ASSEMBLY STANDING COMMITTEE ON BANKS
ASSEMBLY STANDING COMMITTEE ON SMALL BUSINESS

Small Business Access to Credit

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My name is John Witkowski, and I am President and CEO of the Independent Bankers Association of New York State. I appreciate this opportunity to submit testimony on small business access to credit to the Assembly Banks and Small Business Committees.

New York's community banks are critical partners in providing credit and loans to small businesses located throughout the State. Such loans are the foundation of our business plans. Our opportunities are limited by size and location. Community banks make loans exclusively in their local communities.

Small business loans are vital to community banks' balance sheets. Our viability is linked to the success of our small business customers in the communities we serve. Community banks recognize that our economic health is tied to the corresponding economic health of our communities – a symbiotic relationship that is at the very core of community banking.

Community banks in New York State pack an outsized punch in small business lending. The New York State Department of Financial Services "Community Banking Report" dated February 2013 confirms this, noting: ". . .indeed while community banks hold approximately 22% of all the assets of the Federal Deposit Insurance Company ("FDIC") banks in the state, they provide nearly 55% of all small business loans and approximately 90% of small farm loans in the state. Small community banks – those with assets at $1 billion or less – hold only about

6% of all FDIC insured banking assets in New York yet make 28% of all small business loans, including 43% of small farm loans."

Community banks, like other small businesses in New York, are facing significant challenges. The number of community banks in our state has declined steadily from 299 in 1992 to 169 in 2011. Large banks have increased their competition level in small business lending by using their size and scale to lower financing costs, while also leveraging technology by using business credit cards. Alternative non-bank lenders are also entering the small business lending arena, using technology and unconventional underwriting techniques to offer fast processing and minimal demands for financial documentation. Despite these challenges, community banks business model as relationship lenders (as opposed to transactional lenders) remains vibrant. Community banks rely on direct, personal knowledge of borrowers, local economic conditions and other soft data to underwrite customized loans that are tailored to the unique character of the small business. Community banks are focused on monitoring and servicing our loans on a continuing basis. These loans are not "one off" transactions. Our borrowers are customers, not simply computer generated transactions.

Large banks and non-traditional lenders often deploy their capital for loans where the best return and loan climate exists. These entities have no attachment to, or direct dependence on, a local community. Their assets are often simply directed to areas providing the best return on investment. Community banks provide both continuous -- and stronger -- financial support to small businesses, particularly during times of financial stress. Unlike large banks and non-traditional lenders, community banks are less reliant on credit scoring and other technologies during periods of economic stress.

In an effort to respond positively to the demand in the marketplace for alternative lending options, the Independent Bankers Association of New York State is partnering with the New York Business Development Corporation ("NYBDC"), which has formed a non-profit lender to provide affordable capital to small businesses through a simple and quick online lending platform for small business owners. This approach recognizes that some small businesses want easy access to capital online. It allows community banks to provide this portal with alternative financing to their clients, while still being available to provide traditional relationship based lending when appropriate.

Most IBANYS members also work in partnership with NYBDC to provide loan terms that do not fall within the scope of traditional financing. NYBDC offers expertise in Small Business Administration 504 and 7(a) loan programs, which provide low down payment financing and loan guarantees respectively. In addition to the federal programs, New York State's Capital Access Program provides matching funds to financial institutions for loan loss reserves as an incentive to increase small business lending. This program has proved to be a beneficial option for banks as participating lenders either directly or to use this program in partnership with NYBDC. This state sponsored program is one which has enabled banks to assist small businesses in the financial marketplace.

Small business loans are the lifeblood of both community banks and small businesses. The financial health of community banks is important not only to New York's economy, but also to many small businesses. Community Banks need access to funding in order to make loans to small businesses. Our deposit base is very dependent on municipal deposits. Any diminution of access to such municipal deposits, which range from 10% to 30% of a community bank's deposits, would severely impact our ability to make small business loans in our local communities. Tax exempt credit unions have sought authority to obtain municipal deposits despite the negative impact this could have on both community banks and small businesses.

Community banks have also obtained access to funding from the Community Bank Deposit Program, which was enacted by the Legislature to place state funds in community banks to recycle these funds as loans to stimulate local economies. These funding sources are critical for many small and rural community banks to have the required loan to deposit ratio necessary to make small business loans in their communities.

Like our small business counterparts, community banks have been overwhelmed with regulatory compliance costs. Complex federal, and even some state, regulations for banking institutions are often not designed appropriately for community banks. There are significant differences between banks with national and regional footprints versus community banks. Regulation should not be designed on a "one size fits all" basis. That approach has resulted in significant burdens and resulting compliance costs for community banks, which do not have the size and scale to easily absorb such costs. State and federal regulations should be appropriately adjusted to recognize this situation.

The interdependent relationship between community banks and small business makes the conduct of this joint hearing by both the Assembly Banks and Small Business Committees particularly meaningful. IBANYS hopes that this testimony has expanded your appreciation of the synergistic relationship that exists between small businesses and community banks in New York State. Thank you for your attention to this important subject matter.