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CAPITAL ACCESS FOR MAIN STREET: MEETING OPPORTUNITIES OF GROWTH ALONG THE LOWER COLUMBIA

FIELD HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP UNITED STATES SENATE

ONE HUNDRED THIRTEENTH CONGRESS

SECOND SESSION

APRIL 16, 2014

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CAPITAL ACCESS FOR MAIN STREET: MEETING OPPORTUNITIES OF GROWTH ALONG THE LOWER COLUMBIA

WEDNESDAY, APRIL 16, 2014

UNITED STATES SENATE,
COMMITTEE ON SMALL BUSINESS
AND ENTREPRENEURSHIP,
Vancouver, WA.

The Committee met, pursuant to notice, at 10:35 a.m., in the Council Chamber, Vancouver City Hall, Hon. Maria Cantwell, Chairman of the Committee, presiding.

Present: Senator Cantwell (presiding).

OPENING STATEMENT OF HON. MARIA CANTWELL, CHAIRWOMAN, AND A U.S. SENATOR FROM WASHINGTON

Chairwoman CANTWELL. The Senate Small Business and Entrepreneurship Committee hearing in Vancouver, Washington, will come to order. Thank you all for being here.

I want to take this opportunity, since we are here locally, to mention a few people that have been here this morning. The mayor of Vancouver was here but had to leave, and so we appreciate him allowing us to be here in the chambers; Representative Paul Harris of the 17th District; Representative Dean Takko of the 19th District; Vancouver City Council members Larry Smith, Bill Turlay, and Anne Ogle; the mayor of Ridgefield, Ron Onslow, is here; the Port of Vancouver Commissioner, Nancy Baker; the President of Clark College, Bob Knight; and several representatives of WSU Vancouver.

So if I missed you and you think I should have shouted out your name, give a note to the staff and we will make mention of it here. I want to thank the Small Business Committee staff for being here and coming to Vancouver, Washington.

We are here today to talk about Capital Access For Main Street: Meeting Opportunities of Growth Along The Lower Columbia. I want to welcome the witnesses here today and thank them for their involvement in helping us have this discussion this morning about access to capital and all the important issues related to that.

I want to thank—with us today is Nancy Porzio, who is the Small Business Acting Administrator for this region and came down from Seattle.

So, Nancy, will you stand up?

Nancy is a resource for our state in the Small Business Administration. I told her she'd better have her phone number ready. So if anybody here wants to talk about access to capital in this part of our state on an ongoing basis, Nancy is a good person to know.

This hearing is part of a two-week listening tour around Washington on small business issues. We are having a second hearing in Seattle on innovation. We're having a listening session in Spokane on exports with the ranking member of the committee, Senator Risch from Idaho. And the minority staff director is here with us today.

We are having meetings in Seattle with the SBA administrator, who just was recently appointed by President Obama, Maria Contreras-Sweet, who will be holding meetings to discuss access to capital, innovation, and minority lending. Ms. Contreras-Sweet previously ran a community bank in California and focused on access to capital to minority communities—a great success there. So we're really looking forward to her input.

In addition, she and I and other members of our delegation will be traveling to Arlington to meet with small businesses impacted by the tragic Oso-Darrington mudslide and what we need to do to help. People may not realize it, but SBA deals with disaster relief support and small business lending. So we're going to be discussing the 530 corridor in our state and what we need to do.

So it's going to be a busy two weeks. But we're so happy to start this off in Vancouver, Washington, and have one of the two official field hearings we're having during that two-week period right here in Vancouver.

So today, we're here to talk about a new report that is simultaneously being released by the committee, which shows the successes and challenges of creating capital in Southwest Washington. Specifically, the report shows that our region, Southwest Washington, may not be getting all the access to capital that helps small businesses grow, and we certainly know that 75 percent of job growth in America happens—new creation happens with small businesses. So we certainly want to see what we can do to improve the situation here.

The Portland SBA District, which includes Oregon and Southwest Washington, is the only market on the West Coast where approved loan numbers are still down from six years ago. We all know what happened with the big downturn. So even though we're seeing more dollars moving out the door, the report details how Clark and Cowlitz Counties decreased—Clark by 16.2 percent, Cowlitz by 33.3 percent—from 2009 to 2014. Other regions are seeing an increase in both the number of loans that they are doing and the amount of capital.

So our questions are—when we were hit with the economic downturn, obviously, Southwest Washington was one of the hardest hit communities. At its height, Clark County had an unemployment rate of 15.9 percent and home prices doubled—I'm sorry—dropped a total of 23.7 percent in only three years. And, obviously, the credit markets used by mainstream businesses froze up. In fact, even worse, some performing lines of credit were pulled right out from under small businesses.

So today, we are going to hear from small business owners to discuss their perspective on the economy, access to capital, and what the challenges are to creating jobs right here. Now, we know here in the Pacific Northwest about innovation, about a 21st century economy, about boot strapping and moving forward, and the Vancouver-Portland area is a major national hub for innovation. The Portland metro area is one the top 15 areas in the country for attracting young college-educated people. So we want to make sure, just like previous businesses, that these individuals have access to capital.

I'm confident that the next great company is being dreamed up right now in a Vancouver or Longview garage, and it's just about whether they're going to get access to capital. We need to make sure that they have the seeds for that growth.

Just look at Columbia Sportswear. Forty years ago, the family sportswear business was facing financial trouble. So they got a loan from the Small Business Administration to increase production capacity, and the company grew. Since the loan, Columbia Sportswear has grown from 40 employees to more than 3,000, and today it generates $1 billion in revenue.

We want to see more small businesses today like Columbia Sportswear was, small businesses that with a little bit of good investment, grow huge dividends in job growth. Today, we're going to hear from two of those individuals. Amy O'Hara, with her husband, Alan, own When the Shoe Fits shoe stores.

When the Shoe Fits is a full-service men and women's shoe store. The staff works with customers to modify footwear in order to help alleviate discomfort and solve unique foot problems. They received a 7(a) loan to expand their business, and from the first store they opened a decade ago to four stores today, this has been a great success story right here, the 7(a) program. So we want to thank her for her testimony.

And Jessika Tantisook and her business partner, Jared Oakes, started Starvation Alley Social Purpose Company in 2013 to sell organic cranberry juice that is made in-house using a hydraulic juice press. Their cranberry bog is the only Washington Department of Agriculture certified organic cranberry bog in the state. So they raised capital in two ways, crowd funding, which allowed them to raise $12,000 through 110 different individuals online, and they also received $100,000 through Craft3, a community development financial institution, which allowed them to use financing for the operating equipment and expenses.

So I know that there are many more innovative stories here in Vancouver. But what we're going to discuss today with the rest of the panel, our lenders, are why we haven't seen strong SBA numbers here in Clark and Cowlitz Counties, and what the obstacles are that we need to address to help the 7(a) program and the 504 program help more successful small businesses in Southwest Washington.

Most people may not even realize that these programs exist. But the 7(a) program offers a variable interest rate loan over 10 years backed by the SBA at zero cost to the taxpayers and can be used to renovate a building and provide working capital or purchase inventory.

As one bank said to us, quote, "The 7(a) allows us to finance long-term assets with long-term loans, which then gives the borrower monthly payments at the time the lender has reduced its risk and yet guarantee the process. It's a win-win situation. This"—as they continue to say—"simple fact is that this program allows us to do loans we wouldn't otherwise do," end quote.

So the 504 program is similar. It provides long-term—up to 20 years—fixed rate financing for capital assets, such as land and real estate and equipment. And the 504 loan is done primarily in partnership with traditional lenders and nonprofit community development corporations. So we need to make sure that they are operating efficiently and effectively, and we are certainly moving legislation to reauthorize the 504 refinancing subprogram at the federal level.

We know that the success of all business depends on access to capital. If small businesses have the access to capital they need, they will hire new workers. They will continue to grow economic opportunity.

But, according to the latest Wells Fargo/Gallup Small Business Index, 65 percent of small business owners across America say their cash flow was good in the second quarter of 2007, compared to only 48 percent today in the second quarter of 2013. So, overall, across America, people still haven't seen the level of access to capital that we want to see. We want that to be very good. Good is not enough. We want to see very good, and that is because so many opportunities are here before us with small business.

So while I could go on about the various aspects of these programs, I just want to again thank our witnesses, the Greater Vancouver Chamber, the Columbia Economic Development Council, and others who are going to discuss the challenges that they face. Maybe we'll find here that some of these issues are in the size and challenges of how the 7(a) program works within a smaller geographic region or institutions that may not have all the resources to dedicate people to the 7(a) program.

That's why our team is here from Washington, D.C., so we can take this information back to the United States Senate, because my guess is that Vancouver is probably not unlike other areas of the country. If we're being challenged because of the size of institutions here, or that maybe some of these programs, like the ones that were used by our two businesses, aren't as accessible here, that will help us provide answers to the rest of the country as well.

So, again, I want to thank our witnesses for being here today and for their testimony. This field hearing is an official field hearing, which means the record stays open for two weeks. My colleagues will listen to this. People can send in testimony for the record, and that will be for two weeks post the time of this hearing.

So we'll start with our individuals today. As I said, we're going to hear from Amy O'Hara, who is the Co-Owner of When the Shoe Fits. We're going to hear from Jessika Tantisook, who is Farm Keeper from Starvation Alley Farms; Mr. Craig Chance, Senior Vice President of Community Financial Resources at Columbia Bank; Gregg Swanson, Chief Lending Officer at Evergreen Business Capital; Eric Sawyer, Vice President, Board of Directors, Greater Vancouver Chamber; and Mike Bomar, President, Columbia River Economic Development Council.

Welcome to you all. Thank you for being here today, and we look forward to your testimony.

We're going to start with you, Amy.

STATEMENT OF AMY O'HARA, CO-OWNER, WHEN THE SHOE FITS

Ms. O'HARA. First, I just thank you for the invitation to be here. It's truly a privilege. As you said, we own a four-store chain of comfort shoe stores, my husband and I. Just to give you a bit of our background ——

Chairwoman CANTWELL. Amy, can you just move that microphone a little closer to you? I just want to be sure we catch all of your testimony.

Ms. O'HARA. I tend to be very loud all the time.

[Laughter.]

Chairwoman CANTWELL. Thank you.

Ms. O'HARA. To give you a bit of our background, we've worked in various aspects of the footwear industry for our entire adult lives. Between the two of us, we have experience in retail sales, buying, merchandising, manufacturing, and advertising.

But about 12 years ago, we began the process of trying to realize our dream of owning our own retail shoe store. We knew we had the ability, the drive, and the energy, and we also knew this market area was greatly underserved. Our major roadblock, however, was that we had no money. We had perfect credit and fantastic resumes, but no money.

We didn't have any idea of where to turn, and we were lucky enough to have someone suggest that we contact SCORE, which is an organization we had previously never heard of. SCORE was nothing short of a miracle for us. They listened to our concept, talked us through potential pitfalls, and challenged us at every turn. They then helped us build a business plan, something we were unfamiliar with, and they helped us get a bank proposal together. And probably most importantly, they were the ones that informed us about the SBA lending program.

So we presented to our first bank, and we chose them because they were known to be aggressively lending, commercially, in this area. But they turned us down. I think we were the only ones they turned down that year. And to tell you the truth, we lost count of how many banks turned us down after that.

What we grew to learn was that there's pretty much an unwritten rule that banks want their loans to be 100 percent collateralized. As a retailer, our largest expense is inventory, and the valuation of that asset is pennies on the dollar in the eyes of a bank. That was really frustrating. If we had the money to 100 percent collateralize the loan, we wouldn't need the loan. We also knew that we couldn't go into this undercapitalized, because that was a recipe for disaster.

