualification. In response to industry inquiries, the SBA took over 6 months to provide adequate clarification. And so we recommend a more methodical and consistent approach to SOP policy changes.

Finally, effective SBA lender oversight is another area of concern. Members of the CBA have found that the SBA audit process can be a very time-consuming exercise and is not always useful to assess and mitigate risk. A more transparent and streamlined audit process would go a long way in improving lender efficiency. Lender oversight should be a means for the agency to identify variances from established lender benchmarks and provide a reasonable process for lenders to remedy deficiencies.

We applaud this Committee's continued efforts to improve the efficiency and effectiveness of the SBA's programs. I thank you for the opportunity to appear here today, and I would be happy to answer any questions you may have.

Chairman COFFMAN. Thank you for your testimony.

Robert Marquette is president and CEO of Members 1st Federal Credit Union, located in Pennsylvania. Members 1st Credit Union has over 200,000 members. Robert is testifying on behalf of the National Association of Federal Credit Unions, where he serves on their board of directors.

Mr. Marquette, you have 5 minutes to present your testimony.

STATEMENT OF ROBERT L. MARQUETTE

Mr. MARQUETTE. Good morning, Chairman Coffman, Ranking Member Schrader, and members of the Subcommittee. My name is Bob Marquette, president and CEO of Members 1st Federal Credit Union, and I am testifying today on behalf of NAFCU. Thank you for holding this important hearing. I appreciate the opportunity to share our views on small-business lending from a lender's perspective.

Credit unions currently operate under an arbitrary business lending cap of 12.25 percent of total assets. This artificial cap acts as a barrier to credit unions meeting the needs of their small-business members. It should be noted that the government-guaranteed portions of SBA loans do not count toward the member business funding cap, but the nonguaranteed portions do. This could cause a credit union to scale back participation in SBA programs as they approach the arbitrary cap.

A 2011 SBA study indicates that credit union business lending increased before and during the financial crisis, while banks decreased. This demonstrates that credit unions continue to meet the capital needs of their business members even during the most difficult of times. In addition, the study found that bank business lending was largely unaffected by changes in the credit unions' business lending.

We urge Subcommittee members to support the bipartisan legislation, H.R. 1418, the Small Business Lending Enhancement Act, which addresses the arbitrary business lending cap.

Our Nation's Main Street businesses also recognize that the artificial cap hurts job creation and their access to capital. Like us, they support and urge passage of H.R. 4293, the Restore Main Street's Credit Act of 2012, introduced by Subcommittee Ranking Member Kurt Schrader.

At Members 1st, we launched our member business lending program in January of 2003 but are unfortunately approaching our arbitrary cap today. Our average member business loan is $185,000, while the median size is only $60,000. We estimate that Members 1st business loans created 52 new jobs in our area and helped save 269 more in 2011.

At Members 1st, we entered the SBA 7(a) program in late 2010 and have originated two 7(a) loans. We have also participated in the SBA 504 program for a longer period and have originated three loans in that program.

Both 7(a) loans were for existing firms that were expanding and provided additional capital. However, both loans took nearly a year to fund. The SBA 7(a) process was time-consuming and burdensome. It left us with the impression that an established business lender, such as Members 1st, seeking to enter into the SBA marketplace is at the bottom of the SBA priority list. The multiple tiers within the SBA 7(a) program give larger lenders a competitive advantage over small institutions. Members 1st has stopped actively marketing our SBA 7(a) loans until we find a solution that can more efficiently meet our members' needs.

Members 1st has had success using the SBA 504 loan program. That program and the USDA Business and Industry Loan Program have been well received by our members. Both programs treat all incoming applications equally, regardless of our history with the agency.

NAFCU is pleased that SBA Administrator Karen Mills has been open to meeting with credit unions and hearing our concerns about SBA programs. We hope that this dialogue will continue and ultimately be productive in addressing our concerns.

One way for the Subcommittee to help address these concerns is to support H.R. 4191, the Credit Union Small Business Lending Act, introduced by Subcommittee Ranking Member Kurt Schrader and full Committee member Representative Steve Chabot. This bipartisan bill would amend the Small Business Act to: one, direct the SBA Administrator to implement a program to increase credit union participation in the SBA small-business loan program; two, simplify the application process for such participants; and, three, provide a guarantee of up to 85 percent for loans made in underserved areas. These steps would make the process easier for credit unions to become more involved in SBA lending and open the door to more access to credit for those small businesses and communities served by them.

In conclusion, we recognize that small businesses are the driving force of our economy and the key to its success. While the SBA lending programs are providing much-needed opportunities to businesses, there are still obstacles preventing them from reaching their full potential. That is why we, on behalf of our Nation's credit unions, their 94 million members, and our Nation's small businesses, urge the Subcommittee to support legislation such as H.R.

1418, H.R. 4191, and H.R. 4293 to make it easier for credit unions to aid our Nation's small businesses and create jobs.

We thank you for your time and the opportunity to testify before you here today on this important issue to small businesses, credit unions, and our Nation's economy. I would welcome any questions that you may have.

Chairman COFFMAN. Thank you for your testimony.

The first question is for Mr. Rader and Mr. Dixon. I often hear from financial institutions that while entities in Washington encourage them to lend more, regulators on the ground are in fact requiring them to increase capital reserves. Have you experienced this? And, if so, how has this decreased the amount of loans that you can make?

Mr. Rader.

Mr. RADER. Mr. Chairman, our SBA lending business is providing capital to small businesses, and Wells Fargo has always been in a good position to provide that capital. So while we implore and applaud the SBA to reduce regulation and enhance and modify SOPs, we absolutely have not seen a decrease in our lending because of capital concerns at Wells Fargo.

Chairman COFFMAN. Mr. Dixon.

Mr. DIXON. Yes, Mr. Chairman, you know, I think we have continued to see growth in our SBA loan portfolio. We don't feel constrained or feel that the regulatory burden is causing us, you know, difficulties in continuing to grow the portfolio and support small business.

Chairman COFFMAN. Great.

And a question to all the witnesses. We can start with Mr. Marquette. Are small businesses confident, in your view, about their ability to access credit and grow their businesses at this time?

Mr. MARQUETTE. What we have heard from small businesses in our area, they have seen some kind of a retrenching of business lending in our area. For whatever purpose, for whatever reason, I am not sure.

We have seen a significant increase in the number of applications that we have received. But because of that business cap that we have, business lending cap that we have, we have to be more selective. We have to operate within that cap, and we are about 90 percent of our cap right now.

So we have seen some retrenchment. It is easing up a little bit. And credit unions have really stepped up to the plate in order to be that dependable source of business lending that our businesses need.

Chairman COFFMAN. Mr. Dixon.

Mr. DIXON. As we talk to business owners and look at the research, you know, I think while there has been recovery in small business, business owners have learned something. They are cautious; they are keeping available credit in their hip pocket, if you will, for a rainy day.

So I think some of the challenge with loan demand has been just small businesses not requiring as much credit. But where we have creditworthy borrowers, you know, we feel the markets are competitive and the access to capital is there, particularly partnering with SBA.

Chairman COFFMAN. Uh-huh.

Mr. Martinez.

Mr. MARTINEZ. We are seeing an improvement in that area. I will just give you an anecdote. Redwood Credit Union started SBA lending in 2008, and we immediately became the number-one SBA lender in our area. That wasn't because we were doing a significant number of SBA loans; it was because we were continuing to lend. A lot of the local banks had pulled back.

So we are seeing that start to improve. We are still the number-one SBA lender in our area, but improvement is there. A big impact over the past 4½ years, though.

Chairman COFFMAN. Mr. Rader.

Mr. RADER. Mr. Chairman, we are seeing better financial statements from our small-business borrowers. We do believe their revenue trends and their profitability trends are improving. We have in our business, in our SBA business right now an increase in applications, an increase in new loan activity and submissions for credit. Our approval rates are higher this year than last year. And our approved pipelines, both in the 504 as well as 7(a), are up.

So we are encouraged by that activity, and we believe that we have the tools, especially with the new revised SOPs on the CAPLine program to provide larger working capital loans, that we will have the tools necessary to continue that slow improvement and progress on borrowing.

Chairman COFFMAN. Okay.

As you go through audits for both banking regulators, in the case of credit unions, your regulators, and the SBA, do you feel that the two entities are working together, or are they just completely separate?

Anybody who would like to answer that.

Mr. MARTINEZ. I will go ahead and start.

I know NCUA is very supportive of SBA and has actually been talking to SBA and talking to Congress about their support there. So NCUA credit union regulators are very supportive.

Chairman COFFMAN. Okay.

Anyone else?

Mr. DIXON. Our experience has been that the SBA is listening and we have a good working relationship, but we think there is work to be done in the audit and oversight area. And as we talk among the banks at CBA, we have made some specific recommendations to just improve the efficiency of that process.

Chairman COFFMAN. Okay.

Mr. Martinez, according to your testimony, approximately 2,000 credit unions engage in business lending. Why so few? Roughly, I think, 300 are offering SBA business loans and products to their members.

Mr. MARTINEZ. Yes, those numbers are accurate.

I know this hearing isn't about the business lending cap, but it is the number-one impediment for credit unions to get into both commercial lending and SBA lending. Those that are already in it are managing to a cap, and those that see the cap as a reason for them to not get into something that they are going to shut down is a reason that they are not getting into that.

Chairman COFFMAN. Okay.

At this time, we will make some rounds to the Members. And I think we will hopefully have a second opportunity for rounds of questions.

Ms. Hahn.

Ms. HAHN. Thank you, Chairman. This is actually my first hearing as a member of this Subcommittee, so I really want to thank you for holding this important hearing on the state of lending for our small businesses.

And thanks to all the witnesses for being here today.

You know, since I have been on the Small Business Committee, I have really made an effort to go out and talk to many, many small businesses personally, hundreds personally I have talked to. And I wanted to find out, what is it, what do you need from us, do we need to get out of the way or do we need to get involved, to make it better?

And the number-one thing my small businesses have told me that they needed was better access to capital. They need more customers, number one, so they wanted the economy to improve and they want folks to have jobs so they can be customers. But the second thing was, they felt like if they could get access to capital, that they would expand, they would hire, and it really would be about job creation.

One of the things I also heard was the burden of paperwork to fill out for an application for a small-business loan. And I introduced H.R. 3836, the Small Business Paperwork Reduction Act, which would reduce the amount of paperwork needed for a loan of, I think, $250,000 or under from 12 pages to 2—something simple that I think we can do to help folks, you know, at least get through the process of application.

I am really pleased to see our credit union witnesses here today. I am a big fan, as you know, of credit unions. I am also a fan of Wells Fargo. I am an equal-opportunity borrower. I have borrowed from Wells Fargo, and I have borrowed from my local credit union.

But I do think that you made the case very clear, as you have in the past, about the lending cap. I am a cosponsor of the Small Business Lending Enhancement Act, which will raise the lending cap for credit unions. I believe that our credit unions really are there in the communities. They are like the community banks. They know their members; many of them know them by name. They help them, not only with the loan, but just with, kind of, overall counseling about becoming financially sound in their dealings. So I appreciate that. And I hope Congress will pass that.

You know, Mr. Rader, what I am going to ask you is, one of the other things I heard from my small businesses was that sometimes the commercial banks will add a couple of requirements that the SBA does not require in their loans—for instance, collateral, real estate collateral. In other words, the Small Business Administration doesn't put that as a criteria to make the loan, but then sometimes the commercial banks will add that because your auditors would require that.

Is there a way that we can reconcile that? Because I heard that over and over again, that what the Small Business Administration put on as a requirement, you all added to that and sometimes made that then the breaking point that small businesses were unable to comply with.

Can we reconcile that?

Mr. RADER. Yes, Congresswoman, I would be happy to understand the details of your clients' situation. The SBA rules basically say that if a borrower does not have 100 percent collateral coverage in their real estate loan or in what they are purchasing, that we have to take all available collateral.

That is an SOP rule. That is what we follow. And that is currently something that is a good lending practice, but also it hurts demand and the ability to provide loans for those customers who don't.

So there is a delicate balance of making sure——

Ms. HAHN. So you are not adding any?

Mr. RADER. The SBA programs and the rules of the SOP require all available collateral.

Ms. HAHN. Okay.

And let me go back to the credit unions. Either one of you can answer this. You have made it pretty clear on what you think we can do. So, specifically, is there anything else that you see Congress doing that could increase the amount of loans that our credit unions can be making out there to our small businesses specifically?

Mr. MARTINEZ. I will go ahead and start.

You know, besides the cap—that is to keep people in—is, make the entrance easier. It is a little daunting process. We were able, over the past 4½ years, one of the banks in our area pulled back, so we were able to attract people that had significant experience, so it wasn't as daunting for us. But if you don't have that experience, it is a relatively daunting process to get involved.

And then additional training. There are not a lot of people out there that are trained in this. You don't take internal staff and say, go be an SBA expert. It is very technical.

So I would say those two things: make the process easier, reach out to credit unions; and provide additional training.

