Testimony of

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On Behalf of the

Pennsylvania Association of Community Bankers

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Subcommittee on Economic Growth, Tax, and Capital Access

Hearing on

The End of Relationship Banking? Examining the CFPB's 'Small Business Lending Data Collection' Rule

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Chairman Meuser, Ranking Member Landsman, and members of the Subcommittee, I am Troy Peters, President of Jonestown Bank & Trust Co. (JBT) headquartered in Jonestown, Pennsylvania. I testify today on behalf of the Pennsylvania Association of Community Bankers. I also am a member of the ICBA.

My bank is celebrating its 150th anniversary this year. Our name has never changed. We have nearly $900 million in assets, eleven full-service branch locations, and 160 employees. Our focus is on small business and retail banking. We are also active in indirect auto lending, and we serve legal cannabis related businesses throughout Pennsylvania and surrounding states.

Community banks like mine provide the bulk of all small business loans in America. We are different than large banking institutions that operate under a contrasting business model that focuses on large companies and loan sizes. Main street businesses, like my customers, prefer to work with a local community bank because we are relationship lenders. We intimately know our markets and our customers.

The CFPB's Small Business Lending Data Collection rule is unfortunately squarely aimed at smaller banks like mine. We are disproportionately disadvantaged to take on the additional system and personnel costs associated with the compliance to this rule. Although much of the costs would need to be passed on to the borrower, it continues to promote further bank consolidation—which means fewer local, community banks to serve the small business segment.

When my career began, this country had over 12,500 banks. Today there are about 4,200. Gone are many of the local banks that were vital to their small towns. Now, due to consolidation, a small business's access to capital is being pushed into metropolitan markets where relationship banking doesn't count for much.

I also worry about the integrity of the data to be collected. In most cases, when a small business is seeking financing, they are looking for the best solution and talking to multiple lenders. Five banks could be collecting this data, but only one will fund the loan. Each bank would be reporting the data, which would make drawing any meaningful conclusion difficult – at best. Small-business loans are by their very nature not cookie cutter. They are tailored to the specific business' needs. It would be very difficult or impossible to collect the exact data points to tell the entire story of the structure, pricing, or counteroffers. There are just too many variables to these loans. They are not as homogeneous as, say, car loans.

Making application and loan data public will certainly be objectionable to my clients and is quite concerning. By publicly displaying sensitive information like how much money they applied for, what the purpose of the loan is, and their revenue number, is not the kind of information they want or expect to be made public from a private transaction. This disclosure could also create a competitive disadvantage for them, such as revealing a planned business investment. Even worse, publishing information that a sole proprietor's loan request was denied, in a small community like ours, is akin the posting a bounced check to the wall behind the store cash register. The public humiliation shouts “don’t do business with this person, they’re a deadbeat!” My customers adamantly do not want this.

I have customers like Jay. Jay came to our country seeking opportunity. After years of hard work and savings, he was able to open his own business near the small town of 1,900 people where my bank is headquartered. A few years ago, when the qualified mortgage (QM) rule was implemented, Jay was ready to build his modest dream home. As a long-time customer I would have loved to help him achieve his dream, but his mortgage request didn’t comply with the QM rules. Without access to the traditional banking system, Jay turned to an unregulated, hard money lender. His interest rate was higher the loan didn’t come with complete disclosure, flexible terms, or collection practices.

I feel like this rule will cause similar unintended consequences and will not be in the best interest of my clients and the communities that we serve.

My hope is that the CFPB will not go beyond the statutory requirements intended for this rule. They should not add additional data points. They should exempt smaller banks like mine, reduce the revenue thresholds, and not breach the privacy of my borrowers.

I love the community banking industry and I love helping my customers. Thank you again for convening today’s hearing and for the opportunity to offer the community bank perspective on the CFPB’s small-business lending data collection rule.

I’m happy to answer any questions you may have.