

June 1, 2011

**TESTIMONY OF ROBERT KOTTLER,  
EXECUTIVE VICE PRESIDENT, DIRECTOR OF RETAIL  
AND SMALL BUSINESS BANKING,  
IBERIABANK  
ON BEHALF OF  
THE CONSUMER BANKERS ASSOCIATION  
BEFORE THE COMMITTEE ON SMALL BUSINESS  
UNITED STATES HOUSE OF REPRESENTATIVES**

**“Access to Capital: Can Small Businesses Access The Credit  
Necessary to Grow and Create Jobs?”**

June 1, 2011

Good afternoon Chairman Graves, Ranking Member Velázquez and members of the Committee, my name is Bob Kottler and I am the Executive Vice President and Director of Retail and Small Business Banking for IBERIABANK – (a \$10 billion bank headquartered in Louisiana and also serving Texas, Alabama, Arkansas and Florida). I am also a member of the Board of Directors of the Consumer Bankers Association (CBA). For more than 90 years, CBA has been the recognized voice on retail banking issues in the nation’s capital. Member institutions are the leaders in all areas of consumer financial services, including small business lending. CBA members include most of the nation’s regional banks, as well as bank holding companies that collectively hold two-thirds of the industry’s total assets.

I am pleased to have this opportunity to appear before you today to discuss the issues surrounding small business lending. As we continue to move our economy forward on a path of stability and prudent growth, it is important to engage in constructive dialogue with others who share our goals. In my positions with IBERIA and CBA, I understand the challenges

June 1, 2011

we face in serving our customers, protecting our depositors and navigating through the current economic climate.

As we strive to recover from the economic downturn and are seeing modest employment gains, banks are starting to see signs that demand for small business loans is increasing. For the last few years, we saw weaker than normal and inconsistent demand for small business loans as many business owners were facing lower sales volumes and a negative economic outlook. This observation has been confirmed by a January 2011 study conducted by the National Federation of Independent Business (NFIB).<sup>1</sup> The study found that reported and planned capital spending remain at 35 year record low levels - a clear sign the economic conditions were not conducive to expansion or growth.

The evidence suggests lowering the unemployment rate - the key to many of the challenges facing our nation's economy – is critical to small business success. In its research, the NFIB found a close correlation between sales and the unemployment rate (Figure 1.). As the unemployment rate increased, small businesses saw a decline in sales. In fact, the NFIB study

---

<sup>1</sup> National Federation of Independent Business, Financing Small Businesses: Small Business and Credit Access, January 2011

June 1, 2011

found “Poor sales and uncertainty continue to be greater problems for significantly more small business owners than access to credit.”<sup>2</sup>

With job creation comes an increase in demand followed by stronger sales. We are slowly seeing an increase in jobs but it remains an uneven recovery. According to an April ADP report<sup>3</sup>, small businesses added 84,000 new jobs. Of these, 70,000 were in the service-providing industry and only 14,000 were for goods-producing businesses. Overall, if we can continue to see a decline in the unemployment rate, we can expect to see an increase in sales for small businesses, allowing them to expand and invest in more employees and equipment, and resulting in increased demand for loans.

Another factor affecting credit demand is the diminished value in a traditional form of collateral used by many small businesses – home equity. The values of personal assets are a critical component to the success and ability of small businesses to grow. Federal Reserve Board Governor Elizabeth A. Duke highlighted this in a recent speech. For small businesses with less than 500 employees, Duke indicated “more than 70 percent were

---

<sup>2</sup> National Federation of Independent Business, Financing Small Businesses: Small Business and Credit Access, January 2011, pg. 1

<sup>3</sup> ADP, National Employment Report, April 2011

June 1, 2011

initiated using personal savings or assets”<sup>4</sup> according to the preliminary results of the Federal Reserve’s 2010 Survey of Consumer Finances (SCF).

A December 2010 Federal Reserve Bank of Cleveland study found “the decline in home values has constrained the ability of small business owners to obtain the credit they need to finance their business.”<sup>5</sup> Many formerly qualified borrowers are now struggling to find other sources of collateral needed by lenders to properly underwrite loans. With the housing market expected to remain weak in parts of the country for several years to come, this issue may continue to present challenges for many small business owners.

It is important to understand how a decline in sales and home values has affected small business lending. There are several considerations involved in underwriting a small business loan. Two of the most critical components are cash flows (historical and projected) and the value of the collateral. While banks have been more prudent with their underwriting, the decline in these two most important criteria – cash flow and home/collateral

---

<sup>4</sup> <http://www.federalreserve.gov/newsevents/speech/duke20110414a.htm#f2>

<sup>5</sup> Federal Reserve Bank of Cleveland, “The Effect of Falling Home Prices on Small Business Borrowing,” Mark E. Schweitzer and Scott A. Shane

June 1, 2011

values- were reasons behind the reduction in lending. Couple that with an increase in capital requirements and regulatory uncertainty, and it is clear why the last few years have been so difficult, but we see things improving.

CBA members report modest increases in demand for small business loans. The March 2011 Thomson Reuters/PayNet Small Business Lending Index showed a year over year growth of 12 percent.<sup>6</sup> (Figure 2) In addition, the Commerce Department announced an increase in consumer spending for the tenth straight month. While still sluggish, these recent increases in consumer spending have improved the financial health of small businesses applying for these loans and led to an increase in lending. CBA members believe that these changes are a positive sign to suggest we are turning the corner.

CBA members are in business to make loans in the communities we serve and continue to look at the creditworthiness of each borrower intensely. Many of our members have instituted aggressive second-look programs to ensure no stone is unturned when finding ways to make more, quality loans. These second look programs are resulting in more approvals.