So, finally, a banker, after rejecting our loan, of course, was willing to advise us off the record that if we were to go ahead take out a home equity loan for as much as we could, we'd be bringing cash to the table instead of a home, and it would be much more appealing to a bank. So we did that, and that was the magic move, because the next bank we went to was willing to take a chance on us and give us our first SBA loan.

We opened our first store in 2004, and it was nearly an instant success. We opened our second store three years later, in 2007, but for that, we were able to secure a conventional loan. It was early in 2007. Shortly thereafter, we all know what happened. The recession took a firm grip. While we certainly took a hit in sales and, obviously, profit, we, as a couple, dug deep, worked smarter, did more with less, and we continued to remain profitable and thrive.

By 2010, we not only felt confident in our ability to withstand the recession, but we realized it was a great time to expand because the leasing terms here were so favorable. So in 2011, we opened our third store in Vancouver. By then, however, lending was unbearably tight if not impossible. Despite a great relationship with our bank and excellent financials that everybody loved, we were told our only option would be again to go to SBA. But we believed in ourselves, so we did.

In early 2013, we decided to expand into the Portland market. Our profitability was at an all-time high. We had a flawless reputation with our bank, and our credit was perfect. But we were again told that it would have to be SBA backed. It was the inventory valuation equation again. That was stunning to us. I remember saying to my husband that if we have to go SBA, how does anyone get a loan for anything?

It truly helped me respect the value of good timing. I am not sure in today's climate that we could have navigated this loan environment. Without access to small business lending, we would not have been able to do any of this. We now proudly employ nearly two dozen people. We provide them with health insurance, disability benefits, vacation pay, a 401K plan, and, most importantly, we think, a good work environment and a living wage.

We believe we are a true asset to the community. We want businesses like Shoe Fits to open and we want them to work. But my concern is how do the next Amy and Alan get the bit of help they need?

In conclusion, let me tell you that we are grateful.

In my opinion, we are literally the epitome of the American dream realized. And without the SBA and SCORE, it wouldn't have been possible. So thank you.

[The prepared statement of Ms. O'Hara follows:]

Capital Access for Main Street

April 16, 2014

Testimony of: Amy O'Hara, Owner of When The Shoe Fits.

I'm Amy Ohara here with my husband and business partner Alan O'Hara and we own a four store chain of high-end comfort shoe stores based here in Vancouver called When the Shoe Fits.

To give a bit of our background: We have worked in various aspects of the footwear industry for our entire adult lives. Between the two of us, we have experience in retail sales, buying, merchandising, marketing, and manufacturing.

About 12 years ago we began the process of trying to realize our dream of our own retail shoe store. We knew we had the ability, drive and energy, and also knew our market area was greatly underserved. Our major roadblock, however, was that we had no money. We had perfect credit, and fantastic resumes yet no easy source of capital to tap into. We had no idea where to even begin but we were lucky enough to have someone suggest we contact SCORE – an organization we had previously never heard of.

SCORE was nothing short of a miracle for us. They listened to our concept, talked us through potential pitfalls and challenged us at every turn. They then helped us build a business plan and bank proposal and probably most importantly, they were who taught us about the SBA lending program.

Armed and ready we presented to our first bank, chosen because it was known to be aggressively lending. Well, that bank turned us down. And to tell you the truth we lost count of how many banks turned us down after that. We grew to learn the unwritten rule that banks all wanted their loans to be 100% collateralized. As a retailer our largest expense is inventory and the valuation of that asset is pennies on the dollar in the eyes of a bank. That was frustrating. Were that the case, we would have no need for borrowing in the first place. Furthermore, we both knew that we could not go in to this venture undercapitalize as that would be a certain recipe for disaster.

Finally, *finally*, a banker (after rejecting our loan of course) was willing to tell us off the record that if we were to go ahead take out a home equity loan for as much as we could so that we were bringing cash to the table instead of home equity, it would be much more appealing. We did, and that was the magic move as the next bank we went to chose to take a chance and give us a loan.

Our first store opened in 2004 and was nearly an instant success. We opened our second store, in 2007, though for that we were able to secure a conventional loan.

Shortly thereafter, as we all know, the recession took a firm grip. While we certainly took a hit in sales and thereby profit, we dug deep, worked smarter, did more with less, and continued to remain profitable and thrive.

By 2010 we not only felt confident in our ability to withstand, but we realized it was a great time to expand as leasing terms were favorable here in Clark County. In 2011 we opened a third store in West Vancouver. By then, however, lending was unbearably tight if not impossible. Despite a great relationship with our bank and excellent financials our only option appeared to be the SBA route.

In early 2013 we decided to expand in to the Portland market. Our profitability was at an all-time high, we had a flawless reputation with our bank, yet we were AGAIN told that it would have to be SBA backed. It was the inventory valuation equation again.

That was stunning to us. I remember saying that if WE have to go SBA, how does ANYONE get a conventional business loan these days for ANYTHING? It truly helped me respect the value of good timing. I am not sure in today's climate we could have navigated this loan environment. Without access to small business lending we would not have been able to set this endeavor in motion. We now proudly employ nearly two dozen people, provide them with health insurance and disability benefits, vacation pay, a 401K plan and most importantly, a living wage. We believe we are a true asset to the community. We WANT businesses like Shoe Fits to open and work. But how do the *next* Alan and Amy get a bit of help?

In conclusion, allow us to tell you we are grateful.

In my opinion we are the epitome of the American dream, and it is truly because of the SBA and SCORE.

Biography of: Amy and Alan Ohara – Co-Owners of When The Shoe Fits

Amy and Alan Ohara are co-owners of a chain of Vancouver-based shoe stores called *When The Shoe Fits.*

Both Alan and Amy have worked in various aspects of the footwear industry for their entire adult lives. They have experience in retail sales, buying, merchandising, marketing, and manufacturing. Together they opened their first retail store in 2004 and have spent the last 10 years growing that in to a successful four-door chain. Three locations are in Vancouver, WA and their fourth, and newest is in Beaverton, OR. Three of the four stores were started with SBA loans.

When the Shoe Fits is a specialty comfort shoe store that specializes in the very best of comfort footwear combined with superior staff and excellent service. Their main point of difference is in foot problems; they have three full time Pedorthists on staff. (A Pedorthist is one who is trained to fit and modify shoes and inserts to help a variety of foot pathologies.)

Alan and Amy also live in Vancouver, have two sons in the Evergreen School district and are Washington natives

Chairwoman CANTWELL. Thank you. We'll have questions for you, but we're going to let everybody on the panel give their testimony.

STATEMENT OF JESSIKA TANTISOOK, FARM KEEPER, STARVATION ALLEY FARMS

Ms. TANTISOOK. Hi. My name is Jessika Tantisook, and I'm the co-owner and founder of Starvation Alley Social Purpose Corporation. It's a cranberry company located in Pacific County on the Long Beach Peninsula in Washington state. We make local and organic cranberry juice that is unsweetened and undiluted and, in my opinion, very delicious.

Before I started this juice company, I was a cranberry farmer. But being foodies and interested in the agriculture system, my partner, Jared Oakes, and I moved back to Washington state four years ago to see if we could be the first organic cranberry farm and have the 1,700 acres that are here to become certified organic.

What we found was that growing cranberries organically is possible. However, it was a lot more difficult than we originally thought. One of those reasons was finding financing for our risky farm venture.

As a farm, we talked to our local bank and Farm Credit Services about funds to help support us in this organic transition process, which takes about three years. They turned us away, saying our business model wasn't proven and we were already over-leveraged and that the working capital needs we had could not easily be collateralized through traditional banking methods.

With growing trends nationally in organic and healthy food options, this didn't seem like a complicated idea, especially in the Northwest, where everybody loves organic foods. We'll grow cranberries organically, we thought, we'll make quality products, and we'll sell them in our region, which isn't an option that consumers here have, because most of our cranberries get sent elsewhere, and, again, there's no organic options.

So we funded our first two and a half years of our business through our family's fishing business, working multiple jobs, and through personal debt. We realize that without these support options, our company wouldn't be here today. We also know that for many farmers and business owners, in general, who would like to make environmentally and socially conscious business decisions, these options aren't always available to them.

Last year, we started Starvation Alley SPC, which is named after the road where our farm is located, and we wanted that company to become the company that we wished existed when we started farming, one that would pay farmers what their fruit was really worth, which is significantly above commodity pricing, a price that would support them growing in more sustainable ways. Starvation Alley SPC would be an independent juice company, one that was not burdened by the debt of a family farm, but could become a dependable customer for our farm and those of our neighbors looking for new ways to grow cranberries and their livelihoods.

So we finally got our first loan last February. It was through a new company out of Seattle called Community Sourced Capital. Community Sourced Capital helps hundreds of people compile small loans into one loan for a business, and they make the repayment of that loan easy and manageable. We benefited from one of these loans, thanks to 110 people in our network. We were able to purchase a $12,000 juice press. Since then, we've repaid about a fifth of that loan to our 110 lenders.

With the new juicer as our core piece of equipment, we were in a position to grow. We sold our juice to some of the—or we still sell some of our juice to the top restaurants in Seattle, and we began to start selling in farmers markets. To develop these markets and obtain the inventory we needed, we still needed a much bigger piece of financing.

We heard about Craft3, a Southwest Washington Community Development Finance Institution, through a friend and found that we were a clear fit with an aligned mission. Craft3 prioritized our community and values alongside our business plan and profitability, and after much due diligence, we received our first substantial loan of $100,000 last October.

Craft3's willingness to provide needed capital to our early stage business, when few others could or would, gave us the monies we needed to scale in Seattle and expand to Portland. This meant keeping our jobs, hiring three new employees, and being able to support two sustainable farms in Southwest Washington last year through purchasing their cranberries.

Starvation Alley isn't quite out of the red and needs more outside investment. We are exploring all options, including taking advantage of federal grant opportunities, such as the Value Added Producer Grant funds, which will announce award recipients in June. So wish us luck. We are in talks with Craft3 for a second round of funds, because we still don't qualify for traditional financing.

Last month, we talked to other local banks and another CDFI loan which had mentioned SBA options to us. We believe this is because we don't meet the criteria, but also feel that there is an education piece missing for small businesses. We're not sure what the SBA offerings are and whether it's something that we should be asking about or if it's something lenders should offer.

What we do know is that the reason our business has been successful is because of the willingness of progressive financial institutions like Community Sourced Capital and Craft3 to evaluate business on more than just financial returns. They are measuring other forms of impact that our business has on our community. From my perspective, government shouldn't be measuring risk on solely the bottom line but on community value as well.

My hope and dream is that as many new financial innovations emerge—and we're seeing them emerge already—more programs, including federal programs like SBA, will find a ways to create money available to more risky businesses like outstanding corporations who want triple bottom line values in their work.

Thank you.

[The prepared statement of Ms. Tantisook follows:]

Testimony of Jessika Tantisook

Co-founder and Owner of

Starvation Alley Social Purpose Corporation

Starvation Alley's Stated social purpose is to increase farmers' livelihoods while decreasing the harmful impacts of farming on the environment & communities.

April 16, 2014

For U.S. Senate Field Hearing in Vancouver on Small Business Lending with Senator Maria Cantwell

TESTIMONY

My name is Jessika Tantisook and I'm a co-owner of Starvation Alley Social Purpose Corporation, a cranberry company in Southwest, WA. We make local & organic cranberry juice that's unsweetened and undiluted.

Before I started this juice company, I was a cranberry farmer. Being foodies and interested in the agriculture system, my partner Jared Oakes and I moved back in Washington four years ago to see if we could be the first farmers in the state to grow Washington Organic cranberries. What we found was that it is possible to grow cranberries organically, in fact we became the first certified organic acreage of the 1,700 acres grown here last fall, however it was more difficult than we thought. One of the major reasons was finding financing for our "risky" organic venture.

As a farm, we talked to our local bank and Farm Credit Services about funds to help support us in our organic transition process. They turned us away, saying our business model wasn't proven and we were already over-leveraged and that the working capital needs we had could not easily be collateralized through traditional banking methods.

