June 18, 2018

Testimony of

Bruce Kimbell

before the

House Committee on Small Business

United States House of Representatives

American
Bankers
Association

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Congressman Comer and members of the Committee, I am Bruce Kimbell, President and CEO of First Community Bank of the Heartland. First Community Bank is defined by its name and I have had the good fortune to be an employee since 1989. We are a community bank with five offices in far western Kentucky and two in north-west Tennessee. The history of our $220 million bank dates back over eighty years. We pride ourselves on being the community bank that is ready and able to serve the financial needs of our local area. I appreciate the opportunity to be here today to present my views on the role community banks play in helping the agricultural community and small business through public private partnerships like the Small Business Administration 7(a) loan program.

During my time at the bank, the Small Business Administration's (SBA) 7(a) Loan Program has been an important tool, as we seek to help the 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 First Community 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.

The SBA programs, like the USDA loan programs that we more heavily utilize, are an important part of business and agricultural lending for many banks. They help fill a critical gap, particularly for an early stage businesses that needs access to longer-term loans and the flexibility they offer. The guarantee helps reduce both, the interest rate and credit risk associated with the loan and facilitates lending opportunities that might never have been made without this important level of support.

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

Loans to small business comprise **100 percent** of our commercial lending at First Community Bank. Government guarantee programs like those provided through SBA have been an important product for our institution since my arrival in 1989. SBA 7(a) lending at one time was a core product as we sought to assist the small business client when they were unable to obtain credit elsewhere. Unfortunately, changes to the program over the years have complicated the loan making process, not only for us but also for several of my peers that I have reached out to for comment.

We continue to try to utilize the program, as we know that the SBA 7(a) program has helped many entrepreneurs and job creators start their own business, purchase an existing business or expand a current business during the past ten years. We have had the good fortune of helping beginning farmers with a new poultry or swine enterprise as they sought opportunities to diversify their family farming operation. Our guaranteed business lending has assisted a wide variety of enterprises, from wholesale food products, restaurant, dry cleaners, t-shirt shop and a convenience store. Each of these entities play a key role in their local rural community in providing job opportunities and needed services.

II. SBA 7(a) Loans are Important to Support Poultry Farmers and Agriculturally-based Small Businesses

On March 6, 2018, the SBA Inspector General (IG) released a report on agricultural lending within the 7(a) program, which examined 11 poultry loans made between 2012 and 2016. The IG then recommended taking corrective actions on the loans if necessary and to review current arrangements between integrators and growers. My understanding is that the SBA examined all 11 loans and found they were correctly made in accordance with SBA policy at the time. The SBA also stated the loan guarantees will continue to be honored for poultry loans and that further guidance will be released by August 31st, 2018.

It should be noted that from 2012 to 2016, SBA made over 2,200 poultry loans, of which my bank made 3 **as we have primarily focused our efforts on the USDA programs.** As you are aware, there are currently over 265,000 7(a) loans within SBA's portfolio, so poultry loans represent approximately 1% of the entire 7(a) portfolio. Poultry loans have been good loans for our bank over the last 29 years and our utilization of the various federal guaranteed programs and state sponsored loan programs has allowed numerous farm families to remain on the farm and be a viable economic entity.

Farmers need to have as many options as possible when it comes to financing their operations. Every farm is different and they need the tools in the toolbox to help them succeed. SBA 7(a) loan programs provide another way to finance our farmers, through both the good times and bad. Removing the ability for lenders and farmers to use the 7(a) program, would only hurt farmers in the long run. Maintaining access to the SBA 7(a) loan program is critical for the development and success of our nation's smaller poultry farmers and the overall ag economy.

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.

- **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.

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.