

Congressional Testimony
U.S. House of Representatives
Committee on Financial Services
Empowering a Pro-Growth Economy by Cutting Taxes and Regulatory Red Tape
Ford Sasser III
President & CEO of Rio Bank
on behalf of the Texas Bankers Association
June 20, 2018

My name is Ford Sasser. I am a 1976 graduate of Texas A&M University with a BS in Agricultural Economics. After college, I went to work for the Texas Department of Banking (TDB) as a state bank examiner. After examining banks for four years, I went to work in a community bank in Beeville, Texas. In 1986, I moved back to the Rio Grande Valley of Texas where I had been a bank examiner and went to work at a local bank. In 1999, I became the President and CEO of Rio Bank which is a community bank in Deep South Texas along the Texas and Mexico border. Our bank has approximately \$350 million in total assets with eight locations in Hidalgo and Cameron Counties. We employ about 110 people.

Texas is blessed to have a strong banking environment, and Texas bankers take great pride in the fact that our banks weathered the financial crisis of 2008, 2009 and 2010 as well as they did. Texas Bankers also went through a very difficult economic time in the mid to late 1980's because of the downturn in oil prices. This economic crisis in the 1980's was not felt in other parts of the nation to the extent that it was in Texas. Texas had numerous bank failures.

I personally believe that the Texas bankers that survived the 1980's came out of that crisis with a better understanding about how to manage their banks and minimize many of the different kinds of risks in their balance sheets. That is why the Texas banks did not have the level of problems in 2008 to 2010 that banks in other parts of the nation had. Nevertheless, Texas has not been exempt from industry consolidation trends where the number of FDIC-insured banks headquartered in the State has declined from 650 to less than 450 over the last ten years.

Today I look forward to discussing with you how the 2017 Tax Cut and Jobs Act has affected Rio Bank, my industry and my customers. As you are aware, my industry has seen an onslaught of new and amended regulations placed on it over the last 10 years as a result of the failures of others. This has not only caused a burden on my bank, but more importantly, it has been a burden on my customers. While recently, we have begun seeing steps taken to reduce this regulatory burden, nothing has more positively impacted Rio Bank and its customers than the 2017 Tax Cut and Jobs Act.

In January of this year, our bank joined other banks and companies across this nation and paid bonuses to our employees. We paid each of our employees a \$1,000 bonus regardless of how long they had been working with the bank. A teller that had joined the bank only one week earlier was both surprised and excited to be receiving this bonus check. It will be remembered as one of the happiest days in our bank. I had employees tell me, with tears in their eyes, how good the timing was for getting this check.

As a community bank, we are the life blood for small businesses. Lending to these small businesses is what allows them to expand their businesses. Adding new customers; purchasing property, buildings and equipment; and hiring more employees are all important components in growing a business. That is when businesses look to their community bank for loans. We have to determine a business' capacity to repay debt when qualifying those businesses for loans. Having a lower tax rate provides a borrower more money to service debt and thereby qualifies more small businesses to get the much needed credit that they use to grow their companies.

Being a community bank, we have the opportunity to provide banking services to both consumers and commercial customers. The majority of our business is on the commercial side and that is for a couple of reasons. There are more regulatory burdens placed on retail lending. Fair lending regulations have become very burdensome and are causing pricing models to have us charging higher interest rates to people. The mandates of the Dodd Frank Act also drove us out of the home lending business. Another reason we are able to do more commercial business is that the large money center banks are not active locally in this market. Therefore we see the large money center banks focus more on consumer customers while we get the commercial business.

When underwriting loans, we focus primarily on a business' capacity to repay the debt. We do that by looking at a business' current debt, what the monthly debt obligation is to service that total debt, then add the new debt obligation we are considering and comparing that total monthly debt service to the business' historical net income. We call this a debt coverage ratio. With the reduction in tax rates, we are now seeing the cash available for debt service going up thereby qualifying more businesses for loans by increasing the debt coverage ratio.