With growing national trends in Organic and healthy food options, this didn't seem like a complicated idea to us--especially in the Northwest. We'll grow organic cranberries, make quality products and sell them in our region. Most cran options you can find on the shelves are not local. We are.

We funded our first two and a half years through income from our family's fishing business, working multiple jobs and through personal debt. We realize without these support options our company wouldn't be here today. We also know that many other farmers who would also like to make environmentally and socially conscious business decisions, these options aren't always available.

Last year, we started Starvation Alley SPC, named after the road where are farm is located, to be the company that we wished existed when we started farming. One that would pay farmers what their fruit was really worth, significantly above commodity pricing. A price that would support them growing in more sustainable ways. Starvation Alley SPC would be an independent juice company, one that was not burdened by the debt of a family farm, but could become a dependable customer for our farm and those of our neighbors looking for a new way to grow both cranberries and their livelihoods.

The first loan we received was through a new company out of Seattle called Community Sourced Capital in February 2013. CSC helps hundreds of people compile small loans into one loan for a business, and they make the repayment easy and manageable. We benefited from one of these loans thanks to 110 people in our network sharing $12,000 so we could buy a juice press. Since then, we've repaid almost a fifth of our loan to our 110 lenders.

With the new juicer as our core piece of equipment we were in a position to grow, selling juice directly to the top restaurants in Seattle and starting to sell in farmers markets. To develop these markets and obtain the inventory we would need a much larger piece of financing was still required.

We heard about Craft3, a Southwest Washington Community Development Finance Institution, through a friend and found they were a clear fit for a mission-aligned lender. Craft 3 prioritized our community and values alongside our business plan and profitability and after much due diligence; we received our first substantial loan last October. Craft 3's willingness to provide needed capital to early stage businesses when few others could or would gave us the monies Starvation Alley needed to scale sales in Seattle and expand to Portland. This meant keeping our jobs, hiring 3 new employees and being able to support two sustainable farms in Southwest Washington last year through purchasing their fruit.

Starvation Alley isn't quite out of the red and needs more outside investment. We are exploring all options including taking advantage of Federal Grant opportunities like the Value Added Producer Grant funds which will announce award recipients in June. We are in talks with Craft 3 for a second round of financing because we still don't qualify for SBA loans. They might be a great option for well-established businesses with assets to leverage as collateral, but as banks administer them the profitability of smaller loans for these banks makes them a low priority or not even considered. Working with innovative community finance companies fits both the character and the needs of our business, but eventually the goal would be to be able to grow into utilizing more traditional means of accessing capital, but first we must be successful.

Thanks for your time.

More about Jessika Tantisook

Jessika is a small business owner and food systems aficionado. As co-founder of Starvation Alley Social Purpose Corporation, a cranberry company located in Southwest Washington, Jessika spends much of her time building a new business that supports regional cranberry farmers through the organic certification process. Though she is passionate about farmers, her favorite part about her job is getting to partner with many other inspiring Pacific Northwest food producers to create collaborative value-added products. In 2012, Jessika aided in the design of Seattle's Bainbridge Graduate Institute's first Certificate program in Sustainable Food and Agriculture. Jessika's other experiences include receiving her Master's in Business Administration, starting 2 community gardens and working on an organic vegetable farm. She lives in Ilwaco, Washington near Starvation Alley Farms with her partner Jared Oakes and two dogs.

More about Starvation Alley SPC

Starvation Alley consists of 10 acres of cranberry bogs with juicing facilities in Long Beach, Wash. It was founded in 2010 by Jared Oakes and Jessika Tantisook with the aim of producing local, sustainable cranberries of exceptional quality. The main bog sits on Birch Street, which was nicknamed "Starvation Alley" during the Great Depression. Oakes and Tantisook named their farm Starvation Alley as an homage to the hard-working farmers who worked the land that is now the state's first organic cranberry farm. www.starvationalley.com

More about Community Sourced Capital SPC:

Community Sourced Capital builds innovative financial systems for communities. CSC provides loans to small businesses using funds sourced directly from people in their community. Communities fund loans using something called a Square, a $50 unit of a larger loan. Squares are really simple loans: $50 in and $50 out. It's not a donation, it's not an investment, it's a right-sized mechanism for moving money to businesses while still getting paid back. As of April 2014, CSC has helped 17 businesses borrow $300,000 from nearly 2000 Squareholders. Community Sourced Capital makes it easy for people to lend money to local businesses they love. It's great for businesses that need value-adding capital, and it's an amazing way to involve a community in a new kind of finance–finance based on collaboration and relationship building. www.communitysourcedcapital.com

More about Craft3 CDFI: www.craft3.org

Chairwoman CANTWELL. Thank you very much.
Mr. Chance, welcome. Thank you for being here.

STATEMENT OF CRAIG CHANCE, SENIOR VICE PRESIDENT, COMMUNITY FINANCIAL RESOURCES, COLUMBIA BANK

Mr. CHANCE. Thank you, Senator. Thank you for the opportunity to share our thoughts. It's always hard to top small business stories. Like so many other banks, those of us who are lenders and advisors thought this is one of our jobs, being in business like yourselves.

Just for the record, my name is Craig Chance, Senior Vice President, Columbia State Bank, also known as Columbia Bank. I've been with the bank, managing the unit called Community Financial Resources, since 1998. We assist other lenders in our organization, branch managers, with SBA lending, but also in finding other solutions such as Craft3, or referring out to organizations like SCORE, SBEC, and others. Those are all great organizations, and we should all do what we can to expand upon them.

My engagement with SBA lending began in 1987, when the now Senator Cantwell was a very young legislator in the state of Washington and helped create a program called Community Development Finance. We went out into banks and other lending organizations and talked to them about SBA lending and other programs. So, in a way, it created many jobs, but in a small way, it helped create my career, so thank you.

Columbia Bank is a 20-year-old bank headquartered in Tacoma. It's grown quite a bit in the last few years through five FDIC assisted transactions, and also recently by the merger with West Coast Bank. So we're a relatively large community bank. We have approximately 140 branches, 80 in the state of Washington, 60 in the state of Oregon, and we're about $7.2 billion in asset size. Our bank's CEO, Melanie Dressel, is particularly proud of the fact that in 2013, we had $800 million in new loan originations, not renewables but actual originations.

SBA lending is a part of it. We had in fiscal year 2013 $29 million in SBA 7(a) lending, and we're also very happy with the 504 program. We did approximately $19 million in third-party lender loans under the 504 program.

We have a unit of nine people in Community Financial Resources. Most of those individuals focus on SBA lending. Five of them—some, I think, are here today—are based right here in Vancouver. So we have quite a crew here in Vancouver focused on SBA lending.

With these opportunities, I always like to mention that we very much appreciate our relationship with the SBA staff, the district staff, the region staff, the central office staff. In all cases, we find them to be helpful and very professional, and they make it much easier for us to do our jobs. We welcome opportunities to work with the SBA in getting the word out, because you're absolutely correct that not a lot of people even know these programs exist. So we're happy to help them market that or work with their other lenders.

One of the more fascinating facts of life is that so many small business owners, even multi-generation business owners, think the SBA program is the, quote, "lender of last resort." And the reality is it's a way that gives small businesses an opportunity to have financing on terms that are very similar to those terms that are enjoyed by their much larger international competitors that have direct access to Wall Street.

So I often go to meetings and tell people, "Maybe there's a conventional option, but it's not the most reasonable option. The most reasonable option to give your business some strength is the SBA option." And we always emphasize to people—are there fees with this? Yes, there are. This is not a handout. Senator, you mentioned it. This is a zero subsidy program. The lenders and the borrowers in small businesses are paying for this program.

We use SBA financing for a broad spectrum of needs. The 7(a) program is the workhorse that can do almost anything that you can think of legitimately, and it provides that long-term, fully amortizing financing, one of the more unique attributes of this term, working capital. There's really no other way you could set up a 10-year working capital loan.

But it also affords us the opportunity to provide people with long-term, fully amortizing real estate loans, business acquisition loans. Coming out of the recession, there's a lot of firms with financing that's reasonable, maybe, at one point, but it's not very reasonable, given the current circumstances, and we can restructure it with far more reasonable terms and strengthen the business that way.

Here in Clark County, we just had a couple of examples of firms that were assisted with SBA lending, often an interesting story. One is a retail store, and she started her business with a package of services, including a State of Washington Employment Security Program that enabled her to retain her unemployment benefits while she launched her business. She's been doing quite well.

Another woman was able to expand a styling salon and it helped her establish her financial independence. And an environmental contamination remediation firm benefitted by restructuring debt as it emerged from the recession, giving an example of how businesses can get more favorable terms.

We recognize that Southwest Washington has had its unfair share of challenges, and it truly does go back to the '80s and the collapse or at least shrinking of many of the resource-based industries in this area. And then the more recent recession had its impact, especially on construction in this area, and then the multiplier effect on other industries.

But you can certainly see signs of improvement. If you step outside the building here, you see all the renewal going on in downtown Vancouver. People haven't visited downtown Vancouver in a while, but they've been taken aback at what they're seeing out there. So you see those opportunities. That's one reason why we have SBA lending staff in Vancouver, why we have a retail branch and we have a dedicated commercial banking team based here in Vancouver.

When I meet with prospective 7(a) lenders—as one of my partners at Evergreen, Gregg—and I think Phil before he went into his current position as President Emeritus—described us as the evangelical SBA lenders. So we enjoy meeting with potential new SBA lenders. And the objections I commonly hear are perceived complexity and uncertainty regarding guaranty purchases when loans default.

There's a monthly reporting process that goes to the SBA for 7(a) lending, the monthly 1502 report, and that's perceived as sometimes a little cumbersome. We have examples where we were ending off on a report, and we had to send a wire for that one penny or face a $100 fine. For smaller SBA lenders that would seem like a major burden.

And then there's the process of submitting applications. We're what SBA calls a delegated lender. We have the authority to approve SBA guarantees, but people starting out new in this, lenders starting out new, don't have that authority. So they have to submit these packages to the guarantee processing center in Citrus Heights, California. These packages can be several inches thick, and they can border on a book. They all have to be scanned, and it's very burdensome. I have visited a little bit with the district office, not going to the central office, but that's a logical next step after today.

There used to be a program called the Certified Lender Program for lenders who show a little experience with this, and it simplified the process. And where I would like to see that program go internally—in all institutions when we approve a loan, we don't send 8-inch think packages around to each other. It's a credit memorandum that provides a detailed summary of the proposal. It may include a few forms, and it may include financial spreads.

But it's very simple. It's maybe 20 or 30 pages. How much easier that would be to scan that into the system. How much labor that would save the SBA in Citrus Heights, and it would vastly improve turnaround time in Citrus Heights at their busiest times for the small business owners, which is the principal advantage.

We look forward to working with SBA on all those improvements and all other ideas that folks have. And we certainly appreciate, Senator Cantwell, your advocacy and support of the Small Business Administration programs.

[The prepared statement of Mr. Chance follows:]

Thank you Senator Cantwell for this opportunity to share our thoughts about the SBA finance programs.

My name is Craig Chance, Senior Vice President, Columbia State Bank (Columbia Bank) where I manage the unit responsible for our SBA lending efforts. Prior to joining Columbia Bank in 1998, I held a similar position at another Washington community bank for nine years. My engagement with SBA lending commenced in 1987 as an employee of the state of Washington's Community Development Finance program.

Columbia Bank is a 20 year-old commercial bank, headquartered in Tacoma. During the recession Columbia Bank acquired 5 banks in FDIC assisted transactions. Additionally, in 2013 Oregon-based West Coast Bank merged with Columbia Bank. We operate 140 branches, with 80 in Washington and 60 in Oregon. At the end of the year total assets stood at $7.16 billion. Our bank's CEO, Melanie Dressel often emphasizes that in 2013 new loan originations were over $800 million.

