

Testimony of
America's Community Bankers
On
Encouraging Small Business Growth and Access To Capital
before the
Subcommittee on Oversight and Investigations
of the
Financial Services Committee
of the
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Good morning Chairwoman Kelly, Ranking Member Gutierrez and members of the Oversight and Investigations Subcommittee. Thank you for inviting me to testify today on Small Business' Access to Capital. I am Tom Schneider, and I am President and CEO of Pathfinder Bank located in Oswego, NY. Pathfinder Bank is a \$300 million dollar community bank that is the primary subsidiary of Pathfinder Bancorp, a mutual holding company. About one-third of the holding company shares are held by public investors and we are traded on NASDAQ. I am here representing America's Community Bankers. ACB is the member-driven national trade association representing community banks that pursue progressive, entrepreneurial and service-oriented strategies to benefit their customers and communities.

Small Business Climate

I am proud to report that the climate for small businesses in my community is excellent. As all of you are aware, small businesses are the economic engine in our country. They are our job creators and also vital customers for my bank. Small businesses are growing and creating much-needed jobs, often because community banks across our nation are focusing on helping local businesses with their capital needs. In addition, today's low interest rate environment is helping small businesses, and the benefits of low interest rates are transmitted directly through community banks.

Since my bank is located, using the old term for the region, in the "Rust Belt," we have experienced a large transition over the years. Oswego, New York, is located in the old manufacturing heart of our nation. As the U.S. economy has shifted from a manufacturing oriented economy to one that is service oriented, our community has had to adapt. Pathfinder Bank has been proud to provide capital to aid that transition. The American entrepreneurial spirit is alive, and thriving, in my community. I strongly believe that because of my bank's relationship with the people and the small businesses in our community, we have been able to help fuel new economic growth and provide new jobs for the people of Oswego.

Being a community bank is not just a title or an image. It is a belief, a commitment to helping our communities and helping our small businesses with their capital needs, so they can continue to grow and succeed.

Types of Capital Available for Small Businesses

Whether an entrepreneur is starting a business or wants to grow an existing business, there are three types of capital that is available. 1) Equity financing, 2) debt financing, and 3) the businessperson's own capital. In many instances, they rely on friends and family for the capital.

Equity financing is done primarily by angel investors, or in rare cases, venture capitalists and investment banks. The unfortunate truth is that for many small, start-up businesses, equity capital is hard to find. If an entrepreneur with a dream and a work ethic, but little capital wants to start a small business, he or she will most likely not be able to find equity financing. That is why community banks are so valuable for economic growth in our nation. Not only do we provide needed resources to help existing businesses grow and innovate, by lending on other collateral with supplemental guarantees, we provide the startup funds for businesses.

Community Banking for Small Businesses

When it comes to debt financing, the primary sources are community banks and large institutional banks.

My bank proudly offers several types of financial products that can meet the capital needs of the small businesses in the Oswego area. For example, we offer lines of credit, conventional loans, loans for equipment and machinery, and traditional banking services.

One of the greatest tools we have for aiding small businesses is one of the U.S. Government's best private/public partnerships ever created by you, the Congress: the programs of the Small Business Administration (SBA).

Because of the inherent risk posed by small businesses, banks need help in sharing the risk posed by small business loans. The SBA is an excellent partner in carrying out the mission of providing capital to small businesses. The SBA has two primary programs that are used by community banks: the 7(a) loan program, and the 504 loan program. These guarantee programs allow community banks, such as Pathfinder Bank, the opportunity to provide capital to small businesses that would not otherwise qualify for credit.

Although we offer numerous financial products to small businesses in our community, there is one attribute that is even more important. Community banks offer access to the decision-maker, and they know the people and the area. Because of this working knowledge, community bankers are vital for small businesses since they know and understand their unique needs, and therefore are often more flexible in their decision making. Ours is not a one-size-fits all society. Small businesses have a variety of needs and characteristics that cannot be realized by a bank officer sitting in a big city reviewing loan documents. Often times, making a loan decision will come down to the character and integrity of the person applying. As a community banker I know the people of my community and can make that decision. Someone reading the printout from an online application can never do that. One of the real advantages community banks like mine have, is the fact that we are not just a website to a mega-bank.