The TBA asked its members how the 2017 Tax Cut and Jobs Act affected their customers, employees and shareholders. The responses range from positive to little to no effect. Those responses are listed below with the bank's name removed for confidentiality reasons.

The 2017 Tax Cut and Jobs Act has been a great stimulus to the economy. I thank you for inviting me to this hearing and I look forward to answering any questions that you may have.

Addendum: Responses from Texas bankers on benefits from tax legislation

1. Yes, [our bank] has experienced several positive outcomes since the tax legislation. We have awarded internal bonuses, we have seen an uptick in loan demand along with capital formation, we have expanded our hiring throughout our Bank, we have invested in updated technology, and noticed a more optimistic demeanor from our customer base for expanding in our markets.
2. Due to the new tax law change [our bank] provided each employee (that were not in the Long-Term Incentive Stock plan) 50 shares of [our bank] stock. This covered approximately 300 of our 340 employees.
3. Our bank has seen a dramatic increase in loan demand. Organic loan growth of 10% in the first 5 months of 2018 has already exceeded our annual budget for loan growth. We believe that much of the growth is fueled by increased investment due to the 2017 tax legislation.
4. We haven't changed anything about our lending or pricing structure; however, as a direct result of the tax relief, we have upgraded product delivery systems to provide better service to customers. We have upgraded our loan document production platform with integrated *esign* for customer convenience. We have re-designed and upgraded our website to facilitate a better user experience from mobile devices. We have budgeted significantly more money for employee training and we have increased the employer matching portion of our employee 401k plan. We also plan a mid-year bonus for all frontline employees.
5. We are increasing our employer match in our 401(k) plan. We currently have a \$1,500 cap on the match and are moving that up to \$5,000.
6. [Our bank] with two locations has benefitted from the tax legislation via increased loan request. Our commercial borrowers and consumers have more cash flow to work with via the tax reduction which also gives them the confidence to move forward with expansion of their business as well as increased hiring. Many of them also have higher confidence in the current administration that the anti-business sentiment that existed for 8 years is being addressed. The bank was more generous in the way we approached bonuses and raises with our employees than prior years. We have also added two staff members that were not planned in our 2018 budget due to the extra cash flow available via the tax act.
7. We have hired two additional loan officers and paid substantial bonuses to employees.
8. As a result of the tax plan passed, we paid every employee a \$500 cash bonus. Also, the lower tax bill and resulting higher income made it easier for us to do a study of the competitiveness of the salaries for our non-officers. We believe this will result in a 10% increase for these folks.
9. We raised our minimum wage from \$10 per hour to \$14. We increased our life insurance coverage from 1X to 2X annual salary for everyone. We added additional benefits to our financial wellness program for our employees. Over half our workforce is involved with that.
10. We gave all employees with a base salary less than \$100,000 a \$1,000 bonus. We also increased our 401-k match 50%.
11. Due to the tax legislation [Our Bank] provided a one- time bonus to our employees.

12. [Our Bank] has benefited greatly from some of the recent legislation and tax changes. Some of these include the following:

1. Higher raised in 2018 due to tax reductions. Our average raise was 5% compared to an initial 2.5% we were planning on implementing before the tax change.
2. The increased small bank holding company act will allow for further expansion of [Our Bank]. This will result in additional hires for the bank. We are up approximately 35 employees from this same time last year. This is providing more job creation in West Texas for [Our Bank].
3. Customers/borrowers seem to be purchasing more equipment as a result of accelerated depreciation write offs.
4. Extension of examination period to 18 months for our bank will give us significant time to focus on customer service and business development.
5. We are looking into additional small lending programs.

13. [Our Bank's changes include:]

1. Increased all hourly employees' wages and increased our starting wages for hourly employees. Our starting wage is now \$12.00. All hourly employees were increased to \$12.00 per hour. Those already making over \$12.00 were increased at least 25 cents per hour.
2. We expanded our training in many areas and budgeted for internal and external training that otherwise would not occur.
3. We purchased equipment and software that we would not have without the tax savings.