Ms. HAHN. How are our local SBA regional administrators, how are they doing on the ground with all of you?

Mr. DIXON. Our experience is they have been very accessible, want to be out in the communities, work with the banks, establish a dialogue. So I feel we have a good working relationship with the three States we are within in the region. It has been a very positive experience.

Mr. RADER. And, Chairwoman, I would echo that. You know, Wells Fargo is a community bank. We have our SBA lending officers in most of the communities or big communities across the country. We have a very good relationship with the local district offices, with the SCORE program, as well as some of the most larger CDC organizations. So that is a big part of our outreach and an important part of the process.

Chairman COFFMAN. Thank you.

Mr. West of Florida.

Mr. WEST. Thank you, Mr. Chairman and Ranking Member.

Thanks to the panel for being here today.

A couple months ago, the National Federation of Independent Businesses put out a survey that said about 8 percent of small businesses are looking to grow and expand. When you talk to these individuals, when you have them here in front of our hearings, three things: tax policy, regulatory environment, and lack of access to capital. Last week in Palm Beach Gardens, we had a small-business roundtable with Regents Bank. Once again, the exact same thing. And so there is a serious concern about the regulatory environment that is out there that is precluding the right type of lending.

So the question I have first is, how have you seen, if you have seen it at all, any type of effects from Dodd-Frank and what that is having on small-business lending practices and procedures in your respective financial institutions?

Mr. RADER. Congressman, again, the SBA programs are primarily driven by the SOPs. So we are focused, as an SBA lender, on following those rules and suggesting good changes to those rules that prevent the barriers of entry for getting an SBA loan. So, at this point, for our lending institution, the Dodd-Frank rules impact our larger bank, obviously, but, again, we are focused on SBA and the SBA procedures.

Mr. WEST. But, you know, one of the recurring things, especially—I mean, Wells Fargo is a tad bit bigger than a lot of your small community banks, which are the lifeblood to small businesses. And what they are having a problem with—and that is why I am trying to get an understanding if you all are having the same problem—is examiners and regulators coming down based upon the rules of Dodd-Frank—you know, this is above and beyond the rules of the SBA—that are reclassifying good-quality loans that you all have said are okay, and they are transferring that over to negative assets, and a lot of these financial institutions cannot carry that much negative asset.

So that is my question. Are you all seeing that type of trend as well?

Mr. MARTINEZ. On the credit union side, we are not. On the SBA, I agree with Mr. Rader. You know, we are focused on SBA SOPs. But Dodd-Frank, on the regular business side and consumer side, we are not seeing really much impact to that.

Mr. WEST. Okay.

Then the next question I will ask is, how often does the Small Business Administration come down and do reviews of your loan portfolios?

And then also, how often do you have sharing of best practices with the SBA so that you have a voice in the streamlining of processes and procedures?

Mr. RADER. Our Wells Fargo SBA business routinely gets audited at least once a year. Our last audit, we got the final results in August of 2011. So we are most likely due soon for another on-site exam.

We continually have dialogue with the SBA agency personnel in policy, in new product development. We wish we had a more transparent voice and transparency in understanding their vetting process, because we do have a lot of ideas to streamline programs and eliminate some of the inefficiencies that we see.

Mr. DIXON. As we talk about the topic, Congressman, in CBA, you know, the audit process depends on the type and size of institution. But our audits are every other year, and then there is a continued quarterly review of our loan portfolio.

And, you know, we think, as we pointed out in our testimony, that there are opportunities to make the process more efficient, more timely. And I think that will be better for all of us.

Mr. WEST. Okay.

How long is the normal turnaround on an audit report, on average?

Mr. RADER. We had our on-site audit last June, June 2011, and we received almost instantaneous feedback on what we were doing well. We did receive the official report in August of 2011.

Mr. WEST. Okay.

Mr. DIXON. You know, there is an exit conference after the on-site audit is completed, but in talking with members of the Committee, you know, the full closure could be out as much as 12 months. When you receive a final report and respond to the open questions and bring it to close, it could be that long.

Mr. WEST. Good or bad?

Mr. DIXON. We think that is a little lengthy. And there are opportunities to compress that timeframe, working with SBA.

Mr. WEST. Thank you, Mr. Chairman. I yield back.

Chairman COFFMAN. Thank you, Mr. West.

Mr. Schrader of Oregon.

Mr. SCHRADER. Thank you, Mr. Chairman.

I appreciate the panel's being here today. You guys are all star actors in the lending program as we try and get small businesses, medium-size, and even large businesses back on their feet again. So I really appreciate all the work you are doing.

I appreciate the comments by both Mr. Rader and Mr. Martinez that Dodd-Frank is not impacting small banks, the community banks, or credit unions. That is not where it was intended to. We want to keep our attention on that, though. You know, sometimes our good folks in the agencies sometimes have a tendency to extrapolate what is supposed to be for the larger institutions, and I think that might be what Mr. West was getting at. So if we can be in assistance in making sure you are not in the cross-hairs of those that pose a systemic risk. So I appreciate that clarification.

Having said that, I am curious about improvements. We are dealing with the small-business side of things in this Committee, and we have gotten a new Administrator in the last few years. It would appear to most of us, I think, on the Committee that things have turned for the better. Some of your testimony would seem to indicate that. So, as you go through, I would like your "yes" or "no," it has gotten better or, no, it is still a little Byzantine progress.

A comment for Mr. Rader, in particular. Talking about the SBA being responsive, you list some things in your testimony, you mentioned a few. Has the SBA responded to those? And what do you think their tendency has been recently in terms of improved regulatory framework?

Mr. RADER. We are seeing a positive new era of transparency within the agency, so my vote would be, yes, it is getting better.

We have constantly talked to the agency officials about credit policy and process. We think we have a good dialogue there.

However, we do not understand the vetting process. There needs to be more clarity. And I believe the agency is intending on providing that, and we are making slow progress.

Mr. SCHRADER. Good. Good, good.

I guess, Mr. Chair, I hope we kind of follow through on that to make sure that that is occurring and work with both the agency and the lenders out there.

Mr. Martinez, you talked a little bit about, as did Mr. Marquette, about trying to improve our opportunities with credit unions. They got left out of the Small Business Lending Fund last cycle, if you will. And I was pretty disappointed about that, because, as you have indicated, you also are, like our community banks, very interested in getting this economy back on track and our small businesses up and running.

And I was concerned about the testimony that, you know, Mr. Marquette also talked about, of the 2,000 banks, credit unions that are doing small-business lending, 500, almost 25 percent, are at their cap. Could you guys talk a little bit more about how important it is, as, you know, frankly, you have seen an influx perhaps of new customers, that raising that small-business cap might be?

And I don't want to take business away from one outfit, you know. I think all boats should rise here, at this point in time.

Mr. MARQUETTE. We have seen a significant demand coming in. And we, too, are at about 90 percent of our cap, so we have to be more selective. We do that through pricing and be more selective in terms of the loans we grant. But we are also trying to expand the communities that we serve, too, and the cap is an impediment.

The SBA programs are helpful, in that, again, the guaranteed portion of the 7(a) programs don't count toward the cap. But, again, the process that we go through, since we are not a preferred lender, is very time-consuming, so it is very burdensome to us. We have not been as successful as Mr. Martinez in terms of getting expertise that specializes just in SBA loans in our particular area, and that would be very expensive for us to do.

So anything that SBA could do to help us streamline that process and maybe have it work a little bit more efficiently, like the 504 program, would be much helpful in terms of our even expanded effort in that program.

Mr. SCHRADER. Mr. Martinez.

Mr. MARTINEZ. Yes, thank you for the question.

We are seeing increased requests for SBA loans. There are two programs that I mentioned, the SBA 504 refi program and the First Mortgage Lien Pool program. Those two programs are very important to us, and both of those sunset in September. The refi program, for those businesses that their loan is becoming due and their loan-to-value is upwards of 90 percent, the SBA program is really the only product for them.

For our credit union, we are having to sell our 504s. We have the sunset coming up in September for the First Mortgage Lien Pool program. We are having to sell our 504s to the secondary market just to give us room to create some room in our cap. Unfortunately, it is only going to give us about 6 additional months at the rate that we are going.

But those programs allow for a little bit of levers to be pulled, and I think that they are very important. If those programs weren't there, we wouldn't be able to help businesses that are refi-ing, and we would hit our cap sooner if the pooling program goes away.

Mr. SCHRADER. Thank you.

Could I ask one more question real quick, Mr. Chairman?

Chairman COFFMAN. Yes, go ahead.

Mr. SCHRADER. I appreciate that.

Mr. Dixon, you talked about the loan enhancements. Everyone has talked about the value, I think, a little bit of the credit loan guarantees. Sometimes I get feedback from folks back home, some of the lenders back home, that that is not as important. I mean, you always want a sound loan; that is the real bottom line.

But could you comment, real briefly, because I am over my time limit, real briefly on how important those loan guarantees are that are expiring, whether it is in the refi program or whatever?

Mr. DIXON. Yeah, let me speak, Congressman, to the 504 refi program. Our experience, in just talking with the CBA member banks, is that program is continuing to gain momentum. It has been a great tool to help small business in this interest-rate environment. It allows them to get access to very attractive capital. And we would really like to see that program extended. We think it does nothing but gain momentum.

Mr. SCHRADER. Thank you very much.

Thank you, Mr. Chairman.

Chairman COFFMAN. Mr. Tipton of Colorado.

Mr. TIPTON. I am fine, Mr. Chairman.

Chairman COFFMAN. Very well.

Let me, since they are going to call a vote soon—and if anybody has any additional questions, I will come back around.

This is a question for all of you. Do you encourage small businesses to apply for an SBA loan because of concerns that banking regulators will question the loan if made conventionally? Would anybody like to respond to that?

Mr. MARTINEZ. I will comment.

When we have a business come in, we sit down and look at them and explain all the loan options. We don't push them into any particular loan. If they can go conventional, that is the best product for them, and we go conventional. And then on the SBA program, it is laying it out and not driving them into a specific product because it is better for us.

Mr. DIXON. Congressman, I think we find that we let that decision be made one client at a time as we look at a loan request and decide if any of the SBA programs will make the difference in getting that small business the credit that it needs.

Mr. RADER. Mr. Chairman, I believe the best course of action for our clients and our borrowers is to give them financial options—so, conventional, 7(a), 504—making sure we profile the borrower for what their needs are and where they are going with their business. And so, we do not steer.

Chairman COFFMAN. Okay.

For additional questions then, Ms. Hahn of California.

Ms. HAHN. Thank you, Mr. Chairman.

Mr. Marquette, in your testimony, you talked about the process that your credit union went through to begin offering SBA loans, and you said new lenders were feeling like they were on the bottom rung of the SBA priority list.

What do you think SBA could and should do to encourage, you know, new lending partners out there in this quest that I think we are all having to provide small businesses with more access to capital?

Mr. MARQUETTE. As I mentioned, we have been having discussions with the SBA Administrator, Karen Mills. She has been very open.

The issue is the 7(a) process. It seems that they are more interested, in our perspective anyway, in the larger loans and larger institutions and larger employers. In our particular area, our niche is the smaller loans, the smaller employers. About two-thirds of our business loans are to employers that have less than 20 people working for them. So that is our particular niche.

They could reach out more to smaller institutions. They could ask those smaller institutions, what are the impediments, what are the processes. We can't afford to put an SBA expert on staff. We worked very closely with a community development corporation to help us with the 7(a) program, and even with their assistance it took us 1 year for the two S–7(a) programs that we did.

We do, however, on the 504 programs, since we go through the CDCs, they seem to have a better relationship with SBA in terms of processing those loans and have been much more successful in those.

Chairman COFFMAN. Thank you, Ms. Hahn.

Mr. West of Florida.

Mr. WEST. Last question. You brought up a lot of great recommendations that you were discussing. Have you provided any of those recommendations over to the SBA, Mr. Rader?

Mr. RADER. Yes, we have, Congressman.

Mr. WEST. Okay.

And the next thing: When the SBA—I know they have come up with some new practices and new procedures. Do they send those out to get maybe a buy-in or a comment from financial institutions first and foremost? Or do you kind of get the, you know, "surprises are not just for birthdays" effect?

Mr. RADER. As I have spoken in my testimony, the agency could do a better job of giving us a better lead time when they do make changes. We have to do a lot of training and investment in education and develop risk controls for these programs. And when we get a new SOP that is announced, for example, on May 25th with an effective date of June 1, it doesn't give us the proper time to train our people to help our customers.

Mr. WEST. And last question: The preferred lending status, do you find that is an easy status to attain? A little bit difficult?

Do you understand how to attain that status? Across the board.

Mr. RADER. Yes, we understand how the process works and how the process doesn't work. So, yes.

Mr. MARTINEZ. We are a fairly new preferred lender. We started in 2008. And we were actually kind of cautious to go into that preferred-lender status, so we could have gotten it earlier than we did and felt comfortable with the process of having SBA continue to look. So I don't think it was burdensome. It was a decision that we made when we were ready for it.

Mr. WEST. Okay.

Mr. Dixon.

