NFIB
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PENNSYLVANIA

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Chairman White, Chairman Smith, and members of the committee, thank you for the opportunity to testify today. My name is Neal Lesher and I am the Legislative Director for the National Federation of Independent Business (NFIB) in Pennsylvania.

The NFIB is Pennsylvania's leading small business organization representing nearly 15,000 small- and independent businesses in the Commonwealth and roughly 350,000 nationwide.

NFIB members represent virtually every sector in Pennsylvania's economy. A typical NFIB member employs five or fewer workers and generates gross sales of $400,000 per year.

The purpose of today's hearing is to discuss the competitiveness of the banking industry in Pennsylvania. I would like to offer some perspective into the importance of the health of our banking institutions on our small-business economy.

Importance of Small Business Lending and Local Banks

Small-business and lending go hand-in-hand. The ability to access financing is important to allow small businesses to make new equipment purchases, acquire new inventory, maintain cash flow, hire new workers, and grow their business. While a number of financing options are available to small businesses, bank lending continues to be one of the primary sources of financing for our main street businesses.

Small-business owners also tend to have an easier time getting approval from their local community bank, in large part due to the relationships built in the community. In March 2015, while big banks (over $10 billion in assets) approved 21.6% of small-business loan applications, smaller community banks approved 49.5% of small-business loan applications.[1]

Business Optimism and Trends

There has been a significant reduction in small business lending through the Great Recession. The number of small-business owners with a business loan dropped between 2008 and 2001 from 44 percent to 29 percent. The possession of a line of credit also fell 10 percentage points over the period.[2] While the percent of small-business owners who report regularly borrowing has increased somewhat, currently at 32 percent, we have still not seen small business lending recover to pre-recession levels. As reported in NFIB's Small Business Economic Trends for the first Quarter of 2015:

> For most of the recession, record numbers of firms have been on the "credit sidelines", seeing no good reason to borrow…Interest rates are low, but prospects for putting borrowed money profitably to work have not improved enough to induce owners to step up their borrowing and spending.[3] – Bill Dunkelberg, NFIB Chief Economist

[1] http://www.biz2credit.com/images/html5/lending-index/lending%20index.pdf
[2] http://www.nfib.com/Portals/0/PDF/AllUsers/research/studies/small-business-credit-study-nfib-2012.pdf
[3] http://www.nfib.com/surveys/small-business-economic-trends/

While it is concerning that so many of our small-business owners are still on the credit sidelines, we are optimistic that the trend is beginning to recover. If the right economic policies are put in place by the legislature and the governor, and sales continue to slowly recover, we believe more small business owners will start looking for additional financing for new projects.

Governor's Proposal

In Governor Wolf's 2015-16 Executive Budget, the Governor has proposed retroactively increasing the Bank Shares Tax to 1.25%. This would have the effect of raising the tax liability of banking institutions doing business in Pennsylvania by $583.5 million over a five year period above the original revenue estimate from FY 2013-2014. It is estimated that this could result in a reduction in the total amount of loans issued by $3.8 billion over the five year period.

If the availability of loans declines in Pennsylvania, we believe that small businesses loans will be disproportionally impacted in the commercial market over loans to larger businesses.

According to Karen Gordon Mills, former Administrator of the Small Business Administration and current Senior Fellow at the Harvard Business School, small business loans are often considered less profitable than large business loans for four reasons.[4] First, small business lending is riskier than large business lending because small businesses are more sensitive to swings in the economy. Second, assessing creditworthiness of small businesses can be more difficult because of the lack of public information that exists about the performance of most small businesses. Third, the costs of underwriting small-business lending are high due to heterogeneity of small businesses and the lack of a secondary market. Lastly, transaction costs to process smaller loans are comparable to larger loans, but with less profit.

We urge the legislature to reject the governor's proposal due to the impact it could have on Pennsylvania's economy and the deep and disproportionate impact that it would have on small-business lending.

[4] http://www.hbs.edu/faculty/Publication%20Files/15-004_09b1bf8b-eb2a-4e63-9c4e-0374f770856f.pdf