Columbia Bank is an active SBA 7(a) and 504 lender. In Federal Fiscal Year 2013, Columbia Bank generated just under $29 million in SBA 7(a) lending and $19 million in 504 third party lender loans. We have a staff of 9 people primarily focused on SBA lending. Five of those people are stationed in Vancouver.

We appreciate our relationship with the SBA and consistently find their employees to be professional, helpful partners. We welcome opportunities to work with SBA and other institutions to enhance awareness of SBA program attributes. Too often even small business owners perceive the programs as "lender of last resort" when in fact a core value of these programs is that they enhance the competitiveness of small businesses by providing them with access to capital on the reasonable terms more akin to those enjoyed by international firms that have direct access to Wall Street.

With SBA term financing we assist a broad spectrum of needs including start-ups, business acquisitions, equipment purchases, owner-occupied real estate purchase, refinancing of various forms of business debt into more favorable structures, and term working capital. The availability of term working capital financing is one of the unique, powerful attributes of SBA 7(a) financing.

Our Clark County SBA assisted firms include a retail store whose owner entered business with a package of services including receiving unemployment benefits as she successful transitioned into business ownership; the formation, expansion of a styling salon that helped a woman establish her financial independence; and an environmental contamination remediation firm that benefited from a restructuring of its debt as it emerged from the recession.

Southwest Washington has had more than its share of economic challenges from the loss of much of its resource based economy in the 1980s to the more recent recession's effects on construction and other industries. Yet we see vibrancy in the communities. Just outside these walls the signs of renewal are clear in downtown Vancouver. Recognizing this potential, in addition to our SBA staff we have a retail branch and a dedicated commercial banking team based in downtown Vancouver

When I visit with new or prospective SBA 7(a) lenders, typical concerns include the perceived complexity and uncertainty of guaranty purchases when loans default, the monthly 1502 portfolio reporting process, and the time involved by lenders in submitting guaranty applications through the GP, non-delegated method.

As a lender with delegated authority (PLP, Express), occasionally we need to submit packages through the GP process. It requires scanning a package that is usually several inches thick. This could be greatly simplified through a reinvention of the Certified Lender Program (CLP) that could provide a process similar to information typically included in internal lender processes. In most institutions the approval review process is limited to a detailed credit memorandum, financial spreads, and perhaps a few forms. Reinvention of the CLP to more closely match conventional lending approval practices would reduce labor time for both lenders and SBA and result in reduced approval times for small businesses.

We look forward to continuing to work with SBA, the community development organizations, and all others to advance small business access to capital.

Senator Cantwell, thank you for your advocacy and support of small business capital access.

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Chairwoman CANTWELL. Thank you very much for your testimony.

We'll hear now from Mr. Swanson.

STATEMENT OF GREGG SWANSON, CHIEF LENDING OFFICER, EVERGREEN BUSINESS CAPITAL

Mr. SWANSON. Thank you. I have a reputation for talking a lot, so I'm trying to get this down, and I'm going to be watching very closely. As stated, my name is Gregg Swanson, and I work for Evergreen Business Capital. We were founded 34 years ago and are the largest CDC in the Northwest. CDCs are nonprofit organizations authorized by the SBA to underwrite and service 504 loans.

By utilizing the SBA 504 loan program, Evergreen has helped small businesses create more than 37,000 jobs and make more than $2 billion in capital improvements. We have advanced small business development by providing loans totaling upward of $800 million in the Northwest.

The types of businesses that we have helped, particularly here in Southwest Washington, range from manufacturers to retailers to medical providers. We also end up helping a lot of the hard to finance industries, like hotels, construction contractors, and restaurants. Evergreen Business Capital has helped to create or retain over 3,000 jobs just in the Southwest Washington area since our inception.

I'll give you an example of one of the small businesses that we have been able to help using the SBA 504 loan program. It's located not far from where we are today in downtown Vancouver. This particular business provides IT solutions to other small businesses in the area, and with the help of the 504 program, that small business owner was able to secure a mortgage payment that was actually less than their current rent payment, and they were able to move into a larger space, which allowed the creation of 40 jobs. These are the types of success stories we see created by the program every day.

Our clients typically find the SBA 504 product to be advantageous because of the smaller down payment this loan program provides. For many small businesses still recovering from the great recession, the importance of being able to get a loan while only putting 10 percent cash down, whereby allowing the small business to preserve their working capital, cannot be understated.

Many businesses exhausted all their working capital during the great recession and simply could not take advantage of growing their small business during this slow recovery unless they had the SBA 504 loan program. Currently, under the 504 program, not all businesses do qualify for the low 10 percent down payment option. It's our opinion that the SBA should consider this 10 percent down payment option for all businesses regardless of the type of property that they're purchasing or the experience of the owner-operators.

The SBA would also help many small businesses that have found it hard to recover from the great recession if they would reinstate the 504 refinance program. Furthermore, reinstating the 504 refinance program with a simpler set of rules would also prove advantageous toward helping more businesses.

During the short time period that refinance was available with this program, Evergreen was able to provide more than 45 borrowers with their refinance projects. We financed a total of $44 million in SBA loans, with 28 new jobs created and 1,000 jobs retained as a result of the refinance.

In recent years, the SBA has made great strides in advancing their technology platform for applications. New rules have also just been implemented in an attempt to streamline and simplify the 504 product. In order to reach more small businesses, the SBA will need to continue both these initiatives in order to make the 504 product easier and less time consuming for small business owners.

The SBA has many hurdles to jump to meet all of their regulatory requirements, but they also need to keep in mind that their end users, the small business owners, need care, customer service, and simple courtesy when dealing with the maze of ever-changing rules. This is what Evergreen tries to provide, and as with all CDCs, we have boots on the ground and understand the different environments that our small business owners work in, but the SBA must also work towards making themselves a user-friendly environment as well and keeping capital safe and secure for the taxpayers and its investors. We believe it is possible to do both.

[The prepared statement of Mr. Swanson follows:]

Capital Access for Main Street: Meeting Opportunities of Growth along the Lower Columbia

U.S. Senate Committee on Small Business & Entrepreneurship

Field Hearing

April 16, 2014

Testimony of

Gregg Swanson

Evergreen Business Capital

My name is Gregg Swanson and I would like to thank Senator Cantwell for giving me the opportunity to speak on the behalf of Evergreen Business Capital and hope I can help demonstrate the good work that the SBA loan programs do for Small Businesses not only in Washington State but across the country and that also I can help show where the SBA can perhaps do more to help small businesses. I have 7 years' experience working on SBA 504 loans for Evergreen Business Capital and prior to that I managed US Bank's 7a SBAExpress lending department for 5 years.

Evergreen Business Capital is a not-for-profit Certified Development Company or CDC with a mission of economic development and job creation based in Seattle Washington. In addition to our Seattle headquarters we have offices in Portland, Oregon and Palmer, Alaska and loan officers in Eastern and Central Washington and Central and Southern Oregon. We purposely have people located in each area in order to understand the challenges present in each community.

We were founded 34 years ago and are the largest CDC in the Northwest. CDC's are non-profit organizations authorized by the SBA to underwrite and service SBA 504 loans. By utilizing the SBA 504 loan program Evergreen has helped small businesses create more than 37,000 jobs and make more than $2 billion in capital improvements. We have advanced small-business development by providing loans totaling upward of $800 million.

We do this by partnering with third party lenders, typically local banks to provide up to 40% of the financing for a small businesses purchase of long term fixed assets. This participation with the SBA lowers the risk for the lender, by giving them priority lien position and lower loan amounts. Most of our loans involve the purchase or construction of real estate. For the majority of our customers in SW Washington we end up helping these small businesses move into a larger and more efficient space for their business which allows them to grow. For many of our borrowers the purchase or construction of their own building allows them to stabilize their occupancy expense so that they can use funds for expansion rather than for rent payments. Because of the long-term fixed interest rate, many borrowers find that they are building equity in by purchasing their property for not much more than their prior monthly rent payments.

The types of businesses that we help in SW Washington range from manufacturers to retailers to medical providers including other hard to finance industries like hotels, construction contractors and restaurants. Evergreen Business Capital has helped to create or retain over 3,000 jobs in Southwest Washington.

A good example of one of the small businesses that we have been able to help using the SBA 504 loan program is located not far from where we are today in downtown Vancouver. This business provides IT solutions to other small businesses in the area. With the help of the 504 program the small business owner was able to secure a mortgage payment that was less than their current rent payment and move into a larger space which allowed for the creation of four new jobs. These are the types of success stories we see created by this program every day.

Our clients typically find the SBA 504 product to be advantageous because of the smaller down payment this loan program provides. For many small businesses still recovering from The Great Recession the importance of being able to get a loan while only putting 10% cash down whereby allowing the small business to preserve their working capital cannot be understated. Many businesses exhausted all their working capital during The Great Recession and simply could not take advantage of growing their small business during this slow recovery unless they had the SBA 504 loan program. Currently under the 504 loan program not all businesses qualify for the low 10% down payment option. The SBA should consider the 10% down option to all businesses regardless of the type of property or experience of the owner-operators.

The SBA would also help many small businesses that have found it hard to recover from The Great Recession if they would reinstate the 504 Refinance program. Furthermore, reinstating the 504 refinance program with a simpler set of rules would also prove advantageous toward helping more businesses. During the short time period that refinance was available, Evergreen was able to help more than 45 borrowers with their refinance projects, for a total of $44 million in SBA loans, with 28 jobs created and over 1,000 jobs retained. We had at least 3 loans in the queue when the clock ran out at fiscal year-end 2012, including 2 from here in the Southwest Washington/Portland metropolitan area. Demand continues to be high for this program to return, and it is something that our loan officers and management get asked about each time they go out to call on their customers.

In recent years the SBA has made great strides in advancing their technology platform for applications. New rules have also just been implemented in an attempt to streamline and simplify the 504 product. In order to reach more small businesses the SBA will need to continue both these initiatives in order to make the 504 product easier and less time consuming for small business owners. The SBA has many hurdles to jump to meet all of their regulatory requirements, but they also need to keep in mind that their "end users", the small business owners, need care, customer service and simple courtesy when dealing with the maze of ever-changing rules. This is what Evergreen tries to provide and as with all CDC's we have 'boots on the ground' and understand the different environments that our small business owners work in, but the SBA must also work towards making themselves a user-friendly environment as well as keeping capital safe and secure for the taxpayers and its investors. We believe it is possible to do both.

Finally, as a not-for-profit organization Evergreen has created a Foundation for reinvesting in our community. Through our Entrepreneurial Initiative we have provided funding to organizations such as Small Business Development Centers (SBDC's) and SCORE that provide business owners with free and low-cost technical assistance on managing and growing their businesses. We also support high school business clubs to help teach our next generation of small business owners, and we give over $80,000 in university scholarships for business students every year. Over the years through our Green Initiative we have promoted green building, biofuels, and energy efficiency audits for local small businesses. Evergreen hopes that through a continued strong relationship with the Small Business Administration and the 504 loan program that we can continue this good work for many years to come.

Thank you

Chairwoman CANTWELL. Thank you very much. That was concise. I don't think Jane had to flag you once.
Mr. Sawyer.