Mr. DIXON. Congressman, we have been a preferred lender for many years. I think we find it works well, and that status is, you know, reviewed and renewed each year. But that process works pretty smoothly for us.

Mr. MARQUETTE. As I said, we are just new in the 7(a) program, and our experience has been less than acceptable. So we are still exploring it, and we will look into that in the future.

Mr. WEST. Thank you, Mr. Chairman. I yield back.

Chairman COFFMAN. Ms. Hahn of California for an additional question.

Ms. HAHN. I just wanted to follow up on what Congressman West asked Mr. Rader.

Would it be possible for you to provide to the members of this Subcommittee the list of the SOPs that you are encouraging the SBA to look at? And then maybe we could follow up with the Administrator to see where they are at, what is the status, and if there is anything that we could do to follow up on that.

Mr. RADER. Absolutely. Wells Fargo can provide that.

I would also encourage the chair and Committee to check out the National Association of Government Guaranteed Lenders (NAGGL) Association recommendations, as well.

Ms. HAHN. Thank you.

Chairman COFFMAN. Very well. I want to thank all the witnesses for testifying today.

For us to get this economy moving, it is going to take small business. And for small business to lift us out and create some jobs, it is going to take access to capital. And you are all integral to that process, so thank you for what you do.

The hearing is adjourned.

[Whereupon, at 11:00 a.m., the subcommittee was adjourned.]

DAVID J. RADER
Executive Vice President
Wells Fargo SBA Lending

Testimony

BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES

COMMITTEE ON SMALL BUSINESS

SUBCOMMITTEE ON INVESTIGATIONS, OVERSIGHT & REGULATIONS

"Small Business Lending:
Perspectives from the Private Sector"

June 21, 2012

Mr. Chairman, Ranking Member Schrader and Members of the Subcommittee,

My name is David Rader and for the past five years I have been the Business Executive responsible for managing Wells Fargo's SBA Lending line of business. I have been employed with Wells Fargo for 29 years and spent most of my career in the small business lending segment, providing capital to small business owners.

Thank you for inviting me here today. I would like to open my remarks with a brief overview of our Wells Fargo SBA Lending business.

Wells Fargo is a national SBA lender that offers all core SBA (7a) and 504 loan products. We have over 350 dedicated and knowledgeable SBA team members who are located in our community banking stores and at six centralized credit and three centralized closing processing centers around the country. We are a growing and profitable business for Wells Fargo, holding loan balances of $7 billion dollars.

For the past three years, Wells Fargo has been the nation's #1 7(a) dollar lender. For fiscal year 2011, we approved more than $1.2 Billion 7(a) loan dollars representing 3,142 loans. In 2011, despite the sluggish economic recovery, Wells Fargo made history by becoming the first institution to generate over a billion dollars of 7(a) loans in a single year. Our lending trend continues today and for the eight months ending in May 2012, Wells Fargo remains the #1 SBA 7(a) dollar lender. We have generated $734 million 7(a) loan dollars, and we are the #2 unit lender with 1,995 loans. These dollars represent a significant number of both large and small loans, with a combined average loan size of approximately $368,000 (7a only). Wells Fargo believes that the flow of new loan dollars into our communities represents a very powerful statement for job creation and economic development. We want to lend more dollars to more credit worthy customers and we believe the SBA agency is aligned with Wells Fargo to achieve this goal.

As the SBA's largest preferred (PLP) 7(a) dollar lender, Wells Fargo increased staffing levels and made significant investments of time and resources to support the SBA programs and make sure we prudently follow the SBA standard operating procedures (SOPs). We are adding more "feet on the street" and investing in training, systems and technology to ensure we are available to meet the needs of our customers.

Wells Fargo greatly appreciates the very constructive engagement of SBA and the interest in lenders' perspectives in meeting small business owners financing needs. We regularly participate with the SBA in an ongoing dialogue on credit policy issues, oversight processes and program enhancements. We also believe there are opportunities to improve the programs and streamline the very complex and rigid Standard Operating Procedures (SOPs) to the benefit of our customers.

The agency's efforts to reduce regulation over the years, especially the SOPs, are welcome. In Well Fargo's view, the SOPs can be further clarified and distilled for benefit of both lenders and borrowers. If process becomes too detailed, it is our borrowers that are ultimately impacted. For example, the prior SOP, published September 30, 2011, lacked clarity surrounding stock ownership rules and EPC/OC structure rules. As a result, it caused many industry lenders to seek standard processing approval versus PLP processing approval, which results in customer delays.

Secondly, when SOP changes are made, the agency must provide the industry with enough lead time to educate, train and develop internal risk and closing systems so we are equipped to best serve our customers, answer their questions and make loans with enforceable guarantees.

We believe there can be much more transparency in the SOP vetting processes – both with the SBA and lending industry at-large, as well as with the SBA and Office of Inspector General (OIG). From our vantage point, the OIG continues to be *too* deeply involved in the SOP formation and vetting process. We find this internal SBA/OIG vetting process unclear, and we are often surprised at the outcome, hampering our ability to react and train our teams. We suggest that the SBA give lenders an opportunity to review and comment on any final recommended SOP changes at least 30 days prior to the final release. The recent SOP change notice of May 25, 2012 with an effective date of June 1, 2012 did not do this.

We would also recommend that the SBA Agency and Office of Inspector General improve current SOP policies/procedures to speed up access to capital:

a. Eliminate the requirement for "blue ink" signatures on necessary SBA forms. Today, the IRS and the courts accept electronically signed documents and signatures. We encourage the SBA to do the same.
b. Shorten the time span for 912 approvals – why does it take 10-12 weeks?
c. Allow loans to individuals when there is a change of ownership transactions involving stock purchase rather than asset purchase.
d. Allow all 7(a) loans under $350,000 to be approved and processed under the SBA Express Loan Process using lender's delegated authority.
e. Disclose and document all new required form changes concurrently with issuance of new SOP's.

These are just a few suggestions; there are others.

Wells Fargo continues to urge SBA to focus its resources on streamlining and improving *existing* 7(a) and 504 loan programs rather than creating new spinoff programs that serve a limited niche and are confusing to customers. The recently revised CAPLine program is a great example of SBA listening to borrowers and the lending community. The Agency made substantive changes to a dormant program, enhancing it and making it into a viable, workable lending tool, able to meet the working capital needs of small businesses.

Wells Fargo welcomes practical and prudent *lender oversight* that maintains the integrity of the industry and penalizes those lenders who put tax payer money needlessly at risk. We acknowledge that strong lender oversight will ensure a level playing field and make the programs more consistent, more cost effective and easier to use for our customers. Wells Fargo views each SBA on-site review process as rigorous and an opportunity to learn and improve. We take pride in our consistent and substantial compliance with SBA regulations. We welcome the recent appointment of the new Director for the Office of Credit Risk

Management (OCRM) and look forward to a new era of collaboration as the Agency ushers in a new era of transparency and collaboration. OCRM's willingness to discuss key portfolio monitoring elements such as the SBA Lender portal and portfolio credit scoring processes are welcomed changes we have sought.

As we all work together to stimulate small business lending, Wells Fargo continues to be optimistic about our ability to help businesses succeed financially and want to work with them to fulfill their financial dreams. We are confident that we will continue to maintain our #1 SBA national lending status and be good stewards of the program. We look forward to our on-going dialogue and our partnership with the Small Business Administration.

Mr. Chairman and Members of the subcommittee thank you and I would be glad to answer any questions.

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TESTIMONY
OF
BRETT MARTINEZ
PRESIDENT AND CHIEF EXECUTIVE OFFICER
REDWOOD CREDIT UNION
ON BEHALF OF THE
CREDIT UNION NATIONAL ASSOCIATION

BEFORE THE
SUBCOMMITTEE ON INVESTIGATIONS, OVERSIGHT AND REGULATIONS
COMMITTEE ON SMALL BUSINESS
UNITED STATES HOUSE OF REPRESENTATIVES

HEARING
ON
SMALL BUSINESS LENDING:
PERSPECTIVES FROM THE PRIVATE SECTOR

JUNE 21, 2012

Testimony of
Brett Martinez
President and Chief Executive Officer
Redwood Credit Union
On behalf of the
Credit Union National Association
Before the
Subcommittee on Investigations, Oversight and Regulations
Committee on Small Business
United States House of Representatives
Hearing on
Small Business Lending:
Perspectives from the Private Sector

June 21, 2012

Chairman Coffman, Ranking Member Schrader, Members of the Subcommittee:

Thank you very much for the opportunity to testify today on behalf of the Credit Union National Association (CUNA).[1] My name is Brett Martinez, and I am President and Chief Executive Officer of Redwood Credit Union, a $2 billion state chartered credit union, serving 220,000 members, located in Santa Rosa, California. I am also a member of CUNA's Board of Directors.

Credit unions share the Small Business Committee's goal of increasing small business access to capital through the reduction of statutory and regulatory impediments. My testimony will describe the current state of credit union business lending with a particular focus on Small Business Administration (SBA) guaranteed lending and conventional business lending at Redwood Credit Union; discuss areas where improvements at the SBA could benefit lenders and borrowers alike; and discuss the impediments to credit union business lending and additional participation in SBA lending programs.

[1] CUNA is the largest credit union advocacy organization in the United States, representing nearly 90% of America's 7,200 state and federally chartered and their 95 million members.

As you may know, since their inception in the United States more than 100 years ago, credit unions have been offering business loans to their members. Since 1998, credit unions have operated under a statutory cap on business lending, which limits business lending at most credit unions to 12.25% of assets. Despite this cap, at the end of 2011, credit unions had $40 billion in business loans outstanding, representing approximately 6% of the depository institution market. While it is not the primary book of business for most credit unions, it has been the fastest growing type of credit union lending over the last several years.

There are a small number of exceptions to the cap, including an exemption for the guaranteed portion of a government-guaranteed loan. Many business lending-credit unions also participate in Small Business Administration (SBA) guaranteed lending programs. At the end of 2011, there were 331 credit union SBA lenders – collectively they reported $805 million in SBA loans outstanding in 8,091 individual loans (the average SBA loan size is thus roughly $100,000.) In dollar terms, SBA loans are equal to about 2% of total MBLs at credit unions. Since December 2007, SBA loans have grown by 89% at credit unions throughout the nation.

Redwood credit union is the largest credit union SBA lender in the country by loan volume in fiscal year 2012. We currently have about $190 million in outstanding member business loans and $68 million in SBA loans, including $37 million in 7(a) loans and $31 million in 504 loans. At present, we have 118 SBA loans outstanding.

The Importance of SBA-Guaranteed Lending In a Fragile Economic Recovery

SBA guaranteed loans are important for borrowers who otherwise would not be able to get a conventional business loan, but they are complicated to make. They require staff with a special kind of expertise; they cost the borrower and the lender more to make than conventional loans; and, they take longer to complete. Nevertheless, as a leading SBA lender in the San Francisco North Bay, we believe that the SBA is providing programs that help meet the current needs of small businesses. We have been a leader in our markets providing credit to businesses by effectively utilizing SBA loan programs. Please allow me to share three recent examples of how Redwood Credit Union has assisted our members through SBA lending.

In April 2010, we assisted an electrical contractor with a $900,000 SBA 7(a) loan to restructure business debt. The company has been in business since 1968 and, at the time of submission, employed 44 people. In the mid-2000s, the company was a typical electrical contractor with annual revenue of approximately $12 million. The business' primary source of revenue prior to the recession was typical residential subdivisions and commercial construction projects throughout the North Bay Area of San Francisco. In the wake of the downturn, revenues fell approximately 40% due to lack of construction projects.

Prior to the recession, the business owner began focusing more on solar installations and home remodels to diversify income streams. The recession and subsequent lack of construction did not completely decimate the company because of this diversity in revenues. We were able to assist the company in restructuring business debt to allow the company to grow by positively impacting cash flow. Today, that company is once again in a growth mode. Revenues have recovered greatly, and the company now employs approximately 60 people. We recently assisted the company with a $500,000 SBA Working Capital CAPLine loan to continue to assist in that growth.

In June 2010, we assisted a trucking company with a $975,000 SBA 7(a) loan to restructure equipment debt. Prior to the recession, this company built up a new trucking fleet to respond to the demand for its services. Financing for this new fleet came in the form of relatively short-term loans and leases. The onset of the recession caused the company's revenues to fall by nearly 25% over a three year period. The company was well-managed and performing well, but the short-term nature of the debt that made sense prior to the recession was impacting cash flow dramatically. We were able to restructure the equipment debt by lengthening out the term to be more in-line with the useful life of the equipment with the assistance of the SBA 7(a) loan, thus making the debt manageable for the company on a monthly basis. Today, that company is prospering. Revenues have been increasing steadily. In 2012, the company was awarded a contract for a large transportation project, so they are once again growing the fleet and hiring more people to keep up with demand.

