Testimony of

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On Behalf of the

AMERICAN BANKERS ASSOCIATION

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Mr. Chairman, Ranking Member Velazquez, and Members of the Committee, my name is Guy T. Williams. I am president and CEO of Gulf Coast Bank & Trust in New Orleans, Louisiana, and the immediate past president of the Louisiana Bankers Association. I am pleased to be here today to represent the American Bankers Association (ABA). ABA, on behalf of the more than two million men and women who work in the nation’s banks, brings together all categories of banking institutions to best represent the interests of this rapidly changing industry. Its membership – which includes community, regional and money center banks and holding companies, as well as savings associations, trust companies and savings banks – makes ABA the largest banking trade association in the country.

I want to thank you, Mr. Chairman, for holding this hearing to discuss the post-Katrina rebuilding of the Gulf Coast’s small businesses and economy. Let me assure you that meeting the needs of the small businesses and banking customers impacted by hurricanes Katrina and Rita is extremely important to my bank and every bank in the Gulf Coast area – it is vital to the health of our local economies and the success of our banks.
At Gulf Coast Bank & Trust, we have nine banking offices. Our main office is located in the heart of New Orleans’s Central Business District on St. Charles Avenue. Surprisingly, the office had escaped major damage and flooding. But it took days before we could reach the bank and ensure that the necessary utilities and systems were back up and running. Finally, on Wednesday, September 28, we reopened the St. Charles Avenue branch. We are now the only bank branch operating in downtown New Orleans. On our first day back in New Orleans, two customers came to the branch. One of those customers was a local small business owner who came in to make a loan payment. The other was a local sandwich shop owner who needed change in order to reopen.

Mr. Chairman, Louisiana is a small business state. We have only one local Fortune 500 company – Entergy – and it just placed its New Orleans subsidiary in bankruptcy. In order for our state to survive, small business must recover. Small companies provide the vast majority of the job growth in our area. We understand the importance of bank financing to these businesses and to our community. I am very proud of the fact that although we are a relatively small community bank, we are the number one Small Business Administration (SBA) lender, by volume, in the state of Louisiana.

The ravages of hurricanes Katrina and Rita have radically altered the economic landscape of New Orleans. This was our worst nightmare. Our beautiful city was flooded and left vacant for 30 days. Our citizens scattered and our businesses shut down. As bad as it was in New Orleans, other areas had it worse. In St. Bernard Parish, which is located immediately southeast of New Orleans, there is not one habitable home, not one open
business, not one electric light, not to mention the complete loss of phone, Internet, and all other services there. This blue collar community of 65,000 people has been largely overlooked because the devastation has made it so hard to reach. Our three branches in that community were all heavily damaged and cannot be reopened for months.

In my testimony today, I would like to make three points:

I. SBA Lending is Critical to the Gulf Coast’s Economy

Small business lending is a critical component of the Gulf Coast region’s economy, which also accounts for a major portion of my and many other regional banks’ business;

II. Hurricanes Katrina and Rita Have Made SBA Loans Even More Important

In the aftermath of Hurricane Katrina, SBA loan programs are more important than ever to helping stimulate and rebuild the Gulf Coast region; and,

III. Congress Can Act Now to Improve SBA’s Role in a Regional Recovery

Congress can help support and optimize a regional recovery by enacting legislation to increase SBA’s effectiveness and to reduce administrative costs, thereby allowing more businesses to benefit from SBA’s loan programs.
Let me discuss each point in greater detail.

I.  SBA Lending is Critical to the Gulf Coast's Economy

Small businesses look to banks operating in their hometown for leadership to help them grow their businesses and to thrive. In fact, banks are the primary source of credit to small businesses throughout this country and are often small employers themselves, too.

It is often said that small businesses are the engine of our economy. If that statement is true, then capital is the oil that makes the engine function. Small businesses make up nearly half of all commercial and industrial loan customers and three-quarters of all business banking customers. At Gulf Coast Bank, we have $551 million in assets, with roughly 60 percent devoted to business loans – all of which are to small businesses.

The small businesses we lend to are a basic part of our community. For example, one of my customers opened a neighborhood restaurant just six weeks before Katrina struck. Because they leased their business space, all the equity formed due to the improvements they made to the restaurant is gone. They have no collateral. Insurance will not even begin to cover their losses. Another bank customer of mine is a Marine, who recently returned from Iraq and opened a small computer servicing and repair business. His business was doing well, too. The hurricane wiped him out, destroying his equipment and tools. If we cannot help people like this, who deserve our gratitude, then who should we be helping?
II. SBA Loans Are Now Even More Important

Obviously, the recent hurricanes dealt a tremendous blow to the Gulf Coast region’s economy. At the broadest level, the Federal Emergency Management Agency (FEMA), as of September 8, had designated 169 counties or parishes in four states as eligible for some form of disaster assistance; employment in those areas totaled about 5.8 million jobs in 2004. The 86 counties or parishes classified as “most affected” by FEMA represent 2.4 million jobs. Wages in these places totaled $76.7 billion in 2004. Overall unemployment attributable to Hurricane Katrina is now estimated to be between 300,000 and 400,000. Hurricane Rita will add to these numbers.