STATEMENT OF ERIC SAWYER, VICE CHAIR, BOARD OF DIRECTORS, GREATER VANCOUVER CHAMBER OF COMMERCE

Mr. SAWYER. I'll try to make that two in a row if I can.
Chairwoman CANTWELL. It's okay. We're going to get into a discussion here. But usually we're balancing between 20 colleagues who all want to ask their questions. Luckily, you just have to have questions from me today.
Mr. SAWYER. So I just can really talk.
[Laughter.]
Chairwoman CANTWELL. Yes.
Mr. SAWYER. Welcome to Vancouver. I'm Eric Sawyer, the Chair Elect for the Greater Vancouver Chamber of Commerce and a local business leader as well. I wish to thank Chairman Cantwell and members of the committee for holding your field hearing today here in Vancouver. It's a tremendous opportunity to be able to share some different stories with you and some insight.
When I'm not representing the GVCC, I am an Area Manager for a company headquartered here in Vancouver called BBSI. BBSI's purpose is to advocate for small business owners. We work hand in hand with the very same businesses that the Chamber puts me in front of, the small business owner, the entrepreneur. In both roles, I have the honor of seeing firsthand what business owners experience every day.
Working with over 3,000 small companies at BBSI, we know that every entrepreneur who starts their business has three unique qualities that they all share. I think Amy and Jessika can back me up on this. They're the last person to get paid, they can't quit, and they have literally everything they own invested in their dream and their passion. Correct? That's probably right.
So that sounds like a good deal. I can't quit, I'm the last to get paid, and I've got everything invested. Right? Awesome. Sign me up. But that's the opportunity, and that's exactly what we're talking about here.
The Greater Vancouver Chamber of Commerce represents 1,000 businesses in Southwest Washington, which includes about 45,000 employees. And you ask how are we doing now? Does the small business owner have access to capital? Well, yes, and then maybe no.
Banks are advertising opportunities now, and we've heard the credit market for small business is opening up. They're requiring excellent credit, proof of performance, well documented financials, business plans, and marketing strategies. Small and/or new businesses find it difficult to get loans. Business owners are willing to do that work if it means access to credit.
But, as an entrepreneur, again, you put everything you have into the game, and that oftentimes puts your personal credit at risk, regardless of current business stability and performance. Then when your business is thriving and you need capital to support it or expand it, you get turned down by the banks because your personal credit isn't strong enough.

We have a client who started their company three years ago, and they're actually going to be—they're nominated for a Rising Star Award by the SBA. Their first year revenues were a little under $12,000. Their second year revenues were a little over $200,000. Their third year revenues were over $700,000. Clearly, they know how to run a business. They're growing. They're creating jobs in the area. But because they put everything they had into that business, their personal credit was really stretched thin. So when they went back to look at expansion, they couldn't get it.

The moral of that story is: Why does personal credit play such a huge role in that situation? This particular business owner is banging his head on his desk, saying, "I am clearly demonstrating an ability to run a business. I am clearly showing you I know what I'm doing. I've got the performance and the growth to show it, and I'm creating jobs. But because my personal credit score is low, I'm going to get turned down." It's one of those things that just kind of doesn't make a lot of sense.

So summing up my two points there, just quickly, better capital access education for the business owner is critical, and then lending guidelines that are maybe a little bit more practical. I don't know if that's just a generic term to throw in there. But, again, why does the personal credit score play such a huge role in that?

But we are grateful for the help of business advocates such as the Small Business Administration through its SCORE program, SBDC, and the SBA office as well. And one of the things I did hear consistently when talking to clients who have utilized SBA services is that the Portland office is a tremendous resource, that the staff there is excellent, and that they get a tremendous amount of support, and they really feel that they're on their side as the small business owner. So that was great to hear.

Here in Vancouver, however, we tend to feel a bit removed between Portland and Seattle. We are served by our Portland, Oregon office, the SBA office. And we appreciate the outreach they've done to connect with our small businesses. But our business owners have a hard time getting out of their offices to drive to Portland for workshops and meetings and ongoing education.

At the Chamber, we'd like to help facilitate that connection. We invite the SBA to hold field office hours here in Vancouver at the Chamber offices once a month. We'll work with the SBA to set times and set different scenarios. But we've got the meeting space, and we've got the office space to be able to coordinate and set something up like that. So we'd like to initiate that.

Our business at the Chamber needs to be one stop shopping for the business owner. That's why we're creating a small business resource center for businesses at the Chamber.

Wrapping it up real quickly, we see tremendous opportunity for the SBA, first, in helping small businesses more successfully access the credit market through education and guidance. And, second, when the SBA plays the role of lender, we would urge them to review each business' financials with consideration for what we established at the beginning of my little speech here, that the entrepreneur is the last person to get paid. Right? They can't quit. They've got everything on the line. And, oh, by the way, they're kind of the backbone of our economy.

[The prepared statement of Mr. Sawyer follows:]

April 16, 2014

Welcome to Vancouver, I am Eric Sawyer, Chair Elect of the Greater Vancouver Chamber of Commerce and a local business leader.

I wish to thank you Chair Cantwell and members of the committee for holding your field hearing in Vancouver today.

It's a tremendous opportunity to share with you the experiences of small businesses in this community and to outline how you can help us gain access to funding in support of growing small businesses.

When I'm not representing the GVCC I am an Area Manager for BBSI. BBSI's purpose is to advocate for small business owners. We work hand in hand with the very same businesses that the Chamber puts me in front of, the small business owner, the entrepreneur. In both roles I have the honor of seeing first- hand what business owners experience every day. Working with over 3,000 small companies, we know that every entrepreneur who starts their own business has three unique qualities about them....They have a job they can't quit, they're the last person to get paid, and they have everything they own invested in their dream. That's the entrepreneur in a nutshell. Sounds great doesn't it, sign me up. But without the tenacity, grit and vision of these business owners, our country and our economic landscape would look radically different. Where you or I might see a road of discomfort and challenge, the business owner sees opportunity.

The Greater Vancouver Chamber of Commerce represents 1,000 businesses in SW Washington which includes 45,000 employees.

As you know our community was struck hard by the 2008 recession. Our local economy relied heavily on construction. The fall of the real estate market was devastating to local builders and related businesses.

We also experienced a local bank failure. The problem was compounded because the FDIC did not require the assuming bank to pick up the performing loans. As a result, all businesses banking with that institution were left without financial resources, regardless of their performances. Even those with good credit and financial stability couldn't get loans at other banks because the country was in the throes of the financial crisis. Times in SW Washington have been bleak. We are just now experiencing a modest but sustained recovery

You ask, how are we doing now? Do we have access to capital? Yes and no.

Banks are advertising opportunities now, and we've heard the credit market for small business is opening up. They're requiring excellent credit, proof of performance, well documented financials, business plans and marketing strategies. Small and/or new businesses find it difficult to get loans. Business owners are willing to do that work if it means access to credit. As an entrepreneur you put everything you have into the game. And that often times puts your personal credit at risk, regardless of current business stability and performance. Then when your business is thriving but you need capital to support it or expand it, you get turned down by the banks because your personal credit isn't strong enough.

Summing up those two main points; better education for the business owner, and lending guidelines that are more practical while maintaining stringent policies.

We're grateful for the help of business advocates such as the Small Business Administration through its SCORE program, SBDC program and the regional SBA office.

Here in Vancouver however, we tend to feel a bit removed between Portland and Seattle. We are served by our Portland Oregon office. We appreciate the outreach they've done to connect with our small businesses. But our business owners have a hard time getting out of their offices to drive to Portland for workshops and meetings. At the Chamber, we'd like to help facilitate that connection. We invite the SBA to hold field office hours here in Vancouver once a month at our chamber offices where we have plenty of meeting space. Our busy businesses need 'one stop shopping'. That's why we're creating a small business resource center for businesses at the Greater Vancouver Chamber of Commerce.

We see tremendous opportunity for the SBA; first, in helping small businesses more successfully access the credit market through education and guidance. Second, when the SBA plays the role of lender, we urge you to review each business' financials with consideration for what we all know about the small business owner: they put everything on the line, they get paid last, they can't quit, AND they are the backbone of our economy.

Chairwoman CANTWELL. Thank you, Eric.

Last, but certainly not least, Mr. Bomar.

STATEMENT OF MIKE BOMAR, PRESIDENT, COLUMBIA RIVER ECONOMIC DEVELOPMENT COUNCIL

Mr. BOMAR. Good morning, Senator, and welcome. Thank you again to you and your staff for being here today in Vancouver. I also want to thank the entire Senate Committee on Small Business and Entrepreneurship for their work and dedication to assisting small businesses and the opportunity to provide testimony on behalf of CREDC and the business community.

I'm currently the President of CREDC. I serve on a number of professional and nonprofit organizational boards, including Greater Portland, Inc.; the Southwest Washington Workforce Development Council; Clark County Skills Center Advisory Board; and the WSU Vancouver Alumni Advisory Board.

Serving Clark County since 1982, the CREDC is a private-public partnership of about 140 investors and strategic partners working together to advance the economic vitality of Clark County through business growth and innovation. Through collaborative leadership, the CREDC promotes quality jobs and capital investment while maintaining the county's exceptionally high quality of life.

Access to capital is a key component of attracting and growing businesses in Clark County. As a resource for local businesses of all sizes, the CREDC works to connect businesses with programs, and partners that can help identify the most appropriate funding options available to companies based on their makeup, history and their growth projections.

Small business is a driving force in Southwest Washington, and startups, in particular, are consistently net job creators nationally. According to the Kauffman Foundation, startups gained over 2 million jobs during the recession, compared to 4 million jobs lost by more mature companies during that time.

Since 2009, CREDC has been assisting entrepreneurs in connecting with the resources that they need. Last year, the CREDC Entrepreneurial Strategy 2.0 report was completed by Scruggs and Associates to better guide these efforts. As noted in the report, the vast majority of net job creation comes from startups in the first few years of growth, the stage two companies, and highly scalable companies as well. Those that are homegrown tend to grow faster than those that are nonresident companies recruited from elsewhere.

CREDC's entrepreneurial program focuses on scalable, or high-impact companies that have strong growth potential. Often these companies export goods or services and have revenue potential of at least $10 million to $20 million. A large portion of these companies are in the high-tech sector, which accounts for roughly 5 percent of companies, but more than half of all new jobs created.

To expand on that, high-tech and innovation-based companies are a focus area at CREDC, yet often experience the greatest challenge in earning access to capital. Scalable companies typically have greater capital needs and often require some form of intellectual property protection. They also tend to have markets that are national or global in scale. As a result, they often require alternate funding sources such as angel or venture capital funding.

Our connection to the Greater Portland metropolitan area provides great opportunities and is especially important to entrepreneurs and startups looking for initial investment from venture capital or angel funding sources. But it also poses some challenges for businesses looking to grow in this region.

We are very fortunate to have strong collaboration with partners such as the Chamber, SCORE, SBDC, and the Keiretsu Forum. The vast majority of dedicated entrepreneurial services in this region are located in Portland. While the entrepreneurial networks are strong and available to companies throughout the entire region, Clark County businesses can face unique challenges in access to the resources that are available. This is true for both startups and small businesses looking to expand.

It's important that leaders in our area are aggressive in reaching out to companies to ensure that business opportunities are not lost for lack of connecting to already existing resources. While the CREDC's role is one of connector or business concierge, we continue to work with our strategic partners in the traditional lending institutions to develop more expertise around identifying the companies with great potential but potentially low rankings through the traditional lending practices of today.

We encourage the continuation of the SBA's SBIR, 504, 7(a), and similar programs that assist the types of small businesses operating in Southwest Washington. We also encourage maintaining and expanding resources to connect local small businesses with the information about these and other lending opportunities that they need to be able to make use of them. And we continue to support existing programs, such as the Small Business Development Centers as well.

Though the foundation to serve Southwest Washington companies is strong, there's likely an opportunity for both regional entrepreneurial networks and traditional lending institutions to better serve our startup companies. The goal of this effort would be to increase the options and opportunities for Southwest Washington startup companies with sound practices, innovative technology, and experienced management with the potential to be funded.

I want to thank you again, and the rest of the Senate Committee on Small Business and Entrepreneurship for the opportunity to provide input and for your interest in assisting a strong and thriving business environment in Southwest Washington.

Thank you.