In February 2012, we assisted a vineyard management company and winery with restructuring some business debt and providing working capital with an SBA 504 refinance loan. The total project of approximately $3.8 million allowed the company to refinance its vineyard and winery property, as well as pay-off all business debt and payables to improve cash flow and allow the company to grow and take on more vineyard management opportunities. The vineyard management company has a very unique way of farming, and its services are in high demand. Prior to the recession, the company spent a great deal of its working capital hiring people and buying equipment to take on a large vineyard development. After the onset of the recession, the financing for the vineyard development was suddenly cut-off by the vineyard owner's lender.

The borrower worked to scale back its vineyard management company and put the winery on the back-burner to get through the recession. While the services of the vineyard management company were in high demand, the company did not have the working capital to grow the company because of the monthly debt service requirements of the existing debt. With the help of the 504 refinance program, the business owner was able to restructure all debt into manageable payments. The financing also included some working capital, which allowed the company to immediately grow by taking on new contracts. Also, the owners are once again able to focus on growing the winery, which has developed quite a following.

While we continue to use SBA programs to help meet the credit needs of our small businesses members, there may be ways to improve the process to enhance access to capital for small businesses, and credit unions want to work with the Subcommittee to this end.

Expiring Programs Should Be Reauthorized

Business owners who survived the recession have largely done so by right sizing their businesses as they follow a path of declining revenues and profits. Many have shown losses for several years, but as a result of their ongoing restructuring efforts and a return to increasing revenues, they are beginning to once again show profits. Ultimately, they are left with a need to restructure their balance sheets, consolidate debt and free up cash to grow their businesses. At Redwood Credit Union, we have helped a number of businesses accomplish this by utilizing the SBA 7(a) program. As conventional commercial lenders are largely short term historical cash flow lenders, typical lending standards would not have allowed approval of these types of loans.

Lower commercial real estate values are one of the few upsides for many small businesses today. Add historically low interest rates to that and a once in a lifetime opportunity has presented itself for business people to acquire commercial real estate. Redwood Credit Union has worked closely with its members to help them take advantage of this opportunity using the SBA 504 program. Additionally, we have helped many members refinance their existing properties utilizing the 504 refinance program. This is an example of the right product at the right time providing business owners what they need exactly when they need it the most. While low real estate values are good if you are buying, they work against you if you are refinancing. This is why the 504 refinance program is important.

To that end, it is important that Congress reauthorize the SBA 504 refinance loan program and the SBA 504 First Mortgage Lien Pool (FMLP) program. These programs were put in place by the *American Recovery and Reinvestment Act* (ARRA) and are set to expire in September. Allowing refinancing under the SBA 504 loan program should be extended and consideration should be given to making them permanent. In some instances, it is the only vehicle by which a business owner with a maturing commercial real estate loan may be able to deal with a declining real estate market and stay in their building, thereby preserving jobs rather than losing the building, having to move, and likely shuttering a business, thereby losing valuable jobs. If the FMLP is allowed to end, it will adversely impact credit unions and banks managing to capital and liquidity constraints, thereby ruling out the 504 loan program as a source of capital for small businesses looking to grow their businesses and create much-needed jobs.

Suggestions to Improve SBA Programs through Reduced Regulatory Burden, Increased Transparency, Efficient Lender Oversight and a Streamlined Application Process

Last year, CUNA supported the SBA's efforts to finalize the single electronic lender application and the development of an automated credit decision model for 7(a) loan applications. The single electronic lender application will reduce the paperwork burden at credit unions and should result in increased lender participation among credit unions. We also hope that the electronic lender application will bring efficiencies to the approval process which will reduce the amount of time it takes to complete the loan process.

CUNA has also supported SBA's consideration of developing an optional credit scoring methodology to be used by SBA lender partners in the underwriting process in an effort to lower lenders' costs of delivering capital to borrowers. We are hopeful that such a methodology will expand the interest of credit union lenders in making low dollar loans as a result of this initiative. We also hope to increase the number of credit unions that choose to participate in SBA lending going forward in an effort to increase credit availability for small businesses.

We have also supported the SBA's review of regulations to reduce lender burden by eliminating outdated, duplicative or overlapping regulations. Objectives of this review are to reduce paperwork through the elimination of duplication, allow electronic submission, standardize forms, exempt small entities, and incorporate industry consensus standards into regulations, as appropriate. We encouraged the SBA to simplify and clarify the language of its regulations, and eliminate conflicts and inconsistencies that make rules more complex and confusing.

We are aware that in recent hearings members of the Committee have expressed concerns regarding transparency, lender oversight and streamlining. I would like to offer observations from Redwood Credit Union's perspective as well as from the perspective of the broader credit union system.

In the past, when the relationship between the SBA and its participating lenders were more constrained, there was not enough transparency in the creation of policy notices, which served as amendments to the Standard Operating Procedures (SOP). As it stands now, we feel there is a sufficient level of transparency in the SBA's revisions of its SOP. In addition to our affiliation with CUNA, Redwood Credit Union is also a member of the National Association of Government Guaranteed Lenders (NAGGL), the trade association for SBA lenders. NAGGL has an open dialogue with the SBA in its amendment process of SOPs. If Redwood Credit Union has an issue with the verbiage in the SOP, we can voice our issue with the SBA, CUNA and NAGGL, and these trade groups will work on our behalf to find resolution to an identified issue. Some have suggested that SBA should institute a public hearing process for amendments to its SOPs, but we feel this would add a layer of bureaucracy that would likely only add unnecessary delays to the implementation of the changes we, as SBA lenders, needed in the first place.

With respect to lender oversight, we have observed a significant amount of work in this area, specifically in the areas of risk-based reviews, risk analytics and higher intensity oversight and enforcement. We understand that SBA expects to complete its first comprehensive risk plan before the beginning of the next fiscal year. Lenders have asked for greater clarity, consistency and transparency in a number of lender oversight areas. Lender feedback is ostensibly being incorporated into a new lender oversight program.

Having said that, I will elaborate a bit on what lenders have been seeing. For years, we asked for access to the Portal and loan specific data, and the SBA has finally implemented this request. Other requests remain pending, such as our own request for the composition of the data used to develop the Small Business Portfolio Solution (SBPS) credit scores and the lender ratings. Furthermore, there appears to be no logic as to when Preferred Lender Program (PLP) reviews will happen. Also, it has taken up to a year in some instances to get the final report back. Many lenders have reported that there were findings in the final report that were never addressed in the wrap up meeting.

We have asked SBA to provide to us the information about the SBPS credit scores and if they are doing any analysis of those scores to see if they actually have any predictive value.

When SBA started using a review sheet that had not been distributed to lenders and that actual reviewers would not provide, we asked SBA to provide us with a copy and asked about the logic of not sharing it with lenders.

There appears to be an ongoing dialogue between lenders and SBA on these issues. I am aware that NAGGL and a representative group of 8 lenders traveled to Washington, DC in May and attended a four hour meeting with the SBA to brainstorm about those and other issues around lender oversight. The general consensus was that those discussions went very well. Further feedback from their visit was that the current regime is cooperative, responsive, and supports greater consistency and transparency. We hope the subcommittee will encourage the SBA to give these issues priority consideration.

Streamlining is an area that directly affects credit unions and their members. As members of the Small Business Committee know, SBA lending is very specialized and requires an enhanced level of training in order for lenders to originate and service loans effectively. As a result, higher volume and larger SBA lenders likely find that the process is working for their institutions and borrowers. Indeed, existing policy and procedures seem to be working for both Redwood Credit Union and our members. However, this may not be the case for all credit union SBA lenders. The application process requires more information than is required for a conventional loan. Overall, there is a greater amount of paperwork as compared to a conventional loan. We focus on setting expectations and managing the application process so that is not a burden to our members. We are granted wide unilateral authority under our PLP agreement and view the process as generally reasonable given the SBA's responsibilities regarding risk management and oversight.

Impediments to Additional Credit Union Business Lending and Increased Participation in SBA Loan Programs

Job creation is one of the most important drivers of an economic recovery. Consumer spending accounts for 70% of US economic activity, so strong labor markets and healthy job creation are essential components of any sustainable economic recovery. Small businesses employ half of all private sector employees and generated two-thirds of net new jobs over the past 17 years. Enhancing access to credit for small businesses is an important part of promoting job creation and economic recovery.

We believe there is significant demand for credit from small businesses. In fact, during the economic crisis, credit unions experienced a 57% increase in business loans, and as noted an 89% increase in SBA loans; at the same time, bank small business lending contracted by -14%. The credit unions that contributed to the vast majority of this growth are now becoming increasingly constrained by the statutory cap on credit union business lending. Redwood Credit Union is one of these credit unions; we are at over 75% of our capacity, which means we will probably only be able to continue to lend to business members for the next 18 months. From our perspective, a natural way to increase access to capital for small businesses would be to increase the statutory cap on credit union business lending.

While this is not within the jurisdiction of the Subcommittee, increasing the cap on credit union business lending would almost certainly lead to an increase in SBA guaranteed lending, as explained below. This would mean more small businesses – both those who qualify for a conventional loan and those which require a government guarantee – would have access to credit to start or grow their business, and create jobs.

Representatives Ed Royce (R-CA) and Carolyn McCarthy (D-NY) have introduced H.R. 1418, the Small Business Lending Enhancement Act (also known as the Credit Union Small Business Lending Jobs Act). This legislation would allow well capitalized credit unions with a substantial history of business lending that have been operating near the statutory cap for at least a year to apply to the National Credit Union Administration (NCUA) for authority to lend up to 27.5% of assets to small businesses. Credit unions which receive NCUA approval would be subject to a portfolio growth limit of 30% per year. We estimate that this legislation would allow credit unions to lend up to an additional $13 billion in the first year after enactment, helping small business to create 140,000 new jobs. Most importantly, this legislation would not require an outlay of taxpayer funds.

The banking trade associations strongly oppose this legislation. They suggest that the bill is unnecessary because the guaranteed portion of a credit union SBA loan does not count against the cap; however, SBA loans clearly are not a substitute for conventional business loans. Given the complexity of SBA lending and the resources required for a credit union to engage in these programs, not to mention the fact that only borrowers who would not qualify for a conventional loan can receive an SBA-guaranteed loan, additional credit union SBA lending does not begin to solve the credit union business lending problem. However, if experienced credit unions operating near the cap were given the ability to offer expanded lending, it is very likely they may invest more resources in their business lending programs, including the possibility of adding an SBA program. Consider the following: approximately 2,000 credit unions engage in business lending. Of these, approximately 500 are close enough to the cap for it to be limiting their lending, and roughly 300 are SBA lenders. There is considerable potential for increased SBA lending if the credit unions managing the cap are given the ability to lend more.

We understand that this legislation is not subject to the jurisdiction of this subcommittee or the full committee, but we encourage you to support the legislation and encourage its enactment.

Conclusion

On behalf of America's credit unions and their 95 million members, thank you for holding this oversight hearing on small business lending and giving credit unions the opportunity to testify. I am pleased to answer any questions the members of the Subcommittee may have.

CBA CONSUMER BANKERS ASSOCIATION

TESTIMONY OF TIMOTHY D. DIXON,

SENIOR VICE PRESIDENT,

HEAD OF SMALL BUSINESS ADMINISTRATION LENDING

CITIZENS BANK

ON BEHALF OF

THE CONSUMER BANKERS ASSOCIATION

BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES

COMMITTEE ON SMALL BUSINESS

SUBCOMMITTEE ON INVESTIGATIONS, OVERSIGHT & REGULATIONS

"Small Business Lending:

Perspectives from the Private Sector"

Chairman Coffman and members of the Subcommittee, my name is Tim Dixon. I am Senior Vice President and Head of Small Business Administration Lending for Citizens Bank. Thank you for the opportunity to appear before the Subcommittee to discuss small business lending, the SBA and ways to improve the effectiveness and efficiency of its programs.

Citizens Bank is part of a diversified financial services company providing a wide range of commercial, consumer, mortgage banking, trust and financial planning services to its client base. Citizens dates back to 1871 and is the 57th largest bank holding company in the U.S. ranked by assets. We serve communities located within Michigan, Ohio and Wisconsin, with 219 offices and 249 ATMs and 80% of our revenue is Michigan based.

We are a community oriented institution, with the majority of our revenue being derived from our core bank, which is heavily oriented towards small business. In order to effectively deliver credit solutions based on what our clients need and value, we are a Preferred SBA Lender with dedicated specialists to fast track the process and we also have expertise in other state and local loan programs. While we utilize a number of the SBA loan programs across the bank, the majority of our loan volume is originated under the Express program, with our average branch originated small business loan being about $60,000 in size.

We are proud to be consistently ranked among the top SBA lenders in Michigan and are the largest of the Michigan headquartered banks, which demonstrates our commitment to small business.

In addition to being Head of SBA lending for Citizens, I am also a member of the Consumer Bankers Association's (CBA) Small Business Banking Committee. For more than 90 years, CBA has been the recognized voice on retail banking issues in the nation's capital. Member institutions are leaders in all areas of consumer financial services, including small business lending. The CBA Small Business Committee includes the top small business bankers in the country who share the common goal of helping small businesses meet their financial needs. This group is also focused on improving the state of small business, including promoting the Small Business Administration (SBA) programs.

