Testimony of

Cynthia Blankenship

Vice Chairman and Corporate President

Bank of the West

Grapevine, Texas

On behalf of the

Independent Community Bankers of America

Before the

United States House of Representatives

Committee on Small Business

Hearing on

"Strengthening SBA's 7(a) Loan Program"

January 17, 2018

Washington, D.C.

Chairman Chabot, Ranking Member Velazquez, and members of the subcommittee, I am Cynthia Blankenship, Vice Chairman and Corporate President of Bank of the West in Grapevine, Texas. Bank of the West is a $450 million asset community bank serving the Dallas-Fort Worth suburban area with rural branches in Ponder and Vernon, Texas. We have 105 employees, eight full service branches, and two mortgage company locations.

I am also a former Chairman of the Independent Community Bankers of America, and I am pleased to testify today on behalf of the more than 5,700 community banks represented by ICBA at today's hearing titled "Strengthening SBA's 7(a) Loan Program." A robust and sustainable 7(a) program with broad community bank participation will help small businesses thrive and create jobs, strengthening and extending the economic recovery. We are grateful for this committee's strong support for the 7(a) program, and we are pleased to offer our support for the Small Business 7(a) Lending Oversight Reform Act (H.R. 4743), a bill I will discuss later in this testimony.

America's community banks are prolific small business lenders. We play an outsized role in funding small businesses and the jobs they create. While community banking organizations represent 17 percent of all U.S. bank assets, we make more than half of all small business loans under $1 million. Small businesses account for over half of all U.S. employment and nearly two thirds of all employment growth.

What sets community banks apart is their first-hand knowledge of the borrower, the community, and the local economy. Community bank small business lending simply cannot be duplicated by a bank based outside the community. As noted in a study by scholars at Harvard's Kennedy School of Government: "In certain lending markets, the technologies larger institutions can deploy have not yet proven effective substitutes for the skills, knowledge, and interpersonal competencies of many traditional banks."[1] The Small Business Administration's 7(a) loan program allows community banks to leverage their unique underwriting skills to more effectively serve the small businesses in their communities.

Bank of the West's Longstanding Partnership with the SBA

Bank of the West is a 30-year partner with the Small Business Administration and has been strongly committed to helping small businesses in our communities using the flagship 7(a) program as well as the 504-loan program. We are a leading SBA lender in the Dallas-Fort Worth SBA District. We underwrite approximately $20 million in 7(a) loans annually and currently hold and service nearly $100 million in SBA loans in our portfolio, which represent about 20 percent of our total loans. These are high quality loans with minimal loss ratio. We use the program to provide credit to a broader range of borrowers and ensure sound underwriting.

Bank of the West uses the SBA 7(a) program to supplement our lending and credit services. We actively encourage our loan officers to consider whether we can use the program to serve small business credit applicants who would not otherwise qualify for a conventional loan.

The 7(a) program allows us to leverage our lending dollars and provide more small business credit. We also highly value the option of selling the guaranteed portion of 7(a) loans into the

[1] "The State and Fate of Community Banking." Marshall Lux and Robert Greene. Mossavar-Rahmani Center for Business and Government at the Harvard Kennedy School. February 2015.

secondary market, which provides an alternative source of liquidity should we need it. Historically, Bank of the West's 7(a) loans have created thousands of jobs in the communities we serve and helped to sustain and strengthen our local economy.

I am pleased to note that community banks received the highest lender satisfaction scores in the most recent Small Business Credit Survey, a collaboration among seven Federal Reserve Banks, which surveyed almost 3,500 small businesses in 26 states.[1] The community bank satisfaction score of 75 percent exceeded the scores of other categories of lenders by a wide margin.

The 7(a) Program Helps Community Banks Reach Additional, Credit-Worthy Borrowers

I would like to provide a couple of examples of 7(a) loans made by Bank of the West that illustrate the value of the program. Some years ago, my hair stylist, Kim, wanted to purchase the salon she worked at in Las Colinas, Texas following the death of the owner. Without the help of a loan to purchase the salon, it likely would have closed and she would have been forced into the job market. Kim was not a good candidate for conventional credit because of the low value of the collateral. However, Bank of the West was able to offer her a 7(a) loan based on historical and projected cash flow, underwriting factors which the SBA program allows. The salon thrived and Kim hired eight additional stylists. Her cash flow was so strong that she paid off the loan early.

In another SBA success story, Bank of the West helped a gentleman who ran a pet boarding business near Love Field in Dallas. He had an SBA loan from another bank but his business was in leased space. We made a loan to refinance his original SBA loan and finance the purchase of the building he occupied. Our loan saved him money on rent, improved his cash flow, and allowed him to build more equity in the business. A couple of years later we financed the expansion of his building to add more kennels, which dramatically increased his cash flow and profits.

Success stories like these and numerous others are why I'm passionate about community banking. These loans would not have been possible without the SBA.

