Testimony of

Hazel Davis

On behalf of the

Texas Bankers Association

before the

Committee on Small Business

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July 10, 2024

Chairman Williams, Ranking Member Velázquez, my name is Hazel Davis, Vice President, Compliance Manager and Corporate Responsibility Officer for Jefferson Bank in San Antonio, Texas. We are a family-owned community bank chartered in 1946, with approximately $3 billion in assets. With fifteen locations, we serve the needs of San Antonio and Austin, a growing mega region of approximately 4.8 million people. Our primary specialty is commercial lending, although we also have a robust consumer mortgage division. Demographically, San Antonio is more than 64% Hispanic, with 34,000 small businesses and 145,000 sole proprietorships.

As a regulatory compliance officer and community development professional I have had the opportunity to observe first-hand the impact of economic and regulatory change on the availability of credit. I appreciate the opportunity to be here to discuss the headwinds facing small businesses, both as an employee of a small business and co-owner of a small business, and as a board member and advocate for the Texas Bankers Association (TBA). TBA is the largest and oldest state banking association, representing 375 small, regional and large banks, employing over 218,000 people. Community banks make up 97 percent of all U.S. banking organizations and continue to be the backbone of businesses across America. As a sector, we have a personal stake in the economic growth, health, and vitality of our communities.

I. Community Banks Are Uniquely Equipped To Assist Small Businesses

San Antonio continues to experience economic growth with unemployment lower than the Texas and U.S. average. Hiring and/or retention of qualified staff, increased cost of materials, and workforce housing affordability have been identified by local business owners as challenges. Our bank has seen a steady demand for credit, however higher interest rates have impacted price-sensitive borrowers.

Our commercial credit portfolio has performed well with existing businesses meeting obligations. Loan officers are personally involved in their communities and are committed to working with borrowers should an extension or modification be required. Higher consumer mortgage rates have impacted commercial 1-4 family construction loans, with some requiring extensions to allow for properties to sell.

Supporting small businesses is part of the community bank business model – to mitigate risk, we must have a diverse loan portfolio of smaller dollar loans rather than rely on a limited number of large loans or one specific type of loan. By its nature, commercial lending is more complex than consumer lending due to the variety of purposes, financial structures, industries, and collateral types. It has been my experience that community banks are uniquely equipped to understand local small business challenges and complexities. Through prudent, sound, and compliant policies, community banks generally offer lower interest rates, faster processing times, and varied repayment terms compared to Small Business Administration (SBA) programs, which often charge prepayment penalties.

Relationships, service, and the ability to tailor products to our customers' needs are hallmarks of community banking. A healthy economy and banking sector require fair and equitably enforced laws and regulations. ***Credit unions and members in the financial and fintech space must be similarly regulated and examined. Commoditization of commercial lending will reduce the availability of credit to small businesses.***

II. Lack Of Financial Literacy Limits Access To Capital

As the designated fair lending officer, I regularly review declinations for patterns or trends. It is my observation that early entrepreneurial efforts by borrowers are often initially self-funded. The probability of obtaining capital after establishing their business is determined by credit, collateral, and liquidity. If the business owner has utilized their personal credit to their determent, it becomes less likely that they will easily obtain credit without additional collateral or resources. Financial acumen, including the separation of personal and business expenses and adequate financial recordkeeping, substantially impacts the probability of application approval.

It would be reckless for a lender to grant a credit request if an applicant could not provide proof of income or other source of repayment. Our fiduciary responsibility as bankers requires us to act in our borrower's best interest. From this perspective, it is my opinion that the availability of capital within the marketplace is sufficient, however not all businesses are ready for borrowed capital. The Community Reinvestment Act (CRA) addresses these gaps and reenforces the importance of community banks within their communities.

Banks are personally and monetarily invested in their communities, providing financial literacy education and support for small business programs. The current CRA focuses on meeting the credit needs of communities. ***Proposed revisions repurpose the CRA regulation into a deposit-based assessment. This fundamentally shifts attention away from small business and financial literacy support.***

III. Increase Support For Small Businesses By Reducing Barriers

San Antonio is a majority-minority city with a rich history spanning more than 300 years. As with many cities, we have neighborhoods that have experienced historical disinvestment. This history has fostered an undercurrent of mistrust, with area business owners avoiding debt and traditional financial systems. Through relationships and consistent involvement, we have established deep partnerships in these areas.

The cost to originate a $10,000 or a $100,000 loan is similar, and dictated by the cost of loan origination platforms, personnel, and other overhead expenses. In recent years, the banking industry has seen an increase in regulatory action, requiring additional systems investments and causing an increase in overhead expenses. For us, this has included more robust Bank Secrecy Act (BSA) processes to support beneficial ownership rules and hiring additional compliance and audit department staff. Increased origination costs have a greater impact on smaller businesses, due to their generally lower loan amounts. Additionally, every dollar Jefferson Bank invests in systems for compliance purposes is one less dollar reinvested in small businesses in our community. ***Regulatory burdens, such as small business data collection initiatives, have the potential to erode trust and increase origination costs, reducing the availability of capital.***

Conclusion

In summary, I ask the committee to consider the potential unintended consequences of regulatory action and its impact on small businesses. Consistent and fair regulation of the financial industry, recognition of the unique characteristics of commercial lending vs consumer lending, and support of small business financial literacy efforts are necessary to support a thriving small business ecosystem.