Congressional Testimony
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before the
House Committee on Small Business
"Prices on the Rise: Examining the Effects of Inflation on Small Businesses"

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My name is Silvia Lee. I am a graduate of Texas A&M University, Kingsville with a Bachelor of Science in Finance. My first and only jobs have been in the Texas banking industry with the last 23 of those at First Community Bank, Corpus Christi where I am the Chief Lending Officer.

We have 175 employees, and a somewhat unique factor about First Community Bank is that 73 percent of our employees are shareholders of the bank via our Employee Stock Ownership Program (ESOP). This has proven to be an important contributor to building a satisfied and growing customer base.

Our community bank was founded in 1983 and now has 11 branches and $657 million in assets. We have a loan portfolio of $458 million consisting of residential and commercial real estate and, of course, small business loans which are the subject of today's hearing.

As a prefatory point, I do want to mention that almost all our Paycheck Protection Program (PPP) loans have been paid out at our institution. They consisted of 845 loans in an aggregate amount of $107 million and I can tell you personally, that these loans contributed immensely to the ability of our local customers to continue as going concerns during the pandemic.

In my view, lending to small businesses and thereby allowing them to add new customers, purchase property, buy equipment, and hire more employees is frankly the most important community service we provide. Federal Reserve data confirm that small businesses in search of a loan look first to their community bank. The Fed's annual surveys in the small business sector confirm our experience that almost 70 percent of small businesses apply for this type of credit at an FDIC-insured bank.[1]

With respect to today's hearing topic, namely the impact of inflation on small businesses, the answer is simple and is applicable to small and large businesses, individuals, institutions, government entities and any other category I may have omitted. It's a hardship for all but for small businesses it can often be worse in that they start with smaller margins to absorb adverse outside factors.

Everyone is familiar with the severe decline in mortgage origination volume (40-60 percent) as the Fed's anti-inflation strategy has driven up interest rates nearing the eight percent range. What is not widely appreciated, however, is that the housing industry is composed almost exclusively of small business contractors.

At our bank, for example, we developed a great market niche in the custom-built home construction business but new credit applications have slowed significantly due to less buyer-demand. Even on larger build-out sites and non-housing construction, the rising costs of building materials, not to mention supply-chain delays, has impaired the

[1] Availability of Credit to Small Businesses, Federal Reserve Board (Oct., 2022).

overall business environment for the small businessmen and women who provide the component construction elements: architecture, design, carpentry, electric installation, plumbing, landscaping and the many other services which go into this critical aspect of local economies.

On the retail front, higher interest rates are likewise having a negative impact on rents and, at least in the State of Texas, higher commercial building taxes which are also passed on to the family businesses, including many immigrant families, which constitute a larger number of this vital economic segment.

These retail stores have landlords of course which are also included in our small business customer base and likewise are subject to the same financial pressures. At this point, we have not seen this rise to the level of actual loan defaults in our commercial real estate portfolio, but we also see a slow-down here as well as some business owners increasingly looking at the sale option. In the retail sector, however, many of the difficulties, as is well known, remain focused on just filling employee positions.

As a coastal community, Corpus Christi's hospitality industry remains a positive driver of local employment growth. We are also a lender in this area which includes mid-scale hotels/motels, RV parks and related leisure businesses that are fortunately witnessing full post-COVID recovery.

Recently, a long-time bank customer who owns a small business had an increase in his loan monthly loan payment of approximately $1,000.00 due to increased interest rates. The loan has an annual adjustment and re-priced in May 2023. The business owner commented that he would price his goods and services out-of-the market to absorb the cost of his inventory and increased interest rates. He mentioned that he feels our government does not want small businesses to succeed and wants only large companies in business. It is an unfortunate prospective.

Even in areas where the economy remains strong, however, underwriting small business loans relies primarily on a business' debt coverage ratio, i.e., the new or refinanced monthly debt service in relation to the business' historical net income. With what has been a doubling of interest rates in just the last twelve months, the equation is fairly straightforward in that we are now seeing the cash-flow available for debt service ratios drop dramatically for every type of business. This would be especially true for a start-up small business which is probably the most critical local component for a growth economy.

As a bank with very strong earnings and capital, we are prepared to work with any of our small business borrowers encountering temporary difficulties and all of us, whether borrowers or lenders, hope that this unprecedented combination of excess fiscal and monetary policy followed by rapidly-rising interest rates will soon be coming to a pause.

The current market pressures notwithstanding, Texas is blessed to have a strong economy and very strong banking system. In our area of the state, the macro-economy is driven by oil, gas and hydrogen production and transportation, of course, as we are a port city.

Nevertheless, Texas has not been immune from industry consolidation trends where the number of FDIC-insured banks headquartered in our state has declined from 556 to 387 over the last ten years. An even sadder part of this is that even among the remaining local banks so many have been forced to abandon important parts of the consumer market such as home mortgage lending to the larger banks or nonbanks as the case may be.

That has not been the case at First Community Bank, we remain committed to the home mortgage market, the small business market and as many of the full-service banking products as make economic sense. In this regard, we are very concerned about the massive new regulation on small business data collection just finalized by the CFPB which puts us in the position of having to collect nonfinancial personal information on prospective business borrowers.

Thank you for the opportunity to appear before you this afternoon.