February 12, 2025

Testimony of

Justin B. Hooper

On behalf of the

Texas Bankers Association

before the

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Chairman Williams, Ranking Member Velázquez, my name is Justin Hooper. I currently serve as the CEO and Chairman for the Cross Timbers Region of First Financial Bank. I have been with First Financial Bank for 22 years and began my banking career working as a teller during my college years. In addition to completing a variety of training opportunities with the bank, I am also a graduate of the Graduate School of Banking at LSU in Baton Rouge, LA and the Management Development Program provided by the Texas Bankers Association. Being a community banker has afforded me the opportunity to also serve on a variety of local boards in support of my community.

The Cross Timbers Region of First Financial Bank represents many of the counties just west of the Dallas-Fort Worth Metropolitan area. The region is comprised of 14 branches and ranges (east to west) from Parker County to Eastland County, and further south into Erath and Somervell Counties. This part of Texas has enjoyed tremendous growth primarily due to its proximity to Fort Worth and its diverse and vibrant economies. This is also aided by incredible school districts and growing universities in the area.

Looking back at 2024, the region enjoyed strong loan demand fueled in part by the expansion of the Fort Worth area further to the west. Additionally, there are many families that choose to relocate to this part of the state and enjoy great communities and schools. It is also an area of the state that draws many looking for retirement options or recreational venues such as Possum Kingdom Lake or ranch land for a retreat from the city. This drives both growth in new deposit accounts but also growth in commercial loans, construction loans and mortgage activity. First Financial Bank continues to be a leader in these communities and is the market leader in most of the counties we serve.

First Financial Bank was founded in 1890 in Abilene, Texas and has been serving the needs of Texans for over a century. It is comprised of multiple bank regions with a total of 79 branch locations throughout the state. The bank is wholly owned by First Financial Bankshares, Inc. and its stock is traded on the Nasdaq under the FFIN symbol. As of the end of 2024, the bank had total assets of just under $14 Billion.

I. Community Banking and the Role We Play

What makes First Financial Bank unique is our community approach to banking. Many of our locations are in rural areas or just outside larger metropolitan areas of the state. As community bankers we play a vital role in those communities we serve. This may be through participating and providing leadership in the area chambers of commerce, serving on a variety of non-profit boards, or simply supporting the youth of our community at various livestock shows or sporting events. We give back to our communities both with time and money (nearly $2.2 Million in 2024) because we are part of the community. We live in the communities we serve and many of our customers are the same people we might see at church on Sunday, at a restaurant on Friday night, or even in the stands at a sporting event. Our Mission Statement illustrates this by stating “We build loyal life-long relationships by providing first class service with personal attention.” Additionally, our Service Philosophy is summarized in four points:

1. Advice - Our customers learn from us and are better because of our relationship.

2. Relationship - We care about the long-term success of each of our customers and strive to build trust-based relationships.

3. Availability – We are accessible to our customer and always ensure that their experience with us is efficient and timely.

4. Accuracy – We do the job right. We perform with precision and ensure error-free interactions with each other.

Our commitment to our community is what also allows us to be a resource for business owners and individuals that live in the area. I have been in the Weatherford area for just over 20 years and have worked for First Financial Bank for that entire time. It brings me joy to drive down the street and see businesses that are both new and old that we have supported over the years. Many times, they have relied on the bank for working capital, equipment purchases or potentially a mortgage or construction loan. Additionally, they look to the bank to be a financial partner who can provide sound advice. It is especially fulfilling to see business owners that we worked with at the inception of their business that are now enjoying the success that comes from years of hard work. Those same businesses are also employing many of the people that live in our community and therefore the impact they have is multiplied many times over. Put simply, our role as community bankers is to support our community because our success is tied directly to the vitality of that community.

II. SBA and Small Business Lending

First Financial Bank like many lenders enjoys a Preferred Lender status with the SBA. We have originated several loans in my region, both in the 7(a) program as well as the 504 program. Over the years, we have found that due to the complexities in navigating all of the Standard Operating Procedures (SOP) within the SBA programs, that it was necessary to form a specialized department in Abilene to mange our SBA process. This department is instrumental in keeping us apprised of changes within the various programs but also works directly with our customers to navigate those same programs. In 2024, the bank originated $4 Million of 7(a) loans and $40 Million of 504 loans. The typical turn around time on these requests ranges from 45-75 days from start to finish.

During the COVID era, our bank participated in the PPP program that was administered by the SBA and generated 6,530 loans in the first round, 3,179 loans in round two, and 7 Main Street Loans. The grand total of our originations under these programs was $1.12 Billion.

