

“Examining Access to Capital and Other Headwinds to Entrepreneurship”

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By:

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Senator Fisher and members of the Committee: thank you for the opportunity to testify today.

My name is T.J. Casady. I am a small business lender at Union Bank and Trust Company where I have worked for the last 21 years. Union Bank and Trust (UBT) is a locally owned bank, operated and owned by the same family since 1965. UBT has been recognized for innovative and progressive ideas, and has grown significantly during the past 20 years, both in size and diversity serving Nebraskans across the state with 16 branch locations in Lincoln and another 17 throughout the state. At UBT we firmly believe that customers use financial services to achieve their dreams. Our commitment is to be the best dream maker in the communities we serve.

UBT is fortunate to be headquartered in Lincoln, NE as Lincoln has become the envy of cities across the nation. Our city has received many accolades by national publications stating that Lincoln is a great place to live and work. Recently, Lincoln was featured in a CBS news special as “The Silicon Prairie”, where a

multitude of start-up companies are opting to call home primarily due to the low cost of living and our community that is very supportive of small businesses and start-up ventures.

UBT has long been supportive of small business and entrepreneurship. In 2012, we opened a new facility, appropriately named Catalyst, in the heart of the newly developed West Haymarket area where many of our community's start-up companies are choosing to locate. The Catalyst space is open to the public and may be reserved for use by entrepreneurs or small businesses. It provides a place for creative thinking, collaboration, meetings, planning, networking, and learning. Many startup businesses that don't have access to a state of the art facility for presentations have used our space for meetings with clients, prospects, and investors.

UBT has worked to grow our Small Business Administration (SBA) loan portfolio significantly over the past few years. With over \$50 million in outstanding SBA loans, much of this growth has come from our focus on new and emerging businesses. UBT is a SBA preferred lender, and has the ability to streamline the SBA process by making in-house credit decisions and accelerating the process. SBA loans provide small businesses with greater flexibility due to lower down payment requirements than other conventional loan options. SBA loans also provide the bank with up to an 85% government backed guaranty, making it easier for a bank to take a risk on a business with little to no operating history. These loans can be used for a variety of purposes, including purchasing real estate, buying an existing business, starting a new business, funding property improvements, acquiring fixed assets, or providing ongoing working capital needs.

Though it can be challenging for a new or aspiring business to find access to capital in some markets, I believe one of Lincoln's great strengths is our community's willingness to invest in several small business focused resources and programs. These programs are critical as they allow UBT to wrap a support system around our clients to help make their dreams a reality.

Although this list is certainly not all inclusive, here is a list of some of the local resources that do an excellent job of working in partnership with prospective borrowers in helping to pave the way toward a better chance of access to capital:

The Nebraska Business Development Center (NBDC):

In 1977 the University of Nebraska at Omaha was awarded one of only seven federal contracts to operate a University Business Development Center. In 1980, President Carter signed the Small Business Development Center Act, which changed the University Business Development Center into the permanent Small Business Development Center (SBDC) program. NBDC continues to be grant funded as a university-based consulting program, engaging the knowledge and energy of the faculty at the University of Nebraska at Omaha and its partner institutions: University of Nebraska at Kearney, Wayne State College, Mid-Plains Community College, Southeast Community College Lincoln, Peru State College and Chadron State College. Each NBDC Nebraska location has business consultants serving as credentialed professionals providing aspiring business owners with free services such as: Certified Business Valuations, Certified Business Planning and Projections, and a multitude of other services many of which are required for applicants seeking SBA financing.

Invest Nebraska Corporation:

Invest Nebraska Corporation is a private non-profit corporation focused on high-growth companies in Nebraska and growing the state's economy. Invest Nebraska assists entrepreneurs by investing capital in companies that have growth potential. Invest Nebraska was created due to the passage of the Nebraska Venture Capital Forum Act, introduced in 2001 and passed by the Nebraska Legislature.

NMotion:

NMotion is a mentor-driven, education-focused startup accelerator based in Lincoln, NE. They focus on high-growth software and technology-based businesses in targeted industries of agriculture, education, finance/insurance, healthcare, human resources, and sports. NMotion provides a 13 week startup bootcamp, access to proven mentors, business founders, and business leaders.

NMotion helps source seed capital through a connected angel network and Invest Nebraska.

NUtech Ventures:

NUtech Ventures is the intellectual property and commercialization unit of the University of Nebraska – Lincoln. NUtech’s mission is to facilitate the commercialization and practical use of innovations generated through the research activities at the University of Nebraska. NUtech helps connect innovators with the people, coaching and resources they need to start a company.

Nebraska Angels:

The Nebraska Angels are a network of angel investors who meet once a month to work together to review business plans, listen to pitches, conduct due diligence and negotiate terms for potential investment. Founded in 2006, the Nebraska Angels guide entrepreneurs through the application process and provide start-ups with access to private equity/venture capital.

