

**TESTIMONY OF GUY WILLIAMS
PRESIDENT
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**Before the
U.S. Senate Committee on Small Business and Entrepreneurship
Hearing on “Perspectives from Main Street on Small Business Lending”
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Good morning Senator Landrieu, ranking member Snowe, and members of the committee. Thank you for giving me this opportunity to talk about small business lending.

My name is Guy Williams; I am the president of Gulf Coast Bank & Trust Company which is headquartered in New Orleans, Louisiana.

We are a community bank primarily operating in southeast Louisiana. . We host a business entrepreneurship center and are also the largest SBA lender in Louisiana,

Last year we increased our outstanding commercial loans by 20%. We also increased our home mortgage originations by 21%

We continue to provide business lines of credit and expanded that area of our business by 10% last year.

So far this year we have made new loans of all types totaling \$192,854,000.

We also operate a nationwide business called Gulf National Corporation that purchases and reworks distressed loans nationwide. This gives us a chance to see other markets and to understand some of the challenges facing people in other regions.

While Louisiana is doing relatively well, we realize that the credit crunch is real and in cases, severe. The credit crunch and our financial troubles began with too much money flowing to people and businesses that could not repay their loans.

Naturally, when the slow down began lenders raised their credit standards. While this was going on the secondary market ceased to function and regulators began to look for more capital and more liquidity.

This also coincided with some very irresponsible news stories about “nationalizing the banks” These discussions caused healthy banks to retreat from anything that looked like a federal bailout, even if it was intended to be a capital injection from treasury to enhance lending.

So while we at Gulf Coast bank are continuing to lend, we see the perfect storm of regulator demands for more capital and liquidity, general tightening of lending standards, the extreme contraction in the secondary market, all combined with a healthy dose of fear about future federal actions.

This combination of events has made it more difficult to borrow money in many parts of the country. In some cases potential borrowers need to be turned down and in others some potentially healthy borrowers are having a hard time getting loans.

Unfortunately for our customers we will have to slow our loan originations this year and may also have to reduce originations in 2010. Many people think that the federal government pays for bank failures. Actually the healthy banks like Gulf Coast do through Federal Deposit Insurance Corporation premiums.

Our FDIC premiums are now \$100,000 per month higher than they were last year. This means that because of the way banks leverage capital, we will have to reduce lending by \$10,000,000 to cover the capital effect of the increased premium.

The FDIC has also proposed a special one time assessment. Depending upon where they set the rate, our share could be as high as \$1,875,000. This will cause a further reduction in our lending of approximately \$19,000,000.

This reduction in capital and the related reduction in loan capacity will be felt by every bank in America.

Like 2,458 other community banks and most of our successful small business customers, we are taxed as a sub s corporation. If the top individual tax rates go up as projected in 2010 this will slow our capital accumulation and our loan origination ability by about 5% a year.

We often hear about unanticipated consequences. Too often those unanticipated consequences were unanticipated but foreseeable.

We would like to increase our lending even further. Unfortunately we can foresee that the changes which have occurred and those that are expected in the near future will make further increases in our lending almost impossible.

The recent changes in SBA program guidelines will be helpful but there are a number of other actions that should help.

- 1) Ask treasury to create a separate pool of investment money for good banks. This should be normal market rate: market terms preferred stock, not tied to a bailout for any troubled institutions.
- 2) End the trade wars and protectionism. Business owners know that this is how the serious recession of 1929 turned into the great depression.
- 3) Stop demonizing corporate travel. New Orleans, San Francisco, New York and Miami are all tourist and convention destinations. If conventions are cancelled the cooks, maids, drivers, and other service workers lose their jobs while the small businesses that support tourism suffer.
- 4) Allow banks to deduct their loan loss provisions. This will help the industry build reserves and also encourage a little over reserving in the good times.
- 5) Reduce the risk weighting for purchased bank cds covered by FDIC insurance. These are totally government guaranteed but if I buy a cd at another bank it carries a 20% risk weighting. It should be zero. This would provide additional liquidity at no cost to anyone.
- 6) Reduce the risk weighting for FANNIE and FREDDY securities. These are controlled by the government and should be zero risk weighted.
- 7) Allow subordinated debt to count as tier one capital without the necessity of a costly trust preferred wrapper.
- 8) Increase the size of 7a loans and continue to waive the fees.
- 9) Reconsider national size limits. This situation was caused by institutions that became too big to fail and too big to manage. So far the government solution has been to make our largest financial institutions even bigger and more complex.
- 10) Be careful. Sarbanes/Oxley was supposed to prevent fraud and improve the markets. Instead it prevented many IPO's and reduced the flow of capital to small business. Let's not make the solution worse than the problem

Thank you for giving me this opportunity to testify here today, and I look forward to answering your questions.