14. We instituted some pay raises.

15. When the President signed The Tax Cuts and Jobs Act into Law, the effect of that new law lowered individual and corporate tax rates in 2018. In addition, it removed the alternative minimum tax credit. [Our Bank] benefited significantly as a result of the new tax law and voted to pay a special bonus to all full and part-time employees in February 2018. We followed this benefit in May with a new increase in bank paid life insurance for all full-time employees. Employees now receive double the life insurance coverage or two times their annual salary, up to a maximum of \$200,000.

Our Shareholders also benefited from the tax credit windfall, receiving a special dividend that was paid in April.

Our bank customers have also benefited due to the expected increase in net income with the lower corporate tax rate. We have been able to increase deposit rates to our customers while still maintaining our superior revenue performance.

16. Our bank increased salaries by about \$100,000 for 2018. We will also pay a bonus at the end of the year based on our income. We will possibly pay an extra paycheck in August if our board approves which will also be around \$100,000.

17. After reviewing our 2017 hourly paid employee expenses and turnover and discussing the new tax rates, our Board of Directors approved an across the board pay raise for all hourly employees of \$100,360 effective February 1, 2018. We are a small community bank with 89 employees total and 48 are paid hourly.

18. [Our Bank's] Board of Directors, based upon the tax relief bill and the general improvement in the economy, approved a 2018 budget that increased our investment in associates, markets we serve and new markets. Our budget includes the following:

1. 5% increase in salaries across the entire team
2. Added 2 new positions (from a base of 53) to better serve current and future clients
3. Increased community development spending by over 10%
4. Expand our footprint in two markets that will create up to 5 additional jobs in 2019.

The Tax Relief Bill had a direct impact on our budgeting process and through 5mos'18 it has positively impacted our capital base and as such we are positioned to invest in our communities and our associates.

19. Yes, we have paid bonuses and increased salaries due to the effects of the tax reduction. We have also increased accruals for year-end bonuses and are anticipating higher dividends.

20. We have not done any of the things you listed in your "ask." However, we did increase our dividend last year and will look at it again this year. We have also invested more than \$1 million in technology upgrades and are actively looking for additional branch sites, all as a result, in-part, to the income tax relief. All of these things, we believe, will in turn provide for additional consumer loans, competitive rates and additional compensation for our employees.

21. Due to the 2017 tax reform, we were able to switch back to a C-Corp allowing us to retain capital and loan more money to consumers. Also, because of the savings we paid an un-scheduled bonus to all employees (approximately 275). Needless to say, this legislation was a major benefit to our customers in every market as well as our employees and shareholders. Win/Win/Win.

22. In our case, we increased year-end bonuses by approximately 25% and 2018 salary increases were about double what they would have been without the corporate reduction.

23. We have made more funds available to lend to our small business customers as a result of the tax change and we have also given some salary adjustments to our lending staff including loan administration.

24. [Our Bank] joined in with our other affiliates to increase the compensation of over 5,000 of our colleagues. Through a combination of salary increases, one-time bonuses paid in January 2018 and January 2019 (if still employed), we passed through approx. \$17 million of our estimated \$95mm in tax savings to our employees paid less than \$40,000 annually.

25. In response to the expected financial benefits of the tax legislation, [Our Bank] did the following – effective March 1, 2018:

- provided a 5% salary or pay rate increase to all employees; and
- provided an increase in the pay rate for all employees to a minimum of \$11.00 per hour.

26. [Our Bank] has been able to add three new positions as well as increase incentive compensation percentages to the entire staff. The tax break was very welcome in our company.

27. Our Bank had previously budgeted for a pay increase to our employees for 2018, however when the Tax reform bill was passed, the bank determined that the salary adjustments could be

dramatically increased from our previously budgeted amounts. This additional increase in pay to our employees is directly related to the corporate tax rate reduction.

The Tax reform also allowed us to implement some technology banking products that Our Bank had been planning in the future. These products such as Zelle, and DocuSign, do not necessarily add to the bank's bottom line, so we have to weigh the bank's cost compared to the service to the customer. With the tax reform, we found that we could justify the monetary expense to offer these products to our customers several years sooner than we originally projected.