Nebraska Department of Economic Development (DED):

The Nebraska Department of Economic Development’s mission is to provide quality leadership and services that enable Nebraska communities, business, and people to succeed in a global economy. DED provides assistance to communities with business development programs, offers direct assistance to businesses, and represents statewide interest in retaining, expanding and recruiting businesses to the state.

Nebraska Economic Development Corporation (NEDCO):

NEDCO is Nebraska’s largest Certified Development Company which helps banks with access to SBA 504 loans for their business clients that may need financial solutions for their operating, fixed asset, and expansion needs.

Community Development Resources (CDR):

CDR is a non-profit organization whose mission is to provide capital, technical assistance, and training opportunities for small businesses in the State of Nebraska. CDR lends to start-up and existing businesses and is a Community Development Financial Institution (CDFI) certified under the U.S. Treasury

Department's Community Development Financial Institution Fund. CDR is able to assist banks with access to SBA 504 loans, SBA Microloans, and other community focused small business loan programs.

Nebraska Innovation Campus (NIC):

Nebraska Innovation Campus connects the talents of experts, companies and the University of Nebraska to create a unique culture of innovation. NIC is a research campus designed to facilitate new and in-depth partnerships between the University of Nebraska and private sector businesses.

Lincoln Partnership for Economic Development (LPED):

The Lincoln Partnership for Economic Development is a public-private collaboration charged with fulfilling Lincoln's Economic Development goals such as job growth and business expansion. LPED works to promote the expansion of new business, the influx of new talent, and an economically sound environment in Lincoln in order to ensure a vibrant and thriving community.

US Small Business Administration (SBA) Nebraska District Office:

The Nebraska District SBA office connects entrepreneurs across the state with capital, counseling and contracting services, supporting a vast network of highly successful small business ventures. The District SBA office located in Omaha has veteran Lender Relations Specialists on staff who are experts regarding SBA programs and they work to assist banks with SBA financing for their small business clients.

Even with all the various local resources previously mentioned, aspiring small business owners face a daunting task in navigating the various regulations, guidelines, and requirements associated with qualifying for a SBA loan. Start-ups by definition already have a significant burden of planning, projecting, forming legal structures, and formulating business plans long before they can start the process of looking for capital. Often times our role at UBT is to assist a client in navigating this path to help ease the burden. From my perspective the burden has become too great and our government could help to ease some of this burden by lessening the amount of documentation required by applicants seeking SBA financing.

The US Small Business Administration publishes a 378 page Lender and Development Company Standard Operating Procedure (SOP No. 50 10 5(H)) which contains the requirements and guidelines to follow when participating in SBA lending programs. In many cases there are excessive SBA restrictions in place, which can preclude an applicant from qualifying for SBA financing or can make the process so difficult that the borrower becomes frustrated and abandons SBA as a viable option for access to capital.

As an example, UBT has a client that has ownership in several business ventures throughout the state including some fast food franchises. This client was seeking capital to construct and operate a new hotel. In this case, under section III (9) (a) of the SOP covering eligibility requirements, the borrower was required to provide copies of the franchise agreement not only of the subject hotel project, but also all franchise agreements for each of the other fast food franchises they owned under common ownership, which SBA considered affiliated businesses. SBA reviewed these agreements and found that they were not acceptable because some of them imposed unacceptable control provisions on the small business applicant's affiliated businesses, which in my opinion had very little to do with the subject hotel project.

Another example of excessive SBA documentation requirements includes a situation where a business was expanding into another location. The SBA required a copy of the lease agreement for the new location and copies of the lease agreements for the nine other existing locations. An additional example of a SBA rule, which is more excessive than what a bank would require, includes the SBA's requirement that a borrower obtain flood insurance for personal property collateral if any equipment, fixtures, or inventory that is collateral for the loan is in a building which is located in a special flood hazard area, *even if the building is not collateral for the loan*. These are only a few examples, but there are several other examples where the SBA process and various requirements can be over burdensome.

Though the SBA recently rolled out a new on-line submission portal called SBAOne to participating lenders, this program is very time intensive and requires

lenders to input and upload an unreasonable amount of data and documentation. The process of waiting for notification that the request was received and then waiting several days or weeks only to find out that some other documentation is needed can be very frustrating. While the SBA Nebraska District Office is staffed with long-term, helpful, and knowledgeable employees, they are given no authority to assist in the approval or documentation review process. The approval process is exclusively handled by the SBA Processing Center where you send communication to e-mail groups such as:

DelegatedFranchiseReviews@sba.gov or FSC.Servicing@sba.gov

The SBA could stand to invest considerably in customer service focused improvements.

In summary, the headwinds working against entrepreneurship in Lincoln, NE are minimal. Small businesses and start-up ventures in Lincoln seem to be well positioned to have access to capital due to the many access points and resources in our community. Additional coordination among banks and the various organizations that exist to assist small business and start-up ventures would only improve the availability of capital. Less government regulation and fewer SBA documentation requirements would further remove barriers and improve the availability of capital. The SBA could significantly improve its approval process by investing in tools that are more automated, timely, and user friendly.