Testimony of

Patricia A. Husic

On behalf of the

American Bankers Association

before the

House Committee on Small Business

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Chairman Chabot, Ranking Member Velazquez, and members of the Committee, I am Patricia Husic, President and CEO of Centric Bank. Centric Bank is a community bank headquartered in Harrisburg, PA with $555 million in total assets. I appreciate the opportunity to present the views of the American Bankers Association (ABA) on legislation that would improve the availability of SBA 7(a) loans and oversight of the program. The ABA is the voice of the nation's $17 trillion banking industry, which is composed of small, mid-size, regional and large banks that together employ more than 2 million people, safeguard $13 trillion in deposits and extend more than $9.5 trillion in loans.

The Small Business Administration's (SBA) 7(a) Loan Program is very important to small businesses in my community and communities served across the nation. At my bank, as is true of my banker colleagues around the country, we are intensely focused on building and maintaining long-term relationships with our customers. We view our customers not as numbers but as individuals and business owners. The success of Centric Bank is inextricably linked to the success of the communities we serve. They are, our friends, neighbors, and the job creators in our communities.

Small businesses are an engine of growth and job creation for the U.S. economy. In order for small businesses to grow, they require safe and reliable funding. Community banks focus intensely on small business lending. According to the FDIC, community banks increased small loans to businesses (defined as less than $1 million) at more than twice the rate of non-community banks in 2016 and account for 43 percent of all small loans to businesses.

The SBA programs are an important part of business lending for many banks. They help fill a critical gap, particularly for early stage businesses that need access to longer-term loans. The guarantee helps reduce the risk and capital required for banks and facilitates loans that might never have been made without this important level of support.

ABA applauds Chairman Chabot and Ranking Member Velazquez for their leadership in working with their Senate counterparts in introducing H.R. 4743, the Small Business 7(a) Lending Oversight Reform Act of 2018. This long overdue bill will strengthen the SBA's oversight office and provide the Administrator with flexibility to increase the program's maximum lending authority in the event it would be reached. The bill helps ensure the strength of the program into the future.

In the remainder of my statement, I will first give examples from my bank—replicated many times over by banks across the country—of how important this program can be to small business. Second, I will focus on why changes such as those in H.R. 4743 are needed and, third, suggest additional steps that should be taken to further improve the SBA programs.

I. SBA 7(a) Loans are Critical to Support Many Small Businesses

Loans to small business comprise 85 percent of our commercial lending at Centric Bank. Financing small business is the core of what we do and it is our specialty. SBA lending has always been an important product for our institution; however, during some of the earlier years we lacked the people with the required expertise to underwrite and navigate the SBA process. Over the past five to six years, we have hired individuals in our credit department with deeper experience in underwriting SBA loans as well as recruited more experienced small business lenders. SBA 7(a) lending is a core product that is crucial to finance the small business client when they are unable to obtain credit elsewhere. As we expanded in the Suburban Philadelphia area over 3 years ago, we recruited a team of experienced commercial lenders with a focus on small business and SBA lending. This team contributes approximately 55 percent of our SBA lending. As of the end of 2016, Centric Bank ranked in the Top 100 SBA 7(a) lenders in the country. At Centric Bank, we view SBA lending as a way to get a customer to a "yes" in a safe and sound manner. Without this program, many entrepreneurs would never get their dream off the ground.

At Centric Bank, the SBA 7(a) program has helped hundreds of entrepreneurs and job creators start their own business, purchase an existing business or expand a current business during the past ten years. Over five years ago, a young customer was a manager at a restaurant in the Harrisburg area for the past 10 years and his dream was to own his own business. When he finally found a business to purchase, he was unable to obtain a traditional bank loan. Through the SBA 7(a) program, we were able to help this business owner acquire the building and business with a 10 percent down payment, appropriate repayment terms, and we further enhanced the loan with the Federal Home Loan Bank's Banking on Business Program. His business is profitable and the owner has exceeded all financial projections. Just nine months ago, we financed a second restaurant for this same business owner using the SBA 7(a) program. As of the end of 2017, he has exceeded all projections for this new venture. The SBA 7(a) program enabled this entrepreneur to realize his dreams and now he is the owner of two profitable and successful restaurants, employing more than 60 people.

Another example of a customer that we assisted was a US Army Veteran (who was recently honorably discharged from the military), who wanted to start a business with his father and sister. Their dream was to open a gun range with education and training for the public. They also had the vision and foresight to open their facility to various police municipalities to provide access for their officers while they were off duty. The customer was unable to obtain financing through a traditional bank loan. With a longer-term loan provided through the SBA 7(a) Loan Program, the business owners obtained the financing they needed and were able to open their facility as scheduled. They have hired 20 full time equivalents to open their business and the majority of their employees are veterans.

Another customer of Centric Bank was looking to expand his existing construction company from the Philadelphia area into the New Jersey markets. During January 2016, Centric Bank approved and closed a $675,000 SBA 7(a) loan for a minority owned construction company to purchase a commercial building, provide working capital for expansion and hiring of new employees. The commercial building is located in New Jersey, which has allowed the company to expand more rapidly into the Southern, NJ market and to increase revenues in the Southeastern, PA markets of Philadelphia and Delaware counties. Without the guarantee of the SBA 7(a) program, Centric would not have been able to provide the funding requested due to an overall collateral shortfall. The SBA 7(a) program helped us get this client to a "yes" when they were unable to obtain a traditional loan. This loan also provided a foundation for sustained and continued growth for the future.

