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Statement of

Michael Finn, Northeast Regional Director
Office of Thrift Supervision

regarding

Seeking Solutions: Finding Credit for Small and Medium-Sized Businesses in Massachusetts

before the

Committee on Financial Services
United States House of Representatives

Field Hearing
March 23, 2009

Office of Thrift Supervision
Department of the Treasury

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I. Introduction

Good Morning Chairman Frank and members of the Committee. We appreciate the opportunity to provide the Committee with the Office of Thrift Supervision's (OTS) views on expanding credit for small and medium-size businesses in Massachusetts and throughout the U.S.

First, I would like to thank Chairman Frank for his leadership on this issue. A statutory change sponsored by Chairman Frank and supported by OTS passed the House of Representatives in the 109th and 110th Congress would have increased credit for small-to medium-sized businesses by lifting the limitations on small business lending under which savings associations operate. We appreciate Chairman Frank's resolve and stand ready to work with him to see the changes enacted.

This hearing is very timely. Small business owners have noted the constriction of credit and regulators are working with banks to provide borrowers credit in a safe and sound manner.

This morning, I will discuss factors that OTS believes impede the extension of credit to the small businesses that are the backbone of communities across the country. I also will describe legislative and regulatory changes that we believe would alleviate these obstacles.

II. Thrift Industry Lending

OTS supervises 19 savings institutions with home offices in Massachusetts that range in asset size from $25 million to $2.5 billion. As of year-end 2008, these institutions held total assets of $10.5 billion. All of these thrifts are well capitalized and have Outstanding or Satisfactory ratings on their most recent CRA examinations. There are also several OTS-supervised institutions headquartered outside of Massachusetts that have a presence in the state.

The institutions that OTS supervises are community-oriented banks that provide credit to meet the needs of families, business and neighborhoods. Small manufacturers and service companies drive employment in communities. Taxes paid by the businesses and employees support infrastructure, schools, social services and other activities in the community.

OTS-supervised savings associations have made diligent efforts to serve the needs of these businesses and have been successful in some regards. For the institutions that we supervise, total loan originations and purchases declined about 11 percent from 2007 to 2008. However consumer and commercial business loans, and nonresidential and multifamily mortgages increased during this period.

Nevertheless, thrift institutions' ability to extend credit to small businesses is limited by law. These caps make the small business lending line of business difficult even for lenders that have not reached the statutory limits and that want to serve that segment of their communities. OTS-regulated institutions do not want to be subject to sanctions for violating regulations by inadvertently exceeding the statutory limits on small business lending. Also, due to the statutory limits, many thrifts are unable to achieve efficiencies of scale that would make small business lending profitable.

There are legislative actions that OTS believes would increase the availability of credit and facilitate small business lending. OTS also is proposing regulatory changes that would provide more flexibility. I will describe these actions and recommendations in detail.

III. Legislative Recommendations

OTS has advocated and supported legislation to remove the cap on small business lending for thrift institutions. Due to the Chairman's leadership, a statutory change to lift the limitations under which savings associations operate passed the House of Representatives or the Financial Services Committee in the past three Congresses.

The Home Owner's Loan Act (HOLA) currently caps the aggregate amount of loans for commercial purposes at 20 percent of a savings institution's assets. Any commercial loans in excess of 10 percent must be small business loans.

The legislative proposal that OTS supports would remove the cap entirely on small business lending and increase the cap on other commercial lending from 10 percent to 20 percent. The existing 20 percent of assets ceiling imposed on small business lending limits the alternatives for thrifts wishing to diversify their lending operations and credit risk. Smaller lenders operating under these caps are particularly constrained in small business loans they may make to their communities.

IV. Regulatory Proposal

OTS also is exploring regulatory avenues to provide additional flexibility. Currently, we are working on a proposed regulatory change that would amend the definition of "small business loan" to increase flexibility for savings associations wishing to make these loans.

The OTS periodically reviews its rules and regulations regarding lending and investment to ensure that they fully implement statutory authority and requirements, protect consumers, and enable savings associations the flexibility to engage in lending that provides necessary credit to consumers and communities in a safe and sound manner. OTS has modified its lending and investment rule over time as federal savings associations, their markets, their competition, and the economy have changed. This evolving environment makes it appropriate for OTS to again re-examine and update its rules.

OTS is now proposing two specific amendments to its lending and investment regulations. First, the definitions for "small business loans" and "loans to small businesses" would be amended to replace the current dollar limit with a standard that will adapt to and reflect different economic conditions. Second, *de minimis* community development provisions would be amended to increase the amounts that could be invested.

HOLA provides that the Director of OTS has the authority to define "small business loans." OTS currently defines a "small business loans and loans to small businesses" either to include (1) a loan of any size to a small business as defined by the SBA, or (2) a loan that does not exceed \$2 million (including a group of loans to one borrower) that is for commercial, corporate, business, or agricultural purposes.

OTS is proposing to revise the definition to remove the dollar limit for a small business loan. Instead, the rule would provide that the standards for what qualifies as a small business loan are established by the OTS Director in Thrift Bulletins published from time to time. This change would provide greater flexibility for OTS to adjust the maximum size of a small business loan and possibly vary the limit by thrift size or geography.

Another regulatory change that OTS believes will make a difference is a proposal to increase the *de minimis* community development investments permissible for savings associations. Savings associations are authorized to make *de minimis* community development investments by regulation and OTS is proposing to increase the permissible investment to the greater of three percent of total capital from one percent of total capital or $500,000 from $250,000.

This regulatory amendment would provide savings associations with additional flexibility to assist their communities through community development investments.

V. Closing

We believe these legislative and regulatory changes would go a long way towards unfreezing credit markets in Massachusetts and throughout the country so that savings banks have great ability to lend to small-and medium-size businesses.

We appreciate the Committee's support and stand ready to work with the Committee