[The prepared statement of Mr. Bomar follows:]

CREDC ECONOMIC DEVELOPMENT

Columbia River Economic Development Council
805 Broadway, Suite 412 | Vancouver, WA 98660
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Accelerating Business Growth and Innovation

April 16, 2014

Re: Capital Access for Main Street: Meeting Opportunities for Growth along the Lower Columbia

The Honorable Maria Cantwell
Chairwoman, Committee on Small Business and Entrepreneurship
United States Senate
Washington, D.C. 20510

Dear Senator Cantwell:

Thank you for the opportunity to provide testimony on behalf of the Columbia River Economic Development Council (CREDC) and the business community in SW Washington. Access to capital is a key component of attracting and growing businesses in Clark County. As a resource for local businesses of all sizes, the CREDC works to connect businesses with programs and partners that can help identify the most appropriate funding options available to companies based on the their makeup, history and growth projections.

Small business is a driving force in SW Washington, and startups in particular are consistently net job creators nationally. According to the Kauffman Foundation, startups gained over two million jobs during the recession, compared to four million jobs lost by more mature companies during that time. The Greater Portland region, which includes Southwest Washington, saw 62,000 companies started in 2012 and ranked in the top 10 metropolitan areas for patent applications and awards per capita. Innovation-based companies are a focus area for the CREDC, yet often experience the greatest challenge in earning access to capital.

Our connection to the Greater Portland metropolitan area provides great opportunities, and is especially important to entrepreneurs and startups looking for initial investment from venture capital or angel funding sources, but also poses some challenges for businesses looking to grow in this region. Currently, the vast majority of entrepreneurial services in the region are located in Portland. While the entrepreneurial networks are strong and available to companies throughout the entire region, Clark County businesses can face unique challenges in accessing the resources available. This is true for both startups and small businesses looking to expand. It is important that leaders in our area are aggressive in reaching out to companies to ensure that business opportunities are not lost for a lack of connecting to existing resources.

While CREDC's primary role is one of a connector or concierge, we continue working with our strategic partners in the traditional lending institutions to develop more expertise around identifying the companies with great potential but low rankings through the traditional lending practices of today. Though the foundation to serve SW Washington companies is strong, there is likely an opportunity for both regional entrepreneurial networks and traditional lending institutions to better serve our existing companies. The goal of this effort would be to increase the options and opportunities for SW Washington companies with sound practices, innovative technology, and experienced management with the potential to be funded.

We encourage the continuation of SBA 504, 7(a) and similar programs, along with the resources to connect local businesses with the information about these and other lending opportunities they need to make use of them. Thank you for the opportunity to provide input and for your interest in assisting a strong small business environment in SW Washington.

Sincerely,

Mike Bomar
CREDC President

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ECONOMIC DEVELOPMENT

Columbia River Economic Development Council
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Accelerating Business Growth and Innovation

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About Mike Bomar:

Mike Bomar is the current President for the Columbia River Economic Development Council. Previously, Mike has served as the Executive Director of the Southwest Washington Contractors Association. Prior to his work with the Contractors, he spent six years at the Building Industry Association of Clark County where he was the Director of Government Affairs. He currently sits on a number of professional and nonprofit organization Boards including the Greater Portland, Inc., the Clark County Skill Center Advisory Council and the WSUV Alumni Advisory Board.

Mike has a Bachelor of Arts in Political Science & Communications from the University of Washington and a Master of Public Affairs, Applied Policy Concentration from Washington State University Vancouver.

Chairwoman CANTWELL. Well, thank you very much. That was a good wrap-up, Mike, and a good segway for us to jump into the question segment of this, which is—you know, I think I'll just start with all of you collectively. Several of you have mentioned more education, with either the Chamber providing a role, as you're saying, or maybe a network of entrepreneurs with institutions or more education or just—how do we get the word out to various businesses that here is the economic opportunity in Southwest Washington to leverage your business ideas with institutions that may not necessarily be ready to financially support you, but with the SBA backing are willing to do so.

Does anybody have——

Mr. SAWYER. I'll jump in real quick as the Chamber representative. I think, naturally, a lot of small businesses look to the Chamber to provide that leadership role in education. And if the Chamber had the opportunity to work a little bit more closely with the SBA and create those field office hours at the Chamber, it would be relatively easy for the Chamber to get the word out to our members and to the business community, in general, that that opportunity is there. So I think the conversation just needs to happen and we need to create that opportunity. That would be one step in the right direction.

Chairwoman CANTWELL. Anybody else on that point?

Mr. BOMAR. I think statistically and in perception, funding is centered around metro areas, and that tends to be a thriving magnet for a lot of entrepreneurs in the region. One of our goals that I see as an opportunity is to really try to capture entrepreneurs before they make the leap into that central area and to really help them understand that they don't have to be in that central core, that they can access the same resources in this metro area, through enhanced collaboration both across the river and in making sure that the programs and the partners that we have here are maximizing those resources at the right stage to be able to capture those entrepreneurs before we lose them.

Chairwoman CANTWELL. We have two business people here, and they can say whether they were brought to all the Chamber or—you know, obviously, you can create a value within the Chamber and EDC community that there are ways to help businesses financially so that you can become, if you will, a resource of information for businesses. But these two businesses—you immediately started going to financial institutions. Right?

Ms. O'HARA. No. We first did SCORE, and they were the ones who helped us do everything. And out of the blue, it was something my mother said one day while I was whining. But we didn't know what to do. We didn't have a business background. We know shoes. And she said, "Oh, you know, what's the need of that"—she'd kill me if she heard me imitating her like that.

[Laughter.]

Which is why I want to emphasize I think SCORE is an unbelievable resource and underappreciated, probably. And I think our local chapter did an excellent job of advertising seminars and webinars. But I think they are a great avenue to get the word out. But that's what we did.

Chairwoman CANTWELL. Jessika.

Ms. TANTISOOK. I'll speak just a little bit about Pacific County. I mean, we're not close to a major metropolitan area, and we're about two hours from Vancouver. So we did start with local banks, and, like I said, they didn't walk us through even the process to get ready to be eligible for SBA opportunities.

So I don't know if there is a piece that is missing between local financial institutions and SBA, or if the Chambers can reach out to local banks or how that gets out to more rural areas. But I think that is often overlooked.

Chairwoman CANTWELL. Remind me how you found the Community Development Financial Institution.

Ms. TANTISOOK. Through a friend—like, "Oh, you should talk to Craft3."

Chairwoman CANTWELL. So——

Ms. TANTISOOK. Sort of word of mouth. It's usually what gets things done in small communities.

Chairwoman CANTWELL. And you were doing—I mean, first of all, congratulations on what you achieved with taking your vision and turning it into something. You know, our state has something like over 300 different agricultural products, and we went almost overnight from doing very little with blueberries to becoming one of the number one organic blueberry producers in the country. And so it was a huge explosion of growth. So now what you're doing with cranberries, I'm sure, will also have a very bright future.

You mentioned, you know, how to measure these business opportunities on a little different basis. I mean, do you have any ideas or suggestions with—we are seeing a lot of investment in food enterprises, and we in the Northwest are doing very well with—you know, with all our software and airplanes and everything else, I still remind people that our ag economy is the number one employer in our state.

Ms. TANTISOOK. We spend a lot of money on food, yes.

Chairwoman CANTWELL. We have to eat.

Ms. TANTISOOK. And we love to eat. I think that's a great—I mean, that's one reason why we wanted to have our business here, because of the thriving food community. And so I have a couple of thoughts, I guess. One is we're a social purpose corporation, and we function like a corporation. But we're able to write in a special mission into our company when we were incorporated. There's also other third-party certifications.

So is there a way, I guess, that there's—you need funds that you can qualify for if you're one of these organizations that, you know, are out to do more for the community other than just have their business housed there, that are working in communities and creating jobs and increasing environmental benefits and things like that.

Chairwoman CANTWELL. Do you think there's a Web site anywhere that basically talks about how you become an entity like that?

Ms. TANTISOOK. The Washington Social Purpose Corporation Web site is pretty good. It has almost every incorporated SPC on there. So I think that could be one way to get information at least for those companies.

Chairwoman CANTWELL. And does that talk about capital on that Web site?

Ms. TANTISOOK. I'm not sure, actually.

Chairwoman CANTWELL. And is that why you think you got the crowd funding?

Ms. TANTISOOK. I went to business school in Seattle at the Bainbridge Graduate Institute, and the startup that we worked with were classmates and friends.

Chairwoman CANTWELL. So, again——

Ms. TANTISOOK. So our connection to them was also a personal connection, and so that's how we've gotten a lot of—what we've done so far is through our network and telling our story, and our story has taken us a long way. And also out of our team of seven we have three engaged on our team, and so we have a great business plan and great financial projections.

And like you were saying, they only take you so far. People—our banks are like, "Oh, these are great. We love them, but we can't lend because of—we need to see two years of operating with a year of net positive cash flow," and we don't have those yet.

Chairwoman CANTWELL. The financiers—any comments on what you're hearing here on how we water this garden of opportunity, of innovation, given some of our more traditional focuses on finance?

Mr. CHANCE. Well, sometimes the classes and seminars are lenders and some of the organizations. We're guilty of offering them, for example, at noon. How many small business owners can break away at noon? So we have to be willing to have those in the evening or on the weekend when those sessions are more accessible to people.

And I'll say in looking at startups, at least from my perspective, we do some, and it's very much focused on people's experience, their ability to at least put something into the transaction so it's not 100 percent financed. We talked a little bit about collateral here, and that's the great virtue of SBA lending. There's so many SBA 7(a) loans that are poorly collateralized, and the focus is really on either projected or historic cash flow, the experience of the individual, their general business acumen. It's not so much based on collateral, and that's really what separates the SBA lenders from more conventional peers.

Mr. SWANSON. I'll just say that probably 90 percent of what our loan officers do is try to do outreach to lenders, and it's going out to a lot of small branches throughout the Northwest. We have 10 loan officers. They're taking everything from southeastern Oregon to northern Idaho.

So for us, it's a big educational piece of our mission, and so we're going to small lenders, branch bankers, real estate brokers, anyone that we can get the word out to about our program, because we feel it still doesn't really get the—it doesn't have the financial assets as some of the other loan programs. So for us, it's just a continued fight getting it out there, and, clearly, we have a lot more work to do to get it out there.

Chairwoman CANTWELL. And it seems like it's not only the communication. Everybody mentioned the communication. I just wanted to point out that SCORE, which Amy mentioned, is a service corps of retired executives, and they provide counseling for early stage companies, and they do get support from the SBA. So it is, if you will, a network out there in the community, so that seems to have benefit to small businesses or entrepreneurs who are looking for those economic opportunities.

Mr. SWANSON. SBDCs, too. They're really good out in the communities as well.

Chairwoman CANTWELL. And why do you think that is?

Mr. SWANSON. They really help small business owners with business plans and kind of how to get through the maze of financing. There's a lot of really good SBDCs throughout the Northwest that—again, they can really take a look at an entrepreneur or someone that wants to start a business up and tell them very matter of factly, "This is what you're going to need to do to find financing."

And they have a great network, so they can say, "This is a lender that might work for your business" or "This is a place not to go." So they can really help them, again, with the business plan writing and what-not. The SBA has gotten rather strict on the 504 side with projections, business plans, and that sort of thing.

Whether you're a startup business or, in your case, an existing business that wants to expand to a new location, even if you have enough cash flow coming in to open up a new location based on your existing, they still want full business plan projections. So SBDCs really help with that and provide that technical assistance.

Chairwoman CANTWELL. Mr. Chance, you mentioned the simplification of the process—several people mentioned the simplification of the process, some obviously for the process to be a certified lender, and then the process, in general, for, I guess, simplifying the marketing of benefits. What do you think the SBA has to think about in that regard? And I know several people mentioned it, so other people can jump in here.