II. H.R. 4743 Will Help to Improve the Program and Support Small Businesses

It is essential that small businesses that qualify for the 7(a) Loan Program are able to utilize the program to obtain access to the necessary capital to build and grow their businesses. In past years, this has been a challenge. For example, the 7(a) Loan Program required emergency legislation in 2015 to provide additional lending authority after the program had reached its funding limit. This legislation, if enacted, would grant authority to the Administrator to increase the amount for general business loans up to 115 percent of the fiscal year's limit. This is an important measure that gives lenders added certainty that 7(a) Loan Program funds will be available so that they can meet the needs of their customers. It also ensures that small businesses will not be affected by temporary shutdowns in the program, leaving them unable to meet payroll, purchase needed inventory, or secure necessary equipment and supplies to continue their operations and help grow their local economies.

Importantly, this bill also takes steps to improve the oversight of the program to prevent fraud and increase efficiency. The proposed legislation would enhance the Office of Credit Risk Management (OCRM) within the Small Business Administration by outlining in statute the responsibilities of the office and the requirements of its director, which includes the issuance of formal and informal enforcement actions, when necessary. Furthermore, this bill details a supervisory process that would ensure supervisory findings are provided to 7(a) lenders in a timely fashion.

The reform bill's requirement that the OCRM conduct regular 7(a) loan portfolio risk analyses and submit an annual report to Congress is commonsense risk management that would help ensure the continued viability of the 7(a) Loan Program. Similar to how we, as bankers, regularly review our loan portfolios for credit risk performance metrics—such as historical performance and concentration risks—it makes sense to formalize OCRM's role in regularly conducting such analyses. Similarly, the requirement that a Lender Oversight Committee be formed to review reports on lender oversight activities and oversee formal enforcement action recommendations from the OCRM Director should ensure the appropriate level of accountability while maintaining checks and balances.

The SBA's Credit Elsewhere Test has long been a central element of the program to ensure that 7(a) loan program capital goes to those small businesses that face obstacles in obtaining financing outside of the program. The proposed legislation clarifies the factors that must be considered in the Credit Elsewhere Test, helping to ensure consistent application and transparency in supervisory standards.

ABA strongly supports the efforts of the House and Senate Small Business Committees' to introduce flexibility to increase the program's maximum lending authority, if needed, and strengthen the SBA's OCRM to help ensure that small businesses that are unable to obtain traditional bank loans are able to get the capital that they need through the 7(a) Loan Program.

In my comments below, I will outline some suggestions for additional improvements to make the 7(a) program even more effective.

III. Additional Opportunities for Improving the SBA 7(a) Loan Program

Below are some examples of how the program can be improved, primarily relating to the servicing of SBA loans:

- **Enable Consolidation or Refinancing by the Same Lender to a Borrower**
  SBA loans cannot be consolidated or refinanced by the same lender. In instances where the borrower is experiencing rapid growth, the bank is required to make multiple loans on the same collateral. Frequently, loans are cross collateralized, which make extending additional loans more complex. Servicing and administration of the loans is difficult for the borrower and the bank.

- **Provide a Carve-Out For Small Portfolio Lenders**
  SBA guidelines no longer allow a bank to obtain a guaranty to avoid regulatory loans-to-one-borrower limitations. This is a disadvantage to small banks that are portfolio lenders and are attempting to meet the credit needs of customers in their market. A carve-out for banks that are under $1 billion in assets engaged in portfolio lending should be considered.

- **Improve Subcontractors Role in Liquidation Process**
  The use of subcontractors in the liquidation process at times resulted in confusion over the correct version of the Standard Operating Procedures (SOP) used to determine eligibility for repurchase. This caused delays in the liquidation process. We suggest

sub-contractors receive additional training on identifying the appropriate SOP in affect when the loan was originated.

- **Facilitate Liquidation of Multiple Loans to a Borrower**

  A loan is liquidated based on the type of loan program. When a borrower has multiple loans, liquidation can involve multiple service centers in different states. This creates a duplication of work for the bank. More importantly, borrowers have a difficult time making an "Offer in Compromise" until all claims are processed.

- **Seller As an Employee**

  An area for consideration is to allow a seller of a business to remain as an employee for up to 2 years when selling a business. Retaining that former business owner under an employment agreement for this time period can effect a smooth transition with the business, assisting with business challenges that may occur, as well as assisting with the retention of clients. Our goal as a lender is always to set businesses up for success. We believe this component would be a source of strength for the new business owner in many cases.

Conclusion

Banks play an integral role in promoting the economic strength of the communities that they serve. The SBA 7(a) Loan Program is one example of how bank lending facilitates and promotes economic growth, and this program should be vigorously supported in the future. The positives of the program are many and the Small Business 7(a) Lending Oversight and Reform Act of 2018 is an important measure to ensure the continued success of this program. In addition to offering comments on this proposed bill, I also believe the committees should consider the aforementioned areas of improvement related to servicing aspects of the program.