Small businesses were hit especially hard by Katrina. This is particularly true in my home state of Louisiana, where small firms with fewer than 500 employees numbered 79,693 in 2002 and employed 853,102 individuals, or 54 percent of the state’s non-farm private sector. Small businesses employment is also high in Mississippi and Alabama, with small firms accounting for half of all non-farm private employment in each state.

Most of the at-risk employment was in flooded areas of Louisiana, while in Mississippi virtually all of the employment losses were attributable to wind damage rather than flooding. Alabama received a mix of fallout from Katrina. Texas is only now tallying the losses from Rita. Recovery will require huge expenditures on repairs, rebuilding, and equipment replacement, not to mention lost inventory.

1 Statistics in this paragraph from “The Macroeconomic and Budgetary Effects of Hurricanes Katrina and Rita: An Update” Congressional Budget Office, September 29, 2005.
Timing is critical to maintain at least some semblance of business continuity and to jump start the Gulf Coast’s economy. Residents in these areas need shops and services open and ready for business, particularly at this juncture when many evacuees from the hardest hit areas are contemplating not when to return but whether to return. A recent survey of evacuees in Alabama revealed that half planned to remain in Alabama rather than return. If we delay the rebuilding, we will suffer an irreversible loss of manpower and a customer base. This challenge represents a tremendous opportunity to grow the region’s economy, but also a perilous risk that government and private efforts to rebuild will not occur quickly enough, be targeted effectively, or present area residents with substantive reasons to stay. Small businesses are the basic building blocks of our economy and our communities. They deserve as much support as possible.

Banks themselves have suffered considerably due to the effects of Hurricane Katrina. All banks in the Gulf Coast region have experienced difficulties. Half of the banks in the tri-state region severely affected by Hurricane Katrina have a quarter of their loan portfolios dedicated to small business loans. More than one-third of these banks have fewer than 30 employees. In New Orleans, where my bank is headquartered, I see people still sleeping in cars six weeks after the storm struck. I have four metro-area branches five inches deep in sludge. Before they can reopen, these branches must be emptied of sludge, the sheetrock and insulation must be removed, the electrical fixtures replaced, and new carpets installed, not to mention the computers, desks, and office supplies replaced.
Schools reopened this week in Jefferson Parish, but it will be January or later before New Orleans and St. Bernard Parish schools reopen. A whole year will be lost. Many of my employees have lost their homes and many family members have lost their jobs. My parents lost their home as did my sister. The losses are staggering.

There are thousands of businesses in my immediate vicinity that are facing problems like my bank is experiencing. There are differences, too. Big chain stores are in a different position than are corner grocery stores that have lost their entire inventory and that depend upon receipts from one week to buy stock for the next, for example. Also, each parish is in a different state of recovery. St. Bernard Parish is the worst off. Orleans Parish is getting by with very slow progress. The city has laid-off all but essential workers and the future remains uncertain. None of us like bureaucracy, but how do you start a business if there is no office of safety and permits and no civil court system? On a more encouraging note, Jefferson Parish is open for business, although still severely damaged.

What businesses most need now – critically – is access to financial resources to begin and sustain the recovery process on every block in my city. My customers need money for building materials, for infrastructure, for professional waste removal, for wages, and more. Unfortunately, one needs only to read the newspaper to know that federal recovery efforts have been less than ideal. SBA itself has been subject to glitches and setbacks that appear to have overwhelmed the agency in its efforts to assist small business owners seeking loan relief in the wake of Hurricane Katrina. I have with me a copy of our local paper that shows that only 14 SBA disaster assistance loans have been made to date in our area.
Last week, the media reported the SBA had handed out 950,000 applications for disaster loans, received 26,100, and yet had only approved 142 loans as of September 26, and checks had not yet been sent – one month after Katrina struck. To be fair to SBA, the nature of physical injury loans, which require significant documentation of damaged property, is partly responsible for the backlog. But other problems have plagued SBA’s efforts, such as a failed new computer system, which meant loans that once took 30 minutes to process took several hours to complete. Even before SBA’s new computer system failed, their loan processing rate was less than before the system was installed in December.

In addition, SBA has just announced – effective as of October 1 – a 9 percent increase in its servicing fee on 7(a) loans. This is the second consecutive fiscal year that SBA has increased lender fees in the 7(a) program. The increase will work against efforts to maximize SBA lending in the Gulf Coast region.

III. Congress Can Act Now to Improve SBA’s Role in a Regional Recovery

There are concrete steps Congress can take now to help the Gulf Coast’s small businesses – and the area’s banks – recover:

(a) Allow Preferred Lenders and Certified Lenders to Process Disaster Loans for a Reasonable Fee.

