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Barry R. Sloane
Co-CEO
Century Bank
Medford, MA

Good Morning Ladies and Gentlemen.

Thank you for the privilege of appearing before your Committee to share my perspectives on the current state of the credit crisis for small and medium sized businesses.

First a word of background on Century Bank.

Century was founded 40 years ago by my father, Marshall, on a corner of Mystic Avenue in Somerville in a temporary office trailer.

He is today our Chairman, and as we approach our May 1 anniversary are proud to be the largest family controlled bank in New England.

My brother Jonathan and I are Co-CEO's of an institution of $2 billion of assets, 22 branches in Eastern Massachusetts, 400 employees; and a member of a now exclusive club: community banks who are increasingly profitable (earnings up 15% in 2008), with growing local deposits (up 12% in 2008), that did not need or accept the TARP capital from the Treasury.

Century was founded on the concept in 1969 that there was a powerful case for a community based lender to business in Middlesex County; a premise that remarkably is even more compelling today.

We are in business to serve the needs of consumers, local business, local governments, and not-for-profit institutions in Massachusetts, Rhode Island and New Hampshire. We proudly service over 6,000 business clients, and since 2004 alone we have made over 1,500 small business loans, many in partnership with the SBA. Our total loan portfolio is over $900 million and has grown on an upward slope since the early 1990's; increasing over 15% in 2008.

We are sound, safe, and with abundant liquidity to expand our loan portfolio. We are ready and able to lend to the business community.

Why have we done well and others not? There are three simple reasons:

First, we have a culture based on risk management. We are lenders; we live and breathe our loan portfolio through a highly centralized management process.

Second, we lend only in our local market. Market intelligence is critical to a successful loan policy.

Third, we seek and nurture long-term relationships with all of our borrowers. A single transaction without relationship continuity is discouraged.

So how can we make a contribution today to the dialogue of “seeking solutions” to enhance business credit availability?

There are two pathways. One, to make banks stronger so they can make more loans. Two, to make small business healthier so they become stronger borrowers.

Let’s take the banks first.

Far too much emphasis has been placed on bank capital, not enough on earnings. The TARP program provided capital to banks with marginal or adequate capital ratios, but at a high price, becoming an instant drag on net earnings (profits). Net profits build branches, hire lenders, feed the loan loss reserve, and expand the capabilities of the institution in its local market.

How can you in Congress help the profitability of independent banks? Improve their efficiency and relative competitiveness.

1) Simplify the regulatory structure. Seize this reform opportunity to merge the 5 bank safety and soundness regulators into one federal system. We are regulated by three different agencies, it is inefficient. Please do not burden the independent banks with the process of a proposed “systemic risk regulator.” We always thought there was one; it was called the Secretary of the Treasury. We are worried about a proposal that based on my recent reading, takes some 300 pages to just explain the question.
2) Change the FDIC premium structure. Convert the premium charge from a bank expense to a user fee that is disclosed, transparent, and much more economically efficient. The pending 2009 FDIC special assessment will have a significant negative earnings impact on independent banks. Why should banks that practiced sound lending have their earnings negatively impacted by the irresponsible behavior of others. The 2009 assessment will effect a contraction on the lending of sound banks through the shrinkage of earnings. The FDIC premium should be paid by the depositor as a discrete “tax” based on the health of the fund; not a charge to individual bank earnings.
3) Reinstate the Glass-Steagall barriers between commercial and investment banking. Admit the failure of that experiment and acknowledge that commercial bankers are risk based asset managers, and investment bankers are fee based originators. They are two different genetic animals…and are poisonous together. The short-term high fees of the broker/trader will devour the good judgment of the banker/lender. Get the brokers out of the banking

business, and please stop this wild proliferation of bank charters to institutions that have neither the temperament, geographic focus, nor long-term relationship culture to be known as a "bank." Level the competitive landscape so that once again community banks can make loans at a fair price to their local customers and stop losing business to "The Street." You in the Congress control the competitive equation, put the emphasis back in community connectedness and away from globalism.

4) Please do not recapitalize and re-empower the GSE's (Government Sponsored Enterprises) to repeat the securitized lending mistakes of the last decade. Sub-prime loans would never have been made in such size if the GSE's had not facilitated the transactions. The oversight and control of those agencies is in your hands. Put the loans back on the bank balance sheets where their approval will again be thoughtful and they will be supervised.

5) Finally, the Government, in our view, has done far too much to forgive the short-sighted irresponsible mistakes of the giants. Why should they be rescued? Let them reorganize fundamentally in an orderly way…break them up…restore a decent competitive balance in American banking…create a far more distributed pattern of deposits. The "giants" will forget the lessons of this crisis, and using "other people's money" do it all over again in the future.

Now let's talk about the health of the small and medium sized business community. These entrepreneurs are experiencing two reinforcing negative impacts, the dramatic fall in real asset values, and the staggering collapse of their cash flow from double digit sales declines.

This vortex has especially impacted firms that are in the automotive, housing, and consumer discretionary sectors, where sales have fallen 20-50%. There is no way for a small business to survive a market cycle with such a severe fall in cash flow if they have any meaningful level of debt.

The SBA does a fine job. Few people realize that the SBA has, until recently, recouped all of its loan defaults from the guarantee fees charged borrowers; there was no subsidy from the taxpayers. We are a so-called "Preferred Lender" and use the SBA credit enhancement as a frequent tool in our portfolio lending process. The recent changes increasing the "7A" program federal guarantee level to 90% is a good thing for small business; as is the elimination of new guarantee fees.

However, you must keep in mind that a loan we don't like at a 75% guarantee, we won't like any better at 90%. It probably fails due to inadequate asset valuations and cash flow. We're not inclined to make a loan because we could lose less money. It's either a good credit or not. Higher 7A guarantees do not transform a marginal applicant into a good credit.

The combination of this recession and the credit crisis are a tsunami for small business. Frequently, I sit through urgent meetings with business owners of, in many cases, multi-generational family businesses that are floundering on the shoals of this crisis. This is the

Katrina for small business, they don't need more debt, that's the last thing they need, they need equity, and they need help…soon. This is figuratively a challenge for FEMA, not just the SBA. Lifetimes of resourcefulness and initiative in small business are melting away with each GDP contraction.

If this government has the capital to keep Bank of America's planes in the air, Citi's corporate retreat staffed to serve lunch, and even pay AIG's bonuses…then it must find the capital to help mitigate so many of the family business tragedies playing out everyday in bank conference rooms across the nation. I know I don't have to tell you in Congress of the importance of small and mid-sized business in the economic and employment health of the nation. They need their own TARP program, let the banks administer it, make it an equity investment, take the pressure off these business owners who are watching their dreams evaporate day by day.

In a Trillion Dollar Stimulus program, ONE billion dollars could rescue until the recovery 10,000 small businesses at $100,000 each. If we can underwrite the corporate planes and bonuses, then we have the capacity to support small business, but do we have the will?

My Dad, my brother, my sister, and I, sincerely hope so.

Thank you for your consideration.