

TESTIMONY

Of

**MARIA COYNE,
EXECUTIVE VICE PRESIDENT,
KEYBANK**

On behalf of

**THE FINANCIAL SERVICES ROUNDTABLE and
THE CONSUMER BANKERS ASSOCIATION**

for

The U.S. House Committee on Small Business

Hearing on

“The State of American Small Businesses”

February 13, 2013

Introduction

Chairman Graves, Ranking Member Velazquez, Members of the Committee, thank you for inviting me to today's hearing and giving me the opportunity to testify on the state of small business today. My name is Maria Coyne, and I am the Executive Vice President of the Branch Network which includes Small Business Lending at KeyBank. While I appear here today as a representative of KeyBank, I am also testifying on behalf of the Financial Services Roundtable (Roundtable) and the Consumer Bankers Association (CBA).

KeyBank is a regional bank headquartered in Cleveland with approximately \$89 billion dollars in assets. KeyCorp's customer base spans retail, small business, corporate, and investment clients. KeyCorp has 15,000 employees, and approximately 1,087 KeyBank branches spread across 14 states in our branch footprint.

The Roundtable and CBA collectively represent many of the nation's leaders in small business lending. The Financial Services Roundtable represents 100 integrated financial services companies providing banking, insurance, and investment products and services to the American consumer. Member companies participate through the Chief Executive Officer and other senior executives nominated by the CEO. Roundtable member companies provide fuel for America's economic engine, accounting directly for \$98.4 trillion in managed assets, \$1.1 trillion in revenue, and 2.4 million jobs.

I am also a member of CBA's Board of Directors. For more than 90 years, CBA has been the recognized voice on retail banking issues in the nation's capital. Member institutions are the leaders in all areas of consumer financial services, including small business lending. CBA members include most of the nation's regional banks, as well as bank holding companies that collectively hold two-thirds of the industry's total assets.

Banks Continue to Support Small Business

First and foremost, KeyBank and the entire financial services industry are committed to small business lending. Small business lending is a core component of our overall business, and small businesses are the cornerstone of the American

economy and its communities. Historically, small businesses have led job creation during previous economic recoveries and will play a leading role in helping our country through the still-challenging economic climate. For the last 20 years, small businesses have created two-out-of-three net new jobs in the country, and today more than half of working Americans own a small business or work for one. Banks are a crucial partner to businesses and are stepping up lending so small businesses can do what they do best – invest in communities. Given their significance in creating jobs and innovation in the U.S., KeyBank understands that it is critically important that businesses, including franchise owners, have access to financing so that aspiring entrepreneurs and existing small businesses can help lead our country's economic recovery. We are committed to making loans in the communities we serve, and we continue thoroughly to review the creditworthiness of each borrower with the goal of making small business loans where prudent.

Economic Uncertainty

As our country continues to recover from the economic crisis of a few years ago, there are a number of factors that will have a direct impact on small businesses and small business lending in 2013 and beyond. These challenges, which in many cases are global in nature, threaten the long-term health of the economy of the United States. These challenges must be resolved quickly in order to provide a stable path forward for consumers, businesses, and lenders.

Federal policy is an important factor in whether our economy reaches its full potential or continues to grow incrementally. More specifically, the continued uncertainty surrounding federal policy on taxes, sequestration, the debt ceiling, and regulations signals to the private sector that our leaders are unable to play their critical role in creating an economic environment that will allow entrepreneurs to thrive.

According to the National Federation of Independent Business's January 2013 Optimism Index,¹ Congressional inaction has left "small-business owners with no new information about the economy's future." In short, small businesses, lenders, and most importantly consumers are challenged to understand how federal spending cuts or other federal policies might impact them. We urge Congress and the Administration to address these challenges directly as soon as possible in order

¹ <http://www.nfib.com/research-foundation/surveys/small-business-economic-trends>

to minimize negative economic consequences and place the United States on a path for sustained growth. Our economy needs stability, predictability, and certainty. It is incumbent upon our elected leaders to create an environment where small businesses can thrive and expand.

Where We Came From

From its peak in 2008, small business lending saw a steady decline until early 2011. Since that time, lending has stabilized with slow and steady improvement experienced month over month nationally throughout 2012. We anticipate similar growth rates in the coming year to mirror 2012 with applications for business credit continuing to grow if GDP and consumer confidence continue to grow as well.