One example of this is the community hospital in Oswego. A few years ago the hospital needed capital to renovate and expand the services it provides our community. It tried working through a large institutional bank, but did not meet the cookie cutter criteria for the bank to approve the loan. The hospital faced the prospect of not receiving the funds it needed to continue providing high quality service to the people of Oswego. Luckily, Pathfinder Bank knew the hospital and the good people running it. Working with another community bank we were able to serve the people of Oswego by providing the needed financing for the hospital.

The Impact of Sarbanes-Oxley on Community Banks

Sarbanes-Oxley has had an impact on how small, publicly traded banks such as Pathfinder do business. Ultimately the legislation will make our economy stronger by increasing corporate accountability and providing greater confidence for investors. However, small banks such as

mine are often seeing large cost increases in the short run. What might be of interest to the members of the subcommittee is that just over a year ago, ACB conducted a survey of 30 of our New York Stock Exchange and NASDAQ listed members on the impact of the Sarbanes-Oxley Act of 2002. Most responders to the survey said that the biggest impact of Sarbanes-Oxley appears to be the fees paid to board and audit committee members, and to auditors and other third parties.

Overall, ACB's survey indicated that Sarbanes-Oxley is important to reeling in the conduct of bad corporate lawyers and accountants. However, we also feel that some of the law's provisions are unnecessary for the banking industry since we are so well regulated and supervised. In addition, we believe parts of the law are particularly burdensome on the smaller community banks. The costs and fees, as well as the stress on staff associated with complying with Sarbanes-Oxley, may justify allowing smaller organizations to be exempt from portions of the law.

In addition, ACB and its members support efforts to see if there are requirements that can be streamlined or waived by the Securities and Exchange Commission to facilitate greater access to the capital markets for small businesses. While many of the existing regulations may be necessary for larger and more complex companies, they may be an unnecessary obstacle to the capital markets for smaller businesses.

Capital for Community Banks

Pathfinder Bank is a publicly-traded company with emphasis on providing banking and financial services to our local community. We issued stock in order to have the capital to further our mission of helping local businesses grow. Becoming publicly-traded provided us with capital that allows us to make more loans to small businesses in our community. Without the additional funding, we would have to write fewer small business loans. In terms of growing a business, we were like any other. We had to seek capital so we could further expand our services and product lines, and more importantly, to hire additional employees. Assisting community banks in accessing the capital markets benefits our communities and especially small businesses by providing community banks with the capital to help fuel economic growth. That is why I applaud the Subcommittee for holding this hearing today to see how we can improve the access to capital for small businesses. Small banks are in the unique position of both providing capital and acquiring capital. If rules or laws can be simplified and streamlined so as to provide greater capital to small banks, it benefits our entire nation.

I am proud to bring to the Subcommittee's attention an effort to bring greater attention and capital to community banks. In partnership with NASDAQ, ACB created the America's Community Bankers NASDAQ Index comprised of the stock prices of over 500 community banks. The ACB NASDAQ index focuses attention on community banks as a vital sector of the financial services industry and our nation's economy. The index provides a new tool for tracking the performance of our strong community-based banking sector. It will bring greater visibility to community banking, which should yield greater liquidity and fairer valuations to our banks, thrifts and holding companies. It will measure where the nation's economic action is taking place - in local communities across this country.

ACB and NASDAQ developed the index as a yardstick for the capital markets to use in measuring the performance of community bank stocks. As of July 31, 2004, the index included 518 NASDAQ-listed community banks, with a market capitalization of about \$175 billion,

Conclusion

In conclusion, Pathfinder Bank and ACB, believe there is a prosperous climate for Americans to start and grow a small business. Community banks across our great country are willing and able to meet the capital needs of small businesses.

Chairwoman Kelly, Ranking Member Gutierrez and members of the Oversight and Investigations Subcommittee, thank you again for allowing me to testify. I am available to answer any questions you may have.