---

<sup>6</sup> [http://thomsonreuters.com/content/financial/pdf/i\\_and\\_a/indices/small\\_business\\_lending\\_index\\_0311.pdf](http://thomsonreuters.com/content/financial/pdf/i_and_a/indices/small_business_lending_index_0311.pdf)

June 1, 2011

A number of banks have announced enhanced lending programs and increased lending commitments for small businesses. Many CBA members have also established enhanced employee training and incentives to improve production through local branches, and others have hired additional small business bankers specifically tasked to improve delivery of SBA 7(a), 504, and Express/Patriot Express programs and to determine additional opportunities.

As a lead association in the matter of small business lending, CBA has supported, and will continue to support, the various efforts of this Committee and Congress to expand small business lending (i.e. SBA program enhancements, Small Business Lending Fund, etc.) and to stimulate economic development. We believe these lending enhancements, if utilized, are steps in the right direction.

With regard to the Small Business Lending Fund, CBA understands that many of the banks that qualify for the fund are concerned about the possible stigma associated with the program. We have also heard of numerous complaints about the approval process and lag in disbursement of

June 1, 2011

funds. While we support the intent of the SBLF, it doesn't change the heart of the problem - the overall financial health of our economy and the resulting impact on borrowers.

What are banks doing to make things better? CBA and its member institutions remain committed to improving the small business lending environment. As part of our efforts, on April 7, 2011, CBA, along with the International Franchise Association (IFA) and several other organizations sponsored a Small Business Lending Summit in Washington, D.C. Through the summit and the ensuing dialogue, CBA and IFA aimed to partner with key stakeholders in the small business, financial and government policy/regulatory communities to seek ways to unleash the power of small businesses and aspiring entrepreneurs to create jobs through increased access to credit.

CBA was represented at the summit by top small business lenders. We firmly believe the summit was an important first step toward establishing a continuing dialogue between the franchise business community and leaders in small business lending. We look forward to

June 1, 2011

working with the IFA and other key stakeholders toward the shared goal of increased lending by streamlining the loan process for franchisees.

CBA has commonly found that many franchisees do not get loans because they are often inexperienced in obtaining a business loan, which is a different process than many other loan types. Banks want to know about the franchise itself, how long it's been in business and how successful other franchisees have been. To close this gap, CBA's Small Business Committee is in the process of developing a template that franchises can use to better prepare their potential franchisees to secure the financing they need. The template will provide the bank with information about the franchise brand that may help to successfully underwrite a loan.

Finally, I would also stress that communication between borrowers and lenders is critical. Borrowers and their banks should work hard to form and maintain relationships long before a specific loan request is made. The better prepared and knowledgeable a borrower is about the process, and the lender about the borrower, the more successful the process. Small businesses and lenders alike need to work harder to bridge the divide in

June 1, 2011

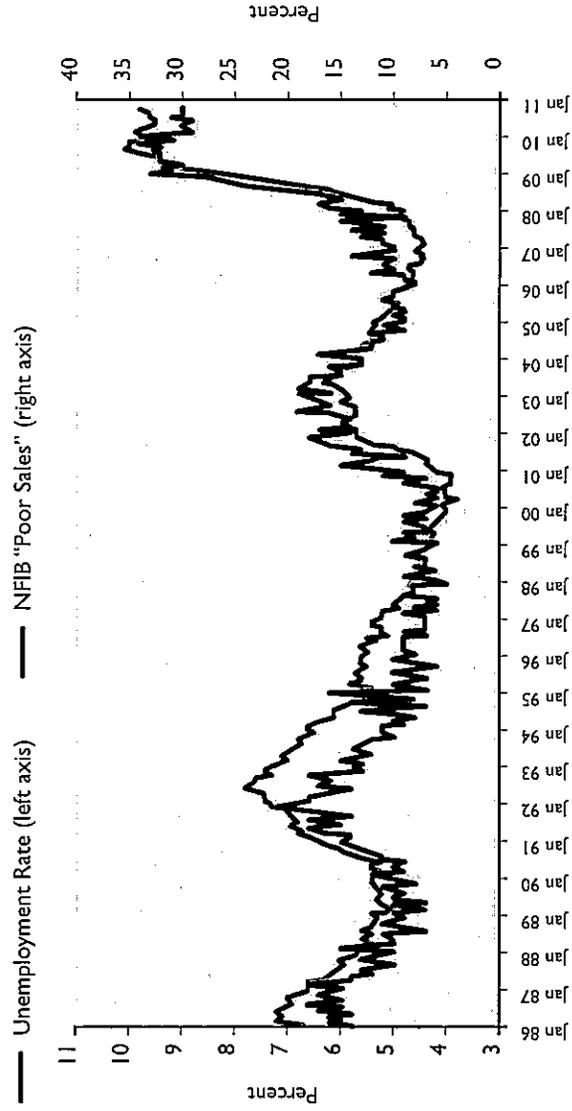
order to better understand one another with respect to credit needs and approval.

In closing, we are just starting to see signs of modest growth in the economy but we still have a ways to go. Any successful small business needs to have sufficient demand for the goods or services it provides in order to have the cash flows to prosper. As we see the unemployment rate fall, demand will increase, resulting in improved small business lending and small business growth. CBA and its members look forward to working with this Committee and small businesses to strengthen our nation's economy.

Thank you for the opportunity to testify before you today. I am happy to answer any questions you may have.

**Figure 1:**

**POOR SMALL BUSINESS SALES PARALLEL THE UNEMPLOYMENT RATE  
JANUARY 1986 TO OCTOBER 2010**



Courtesy: Merrill-Lynch



**Figure 2:**

# **Thomson Reuters/PayNet SBLI** **Percent Change vs. Year Prior**