Mr. CHANCE. Sure. This would be in getting the lenders more engaged as part of the information for the business community. But then you also have to have lenders who are willing to be engaged. And I would make the argument the more SBA lenders there are, the better it is for the marketplace. So that's the reason I said evangelical, because it is helpful to have many banks talking about it as a product in the marketplace.

But the objections usually come in from concern about paperwork, although that has been simplified in most recent SOP. But there are still concerns about complexity of the SOP and it's an ongoing effort to streamline it.

This certified lender program is a step where—essentially, right now, you have guarantee lender programs are sending in the thick packages. You have the option for express lending, which is a very simple process and probably underutilized here, and then the primary program, at least for us, the preferred lender program, where we can go up to that $5 million loan. That would be kind of unusual. Most are smaller than that.

And we have delegated authority, and part of that is the expertise to do it. A lot of lenders don't have that expertise, and they have to go to Citrus Heights, and that's the process where, I think, that yield is a little larger than the express loan or has some complexity or risk to it and the lender wants a higher guarantee. They want the 85 or 75 percent guarantee. If we bring back that certified lender program in a meaningful way, that might help encourage at least some of the community banks to become more engaged.

Chairwoman CANTWELL. Mr. Swanson, do you have comments?

Mr. SWANSON. Yes. You know, obviously, on the 504 side of things, we—there's more risk to the SBIR loan, so we're scrutinized a little bit more as opposed to how a bank does when we submit our package to the SBA. I think, again, in the spirit of talking about access to capital, specifically in Southwest Washington, I think that the SBA tends to do a one size fits all, you know. They're processing in Citrus Heights, California. They're processing all these loans.

And I know for us, as a CDC who has 10 loan officers throughout the Northwest that are invested in their communities, I think there are situations where the SBA is just trying to apply a one size fits all, and credit just isn't that clean. You can't just say, "Well, they met this requirement, they've got this many years to cash flow, they've got this much leverage"—you know, your example is a good one.

I think that the SBA could probably work on a partnership with the CDCs that are local a little bit better. We're all kind of trying to do the same thing, you know. We want to protect the SBA and have the long-term—the investors. And I think that SBA could rely a little bit more on local CDCs on the 504 loan.

What we know about the community—we're the ones that are meeting with the borrowers. We're seeing the business in operation, and I think that would go a long way to help the process and help the basic feeling sometimes out in the marketplace that, again, the SBA process is difficult, and it's all black and white, and there's no room for any gray.

Chairwoman CANTWELL. Jessika, you're shaking your head.

Ms. TANTISOOK. Just recently, we were talking last month with a couple of banks that asked basically—it's a similar process. You have to meet these three-year requirements, and you don't, and you're not eligible for the loan. So it doesn't seem like it's based on our unique team or our vested values, on what we've done so far as a company. It just seems like it's about checking boxes.

Chairwoman CANTWELL. Any thoughts from lenders about that? That goes beyond simplification.

Mr. CHANCE. An old boss of mine used to say we don't have a monopoly on business. There's probably several thousand banks in America. And I hear exactly what Jessika is saying. There's so many who get that reaction.

As a person who manages SBA lending, one thing that's one of my responsibilities—and things I think about at 3 o'clock in the morning—is how we make sure all of our lenders, all of the people involved in credit decisions, are aware of the opportunities. And like any other industry, there's a certain amount of turnover. But the word—it's an effort to continually get that word out.

And different lenders are going to have different approaches to it. Some will be very much check the box, saying if you have a credit score of X, you're good. If it's one point low, you're not. Other lenders may be more flexible. And for better or for worse, that ends up being one of the burdens of the entrepreneur to figure out which of these lenders from the many thousand in America are going to be a good connection for you, personally, for your type of business and for the life cycle of your business.

I don't know if there's a simple answer to that question. But it's like finding the dentist you like, the physician you like. There is a certain process to go through and figure out is your institution or is that particular institution ideal for you. The one across the street is very convenient, but they may not be the one that really can help you the best with this type of a program. So it takes a little shopping.

Chairwoman CANTWELL. Well, one of the reasons why we're doing this tour is because I personally want to see us do something besides make exotic financial instruments. I want us to grow small businesses. But we have to demystify access to capital and make sure we're increasing access to capital. So you have given us some things to think about already as it relates to simplifying and enhancing the communication.

But I think for us, it's much less, so—because we're so innovative. I think it would also behoove us to take the blinders off for a second and say, "What else should we be doing to get more capital out to all of these people in an information age that would create more of these opportunities?"

Again, when you think about how much capital is locked up in the five biggest institutions, it's like 50 percent of the assets in the United States are in five big institutions, you know, doing lots of activities that I personally think aren't performed enough, while the squeeze on capital for small business is still—you know, you might say that we have enough. I personally think one of the things the committee is going to do is increase the 7(a) cap to a higher level to get more money out there and get the refi 504 program going again. So we're going to try to get capital out there.

Our new administrator comes from a background in California where they've learned that small is big, that is, that sometimes the capital was just—a $150,000 threshold was more than people wanted, and that looking at the smaller portfolio helped, you know, a thousand flowers bloom and then come back and be able to access a bigger program.

So any thoughts on that, about the loan size or, you know, something where we would be more creative with the program that would emphasize smaller amounts of capital to be accessed? Or do we think that's being taken care of somewhere else in the market, like the crowd sourcing or personal financing?

Mr. CHANCE. There are other alternatives, and I think when we talk about very small loans, generally, say, 50 and under, there's an awful lot of that that's taken care of on a conventional basis with smaller banks. And where the SBA is helpful is where the bank receives greater risk, and I don't know that the average bank would save a lot of risk if this $25,000 loan goes bad. After all, it's the size of a car loan.

I once heard a major national lender say, "I wonder if the SBA program would work better as a credit card program." And I said, "Why would we want to?" Well, what would be the public policy benefit of it. If you need a credit card, stay by your mailbox, and you'll get that loan.

So I think we make a much bigger impact on things that credit cards can't do when there aren't opportunities like home equity loans. And, generally speaking, that gets to be a little bit larger, and that's—sometimes we look at numbers of SBA loans opposed to dollars, because I think right now, especially as the economy has gotten at least a little better and financial investing is stronger, there is greater access to those conventional opportunities for the under 50.

You might have situations like the crowd funding and micro lending. There's organizations like Seattle Community Capital Development. Those are good alternatives to build as well, because they serve a niche that's not being fulfilled by financial institutions.

Chairwoman CANTWELL. Mike, did you have any comments on that, particularly as you related to high-tech businesses and the fact that you wanted to focus on, you know, startups?

Mr. BOMAR. Yes. I think, you know, a couple of points. We have—one of the key connections is the educational institutions, and we talk about relationships and how those get transferred into knowledge about access to capital. Locally, with both WSU and Clark College, we have excellent institutions that are able to focus and create entrepreneurs with their programs and the research capacity that they have here as well, too.

Particularly, with angel funding or venture capital or crowd funding—and there's been some legislation recently passed on that—there are some opportunities at various levels of funding. I think the key is going to be the barrier to access relative to the size of the fund needs to be considered as well.

So there are other avenues that are less constrictive as far as what's available, so it may not behoove the SBA to go smaller necessarily. But I wouldn't have that available right now. I just think that it's important, but it may be serviced elsewhere as well.

Chairwoman CANTWELL. Anybody else on that point?

Mr. SWANSON. I'll just say I actually cut my teeth on SBA lending when they first brought out the SBA express program. I was working for a very large—one of those national lenders that has a lot of capital. And I saw a lot of good from it. It was a program—I think our average loan size was $30,000. And, again, there was a lot of good—we could do a lot of small startups and build those into the bigger 7(a) loans, and it does mean a lot to their building.

Evergreen Business Capital—we finally decided to apply for the Community Advantage Program, which is the small loans that CDCs can do. For us, it was a tough decision because you have to have capital within your organization, and as a nonprofit who—we put the money toward SCORE and SBDC, and we had to hold some of that money back in order to have that capital because the SBA does put a lot of the risk onto the CDCs to do those small loans.

We feel it would be a great thing for us, because, again, we've got people in these small communities. But it isn't the easiest thing to do. But we hope to be lending it in the next year.

Chairwoman CANTWELL. I wanted to go back to you, Mr. Swanson, because you talked more specifically about the 504 program.

So what do you think we need to do to more target our help there? You mentioned understanding the core customer and the refinance program—you know, simplifying the rules. What, specifically, do you think SBA needs to do to make that program successful?

Mr. SWANSON. Well, like I mentioned before, they have cut some of the rules out. They have simplified it, and those start taking place, I believe, this week. So we are looking forward to seeing that happen. I think it's just a general idea that the SBA needs to delegate a little bit more authority to the local CDCs.

I think, you know, coming out of the recession, a lot of CDCs—their portfolios did not do well, and I think the SBA should look at each CDC as an individual organization, not all as a whole, when they're reviewing each credit. I think, again, not all CDCs are created equal. There's a lot of great CDCs across the country.

And I think if the SBA, again, didn't take a one size fits all as they look at applications from each CDC, I think that would really help put out more capital to small businesses. As the local CDC knows the borrower, knows the business, knows the local economy, I think that could really help.

So that's not really detailed, but it's a bigger picture than—the process for 504 has just always had this reputation for being really long. When I first entered into the 504 world seven-plus years ago, you know, it would take a month to go from application into getting an SBA authorization. But for us, as an organization, we've cut that by less than half.

So this whole thing moving forward—it's just got to be a continual moving forward, and with the SBA continuously having someone there trying to say, "How do we make this easier for the borrowers? How do we get the capital out?"—of course, balancing still that the SBA needs to protect the taxpayers and their investors.

Chairwoman CANTWELL. You mentioned the 10 percent down.

Mr. SWANSON. I think that would be huge. Like I said, what we're really seeing a lot nowadays is small business owners, you know, the ones that got through the recession, a lot of it was not taking salaries. It was using every bit of cash they had in the business to keep it going.

Now, as we get this slow recovery, we're really seeing that, you know, they have contracts, they need more equipment, they need a bigger space. But they don't have that down payment. Even the 10 percent is just insurmountable for some of them.

But if we could make it so all businesses—currently, with a 504 program, if you're a business that has less than two years experience, or if you're what the SBA calls a special purpose building—like a hotel is an example—they require an extra down payment on this. So I think if we could just have 504 as everything is 10 percent down, I think that would help a lot of businesses in this economy. That 10 percent has really—fixed rate is great, too, but the 10 percent down is huge in the 504 program, getting access to capital.

Chairwoman CANTWELL. Any other comments on the 504 program?

Mr. CHANCE. A little encouragement. They haven't offered it to the regulatory agencies of the financial institutions. But they visit with the credit people to encourage this, and they do through the community outreach efforts, but the more of that, the better. It's very helpful when our credit people hear that a program like 504 is a great way to help with owner-occupied real estate, because it's ultimately one of those larger transactions, and the credit administration people are providing the approvals.

Mr. CHAIRMAN. So you think that there's doubt that's created at the federal level?

Mr. CHANCE. Not only is there doubt, but it's just they're not getting the message as consistently and as strongly as would be desirable. If they were hearing that from the FDIC, for example, and the credit administration—"Hey, we really like this product. We really like this product. It's a good product," it would be helpful. Sometimes there's an inconsistency in the world. We hear from the marketing side, and then even with the SBA ——

Chairwoman CANTWELL. And what would the other side be saying? This is an important piece.

Mr. CHANCE. One says it's very important—this is something good to do. The audit side has been saying, "Be cautious, be cautious," and that's very—that signals the SBA to come in. We've had favorable audits. Others tell me, other banks, that they get cautionary tales, like you haven't scrutinized that carefully enough. You haven't—you've underwritten it at a little higher leverage than you should. And so they're kind of getting mixed signals between the different divisions.