Small businesses play an important role in the health of our economy. Unfortunately, today's small business owners continue to face a number of challenges which has diminished the overall demand for loans. Despite several positive economic signs in the past year, recent economic indicators have signaled the economy remains fragile and a robust recovery does not appear imminent.

Small businesses rely on consumers and as recent headlines have shown, consumer confidence has faltered as economic uncertainty has increased in recent months. Add this to the high unemployment levels and consumers will likely remain cautious in spending their hard earned dollars. This ultimately hurts demand for the products and services of our small business owners.

We hear this from small business owners across the country and see these trends in our research. Many business owners who are doing well in this environment are also cautious to take on additional debt or to hire new employees without the certainty our economy is recovering enough to keep demand for their products at a level to sustain additional growth. And the continued reports of a possible double-dip recession and talk of a pending "economic cliff" will only further the concerns of business owners and the confidence of the American consumer.

During times of economic challenges, SBA lending has played an important role in helping small business owners meet their financial needs. Despite the decline in overall small business loan demand, we continue to see healthy SBA lending and the SBA 7(a) and 504 programs have been effective during these economic times. During the 2011 fiscal year, which ended September 30, 2001, SBA loan approvals supported $30.5 billion in lending to small businesses and start-ups through its two largest loan programs, compared to $22.6 billion in FY2010 and $17.9 billion in FY2009.

The FY2011 total is the highest volume fiscal year in the agency's history, surpassing the $28.5 billion mark established in FY2007. The first quarter of FY2011 was the most active single quarter ever for SBA-backed loans ($12 billion supported), with more than four times the dollar volume of the same quarter in 2009 – the first three months of the recession – and more than double the volume of any quarter over the past four years. I was also pleased to see that Michigan was the leading SBA District in fiscal 2011 and our bank also experienced double digit growth in SBA loan originations during this period.

While SBA lending remains strong in the first half of 2012, numbers seem to be somewhat lower than those of 2011. Much of the difference can be attributed to the expiration of loan enhancements provided for under the Small Business Jobs Act that were in effect in early FY2011. Those loan enhancements allowed SBA to raise the guarantee on its 7(a) loans to 90 percent, waive fees on both its 7(a) and 504 loans, and increase the limit for Express to $1,000,000. These enhancements provided the necessary incentives for banks to make as many SBA loans.

Short of reinstating these temporary provisions, today's hearing is an opportunity to highlight positives and identify ways to improve the SBA programs. Earlier this year, CBA's Small Business Banking Committee compiled a list of recommendations focused on the SBA 7(a) and 504 programs. CBA sent these recommendations to Administrator Karen Mills and Congress in an April 17, 2012 letter highlighting our suggestions to improve the efficiency and effectiveness of these valuable programs.

The SBA listened to a couple of our suggestions and the most recent revision of the SBA's Standard Operating Procedures, or SOP version 50 10 (5) (E), is a positive step forward in improving the SBA lending process and incorporates a number of changes designed to address on-going lending issues.

First, the new SOP clarifies polices governing the eligible uses of proceeds by an Operating Company (OC) in connection with an SBA-guaranteed loan to an Eligible Passive Company (EPC). This allows the OC/EPC structure to be used for business acquisitions with both entities executing the note and other loan documents as co-borrowers and removes a largely antiquated hurdle for many small business ventures.

Second, the new SOP incorporates a policy recommendation regarding personal debt refinancing. The previous SOP stated that SBA-guaranteed loan proceeds may NOT be used to refinance debt in the personal name of the borrower, with limited exceptions for personal, but business related, credit card debt. The new SOP incorporates a broader range of personal debts allowed such as home equity lines of credit which are often used by small business owners. This reinstates previously allowed practices under the SOP and will go a long way to help small business borrowers in today's economic environment.

We applaud the SBA for incorporating these and other important changes to the SOP, such as enhancements to the Small Loan Advantage program. However, CBA believes there are still a number of changes the SBA can make to help increase SBA lending. In our letter, we outlined a number of critical changes to the SBA lending process.

Additional Program Changes

First, the SBA 7(a) loan program is one of the most used and helpful SBA tools for small businesses. The 7(a) loan is a valuable credit enhancement tool that allows the lender to receive additional security in making the loan in the form of a SBA guaranty. The following are suggestions for possible improvement of this important program:

- We believe it is crucial to allow Express Loan forms and processes to be used for all 7(a) loans. Leveraging loans through the SBA can be a timely process, especially considering the amount of demand for 7(a) loans. Allowing for Express Loan forms and process for all 7(a) loans would greatly improve efficiency in the process.
- We encourage the SBA to revert back to pre-2008 policy on life insurance so that requiring such would not be part of a delegated lender's overall credit analysis. The current SOP explicitly states the lender may waive life insurance but if a loss is sustained then the lender is responsible for the loss. This requires the borrower to establish a life insurance policy and assign proceeds to the lender, all of which extends the time to close an increases the cost to the borrower. Delegated lenders should be able to make the decision for life insurance as part of a prudent underwriting process and not be penalized by the SBA.
- We believe the SBA should eliminate the requirement under the SBA Express for the refinancing of Same Institution Debt (SID) to maintain at least the current level of bank exposure.

Second, the SBA 504 loan is an attractive financing solution for many business owners. There are several key benefits to the 504 loan including lower down payments and longer repayment terms. We believe the following changes in the 504 program will strengthen this valuable program:

- Most importantly, the SBA 504 refinance program is scheduled to sunset in September 2012 unless Congress provides an extension. This program is critical to small businesses that need to refinance their property but can only do so with the higher leverage offered by the program – up to 90% loan to value. Up to 25% of all SBA 504 loans being approved currently are 504 refinances, so clearly if this program disappears, we will be taking a step backwards. The need for this program is even greater now as many owner-occupied commercial real estate loans are set to mature over the next year from purchases made over five years ago.
- We ask that the SBA do away with the “substantial adverse change” clause that prevents a Community Development Company (CDC) from appropriately funding a loan, which can leave a bank at 90% or more LTV and inhibit lending.
- We encourage consideration of the impact that the “right of redemption” is having in the 504 program. This allows federal agencies (including the SBA) the right to come back to a lender after the agency has decided to not foreclose on property and allow the lender to take possession. Specifically, if the lender were to sell

the property within 12 months of this decision, the SBA has the right to any of the proceeds in excess of the lender's lien plus some costs. We urge a more nuanced approach be allowed for a release of the right of redemption under the proper circumstances.

- Change the owner occupancy requirements for ground up construction to match that of straight purchase which is 51% of the space needs to be owner occupied. Today, ground up construction must be 60% owner occupied, with intent to occupy 80% of the space within 3 years.

The SOP Process

The SBA SOP is a complicated document that likely deserves a more formalized amendment process for more substantive policy issues.

While having the ability to make slight tweaks can be beneficial at times, quick and frequent changes to the SBA lending process through the SOP process can create real-world challenges. As the terms of the SOP are ever-changing, it creates practical challenges to interpret revisions, train staff, update systems and be in compliance if these changes are coming too frequently. The ability of an institution to keep up with changes to the SOP can have large compliance costs implications, which can adversely affect lending.

Furthermore, the clarification of SOP terms can be time consuming and difficult. For example, the improvements to the CAPLine program issued in late 2011 did not provide clear terms for loan qualification. In response to industry inquiries, the SBA took nine months to provide clarification. The lack of timely calcification and consistency within the SBA can lead to lender uncertainty, which has adverse effects on the utilization of these programs. As such, we recommend a more methodical and consistent approach to SBA SOP policy changes.

Lender Oversight

Finally, effective SBA lender oversight is another crucial area of concern. Some members of the CBA have found that the SBA audit process can be a very time consuming exercise and is not always useful to assess and mitigate risk, relative to the other risk assessment processes within banks. A more transparent and streamlined audit process would go a long way in improving lender efficiency. Lender oversight should be a means for the agency to identify variances from established lender benchmarks and provide a reasonable process for lenders to remedy deficiencies. The oversight program should be timely, consistent, and constructive.

CBA applauds the continued efforts of this Committee and members of Congress as they focus their attention on the Small Business Administration. The SBA plays an important role in helping small businesses gain access to capital and your work to improve the efficiency and the effectiveness of the SBA is critical as we look to strengthen our economy.

NAFCU

Testimony of

Bob Marquette

President/CEO of Members 1st Federal Credit Union

On behalf of

The National Association of Federal Credit Unions

"Small Business Lending: Perspectives from the Private Sector"

Before the

House Small Business Committee Subcommittee on

Investigations, Oversight and Regulations

June 21, 2012

Introduction

Good morning, Chairman Coffman, Ranking Member Schrader and Members of the Subcommittee. My name is Bob Marquette, and I am testifying today on behalf of the National Association of Federal Credit Unions (NAFCU). Thank you for holding this important hearing today. I appreciate the opportunity to share our views on small business lending from a lender's perspective.

Currently, I serve as the President and CEO of Members 1st Federal Credit Union headquartered in Mechanicsburg, Pennsylvania, a position I have held for 14 years. Established in 1950, Members 1st FCU has approximately 213,000 members, over 700 employees and more than $2 billion in assets. We now provide a full range of financial services through our 51 branches throughout south central Pennsylvania. I have been involved with credit unions for 39 years, including regulatory experience with the National Credit Union Administration (NCUA) and my current role on the Board of Directors of NAFCU.

As you may know, NAFCU is the only national organization that exclusively represents the interests of the nation's federally chartered credit unions. NAFCU is comprised of over 800 member-owned and operated federal credit unions. NAFCU member credit unions collectively account for approximately 66 percent of the assets of federally chartered credit unions. NAFCU and the entire credit union community appreciate the opportunity to participate in this important and timely discussion.

Background on Credit Unions

Historically, credit unions have served a unique function in the delivery of necessary financial services to Americans. Established by an act of Congress in 1934, the federal credit union system was created, and has been recognized, as a way to promote thrift and to make financial services available to all Americans, many of whom would otherwise have limited access to financial services. Congress established credit unions as an alternative to banks and to meet a precise public need—a niche credit unions fill today for nearly 94 million Americans. Every credit union is a cooperative institution organized "for the purpose of promoting thrift among its members and creating a source of credit for provident or productive purposes." (12 § USC 1752(1)). While over 75 years have passed since the *Federal Credit Union Act* (FCUA) was signed into law, two fundamental principles regarding the operation of credit unions remain every bit as important today as in 1934:

- credit unions remain totally committed to providing their members with efficient, low-cost, personal financial service; and,
- credit unions continue to emphasize traditional cooperative values such as democracy and volunteerism.

The nation's approximately 7,000 federally insured credit unions serve a different purpose and have a fundamentally different structure than banks. Credit unions exist solely for the purpose of providing financial services to their members, while banks aim to make a profit for a limited number of shareholders. As owners of cooperative financial institutions united by a common bond, all credit union members have an equal say in the operation of their credit union—"one member, one vote"—regardless of the dollar amount they have on account. These singular rights extend all the way from making basic operating decisions to electing the board of directors—something unheard of among for-profit, stock-owned banks. Unlike their counterparts at banks and thrifts, federal credit union directors generally serve without remuneration—a fact epitomizing the true "volunteer spirit" permeating the credit union community.

Credit unions continue to play a very important role in the lives of millions of Americans from all walks of life. As consolidation of the commercial banking sector has progressed, with the resulting depersonalization in the delivery of financial services by banks, the emphasis in consumers' minds has begun to shift not only to services provided, but also—more importantly—to quality and cost of those services. Credit unions are second-to-none in providing their members with quality personal financial services at the lowest possible cost.

Artificial Member Business Lending Cap at Credit Unions Hurts Small Business

When Congress passed the *Credit Union Membership Access Act* (CUMAA) (P.L.105-219) in 1998, it put in place restrictions on the ability of credit unions to offer member business loans. Credit unions had existed for nearly 90 years without these restrictions. Congress codified the definition of a member business loan and limited a credit union's member business lending to the lesser of either 1.75 times the net worth of a well-capitalized credit union or 12.25 percent of total assets.

CUMAA also established, by definition, that business loans above $50,000 count toward the cap. This number was not indexed and has not been adjusted for inflation in the nearly 14 years since enactment, eroding the *de minimis* level. Where many vehicle loans or small lines of credit may have been initially exempt from the cap in 1998, many of these types of loans that meet the needs of small business today are now impacted by the cap due to this erosion. To put this in perspective relative to inflation, what cost $50,000 in 1998 costs $70,500 today, using the May consumer price index data. That is a 41% rate of inflation change that is completely ignored by current law and greatly hamstrings a credit union's ability to meet its members'. needs.

It should be noted that the government guaranteed portions of SBA loans do not count toward the member business lending cap, but the non-guaranteed portions do. This could ultimately lead to a situation where a credit union may be an excellent, or even preferred, SBA lender and ultimately have to scale back participation in SBA programs as they approach the arbitrary cap. This would likely hit SBA Express or Patriot Express loans first, as those have lower guarantees and thus may have a bigger impact on money available below the cap. As you know, Patriot Express loans help give our nation's veterans more opportunities after they return from serving our country. The member business lending cap can deter the availability of those opportunities.