Roundtable and CBA members are consistently hearing from their small business clients that general economic conditions make them less inclined to take on additional debt. Actual events combined with media reports of a potential double-dip recession are often mentioned as concerns. Stronger companies have found ways to weather the storm either by finding new revenues or by cutting expenses, but weaker companies that weren't prepared for a downturn have been exposed. Many companies have accepted that the current environment is one of stabilization vs. growth opportunities.

A key issue is consumers' lack of confidence, resulting in lower sales, particularly on the smaller end. We are hearing from small businesses that they just cannot hire, expand or make major purchases because they do not have enough "wiggle room" to remain profitable and are not willing to take on additional expense.

A secondary problem is the diminished credit profiles of many small businesses due to the current economic environment. Collateral has declined; with limited collateral, small businesses that are otherwise creditworthy have had to rely increasingly on loans backed by the U.S. Small Business Administration (SBA) to get the funding they need.

Collateral insufficiencies are highlighted by the diminished value in a traditional form of collateral used by many small businesses – home equity. The values of personal assets are a critical component to the success and ability of small businesses to grow. The decline in home values has constrained the ability of

small business owners to obtain the credit they need to finance their businesses. As a result, many formerly qualified borrowers are now struggling to find other sources of collateral needed by lenders properly to underwrite loans.

How We Improve

KeyBank, the Roundtable and CBA have supported, and will continue to support, the various efforts of this Committee and Congress to expand small business lending (i.e., SBA program enhancements) and to stimulate economic development. As a result, many small business lenders have instituted aggressive second-look programs to ensure no stone is unturned when finding ways to make more quality loans. These second-look programs are resulting in more approvals.

Additionally, many lenders have announced enhanced lending programs and increased lending commitments for small businesses, which include enhanced employee training and incentives to improve production through local branches. Many lenders have also hired additional small business bankers specifically tasked to improve delivery of SBA guaranteed loans and to determine additional opportunities.

At KeyBank, additional staff have been and will continue to be hired to assist in our efforts to increase small business lending. We have dedicated considerable resources to strengthening our small business loan officer ranks and their training so that we can improve our small business lending production. As I will describe, our efforts have produced positive results for our borrowers.

For example, two years ago, Laticia Ortiz started Tortilla La Bamba, a-woman owned, Hispanic business specializing in the production of corn tortillas for local restaurants and grocery stores in Northern Ohio. KeyBank provided the company with a \$15,000 start-up loan to purchase a tortilla-making machine. As a result, the company was able to meet the demand in the area that had been filled by producers outside of the state of Ohio. The company is outgrowing its leased space of 7000 square feet and is now looking to move its business to another local location and expand its operations. In the next 12-18 months, Laticia plans to purchase a new building that would be large enough for Tortilla La Bamba to expand into another product line of flour tortillas to expand its product offering to existing customers and attract new customers. KeyBank is currently exploring the

possibility of extending a new loan to Ms. Ortiz for the purpose of expanding and growing the business.

Since 2005, Key has loaned more than \$6 billion to women-owned business owners (WOBs), and this is the third time that Key has exceeded a goal of lending to WOBs. KeyBank surpassed its goal to provide \$3 billion in loans to women-owned businesses by April, 2012 – three months ahead of its target.

Third, in 2011, KeyBank, along with 12 other banks, made a commitment to increase small business lending by \$20 billion over three years. In September 2012, SBA announced that the 14 banks, including Key Bank, are more than halfway to meeting that commitment well ahead of the three-year deadline.

Finally, in May 2012, the SBA named KeyBank the top SBA Large 7(a) Lender of the Year. The award – the SBA’s highest recognition – is based on factors such as portfolio performance, year-over-year growth in loan approval volume and on lender size, and ongoing commitment to the growth and expansion of small businesses. We believe that SBA National and local District offices play a key role in helping small businesses obtain the capital they need to meet their financial challenges. SBA programs posted the second largest dollar volume ever in FY 2012, supporting \$30.25 billion in loans to small businesses. However, despite the positive results SBA programs have produced the last several years, changes are needed to ensure the continued success of SBA’s programs. For instance, streamlining the application process for the 7(a) and 504 program would reduce response times and paperwork. In addition, bringing more transparency to the SBA’s standard operating procedures (SOP) would provide more public feedback to SBA and help guide its decision-making when SOPs are updated. The National Association of Government Guaranteed Lenders (NAGGL) has also been instrumental as a centralized voice for its members in helping the SBA streamline its processes that helps small business obtain capital. As well as provide technical assistance and training for all lenders that has resulted in more lenders participating in the SBA programs.