Currently, SBA has plans to open a central service center in New Orleans’s French Quarter to receive and process disaster loan applications from some 81,000 businesses
located in the general area. SBA’s plan promises to create a quagmire of frustrated, ill-served applicants, whose patience has already been worn excessively thin by government bureaucracy and inattention. Business owners in the region have barely been able to go to their company sites to inspect the damage. Instead of working to physically recover their businesses, are local business owners now expected to wait in impossibly long, un-air conditioned lines for countless hours? Even under ideal circumstances, it can take 21 days to receive disaster loan funds. SBA’s proposed strategy is doomed to add insult to injury. Yet SBA’s disaster loan program is often the only salvation for companies that lacked insurance, or whose insurance will not cover all of Katrina’s damage.

A practical solution that can be placed into action today is to allow SBA-preferred lenders and SBA-certified lenders to process disaster loans for a reasonable fee. A fee of 1 percent to 2 percent would cover banks’ costs and is likely to result in an overall savings to the government due to the efficiency of bank processing. A public-private partnership would allow SBA to process more loans by using experienced bank loan officers who are already intimately familiar with SBA’s programs and requirements. Instead of one centralized location to receive and process loan applications, there would be dozens spread throughout the city. This model could be applied across the Gulf Coast region, utilizing the existing expertise and facilities of hundreds of bank branches in Louisiana, Mississippi, and Alabama.

(b) Reclassify Certain Unrecoverable SBA 7(a) Loans Into the SBA Disaster Portfolio.

SBA 7(a) loans approved prior to Hurricane Katrina did not incorporate the kind of risk analysis for the wholesale destruction wrought by a Category 4 hurricane making landfall
within miles of downtown New Orleans and causing unprecedented flooding for hundreds of miles north, east, and west along the Gulf Coast. If ever there was a rationale for authorizing the use of emergency funds, Hurricane Katrina is it.

SBA’s disaster loan program is a direct government loan program that provides loans to individuals and businesses at very low interest rates, roughly around 4 percent, over a 30-year period. The 7(a) program is a government guarantee program that shares the risk between the government and lenders. In most cases, 7(a) loans provide a 50 percent to 75 percent government guarantee if the loan defaults, which places the lender at risk for 25 percent to 50 percent of the loan principal.

Because many of the loans in the hurricane-impacted areas are 7(a) loans with terms ranging from seven to 10 years, many of these loans are expected to go into default, with the government absorbing the majority of the outstanding loan. If a portion of these loans were transferred to the 30-year disaster loan program, the government may be able to collect the money on these loans over a longer period of time since payments would be more affordable for borrowers.

(e) Create a New Type of 7(a) Program to Provide for a 90 Percent Guarantee, Waive the Guaranty Fee (Customer Fees), and Reduce the Lender Servicing Fee by 50 Percent.

As mentioned above, the 7(a) program guarantees loans for 50 percent to 75 percent of the principal, depending upon the specific type of 7(a) loan. To assist businesses in the
hurricane-impacted areas, SBA should develop a guarantee program that provides a higher percentage guarantee (90 percent, ideally) and should lower the ongoing fees for both small business and for lenders.

The case for lowering the fees for borrowers is obvious. Lowering the fees for lenders would provide lenders an incentive to make loans through the program. If SBA does not increase the guarantee and lower the fees, there may be insufficient incentive to lend to businesses that have very little or no collateral, due to the extreme effects of Hurricane Katrina. Given the significant risks, the 10 percent stake that banks assume is considerable and ensures the appropriate level of due diligence in making loans while significantly increasing the flow of funds.

**d) Waive Collateral Requirements For Loans Less Than $250,000.**

Existing SBA loan programs require some form of collateral. The collateral for many of the businesses in the Gulf Coast region are either under water or the value of the collateral has been greatly diminished. Waiving the collateral requirement would help those small businesses that need limited capital ($250,000 or less), attract more applicants, and significantly help the rebuilding process.

**e) Permit flexible repayment options (payment deferrals and/or interest only loans).**

SBA’s 7(a) loans operate just like a traditional commercial or mortgage loan with monthly payments. SBA should support a program that would defer payments on new or existing loans – perhaps even restructuring loans to convert them into interest-only loans to
further reduce monthly payments for borrowers. This would allow time for businesses to rebuild – something that will take many months – without having such a severe initial cash-flow burden. Lenders and small businesses would find the loans highly attractive, which, in turn, would aid recovery efforts and help to stimulate the local economy.

Conclusion

In conclusion, SBA lenders are uniquely positioned to provide the kind of logistical and financial support necessary to sustain the long-term recovery required in the aftermath of hurricanes Katrina and Rita. Small businesses are a fundamental provider of jobs, products, and services to communities throughout the affected areas. Banks, many that are small employers themselves, also depend upon the vitality of SBA’s loan programs. Congress can make a tangible difference in the lifeblood of these communities by optimizing SBA’s loan programs to deal with this disaster. The recommended actions listed above would go a long way to provide opportunity where there now exists an over abundance of frustration.

Mr. Chairman, one of the recurring themes after these hurricanes has been the difficulty in delivering help to those who need it most. The banking industry is not looking for a handout. Instead, we are offering a cost-effective way to quickly deliver disaster loans and thereby jump start our severely damaged economy. Time is of the essence. We need your help.

Thank you. I would be happy to answer any questions you might have.