

Testimony of
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On behalf of the
Independent Community Bankers of America

Before the
United States Senate
Committee on Small Business & Entrepreneurship

Hearing on
“Streamlining and Coordinating Support for Rural Small Businesses”

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Opening

Chair Shaheen, Ranking Member Ernst, and members of the Committee, I am Gus Barker, President and CEO of First Community Bank, headquartered in Newell, Iowa. Thank you for convening today's hearing on "Streamlining and Coordinating Support for Rural Small Businesses." I testify today on behalf of the Independent Community Bankers of America where I am Chair of the Rural America and Agriculture Committee and a member of the Board.

First Community Bank is a \$115 million asset bank with 25 employees. We serve four rural communities in northwest Iowa: Newell, Pomeroy, Rockwell City, and Fonda. Founded in 1912, we are in the third generation of family ownership. First Community Bank specializes in agricultural lending of all types, rural small businesses, and one-to-four family homes.

Community banks such as mine have served rural America for decades and play a vital role in the economic prosperity of thousands of small communities, supporting small businesses, farms, and families. According to the FDIC, community banks are the only physical banking presence in one in three counties in rural America. Specializing in small business and agricultural lending, community banks are responsible for the majority of Main Street small business loans and 70 percent of bank agricultural loans.

In view of the recent flooding in northwest Iowa, I want to put a special focus on community banks' support for rural small businesses in the wake of natural disasters. In times of crisis, community banks demonstrate their irreplaceable value by providing critical resources, counsel, and comfort in their communities. I am grateful for the opportunity to share the community bank perspective on this important topic.

Prompt and Effective Disaster Recovery Is Critical to Future Prosperity

Iowans have repeatedly proven their strength and resilience in the wake of natural disasters. I credit our close-knit rural communities where neighbors are always ready to sacrifice for one another in times of crisis – a quality found not only in Iowa but in thousands of rural communities across America.

As a 47-year-Iowa community banker, I've lived through the Great Flood of 1993, one of the most destructive American river floods in recent memory. Again in 2008, flooding along the Mississippi river devastated Iowa communities. Like other midwestern states, Iowa has experienced tornadoes and droughts which have laid waste to our most precious economic resource, our crops and livestock. In June of this year, severe flooding in Rock Valley caused significant damage from which the local region is still recovering.

Experience has convinced me that the best solutions are local. Community banks have always been on the frontlines of disaster-recovery efforts in Iowa. I'm proud that local families, farms, and small businesses have turned to me in their time of need and that I have been able to provide resources, guidance, and friendship to help them survive, rebuild, and get back on their feet. Federal programs will never displace local community banks, which are always ready to provide vital resources at a moment's notice and without bureaucratic obstacles.

SBA Disaster Recovery Programs

SBA direct lending and other federal disaster-recovery programs have always played a critical role in the survival of numerous disaster-stricken businesses. Unfortunately, these programs are mired in bureaucratic hurdles which obstruct timely access to critically needed resources. Disaster victims are in no position to complete excessive paperwork to obtain the resources they desperately need.

In the historic flooding of 1993, I worked with a customer in eastern Iowa who was in dire need of SBA assistance. He sought my assistance in completing the agency's overwhelming paperwork, and I was happy to help because I wanted to ensure the recovery of his business. Without SBA funding, its survival was in doubt.

The paperwork burden was daunting. The owner's wife and I spent many hours writing histories and explanations to justify the loan, including five-year financial projections. Several revisions were required before the SBA was satisfied with the application. The business was finally able to get a loan that helped keep the business operating. That business not only survived but has now been passed onto the next generation and continues to operate.

The support of the local SBA office was critical to the success of the application and the survival of the business. When there is no local office with loan approval authority, the application process is much more difficult for the borrower. Unfortunately, the SBA removed approval authority from its Iowa office some years after the catastrophic flooding of 1993, leaving behind only informational resources. Today, SBA approval authority resides in its San Francisco office. I have found it difficult if not impossible to work with agency staff at this distance. A local bank has a better understanding of the market, established customer relationships, and a vested interest in the success of the community. The same is true of a government agency. A local presence is critical to its effectiveness.