Also, pursuant to section 203 of CUMAA, Congress mandated that the Treasury Department study the issue of credit unions and member business lending. In January 2001, the Treasury Department released the study, "Credit Union Member Business Lending" and found the following: "...credit union's business lending currently has no effect on the viability and profitability of other insured depository institutions." (p. 41). Additionally, when examining the issue of whether modifying the arbitrary cap would help increase loans to businesses, the study found that "…relaxation of membership restrictions in the Act should serve to further increase member business lending…" (p. 41).

The 2001 Treasury study found that credit unions do not pose a threat to the viability and profitability of banks, but that in certain cases, they could be an important source of competition for banks. It is important to note that credit unions have a nominal market share of the total commercial lending universe (approximately 6% of all small business loans from insured depository institutions), and are not a threat to banks (who control nearly 94% of all small business loans from insured depository institutions) in this environment.

A 2011 study commissioned by the SBA's Office of Advocacy affirms these findings. (James A. Wilcox, *The Increasing Importance of Credit Unions in Small Business Lending*, Small Business Research Summary, SBA Office of Advocacy, No. 387 (Sept. 2011)). The SBA study also indicates, importantly, that credit union business lending has increased in terms of the percentage of their assets both before and during the 2007-2010 financial crisis while banks' has decreased. This demonstrates not only the need for lifting the MBL cap in order to meet credit union members' demand, but also that credit unions continue to meet the capital needs of their business members even during the most difficult of times. One of the findings of the study was that bank business lending was largely unaffected by changes in credit unions' business lending. Additional analysis in the study also found that credit unions' business lending can actually help offset declines in bank business lending during a recession.

Bipartisan legislation to address this issue, in the form of H.R. 1418, the *Small Business Lending Enhancement Act*, is pending before the Financial Services Committee. We would urge Committee members to support this important bill.

Even our nation's main street businesses have recognized that the artificial cap hurts job creation and access to capital for small business, and have supported H.R. 4293, the Restore Main Street's Credit Act of 2012, introduced by Subcommittee Ranking Member Kurt Schrader. This legislation would help exempt loans made to Main Street Businesses from the artificial cap. We thank him for his leadership on this important bill.

Member Business Lending at Members 1st Federal Credit Union

Members 1st launched our member business lending (MBL) program in January 2003. We are pleased that Members 1st has continually met our local communities lending needs since that time and has not decelerated our lending pace. However, that streak is in doubt as we are quickly approaching the artificial cap for our credit union.

Recently, a number of major financial institutions financing new car floor plan inventory at dealerships decided to exit our market. When we looked at stepping in to replace their financing, we realized that we could not do so as we were approaching the arbitrary cap.

The average loan size for our MBL loans is $185,000, and the majority of them are for owner-occupied small businesses. Since the end of 2007, our business loan applications have grown from $87 million to $259 million in 2011. While some lenders have entered and exited the business lending marketplace in this time, we have strived to be a consistent source of credit for our small business members.

We estimate that Members 1st funded business loans in 2011 created 52 new jobs in our area and helped save 269 more. Currently, we have 3 business loan officers but we have not increased that number since 2005 due to the artificial cap. Raising the artificial cap would allow us to hire more employees, better meet the loan demand and be even more competitive with our loan rates.

SBA Lending at Members 1st Federal Credit Union

At Members 1st Federal Credit Union we have originated two loans in the SBA 7(a) program and three loans in the SBA 504 program. In both cases of our 7(a) loans, the businesses were existing businesses that were expanding. The 7(a) loans helped the businesses obtain additional capital, as SBA guidelines allow for a wider use of funds (such as franchise and professional fees and working capital) than the National Credit Union Administration (NCUA) regulations.

However, both 7(a) loans took nearly a year to fund. We partnered with a local Community Development Corporation to help guide us through the SBA 7(a) process and train our staff. We found the process quite time consuming and burdensome for our credit union. It left us with the impression that an established business lender (such as Members 1st) seeking to enter into the SBA marketplace seems to be on the bottom rung of the SBA priority list. The multiple tiers within the SBA 7(a) program give larger lenders a competitive advantage in speed over community banks and credit unions. The difference in processing time between a Preferred Lending Program (PLP) lender and a non-PLP lending has grown to months, and effectively acts as a barrier to a new lender entering the SBA marketplace.

I would note that Members 1st has had success using the SBA 504 loan program since our launch into business lending. That program and the USDA Business & Industry loan program has been well-received by our members. Both of these programs treat all incoming applications equally regardless of the financial institution's history with the SBA. Members 1st has paused actively marketing our SBA 7(a) loans until we find a solution that can more efficiently meet our members' needs.

SBA and Access to Capital for Credit Union Members

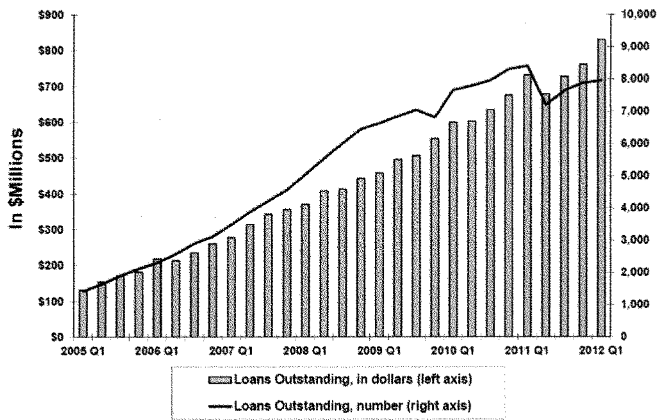
Small businesses are the backbone of our economy and an important source of jobs for Americans. The Small Business Administration's loan programs serve as an important resource that helps credit unions provide small businesses with the vital capital necessary for growth and job creation. However, utilizing any SBA loan guaranty program requires meeting stringent government regulations.

Determining overall applicant eligibility to participate in an SBA program is nearly as important as determining the applicant's creditworthiness. Failing to meet certain eligibility criteria may preclude the applicant from participating in an SBA guaranteed loan program. Eligibility criteria includes among other things: size restrictions, type of business, use of proceeds, credit standards, and meeting a 'credit-elsewhere' test.

NAFCU is pleased that SBA Administrator Karen Mills has been open to meeting with, and hearing the concerns of, credit unions about SBA programs. We hope that this dialogue can continue and be productive.

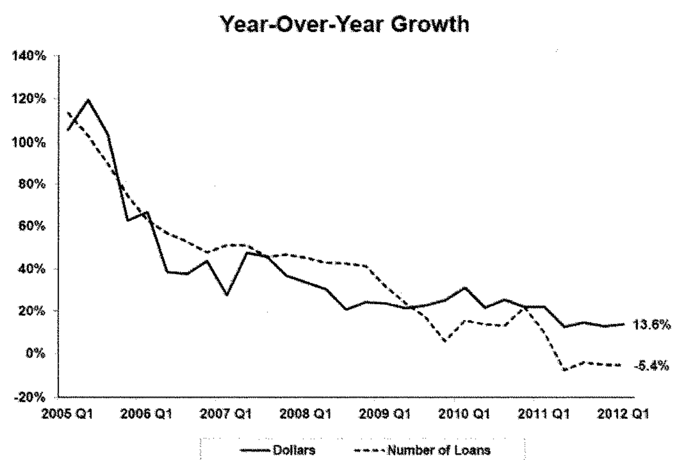
While credit union SBA loans have generally increased in both total number and dollars, the growth rate of credit union SBA lending has fallen during the recession (see charts below).

FICU SBA Loans



Source: NCUA

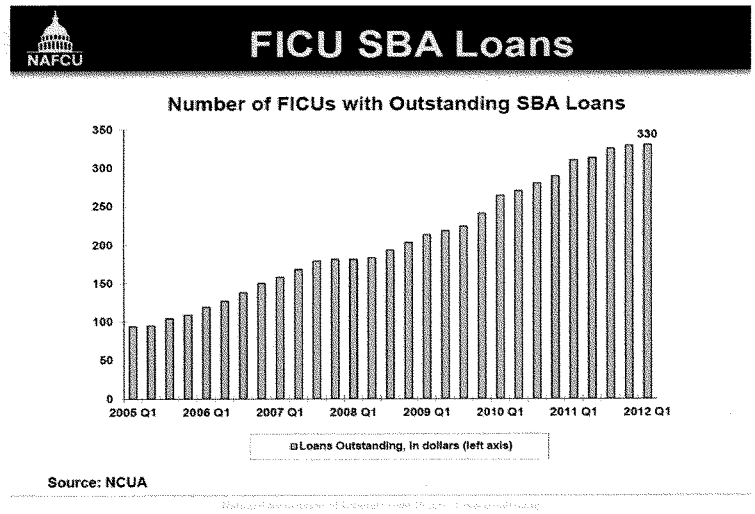
FICU SBA Loans



Source: NCUA

There is a way that these concerns outlined in my testimony can be addressed. NAFCU supports H.R. 4191, the *Credit Union Small Business Lending Act*, introduced by Subcommittee Ranking Member Kurt Schrader and full committee member Representative Steve Chabot. This bipartisan bill would amend the Small Business Act to: (1) direct the SBA Administrator to implement a program to provide outreach and assistance to credit unions to increase their participation in the SBA small business loan program; (2) simplify the application process for such participation; (3) provide a guarantee of up to 85% for loans made by credit unions to their members in underserved areas; and, (4) clarify the participation of credit unions in the SBA's 504 loan program. These steps would make the process easier for credit unions to become more involved in SBA lending and open the door to more access to credit for those small businesses and communities served by credit unions.

As you can see from the chart below, the number of federally-insured credit unions participating in SBA programs has been steadily increasing since the SBA opened up its programs to more credit unions in 2003. Enacting legislation such as the *Credit Union Small Business Lending Act* will help this trend continue, and also increase the number of SBA loans these credit unions extend to their small business members.



If Congress and the SBA were to make it easier for credit unions to participate in these programs, small businesses throughout the nation will have greater access to capital at a time when it is needed most. While we support SBA loans being permanently exempted from counting against a credit union's MBL cap in full, we also would support efforts to temporarily increase the guarantee on SBA loans. Our experience indicates that the recent SBA fee reductions and temporary guarantee increase helped the small businesses in our market.

These suggested changes, which allow credit unions to do more to help our nation's small businesses, are an important step to help our nation recover from the current economic downturn.

Conclusion

Small businesses are the driving force of our economy and the key to its success. The ability for them to borrow and have improved access to capital is vital for the job creation that will lift our nation out of the economic malaise in which we find ourselves today. And while the Small Business Administration's financial programs are providing much needed opportunities to established and fledgling businesses, there are still obstacles withholding the programs from their full potential. We are confident this subcommittee will do what is necessary to ensure that these programs are successful, while ensuring eligibility requirements and other qualifying criteria aren't overly burdensome on the financial institutions that participate in them.

That is why we, on behalf of our nation's credit unions, their 94 million members and our nation's small businesses urge the Committee to support legislation, such as H.R. 1418 and H.R. 4191, to make it easier for credit unions to aid our nation's small businesses and create jobs.

We thank you for your time and the opportunity to testify before you here today on this important issue to credit unions and our nation's economy. I would welcome any questions that you may have.

JUN-22-2012 12:38 From: To:12022265276 Page:1/1

Honorable Sam Graves, Chairman
Honorable Nydia Velázquez, Ranking Member
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Graves and Ranking Member Velázquez:

I am writing to thank you for holding the hearing entitled, "Regulatory Flexibility Act Compliance: Is EPA Failing Small Business?"

I am a member of the National Association of the Remodeling Industry (NARI) and I run a small door and window business. We care deeply about protecting our customers and our customers' families. Part of our service-first mentality is abiding by the highest professional standards set by NARI and by federal and state regulators such as the U.S. Environmental Protection Agency (EPA).

My company is Millwork & More, Inc. located in Garland, Texas. We are a door and window dealer that also supplies the installation. I have 2 employees, and work with contractors for my installations, which are certified and trained.

I had significant concerns with Renovation Repair and Painting (RRP) rules issued by the EPA more than six years ago, but I spent the time and money to become EPA-certified. I am disappointed that shortly after the RRP rule was enacted, the EPA removed the opt-out option which was one of the common sense provisions within EPA's original rule.

Recently, the House introduced H.R. 5911, which would restore the opt-out provision to RRP. NARI supports this bill because the opt-out provision would allow homeowners to choose a less expensive option once EPA issues a future rulemaking to define those situations where construction activities pose no risk to children under 6 or pregnant women.

Lastly, I am concerned that EPA will rush forward with a rule that extends the residential RRP requirements to work done on commercial and public buildings. Please make sure that EPA does not go forward with that rule without scientific evidence of lead exposure risks to children and pregnant women from commercial and public building construction activities. Also, please do not allow for EPA to rush forward with a rulemaking without extensive consultation with NARI and other small business organizations

I hope through hearings such as this one, that the EPA and other agencies will be forced to consider the implications of their regulations on the small business community.

