CONSUMER BANKERS ASSOCIATION

TESTIMONY OF LYNETTA TIPTON STEED,

EXECUTIVE VICE PRESIDENT, DIVISION HEAD

BUSINESS & COMMUNITY BANKING

REGIONS FINANCIAL

ON BEHALF OF

THE CONSUMER BANKERS ASSOCIATION

BEFORE THE COMMITTEE ON SMALL BUSINESS

UNITED STATES HOUSE OF REPRESENTATIVES

"Oversight of the Small Business Administration's

Financing Programs"

Chairman Graves, Ranking Member Velasquez and members of the Committee, my name is Lynetta Tipton Steed. I am Executive Vice President and Division Head for Business & Community Banking for Regions Financial Corporation. Regions is a full-service financial services company headquartered in Birmingham, Alabama. Our subsidiary, Regions Bank, has over 1,800 branches and 2,200 ATM locations in 16-states which include Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, South Carolina, Tennessee, Texas and Virginia.

RegionsôCommunity Banking division is dedicated to supporting the needs of small businesses with annual revenues up to $20 million. Our customer base includes approximately 500,000 households which are supported through one of two channels based on client size. Clients with revenues up to $2 million are supported by our branch network while larger clients are assigned dedicated relationship managers. As of the close of September 2011, Regions had approximately $12.8 billion of small business loans in our portfolio, and $14.3 billion in deposits.

We have generated approximately $5.6 billion in new and renewed business loans so far this year.

Our focus on customer service for this segment is extremely important since our Business and Community Banking line provides 40% of the total Business Services revenue for Regions. In fact, Regions ranks number 7 among national banks in the JD Power & Associatesô2011 U.S. Small Business Banking Satisfaction Study. Regions has also been named recipient of the 2010 Greenwich Excellence Award in Small Business Relationship Management.

In addition to leading Business & Community Banking for Regions, I am also a member of the Consumer Bankers Associationõs (CBA) Small Business Committee. For more than 90 years, CBA has been the recognized voice on retail banking issues in the nationõs 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 improving the state of small business banking including promoting Small Business Administration (SBA) programs.

Thank you for the opportunity to appear before the Committee to discuss the SBA, its programs and the current state of small business lending.

Small businesses are facing a number of challenges that have greatly diminished overall demand for loans. The weak economic conditions and high levels of unemployment have resulted in lower sales volumes and the poor general economic outlook has made small business owners less inclined to take on additional debt. Economic uncertainty and continued reports of a possible double-dip recession combined with weak consumer confidence are driving this lack of demand for small business loans.

Despite the decline in overall small business loan demand, we continue to see healthy SBA lending. The SBA 7(a) and 504 programs have been effective during these economic times. In FY2009 and FY2010, SBA reported these programs helped support $42 billion in lending.

Earlier this month, the SBA announced it supported $30 billion in FY2011 bringing the three-year total to over $70 billion in support for small business lending. The FY2011 total is the highest volume fiscal year in the agency's history, surpassing the $28.5 billion mark established in FY2007.

Regions recognizes the value of the SBA partnership and has a proven track record with its programs, having been a Preferred Lender since 1996. In 2010, Regions identified increased SBA lending as a strategic initiative for the bank. Significant resources have been devoted to this initiative starting with the creation of a new government-guaranty lending manager position overseeing the delivery and efficacy of our SBA lending efforts. As a result, we have more than doubled our staffing in SBA underwriting, packaging and processing growing from 8 full time employees to 18, with plans to add more.

In FY2010, Regions ranked in the nation's top five for overall SBA 504 loan approvals, with 118 loans approved for $64 million. In FY2011, we remained in the top five nationally; approving 131 loans for $54 million.

Our 7(a) lending has increased dramatically during FY 2011; Regions now ranks in the top 25 in the nation having approved $93 million ï an increase of 82% year over year.

In addition to the SBA 504 and 7(a) programs, Regions participated in the Americaôs Recovery Capital Loan Program (ARC) when it was in place and has recently added the Export Working Capital and Export Express Programs. We intend to implement the newly named Working Capital CAPLine Program in the first quarter of 2012 and we are strongly considering the Contract CAPLine Program as well.

What can be done to make things better? The loan enhancements provided under last yearôs Small Business Jobs Act allowed SBA to raise the guarantee on its 7(a) loans to 90 percent and waive certain fees on both 7(a) and 504 loans. The governmentôs guarantee increased to 90 percent from 75 or 85 percent for all 7(a) loans regardless of loan amount. Previously original loan amounts of more than $150,000 or more were guaranteed at 75 percent. Original loan amounts of less than or equal to $150,000 were guaranteed at 85 percent. These increased government guarantees and fee waivers were effective until January 1, 2011, at which time the percentage guarantees and fee waivers reverted back to the original levels.