Disaster Victims Often Seek Community Bank Solutions

Among the worst hit towns in the catastrophic flooding of 2008 was Waverly, Iowa on the Cedar River. The river crested at nearly 20 feet, inundating the town and requiring evacuation. I was with a local community bank in Waverly at that time. It was clear that support from SBA and FEMA would not be enough to support the recovery. Flood victims sought the help of their local community banks. They needed an immediate solution and were intimidated by the paperwork required by federal agencies. To support rebuilding, my bank joined efforts with two other local banks to promptly extend some 50 loans to impacted businesses and families.

Despite the inherent risk of lending to disaster victims, the loans were repaid with no delinquencies. I believe the strong performance of these loans reflects the common commitment of borrower and lender to the community. The crisis strengthened our relationship, which explains our low default rates.

This was not an isolated case. I have extended private loans in a number of natural disasters in Iowa. Interest rates are typically discounted and considered an investment in the community toward economic development. Of course, these are not grants but loans, and as prudent lenders, we file documents to try to secure them. However, we recognize that a loan to a disaster victim is under secured and risky until rebuilding is complete. Disaster lending of this type takes patience and understanding from the bankers and regulators to allow for recovery. This is very much a core part of our mission of community service.

Suggestions for Improved Coordination Among Agencies and Private Lenders

I want to share with you some specific problems that I have seen in coordination among the agencies and with private lenders in disaster recovery.

Excessive Liens

SBA is known to file liens far in excess of the loan amount to secure their mortgages. A peer Iowa banker recently told me that the SBA had filed liens of \$2 million on properties where the loans were only \$200,000. Because SBA liens are in primary position, they tie up their collateral and prevent a community bank from helping the borrower in any way. SBA refuses to subordinate its loans in the way that USDA, for example, does.

We recommend that SBA liens be limited to the value of the loan and that the SBA be willing to subordinate its liens when circumstances warrant.

Duplication of Benefits

In the wake of a disaster, both FEMA and SBA set up a local office and staff to help with assistance applications. Each agency has its own requirements and limits. Unfortunately, they don't coordinate a package of available benefits. FEMA provides grants of limited value. SBA provides low-interest rate loans that are nevertheless costly to borrowers in other ways. As noted above, an SBA loan ties up the borrower's collateral in excess of the loan value and limits the borrower's options in the future. A disaster victim cannot combine benefits and is forced to choose which program to use, though neither program provides adequate relief in itself. For example, I understand that FEMA funds allocated to Spencer, Iowa for relief from the recent flooding are only enough to cover reconstruction of half of the buildings.

I believe it is too much to ask of disaster victims to learn the details of the competing programs, keep them straight, and make an informed judgement. They come to their bank for help, though we often don't have any more information on government disaster programs than they do. We recommend that

benefits offered by different agencies be available as a package to ensure availability of adequate resources to disaster victims.

Support for the Farm Bill

Before I conclude this statement, I take the liberty of urging this Committee's support for advancing a meaningful Farm Bill in 2024 or, failing that, additional ad hoc assistance that addresses deteriorating conditions in farm country resulting from falling commodity prices. Given the enormous challenges facing production agriculture – including a farm economy that has taken a downward spiral – it is imperative Congress act before year end to strengthen farm policy and help prevent a disaster in rural America. Enactment of a new Farm Bill or an aid package that strengthens the safety net is urgent for the many producers that may face years of red ink, eroding their financial reserves and equity and making long-term business planning much more difficult.

Closing

Thank you again for raising the profile of a critical issue for Iowa and the nation. We need to ensure that disaster victims get the assistance they need on a timely basis and without needless bureaucratic hurdles. Community banks have a vested interest in the prosperity of their communities and are always ready to help with private loans or in coordination with SBA and other agencies. We appreciate the support of this Committee in streamlining and coordinating support for rural small businesses, farms, and families.

I'm happy to take your questions.