At the height of the recession, KeyBank committed to increase small business lending. When we made this commitment, we were counting on the resiliency of the business owners we serve every day. Their hard work has made us match their dedication and has made us a better lender and institution.

Where We're Going – Trends & Projections

It is a myth that banks are holding back the economy by refusing to loan to small and large businesses. In fact, overall domestic loans increased 5% by the end of 2011, reaching \$2.1 trillion by the end of the second quarter of 2012. However, today's economic environment remains a challenge for many small businesses.

We expect small business loan demand to remain stable at a relatively low level in 2013 with flat to slightly better results from 2012. Over the last few years, the NFIB consistently reported that the overwhelming majority of small business owners continue to report that their finance needs are met or they are not interested in borrowing. We've seen no significant signs of improvement, and small businesses have routinely reported (NFIB, Gallup, etc.) that they are willing to sit on the sidelines until the economic environment settles. Until owners see more positive sales results, they are generally not convinced they would receive a positive return on investment. In addition, they feel no sense of urgency to borrow since they believe the low-interest-rate environment will persist well into 2014. Line utilization and business card balances are at all-time lows as small business owners continue to keep more liquidity on hand.² Customers are still not borrowing enough, and we will need to see some expansion and leveraging up to really get things moving. Banks are aggressively looking for new loans, and competition between lenders for customers is fierce.

We continue to look at SBA and other Government Guaranteed programs as important levers in generating loan volume. We expect SBA 7(a) volume to be elevated over 2012 production. We also expect the SBA 504 program to continue to play an important role in the current business real estate market.

While we expect some slight improvements in credit metrics, without the significant growth in balance sheets, we expect percentages of non-performing loans, charge-offs and delinquencies to continue to stay static at acceptable levels. In other words, charge-offs and delinquencies continue to improve and are at acceptable levels and the credit quality of borrowers is generally very good.

² According to data compiled through the second quarter of 2012 by the Small Business Financial Exchange and attached hereto as addendum >>>> , the number of small business line of credit originations began dropping prerecession, continued to drop through June 2009 and remains below prerecession levels. Also, business card balances continue to decrease and line of credit balances have dropped, driving utilization rates to their lowest point in recent history. This decrease in card balances and declining line of credit utilization indicates small businesses remain conservative in their use of credit.

While the outlook for small business is improving, it parallels our national economy, which means that more needs to be done to connect lenders with borrowers. Therefore, the industry continues to take affirmative steps to connect lenders with creditworthy borrowers. For instance, last year the Roundtable, CBA, the International Franchise Association (IFA) and other trade associations hosted a Small Business Lending Summit, which was widely attended by representatives from franchise and lending banks communities. Through the summit and the ensuing dialogue, the Roundtable and CBA aimed to partner with key stakeholders in the small business, financial and government policy/regulatory communities to seek ways to unleash the power of small businesses and aspiring entrepreneurs to create jobs through increased access to credit. Preparations for another Summit are already underway, and the Roundtable also expects to work with the IFA to host regional events around the country.

Additionally, CBA and IFA have developed the Small Business Loan Accelerator³ – a tool used to prepare and guide potential borrowers through the lending process. The Accelerator is now in use and is helping lenders better understand the franchise business and what franchise lending entails, thereby encouraging more investment.

Conclusion

KeyBank, the Roundtable and CBA support the committee's efforts to review areas where it can support small businesses, as well other alternative avenues, to help create business opportunities through innovative policy solutions that will help create a foundation to build a strong and prosperous economy. While the efforts to increase small business lending by Key and the industry overall have produced a variety of positive outcomes, we know more work has to be done to make sure capital reaches the aspiring entrepreneurs and small business owners who need it.

KeyBank is ready to continue to work with the small business community, Congress, and the Administration to help our nation's economic maximize its potential.

³ <http://www.franchiseregistry.com/>

This concludes my testimony and I am ready to answer any questions posed by members of the Committee. Thank you.