The main benefit for the bank in utilizing the SBA programs is that it allows us to assist customers with loans for new or start-up companies, business acquisitions, as well as expansion activities for newer companies. Additionally, the bank can offset some of the risk by relying on the guaranty from the SBA (typically 75% under the 7(a) program). The 504 program can provide the customer with an opportunity to put less money down on a real estate purchase as well as receive the benefit of a second lien note at a competitive fixed rate for 25 years. The first lien note is held with the bank and the bank can realize a low loan to value relative to that first lien note that is typically near 50%.

Originating the loans is only the beginning. The process to work towards the recovery of a SBA guaranty once a default exists can be a cumbersome process. Personally, I have been involved with the liquidation and workout process on a SBA loan that is now in its second year and we have not completed all aspects necessary so that we can submit the file to the SBA. You must liquidate all collateral as well as pursue other areas of recovery before you can submit to the SBA for payment. Getting guidance from the SBA is difficult. Many times, the response received relative to processes or procedures is that the bank should simply utilize its normal procedures as we would on any other loan. The dilemma with this response is that if later the SBA deems our processes or procedures to be flawed then it could impact the ability of the bank to collect on the guaranty from the SBA.

We make many loans to large and small businesses that are not associated with any SBA programs. This typically allows for a much quicker process and in many cases, loans that can be closed in days or weeks rather than months. It also allows for greater flexibility in our product offerings that we tailor to the customer's needs. In 2024, the bank originated $294 Million in commercial real estate loans; $376 Million in loans to schools, municipalities, and other taxing entities; $775 Million in commercial loans to businesses for a variety of needs such as working capital, inventory purchases, accounts receivable financing, and equipment financing; and $54 Million in agricultural loans.

III. Regulatory Burden and Other Challenges

Over the past several years we have seen increased regulatory burdens on financial institutions. This has resulted in large increases in expense to keep pace with the changes and ensure that we are compliant. Since 2021, our personnel costs related to compliance and risk have doubled and we anticipate that they will continue to rise. The number sits at a staggering $7.1 Million per year. In addition to the personnel to support our audit and compliance function, we also incur legal, technology, and outside audit expenses which are estimated to be another $3.8 Million. This brings our total annual cost to manage an ever-growing compliance burden to an estimated $10.9 Million annually.

2025 will bring additional regulatory burdens. Most notably would be those associated with the implementation of 1071. From personnel costs, training costs, and software enhancements necessary to achieve compliance, we are estimating an annual cost of $2.2 Million for 1071 alone.

Additionally, we are continuing to combat fraud losses and do not see this slowing down anytime soon. In 2024, we incurred debit card losses due to fraudulent activity of $1.5 Million and check fraud losses of $735 Thousand (forgeries and counterfeits). To combat this fraud activity, we incur personnel costs of $2.6 Million annually as well as $3.3 Million annually in software and technology expenses. The personnel and technology expense is necessary and has resulted in the bank stopping additional fraud that would be far in excess of the expense we actually incurred. Therefore, between the actual fraud perpetrated and the costs to combat this, it comes with a price tag of an estimated $8.3 Million annually.

IV. Outlook for Small Businesses in 2025

The rapid increase in interest rates in 2023 has resulted in much higher borrowing costs for customers that is lingering into 2025 despite a few rate cuts over the last year. This strain coupled with inflationary pressure that is driving up labor costs and other items for businesses is causing some businesses to see cash flow diminish. For the most part, businesses in our area are still healthy, but are feeling the impact of these outside forces. We have many real estate loans that re-price every three or five years and therefore we will continue to see borrowing costs rise for our customers as older rates are readjusted under the new interest rate environment.

As I noted, many of our customers are still reflecting a healthy financial position. We live in a portion of the state that is welcoming new residents every day. Parker County was listed as the 8th fastest growing county in the country (by % growth from 2021 to 2022) by the US Census bureau. There is a lot of optimism that exists for 2025 which has many of our customers contemplating new projects and opportunities.

Conclusion

As noted previously, the bank is investing a significant number of resources into our compliance and audit teams and the technology needed to support them. This number continues to grow and our staffing costs in this area have doubled in just four years. This trend line will be difficult to navigate over the next five to ten years unless something is done to lower the regulatory burden.

Being a community banker, I would say that our customers have access to a wide variety of loan products that we can offer. In my opinion, community banks such as First Financial Bank are part of the foundation of that community in which they serve. We are leaders in the community and provide sound advice to our customers to help them grow and succeed. We give back to our community in a very substantial way both in time and resources. We do this not just as good businessmen and women, but because we are part of the community, and its success benefits us all.