

TESTIMONY FOR MARGARET HENNINGSEN

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Before the

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

Assessing Access: Obstacles and Opportunities for Minority Small Business Owners in Today's Capital Markets

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Chairman Landrieu, Ranking Member Snowe, and members of the Committee, I am Margaret Henningsen, Vice President and Founder of Legacy Bancorp and Legacy Bank. I welcome the opportunity to speak to the Committee on assessing access and opportunities and obstacles for minority small business owners. I will share with you how we grew and how the success of the small businesses we finance make Legacy Bank successful. I will also speak to how those same small businesses are now struggling to survive and thus affecting the success of Legacy Bank. My testimony will also focus on the need for capital to keep those businesses going, and how the current economic conditions could very well signal the end of a decade of strong growth in minority business communities. In the two years since I last testified before this committee, the situation facing minorities businesses has drastically changed.

I began thinking about starting a bank in the mid 90s as the result of the lack of capital for minority entrepreneurs, who were seriously underserved, and a significant number of people who were under-banked in Milwaukee. I was joined in this effort by co-founders Deloris Sims and Shirley Lanier. We were three Black women in our 50s who recognized the need for greater access, and pent up demand for commercial capital for minority and women owned businesses in our target market. Our research supported our contention that the opportunities were out there and there was a need for a bank that could guide those entrepreneurs (both existing and future) to the right resources for success.

Legacy is a state chartered commercial bank located in Milwaukee, Wisconsin. Our charter was granted in July of 1999 by the Wisconsin Department of Financial Institutions after we raised seven and a half million dollars in capital. We were the first women in the history of the state to form a bank holding company and charter a commercial bank. Our bank provides financing for existing and start-up businesses, commercial real estate, home purchases, home equity loans and a variety of retail products including products for under-banked and unbanked consumers. Ironically, we celebrated our tenth anniversary in 2009 with assets of over two hundred and twenty five million during one of our nation's worst economic downturns. This was no small feat

as some predicted that we would not survive given the location of our bank and the market we wanted to serve.

For six of our first nine years, Legacy Bank achieved nearly double digit growth every year and has consistently exceeded our annual goals for net income. Our growth has been fueled by the never ending demand for loans in our community and surrounding areas as more people, particularly minorities, strive to achieve their dream of being an entrepreneur and having a successful small business. Many of the major businesses around today were small businesses that a financial institution took a chance on. Even some of the largest financial institutions started out as small community banks serving a niche market in particular underserved neighborhoods that needed financial services and the opportunity to access capital. That is the model for Legacy Bank. We have a niche market in an underserved community and have been touted as a national model for community banking in underserved areas. Until the last thirteen months we were growing by providing financial services to that community and beyond. That growth has come to a standstill as the economic conditions have made it nearly impossible for us to continue financing in our market. Our existing customers, who took advantage of every opportunity we could offer, have used up all of their resources as well as whatever we could provide. It is inevitable that those same successful businesses will not survive. As the credit crunch has accelerated, we have seen a major increase in the number of existing and start-up businesses, especially minorities, coming to Legacy needing capital to survive. For the first time, we have had to turn down some of those customers – both existing and new.

The need for capital must be addressed. It must be swiftly developed and available to those once successful businesses that are now struggling businesses. In minority and underserved communities to ignore the lack of opportunity that now exists would be devastating as the opportunities for employment and economic success have all but disappeared. In the same fashion that large banks/financial institutions and major corporations have received relief, small businesses must be included in that plan. It is a major issue that opportunities being publicized by the Small Business Administration is too little too late. The loan requirements for collateral and cash from borrowers who need the most help are unrealistic when the businesses are struggling to survive yet being asked to meet credit and cash requirements that are nearly impossible. We encouraged and educated our customers to be prepared. But nothing could have prepared them for this economic crisis that was not of their doing.

Data demonstrates the fact that many minorities, who become or want to become small business owners, are often first generation entrepreneurs. These enterprising owners do not have the benefit of family members handing down a business or providing them with the necessary training and coaching that is so crucial for business success. At Legacy, we have found that when financial training and business coaching are provided along with the funding, businesses can succeed. The process of working with owners to strengthen their business is part of our banking model – but we have been unable to overcome the credit crunch that is so adversely affecting our customer base.

Many banks argue that small business loans are too small, that not enough money can be made from them, that they involve too high of a risk, or that the borrowers lack the skills, or is unprepared, to run a successful firm. What we have found is that many of our customers have excellent ideas, good locations, a customer base and the drive and tenacity to make their businesses succeed plus a Plan B in case A does not work. Once they are given the opportunity, access to capital, training, coaching to make these businesses work they have been successful as supported by our double digit growth serving this customer base. There is risk involved – but that is true no matter who is borrowing the money as evidenced by the number of corporations that are failing, struggling and/or being bailed out.

Let me share lending data with you. From July 2007 to June 2008 Legacy Bank financed 392 loans. Of those, 269 were loans categorized as minorities and or loans in underserved areas. The dollar volume of those loans was almost \$35 million. Do the math – we made and continue to make money from minority and underserved lending. These loans are good investments in solid companies. More than half of these loans went to start-ups or newer businesses needing capital to grow. From March 2008 thru June 2008, our loan numbers spiked as fewer lenders would take a look at small business loans and so more of these businesses came to us. Legacy bank loaned money to 122 businesses during that time period. The last fifteen months our lending has declined to less than two million in the last two quarters of 2009 and the first quarter of 2010. Much of our time and funding has gone to our existing customers trying to keep them in business and for the first time in eight years, we operated at a loss.

Our loan losses and delinquency rate have grown at a rate much faster than we anticipated. We find ourselves struggling right along with our customers. At Legacy we say “No margin, No mission.” We strive to maintain a balance between the margin and the mission but it has become a challenge.

Despite the challenges we are facing, we still believe that lending to minorities and doing business in underserved communities is good. We provide customers with the training they need to be successful and we are rewarded with our own success. However, during this economic crisis their remains a great need for relief for small businesses.

Legacy and other banks like Legacy cannot do this alone. Help, support, and resources, in the form of more funding for entrepreneurial training and lending programs that support underserved communities, MUST be a priority for this Committee. The micro loan program; a streamlined application and approval process for SBA loans; rethinking the requirements related to assets and collateral in underserved markets, grants for training as well as other financial support to minorities and underserved communities will increase the capacity and survival of small businesses.

Employment in our target market increases because of our small business lending with more than 2,500 jobs being created or sustained by Legacy Bank customers. This creates economic development, generates taxes, and is good for the city, county and state.

Our companies provide their employees with money to spend on needed services, buy homes, acquire other assets, and build wealth. All of which strengthens a community and turn it from underserved to a productive and thriving area.

Senator Landrieu, Ranking Member Snowe, and members of the Committee, I appreciate the opportunity to testify here today and would be glad to answer any questions.