Sincerely,

Keith Nelson
Millwork & More
www.millworkmore.com

President NARI Greater Dallas Chapter 2011,2012

[redacted]

ANNUAL WINNER OF THE NARI WISCONSIN REMODELER OF THE YEAR AWARD SINCE 1997
◆ AWARD WINNING DESIGN/BUILD/REMODELER ◆

Honorable Sam Graves, Chairman
Honorable Nydia Velázquez, Ranking Member
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

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PEKEL CONSTRUCTION & REMODELING, Inc. is located in suburban Milwaukee, Wisconsin providing design/build/remodeling while specializing in historic renovation/restoration remodeling. We are proud to be a small business with revenues that support 12-staff members and a modest profit.

I had significant concerns with Renovation Repair and Painting (RRP) rules issued by the EPA more than six years ago, but I spent the time and money to become EPA-certified. I am disappointed that shortly after the RRP rule was enacted, the EPA removed the opt-out option which was one of the common sense provisions within EPA's original rule.

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Sincerely,

President/CEO

2132 North 70th Street, Wauwatosa, WI 53213-1928, Office: (414) 771-6048, Fax: (414) 771-6338
pekelconstruction.com

HONORABLE MIKE COFFMAN, CHAIRMAN,
SUBCOMMITTEE *on* INVESTIGATIONS, OVERSIGHT *and* REGULATIONS
COMMITTEE *on* SMALL BUSINESS
UNITED STATES HOUSE *of* REPRESENTATIVES
WASHINGTON, DC 20515

WRITTEN TESTIMONY *of* CHRISTOPHER G. HURN
COFOUNDER/CEO *of* MERCANTILE CAPITAL CORPORATION

SMALL BUSINESS LENDING:
PERSPECTIVES *from the* PRIVATE SECTOR

BEFORE *the* HOUSE SMALL BUSINESS SUBCOMMITTEE *on*
INVESTIGATIONS, OVERSIGHT *and* REGULATIONS

JUNE 28, 2012

ABOUT MERCANTILE CAPITAL CORPORATION

Mercantile Capital Corporation was founded in late 2002 as a non-bank lender focusing exclusively on providing SBA 504 financing. As of October 2010, Mercantile became a wholly-owned subsidiary of Old Florida National Bank, an Orlando-based community bank. Through May 2012, we've participated in 414 SBA 504 loans worth a total of $898.9 million in total project costs — financing that has created or retained 6,154 jobs across the country. Mercantile has twice been named U.S. Small Business Administration Financial Services Champion.

Because of my involvement with Mercantile and my past experience as a small business lender, I've earned a reputation as an advocate for small business owners and an "expert" of sorts when it comes to small business finance. I've written articles and/or been featured in articles that have appeared in *The Wall Street Journal, Newsweek, The New York Times, USA Today, The Los Angeles Times, Inc.* magazine, and many other national and regional publications. I also appeared on FOX Business News four times during the "Great Recession" to comment on the plight of small businesses and offer insight as to what would help get our nation's job-creators to create jobs once again.

SBA 504 & FMLP BACKGROUND

The SBA 504 program is a private/public partnership whereby a private lender (banks and non-bank lenders) typically lend 50% of a project and the SBA, through a guarantee of a bond debenture issued by non-profit certified development companies, funds 30 to 40% of a project at long term, below-market fixed rates. In essence, the U.S. federal government is leasing its preferential credit rating to America's small businesses. Up until recently, the 504 program operated on a zero-subsidy basis.

Like many other loan types (home loans, student loans, car loans, etc.) the SBA programs depend on a healthy secondary market for efficient operation. The 504 first mortgage market is no different. Up until 2008, there were approximately eight (8) market-makers that would agree to make a secondary market in SBA 504 loans. In early 2009, only one lender remained, funding roughly 20% of historical levels. The SBA 504 program was in dire need of a boost to its secondary market. In response, Congress passed a provision in the American Recovery & Reinvestment Act (ARRA, made law in February 2009) called the First Mortgage Lien Pooling program (FMLP).

FMLP provides a partial guarantee (80%) on pools of 504 first mortgages. The structure involves a lender funding a first mortgage, retaining 15% and selling 85% through an SBA approved Pool Originator. That Pool Originator then assembles each pool for sale to the secondary market. The Pool Originator also retains 5% of the loan balance. This means that two independent entities must review, approve, and retain 20% of any loan sold on the secondary market. This structure was created to require lenders to have "skin in the game" on a permanent basis.

Congress mandated that FMLP operate at a zero subsidy. The current subsidy charge is 0.75%. This charge, as determined by OMB, is sufficient to offset any potential losses (as compared to actual losses, which have been close to 0% since program inception).

TIMEFRAME

The FMLP program was originally intended to last for a period of two years from the month ARRA passed (February 2009). The SBA was tasked with launching this program within 30 days of the passage of ARRA. That simply was not possible given the myriad of other programs the SBA was responsible for creating or restructuring. In fact, the first pools were not issued until September 24, 2010 — roughly 18 months into a 24-month program. Fortunately, the program was extended (as a provision in the Jobs Act, signed into law on September 27, 2010) for roughly 18 months to make up for this delay. This extension was crucial for the success of the program and for the benefit of job-creating small businesses. But the pipeline was not at full capacity as of the first pool issuance in August of 2010. Private industry needed time to understand the program, learn the system, and build infrastructure to match borrowers in need with lenders willing to utilize this new program. This learning process took roughly 12 months from the date of first pool issuance.

SUCCESS TO DATE

The FMLP program authorized up to $3 billion in pool guarantees. Through June of 2012, $430.7 million has been pooled. The majority of this volume has come in the last eight months, confirming the fact that the program took roughly one year to develop volume and efficiencies. The majority of these loans are going to those businesses most in need:

- Turn-arounds and work-outs
- Job producing business
- Businesses expanding

The strongest borrowers do not need the benefit of a credit enhancement as most banks are still willing to fund A+ credits. But the absence the credit enhancement provided by the FMLP program will materially harm the borrowers most in need. If FMLP is allowed to sunset as scheduled in late September of this calendar year, these borrowers will not get the funding they need from any alternative source. Their projects will go unfunded. At stake are thousands, perhaps hundreds of thousands, of jobs created or retained.

REQUEST

Our request is for the following:

1) Extend the FMLP program by 12 months. This extension will allow for peak utilization of the program for the intended two-year period (given that the program has been effectively functional for the last 12 months).

2) As part of the extension, authorize an SBA fee of 0.125% charged to the investor who purchases the guaranteed interest in these loans. This fee will be used to offset SBA's costs and allow SBA to use the saved dollars in other worthwhile programs.

3) Extend the SBA 504 Debt Refinance program for one year. This extension is already part of the Senate and the House Appropriations bill which includes the SBA lending authority reauthorization, but there is no guarantee it will survive. We believe this program is complimentary to the FMLP program and should be extended as well. **The FMLP program creates jobs; the Debt Refi program saves jobs.**

If the FMLP is not extended, a new credit freeze will happen for many owner-occupied small business property loans. The ability of small business lenders to manage capital and liquidity constraints in today's more stringent regulatory environment will also be adversely impacted. Small businesses looking to grow and create much-needed jobs will be harmed without this extension. I urge the Subcommittee to consider extending the FMLP program, and to please take action on this issue expeditiously.

Thank you, once again, for your time and consideration.

Respectfully submitted,

Christopher G. Hurn,
CEO and Cofounder
Mercantile Capital Corporation

The following people have requested to be listed as "co-signers" to this testimony.

ALABAMA

Alabama Small Business Capital
Angie Sweatman, Vice President

ARIZONA

The Bank of Las Vegas, NM
Sundip Patel, Executive Vice President
Sanat Patel, Executive Vice President

ARKANSAS

West Central Arkansas Planning & Development District
Dwayne Pratt, Executive Director

CALIFORNIA

ACG Companies
Paul Garcia, Managing Partner

Business Loan Capital
Fredric Mills, President/CEO

CDC Small Business Finance
Kurt Chilcott, CEO & President

Coleman Publishing
Bob Coleman, Owner

EDF REsource Capital
Frank Dinsmore, CEO

Enterprise Funding Corporation
Jeff Sceranka, President

Landmark Certified Development Corporation
Eddie Evans, President/Executive Director

Mid State Development Corp.
Keith Brice, President

National Association of Premiere Lenders (NAPL)
Bruce Thompson, Executive Director

OneWest Bank
William Sommer, Senior Vice President

Pacific Enterprise Bancorp
Brian Halle, President

Plaza Bank
Todd Massas, Senior Vice President

Success Capital Economic Development Corporation
Susan Martin, President & CEO

TMC Financing
Barbara Morrison, CEO
Sunni Raney

Wholesale 504 Lending Solutions
Jordan Blanchard, President

COLORADO

Colorado Lending Source
Mike O'Donnell, Executive Director

CONNECTICUT

Connecticut Business Development Corp
Ed Zalinsky, President

FLORIDA

Aegis RE Partners
Joe Bonora, Managing Director

Aileron Capital Management
Michael Maguire, Managing Director

Fidelity Bank
Joseph Arie

Florida First Capital Finance Corporation
Angie Graves, Senior Vice President
Todd Kocourek, President & CEO
Gail Lagace, Senior Vice President
Loretta Muthusek, Vice President
Kristen Tackett, Vice President

GulfCoast Business Finance, Inc.
Jim Burnham, Vice President

Hunter and Harp Capital Partners
John McNeill, Partner

Inkbridge,LLC
Kim Rivers, Principal

Mercantile Capital Corporation
Chris Hurn, CEO

Newtek Business Services, Inc.
Scott Shulman, Senior Vice President

Old Florida National Bank
John Burden, Sr., President

GEORGIA

Asian American Hotel Owners Association (AAHOA)
Fred Schwartz, President

Capital Partners CDC
Barbara Benson, President

First National Bank of Coffee County
Lee McLean

GA REsource Capital
Tim Souther, Executive Director – Acting

Small Business Finance Institute
Charles Green, Executive Director

IDAHO

Region IV Development/Business Lending Solutions
Joe Herring, President

The Development Company
Angie Hill

The Development Company
Dave Ogden

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Rockford Local Development Corporation
John Phelps, Executive Director

SomerCor 504, Inc.
David Frank, President

IOWA

Iowa Business Growth Company
Steve Cruse, Vice President

Peoples Bank
Joe Van Tol, CEO

Siouxland Economic Development Corporation
Ken Beekley, Executive Vice President

KANSAS

Landmark National Bank
Patrick Alexander, President & CEO

Pioneer Country Development, Inc.
Randall Hrabe, President

KENTUCKY

Capital Access Corporation
Bill Fensterer, President

LOUISIANA

Coface Credit Services NA
Roxanne Melerine

MARYLAND

FSC First
Shelly Gross-Wade, President & CEO

MICHIGAN

Economic Development Foundation
Sandra Bloem, Executive Director
Abbey Byrne

Lakeshore 504
David Miller

Michigan Certified Development Corp.
David Kramer

SEM REsource Capital
Mark Davis

MINNESOTA

SPEDCO
Kristin Wood, Executive Director

Twin Cities Metro CDC
Peter Ingebrand, President

MISSOURI

First Bank
Gay Schwer, Vice President

NEBRASKA

SBA/Loan Solutions
Sandy Kasen, President

NEVADA

Meadows Bank
Calvin Regan, Senior Vice President

NEW HAMPSHIRE

Capital Regional Development Council
Stephen Heavener, Executive Director

NEW JERSEY

Across Nations Pioneers, Inc.
Hyun Kim, CEO & President
Andy Kron, COO

New Jersey Business Finance Corp.
Ira Lutsky, President

Oleander Feldman, LLP
Justin Blackhall, Attorney

Regional Business Assistance Corporation
William Pazmino, Executive Director

NEW YORK

Commercial and Business Advisors, LLC
Thomas Zawadzki, President

Lexden Capital, LLC
David Soares, President & CEO

New York Business Development Corp
Steven Willard, Senior Vice President

Weichart Commercial Brokerage
Rich Latrenta, Vice President

NORTH CAROLINA

Centralina Development Corporation
Richard Vitolo, President
Lisa Johnson

Neuse River Development Authority
Larry Riter

Smoky Mountain Development Corp
Allan Steinberg, Executive Director

Wilmington Business Development
Susie Parker

OHIO

Growth Capital Corp
Juan Hernandez, Director

Midwest Business Capital
Dick Witherow, President

PENNSYLVANIA

Conestoga Bank
Scott Little, Vice President

DelVal Business Finance Corp.
Michael Schwartz, President

PNC Bank
Kevin Bordner

RHODE ISLAND

Independence Bank
Robert Catanzaro, President

SOUTH CAROLINA

BCI Lending Services
Todd Lucas, Senior Vice President

Windward Financial, LLC
John Monroe, Founder and Managing Member

TEXAS

Commercial Bank of Texas
Ken Byrd, Vice President

Community CDC
Bill Ebersole, President

Greater Texas Capital Corporation
John Hart, President

NewFirst National Bank
JP Prinz, Vice President

Southwest Community Investment Corp
Maria Mann, Executive Director

UTAH

First Utah Bank
Jared Livingston, Vice President

Proficio Bank
John Holt, Vice President

Utah CDC
Caryl Eriksson, VP/COO

Zions Bank
Howard Anderson, Senior Vice President

WASHINGTON

Ameritrust CDC
Kim Willis, President

Evergreen Business Capital
Wendy Avila, Vice President
Tom DiDomenico

Northwest Business Development Association
Erik Houser

WASHINGTON, D.C.