While in effect, these provisions had a tremendous impact on the ability of banks and small businesses to utilize these important programs, especially during difficult economic times, and both CBA and Regions express continued support for further enhancements of this kind. As an example of the effectiveness of this legislation, in Q4 2010 - Regions application trends and approval trends increased by more than 25% over the prior quarter.

Also, the Small Business Jobs Act's permanent increase in 7(a) and 504 limits from $2 million to $5 million and its permanent increase in micro-loan limits from $35,000 to $50,000 continues to help more entrepreneurs with start-up costs and small business owners in underserved communities. However, the Act only temporarily increased the cap on SBA Express loans, a subprogram of 7(a), from $350,000 to $1 million in order to expand access to much-needed working capital. A reinstatement of these higher limits for the Express program would be in the interest of increased small business lending.

A furthered streamlined 7(a) loan process would help borrowers obtain loans more easily. The SBA has done a good job in enhancing the processes in many ways, but there are relatively easy-to-implement adjustments that could be made to the 7(a) loan process that would expedite origination of small business loans. For example, allowing financial institutions to use their own application and notes for all SBA loans would be helpful. The SBA currently allows lenders to use their own notes and credit policies on Express loans, greatly improving that process.

Furthermore, allowing banks to accelerate loans, with no guarantee impairment, for clients who refuse to provide basic financial information in a timely fashion would help support greater SBA utilization. Lenders are required to obtain current borrower information, but the SBA does not allow for banks to call a technical default in this instance.

CBA would also like to see the SBA 504 refinance program extended for an additional two years. The need for this program is even greater now as many owner-occupied commercial real estate loans are set to mature over the next two years from purchases made five years ago. We also need the SBA First Mortgage Pooling Program to be extended as it is providing an additional source of liquidity. Furthermore, a permanent increase in the Express Program limits to $1 million coupled with greater guarantees would keep this program viable and expedite funds to businesses that need them quickly.

While every institution has a different relationship with the SBA, CBA members have an ongoing interest in further improvement of the SBA programs. The before-mentioned enhancements and the easing of SBA loan application requirements would help many banks make loans to small businesses that would otherwise be difficult to underwrite.

Effective SBA lender oversight is another crucial area of concern. While there needs to be strong and consistent lender scrutiny, fluctuating economic conditions often call for flexibility in the agencyôs rating policies. SBA performance benchmarks for risk tolerances should be higher than conventional loan tolerances and should provide lenders with a reasonable process to remedy deficiencies. Benchmarks should be established and reviewed periodically to ensure the SBA programs are properly aligned with current economic conditions and the public policy determinations that support SBA programs such as 7(a) and 504 lending.

Overall, CBA's members have all reported increased efforts to help small businesses access capital. Despite a decline in loan demand due to a decline in sales and high unemployment, many of our member institutions have hired new small business bankers, initiated second-look programs to ensure that every possible loan is made and incorporated other initiatives to improve delivery of SBA programs.

These activities by CBA members banks and by CBA as a trade organization are accomplishments that can make a difference, but what we really need is continued support of effective SBA programs, which, again, are absolutely critical for continuing the flow of credit to small businesses.

For example, deferred capital expenditures and M&A activity are areas that seem to be generating the most demand for loans. For businesses with revenues under $30 million, SBA loan programs have become their lifeline ï and this benefits the public by allowing businesses to grow and create jobs. When a business acquisition can be provided with relatively low-cost SBA financing, jobs are retained.

I could cite many good outcomes for SBA programs, but as we look forward, CBA encourages Congress to monitor the SBA guarantee levels. As we have seen an increase in use of these programs, it is important they have the funding and authorization necessary to continue to work with the private sector in financing American small businesses.

In conclusion, we support improvements in the SBA loan structure, but there is also a need for greater certainty in the SBA programs, especially during these difficult economic times. One means to accomplish this is to make permanent a number of the temporary enhancements that have been made to these programs in recent years. The SBA has done a good job implementing new initiatives that are just gaining traction and momentum - Dealer Floor Plan Pilot, Patriot Express, larger loan amounts, and the re-invention of CAPLine. Small businesses and SBA-approved lenders are all facing economic and regulatory uncertainty and would benefit from greater certainty in the loan programs provided by the SBA.

Thank you and I would be happy to address any questions you may have.