The Small Business 7(a) Lending Oversight Reform Act (H.R. 4743)

To preserve the long-term viability of the 7(a) program, ICBA supports targeted reforms, such as those contained in H.R. 4743, to ensure its integrity and continued safety and soundness for the benefit of small business borrowers. Below I describe the most important provisions of the bill.

H.R. 4743 Would Codify Critical Program Oversight

The SBA Office of Credit Risk Management and the Lender Oversight Committee play a critical role in supervising and overseeing all SBA lenders. Section 3 of H.R. 4743 would codify the Office to guarantee its existence from administration to administration. In addition, Section 3 would ensure the Office Director is qualified for the post, provide guidelines for lender reviews, codify lender appeals rights, and create greater transparency in the Office's budget. Section 3 would also codify the Lender Oversight Committee which reviews formal enforcement recommendations from the Office of Credit Risk Management. These provisions of H.R. 4743 strengthen the integrity of all SBA guaranteed lending programs.

[1] 2015 Small Business Credit Survey: Report of Employer Firms. December 2016.

Codification of Credit Elsewhere Test

The 7(a) program is only available to small business credit applicants who would not otherwise qualify for a conventional loan. To safeguard the program from abuse, the SBA's "Credit Elsewhere Test" requires lenders to fully substantiate and document the reasons a given applicant cannot be served with conventional credit. ICBA fully supports this test as an appropriate measure to ensure responsible use of the 7(a) program. For this reason, we support its codification in Section 4 of H.R. 4743.

H.R. 4743 Would Stabilize Program Funding

Stable funding is critical to the success of the 7(a) program and the thousands of borrowers that rely on it. As is well known to this committee, program funding came to abrupt halt in the summer of 2015 when it reached its authorization cap well before the end of the fiscal year. Congress was forced to pass an emergency increase to the authorization cap to restart the program. Section 5 of H.R. 4743 would help ensure that program funding is never disrupted again.

While the 7(a) program is fully funded by user fees and no taxpayer dollars are appropriated, a program authorization level must be approved by Congress each year, and once that level is reached, no more loans can be approved. H.R. 4743 would give the Administrator authority to raise the cap by up to 15 percent one time each fiscal year with the approval of this committee, the Senate Small Business Committee, and the House and Senate appropriations committees.

ICBA greatly appreciates the support and responsiveness of this committee in passing the emergency increase in the summer of 2015. A longer program shutdown would have cut off the thousands of small businesses that rely on this program for payrolls, investment, and expansion. Small business owners often put their entire net worth at risk to make their businesses succeed. A program shutdown could be devastating for a small business that is anticipating a 7(a) loan. Unstable program funding also discourages lenders from getting into the SBA market. Lenders need to know they can rely on stable funding, and we believe that Section 5 of H.R. 4743 will provide that assurance.

Community Banks Need Regulatory Relief to Sustain and Grown Small Business Credit

I have focused my remarks up to this point on the 7(a) program and H.R. 4743. Taking a broader perspective, I urge this committee to support regulatory relief that would strengthen community banks and enable more small business lending in SBA programs and in the conventional markets. ICBA is grateful to the Financial Services Committee for its passage of numerous regulatory relief bills in this Congress and past Congresses.

These bills were the groundwork that prompted the Senate Banking Committee to pass S. 2155 in December on a strong, bipartisan vote. S. 2155 contains robust regulatory relief for community banks which will create more small business credit that will in turn create economic growth and jobs. These provisions include short form call reports to be filed in the first and third quarters of each year, deemed qualified mortgage status for mortgages held in portfolio by community banks, a lengthened exam cycle for banks with less than $3 billion in assets, and numerous other provisions.

ICBA anticipates Senate passage of S. 2155 in the coming weeks. ICBA urges the members of this committee and the House to seize this opportunity to enact long-awaited regulatory relief for community banks by quickly taking up S. 2155 following Senate passage.

Small Business Lending Data Collection

Dodd-Frank Section 1071 requires the CFPB to implement rules for the collection and reporting of data on financial institutions' small business lending under the Equal Credit Opportunity Act. Section 1071 requires the collection and reporting of 12 pieces of data in connection with credit applications made by women- or minority-owned businesses of any size as well as all small businesses regardless of ownership, including the race, sex, and ethnicity of the principal owners of the business. Section 1071 also gives the CFPB discretion to require the reporting of any additional information that would assist the Bureau in fulfilling the purposes of the statute.

If the CFPB proceeds with implementation of this onerous data collection requirement, it will impose significant new burdens on community banks at a time when they are absorbing numerous other regulatory requirements. It will likely require the reporting of information regarding every small business loan application and will fall disproportionately upon smaller banks that lack scale and compliance resources.

Conclusion

Thank you again for convening this hearing and for your ongoing support for an SBA program that will play a critical role in strengthening our economic recovery and creating jobs. Bank of the West and many other community banks are fully committed to the future of the 7(a) program and will continue to dedicate the resources needed to make it work.

I'm happy to answer any questions you may have.