Green Duck, LLC
John Duckett, President

WYOMING

Security First Bank
Ron Van Voast, President

Jun. 22. 2012 12:36PM No. 7235 P. 1

CG&S DESIGN-BUILD

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Honorable Sam Graves, Chairman
Honorable Nydia Velázquez, Ranking Member
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

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Billy Guerrero
President

Stewart T. Davis AIA
Design Director

Dolores Guerrero Davis
General Manager

Dear Chairman Graves and Ranking Member Velázquez:

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Sincerely,

NARI® NATIONAL ASSOCIATION OF THE REMODELING INDUSTRY AUSTIN CHAPTER

Dolores L Davis

Dolores G. Davis
General Manager

NYC/LI NARI

NARI
NATIONAL ASSOCIATION OF THE REMODELING INDUSTRY

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Honorable Sam Graves, Chairman
Honorable Nydia Velázquez, Ranking Member
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

June 22, 2012

Dear Chairman Graves and Ranking Member Velázquez:

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Sincerely,

Lesa Dresher
Executive Director
NYC/LI NARI Chapter

SBIA
SMALL BUSINESS
INVESTOR ALLIANCE

June 21, 2012

The Honorable Mike Coffman
Chairman, Subcommittee on Oversight
House Small Business Committee
Washington, D.C.

Dear Chairman Coffman and Members of the Subcommittee:

Thank you for holding this hearing on the private sector's perspectives on the Small Business Administration's (SBA) lending and investing programs.

The Small Business Investment Company (SBIC) program has been successfully operating for over 50 years, aligning market forces with public policy to provide capital to growing small businesses that would not otherwise be able to access growth capital. The SBIC program has flourished in recent years due to legislative changes, improved management and execution, and increased market demand. The dramatic growth in funds attempting to become licensed SBICs is proof of the broad market acceptance of the program and the intense capital needs of small businesses. This is an exceptional program that has experienced significant improvements in management and execution. With further improvements, the SBIC program can continue its upward trajectory and expand capital access to small businesses.

In 2009, the SBIC leverage limits were raised for individual funds and for multiple SBIC funds. These leverage increases did not increase federal spending, but did unleash additional billions to cash starved small businesses. Investments by SBICs have increased by over 50% per year for the past two years with investments made in 2011 approaching $3 billion. Raising the limit on funds with multiple SBICs kept successful investors investing in domestic small businesses. Raising the individual fund limit also attracted new capital and new fund managers to the SBIC program. As a tangible example of how these improvements made the program more attractive, there were only 6 SBICs licensed in 2008. We are only part way through 2012 and there are almost 20 funds licensed and over 20 more have filed license applications. There are more funds seeking to invest in small business through the SBIC program than at any time in recent memory and that is very good for small businesses.

The Small Business Investor Alliance (SBIA) strongly supports the efforts of Rep. Chabot to further improve capital access via SBICs with HR 3219. We also strongly support the S 3253 which is very similar to the Chabot bill. We would encourage prompt passage of these bills.

Congress prodded the SBA to make improvements in the program and SBA responded by addressing many of the problems raised.

1100 H Street, NW Suite 610 Washington, DC 20005 (202) 628-5055 sbia.org

For example, the licensing process was in shambles for several years - application materials regularly lost, slow processing times, challenging communications with the SBA, and many other issues. The SBA has made major strides in improving all of these areas and licensing speeds have greatly improved.

The SBIC program, like every other program, can benefit from Congressional oversight and a culture of constant improvements. There are legislative, regulatory, and procedural changes that we believe should be adopted to increase access to capital, maximize taxpayer protections, and increase operational efficiencies. These changes will reduce duplicative processes, increase clarity and reduce subjectivity, making the program more consistent with the needs of the small business investing market, and building upon successful improvements. Attached to this letter is a list of improvements that Congress and the SBA should consider.

Thank you for supporting small business investing and thank you for considering the views of the SBIA.

Sincerely,

Brett Palmer
President

Attachment

Statutory Improvements

Expanding the leverage limits in 2009 kept successful SBICs in the program and attracted new capital. Representative Chabot has introduced H 3219 and Senator Landrieu has introduced S 3253. Both are excellent bills. The Administration has also come out in support of several of the major provisions of both the House and Senate bills. Both bills would raise the leverage limits for individual funds and for multiple funds. SBIA strongly supports raising these leverage limits and adding inflation adjusters and we ask the Committee to pass these increases expeditiously. Raising these limits would not add any cost to the taxpayer, but will increase capital flowing to small businesses.

Administrative Improvements and Updates

The SBA posts on its website many of the Standard Operating Procedures (SOP) for its programs. Posting these SOPs lets the public understand the SBA's processes and standards. Several of SBA's SOPs are out of date and do not reflect what SBA is actually doing. For example, SBIC licensing SOP is not available on the website and has not been updated since the 1980s. A great deal has changed in the decades since its last update. The public and the program would benefit from these SOPs being updated and made publicly available. Updating these SOPs will also reduce SBA's litigation risks. There should be public notice and comment on SOP updates.

Licensing

Strong licensing is one of the best taxpayer protections the program offers. The licensing process has improved over the past several years, but there are areas that deserve additional review. Currently, there are three phases of the licensing process: pre-licensing, licensing, and agency review. Each phase is comprised of a different mix of SBA staff and different committees applying different standards and different interpretations of the standards. Later phases repeat much of the work done in the prior phase. The private sector tends to have less redundancy and more consistency through the fund vetting process. The SBA should further streamline this process. The SBA should also make clear the standards for licensure and apply these standards consistently. For example, there is no reason an applicant should be approved through the first two licensing phases and then be rejected at the final "agency" phase based on facts that were known and considered by the earlier committees. To protect taxpayer interests, all of the committees should be comprised of professionals with relevant experience in the investment industry. Finally, all of the committees should have the requirement and opportunity to meet with applicants prior to voting.

Legal Documents

The SBA recently updated the standardized Limited Partnership Agreement (LPA). This improvement was a significant step forward, but it needs to be updated again and there needs to be more flexibility. The legal review and document process can be so onerous, rigid and slow that one institutional investor recently announced that it was ceasing investments in SBICs because the cost of dealing with the legal document process at SBA was painfully slow and more than twice the cost of dealing with non-SBIC funds. This firm recognized that SBICs are great investments, but will not consider in investing in SBICs going forward. Legal documents are also a major source of inconsistency and delay in the licensing process. Any legal document that is not identical to the LPA can result in months of delay. Further, approved legal documents for one SBIC may be unacceptable when submitted by another applicant. Precedent is generally not taken into account unless the precedent is adverse to the applicant.

Electronic Communications

In many cases SBA does not accept electronic documents via email. In some cases SBA accepts documents electronically, physical copies are still required. One problem that is appearing with some regularity is that documents submitted (generally physically delivered, but sometimes electronically too) are not registered into the system for several weeks. This means that 30-day or 60-day turnaround times for SBA operations may actually be longer, which may not be the speed that businesses need to operate. SBA should accept all documents electronically and they should be marked as received when they are actually received electronically.

Professional Development

The SBIC program has many talented and hardworking staff. The private sector dedicates resources to developing their employees. The SBA should do the same. The investment markets are dynamic and constantly changing. The public would be better protected if the dedicated staff at SBA were provided more opportunities to stay abreast of current market conditions and trends.

A&C KITCHENS & BATHS

"Our People Make The Difference"

June 22, 2012

Honorable Sam Graves, Chairman
Honorable Nydia Velázquez, Ranking Member
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Graves and Ranking Member Velázquez:

I am writing to thank you for holding the hearing entitled, "Regulatory Flexibility Act Compliance: Is EPA Failing Small Business?"

I am a member of the National Association of the Remodeling Industry (NARI) and I run a small remodeling business. We care deeply about protecting our customers and our customers' families. Part of our service-first mentality is abiding by the highest professional standards set by NARI and by federal and state regulators such as the U.S. Environmental Protection Agency (EPA).

My company is A&C Kitchens & Baths and is a Supplier Member of the local NARI chapter called DelChester NARI as well as a NARI National member. We employ 14 employees.

I have significant concerns with Renovation Repair and Painting (RRP) rules issued by the EPA more than six years ago, as a supplier member of NARI we see first hand how consumers and untrained contractors either blatantly ignore the RRP rule or they are unaware of it! There has been little to no education or awareness to the general public at least in our area of the country. I am also disappointed that shortly after the RRP rule was enacted, the EPA removed the opt-out option which was one of the common sense provisions within EPA's original rule.

Recently, the House introduced H.R. 5911, which would restore the opt-out provision to RRP. NARI supports this bill because the opt-out provision would allow homeowners to choose a less expensive option once EPA issues a future rulemaking to define those situations where construction activities pose no risk to children under 6 or pregnant women.

Lastly, I am concerned that EPA will rush forward with a rule that extends the residential RRP requirements to work done on commercial and public buildings. Please make sure that EPA does not go forward with that rule without scientific evidence of lead exposure risks to children and pregnant women from commercial and public building construction activities. Also, please do not allow for EPA to rush forward with a rulemaking without extensive consultation with NARI and other small business organizations

I hope through hearings such as this one, that the EPA and other agencies will be forced to consider the implications of their regulations on the small business community.

Sincerely,

George W. Edwards CKBR, CRA, GCP
Executive Vice President / General Manager

2000 Concord Road Chester, Pennsylvania 19013 (610) 497-3100 (610)494-9530

Total HOME

5801 Kessler Ln, Ste 206
Merriam, KS 66203
913-227-4149
totalhomekc.com

June 22nd, 2012

Honorable Sam Graves, Chairman
Honorable Nydia Velázquez, Ranking Member
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

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My company is Total Home, located in Merriam, KS. I provide interior and exterior remodeling. I have 3 employees.

I had significant concerns with Renovation Repair and Painting (RRP) rules issued by the EPA more than six years ago, but I spent the time and money to become EPA-certified. I am disappointed that shortly after the RRP rule was enacted, the EPA removed the opt-out option which was one of the common sense provisions within EPA's original rule.

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Sincerely,

Patrick Strand

Total Home

BENJAMIN PLUMBING, INC.

June 22, 2012

Via Fax (2) Pages

Honorable Sam Graves, Chairman
Honorable Nydia Velázquez, Ranking Member
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Graves and Ranking Member Velázquez:

I am writing to thank you for holding the hearing entitled, "Regulatory Flexibility Act Compliance: Is EPA Failing Small Business?"

I am a member of the National Association of the Remodeling Industry (NARI) and I run a small remodeling business. We care deeply about protecting our customers and our customers' families. Part of our service-first mentality is abiding by the highest professional standards set by NARI and by federal and state regulators such as the U.S. Environmental Protection Agency (EPA).

My company is Benjamin Plumbing, Inc., located in Madison Wisconsin. Our company has provided residential and commercial plumbing contracting services to the greater Madison area for 50 years. I have 25 employees.

I had significant concerns with Renovation Repair and Painting (RRP) rules issued by the EPA more than six years ago, but I spent the time and money to become EPA-certified. I am disappointed that shortly after the RRP rule was enacted, the EPA removed the opt-out option which was one of the common sense provisions within EPA's original rule.

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■ 5396 King James Way, Madison, WI 53719
■ Ph: 608-271-7071 / Fax: 608-271-6622
■ www.benjaminplumbing.com

evidence of lead exposure risks to children and pregnant women from commercial and public building construction activities. Also, please do not allow for EPA to rush forward with a rulemaking without extensive consultation with NARI and other small business organizations

I hope through hearings such as this one, that the EPA and other agencies will be forced to consider the implications of their regulations on the small business community.

Sincerely,

Dale Benjamin

Dale Benjamin
President
Benjamin Plumbing, Inc.

Creative Concepts Remodeling, Inc.
12213 Major Drive
Germantown, MD 20876
301-910-5600

Honorable Sam Graves, Chairman
Honorable Nydia Velázquez, Ranking Member
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

June 22, 2012

Dear Chairman Graves and Ranking Member Velázquez:

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My company is Creative Concepts Remodeling located in Germantown, MD. I provide home improvement and remodeling services to Montgomery County, MD. I have five employees.

I had significant concerns with Renovation Repair and Painting (RRP) rules issued by the EPA more than six years ago, but I spent the time and money to become EPA-certified. I am disappointed that shortly after the RRP rule was enacted, the EPA removed the opt-out option which was one of the common sense provisions within EPA's original rule.

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