Chairwoman CANTWELL. Well, maybe that should be the subject of another hearing in Washington, to make sure that we understand how the regulators are looking at the 7(a) and 504 programs, because I think this is very important, very important. And it was very frustrating during the downturn to have on the one hand the Treasury giving access to large banks, and then at the same time federal regulators pounding on all the community banks on their margin rates and, thereby, you know, causing various challenges or collapses at the same time—so very challenging and very frustrating.

If we could go back just for a second about this area, in general, I just want to make sure that before we wrap up today that I understand. Do you think this is about not having enough lenders in the area? Do you think it's about communication? One suggestion from some people in the community was that maybe even the government shutdown slowed down the number of loans that were being processed, and that's why these numbers are off, you know, from last year.

Clearly, I would like to come back in a year, in two years, and see that Clark County and Cowlitz County and Southwest Washington, the lower Columbia, is one of the most business friendly places for job creation and new enterprises, and here is this cadre of people advocating these services. That's one thing I'm hearing from all of you, communication and advocacy. But are we missing the sheer number of places, too, in the region that are providing those resources?

Mr. CHANCE. More is always better, government shutdown is bad, and, certainly, the help in the internal marketing of federally enhanced programs, because it creates uncertainty. And we're not running a grant program where you apply on May the 1st, and we offer awards the following month, and that's it. During the year, we want to be lending multiple times every day. If there's uncertainty about the availability of the program, it makes it harder to have the momentum.

Chairwoman CANTWELL. But do you think that's what's causing this issue here?

Mr. CHANCE. I don't think so, because as your statistics show, Portland is a little unique. There are other places in the country that don't have the same effects. It could be true that this part of the country seems, for whatever reason, to enter recessions a little bit later and come out of them a little bit later. So we may be seeing that general effect.

Chairwoman CANTWELL. What we're seeing—you know, increases in other areas. And so we certainly want to—you know, we want a thousand flowers to bloom here and new enterprises, and we want to make sure they get access to capital.

When you were—I'm not sure if it was you, Mr. Sawyer, or Mr. Swanson—talking about having these open houses and having SBA attend, were you thinking of Portland or Seattle? Or do you think we should have them both?

Mr. SAWYER. Well, I think what I was referring to was collaboration with the Portland office to have SBA office hours, field hours—call it what you will—at the Vancouver Chamber and be able to advertise that to Vancouver Chamber members and/or the business community at large that this opportunity is here. If you want education, if you want to make a contact with the SBA, here's an opportunity. You don't have to drive across in traffic or whatever. It's here five minutes away. Come on down—trying to become that one stop shop for all of our members as well as the business community at large.

Chairwoman CANTWELL. So do you think that's been part of the gap, that some people ——

Mr. SAWYER. Absolutely.

Chairwoman CANTWELL [continuing]. Don't know that the service—you know, they don't know who to go to because they're on the Washington side, and they don't know if they should go to Portland or Seattle?

Mr. SAWYER. Well, there's a gigantic chasm that is that river that nobody wants to cross. Honestly, a lot of times, it is a problem for business owners. They literally don't have the time. I mean, it's a lot to ask you guys to be here today for a couple of hours. I mean, business owners are busy. They've got plenty of things going on on their plates.

So to drive over—and, again, a lot of times, those other meetings are at times that are not exactly convenient. So if the Chamber were to work with providing that opportunity to present a more opportune time, I think you'd see some more access to more business communities.

Ms. TANTISOOK. And I'd echo that and say that whatever solution you look at, just to make it simple for business owners as well as making it simpler for banks and lenders. To make it simpler on us—we don't have a lot of time, and I know that in the past two years, we've spent months and months and months just on financing, whether it's filling out grants or working on loan applications.

Our team is pretty qualified to do some of that stuff, but I know a lot of business owners don't have those skills to come up with the things that the banks are asking for. So how can we create solutions that really work with the nature of business owners, which is they're busy, and sometimes they don't have all the skills to get the required documentation.

Chairwoman CANTWELL. Nancy, did you want to add—I know you're not miked or up, but as Acting Regional Director of the SBA, is there anything you want to say about the state giving resources here in Vancouver?

Ms. PORZIO. Yes, there is.

Chairwoman CANTWELL. Is there a microphone she can come up to?

Ms. PORZIO. Thank you. Yes, I am representing the regional administrator, Calvin Goings, and I'm district director in Seattle, and, actually, I think, formal mentor to the new district director in Portland, Camron Doss. He's been on board for about six months. So we've been talking about some collaboration, but I think it's been made very clear today that we need to be doing more between the two offices, perhaps doing more training together down here.

They have a relatively new staff in Portland, and I think they could gain a lot from the staff that's located in Seattle. They have an average of 25 years of experience with SBA. So I do think that we could come down and do some joint training. But I also think we need to figure out how to make it a little easier. It's just always complicated when another district has part of the state.

So I don't know if I would go so far as to say we need to change that and make it just Washington state and Oregon state. But I think we need to come up with a way that we can work a little closer together, you know, with all of our partners. The SBDCs report to Washington, yet they have a responsibility with the Portland office. It's confusing. So I think—I don't know if that's something you necessarily need to deal with, or if that would be something SBA could look at.

Chairwoman CANTWELL. Well, we certainly, you know, want to deal with it, because we think small business is a great economic development strategy for our country, in general. And if access to capital is a key ingredient, we want to make sure that it gets out there. We just want to address any issues that might meet this issue of regional challenges because people are not sure whether they should contact Seattle or contact Portland. And, obviously, we want them to have the best of both worlds.

I just want to point out that there is a woman, Ann Marie Mehlum, who is the SBA access to capital person at the SBA in Washington, D.C. She is from Oregon, so back there, the head of the whole program is a Northwest person. So we should get her involved in making sure that we address any issues that might be about communication.

People in Vancouver should have the best of both worlds, or Southwest Washington should have the best of both worlds. But that might be a little confusing. So maybe what we should do is just try to figure out something that the SBA could communicate or come to terms with about how we would work as a region together.

Ms. PORZIO. Well, this has been very enlightening, and it has helped me to see what's going on, and we will definitely go back and make some plans to improve service and make sure that we're more visible.

Chairwoman CANTWELL. Thank you.

Mr. SAWYER. Could I ask a quick question? At the risk of making this sound weird, but simplifying it, is there a turf war, so to speak, in terms of a funding mechanism for Washington state based on however many loans go through you versus Oregon? Would there be a reason why it would benefit Vancouver to stay within Washington? Or is it just a matter of it doesn't matter who gets it, as long as the entrepreneur gets taken care of?

Ms. PORZIO. Definitely the second is more true to form.

Mr. SAWYER. Okay. Okay.

Chairwoman CANTWELL. My guess, Eric, is just as you said, you know. No one wants to cross the river, and no one else wants to drive three hours. So the question is how do we—your suggestion was right on target, how to get the Chamber and maybe others having services right in their backyard. So I think that's what we should work on. That's a good example.

Well, we're about out of time. I wanted to also mention for those who are watching, as I mentioned earlier, this is an official record for the Senate Small Business Committee, and so the record will remain open for my colleagues and others. I know that we have a—Vancouver Capital Access has been showing this, and there is—and we'll have a link to the Web site, the sbc.senate.gov Web site, and that will be a place if people want to send an email, they can send an email as well.

So if anybody at home who is watching this who is a small business owner or wants to be a small business and have access to capital questions, then Vancouver Capital Access, all one word, no spaces, at sbc.senate.gov. You can send an email and a communication, and we will get you to the appropriate sources.

So I want to thank all the witnesses for your testimony today and your willingness to be here. To the entrepreneurs, thank you for being daring and helping our economy. To the lenders, thank you for your input on how to improve these programs. To the EDCs and the Chamber, thank you for making this area a more attractive place for economic development.

We look forward to continuing this listening session around the state, and we will certainly get back to you on the recommendations that we will be taking before the full committee.

So, again, thank you, everybody in Southwest Washington, and we're adjourned.

[Whereupon, at 12:02 p.m., the hearing was adjourned.]

APPENDIX MATERIAL SUBMITTED

Additional Comments
For the Record of the April 16, 2014 Field Hearing Entitled
"Capital Access for Main Street: Meeting Opportunities of Growth Along the Lower Columbia"

I found the meeting to be informative-- as expected-- but in ways unexpected. Having given this some thought this week, let me take up your time with this comment, for what it's worth . . . . hopefully as input in response to the meeting. Senator Cantwell invited response and opinion at the close of the meeting, here are my comments.

Regarding access to capital for business start-ups--

Having closed my business activity in Germany last year, finalizing my move back to the U.S. and on to "new adventures", the discussion of this topic brought smiles as well as frowns to my face as I listened to the invited witnesses. The smiles were associated with the remembrance of how I "started up" my business in Germany in 1981. At that time, I had just been released from my job as a field technician from a company that was closing at the end of 1980. Having established a reputation among clients as well as competitors as a hard worker, I was told by several of these business associates that they would pay me to do various tasks for them if I would agree to accept their offered contracts.

To do so, it would be necessary for me to purchase a truck large enough to assume these tasks, and find a location with room enough to undertake the job. Not having this amount of money readily available, I took the contract offers to my bank, along with an offer from a local truck dealer, and discussed what I wanted to do with my banker, asking for a substantial loan. The banker asked the pertinent questions as to my legal status as a foreigner residing in Germany, told me to find a tax advisor / accountant, register my business intention with the local authorities, and--- gave me the loan. I bought the truck, followed the banker's suggestions, and went to work. It really was that simple, as incredible as it might seem, today. To make a long story short-- about 25 years later, the companies that I had contracts with were doing about $8M (that's million) annually in sales, I was able to put other people to work, and had secured for myself a modest but stable retirement. Certainly not a very large business, but not without some accomplishment. All this based on a bank's trust in the individual's desire to make it happen. That I can smile about.

Now the frowns-- can you imagine me trying to do the same thing locally, today? Start up a new enterprise-- which I had considered upon my relocation to Vancouver. After learning what kind of hoops I would have to jump through to do so-- listening to the testimony of entrepreneurs of what they needed to prove in advance of even starting their work, listen to a major capital provider with it's local office and nine staffers who were "totally dedicated" to helping local, ambitious people get started (they have apparently been successful in securing their jobs, but how many new businesses and jobs have they created?), and hearing about the questionable success of the SBA to promote the same effort (apparently the SBA seems to feel it is "adequate" to assign that responsibility to an SBA office in Oregon?-- I surely am not the only one to understand how preposterous that is . . .) --- my decision was easy. No way would I consider trying it again, here. No increase in business turn-over for any new prospective clients or business partners. No job creation. No increase in tax revenues based on my efforts. Nada.

It is disappointing that this infrastructure as it is today, regardless of professed intentions, cannot achieve what it professes to do. It does manage to perpetuate its own existence, and this may have been the result of the "great recession". Unfortunately this infrastructure has sunk in to a mood of complacency and self-protection, forgetting it's intended purpose-- in short, no guts.

If we want to show improvement in the local business climate followed by its effect on the larger business climate, this infrastructure needs to change.

Respectfully submitted,
Louis Marteeny

April 16, 2014

Testimony of

K. Perry Campbell, Ph.D.

237 NE Chkalov Drive, Suite 232

Vancouver, Washington 98684

Before the Committee on Small Business and Entrepreneurship

Small Business Field Hearing in Vancouver, Washington

"Capital Access for Main Street: Meeting Opportunities of Growth along the Lower Columbia."

Thank you for allowing me to provide testimony about access to capital markets for those small business owners who were once young entrepreneurs with dreams of creating and growing a successful business. They have largely done what they set out to do... they've purchased or started a small business, grown the business over a lifetime of hard work, and now seek to capitalize on that hard work to fund their retirement. They hope to accomplish their objectives through the sale of their privately held business. I want to help these business owners retire by assisting them to realize their dreams of a business sale.

I am a small business owner and all of my clients are owners of small and mid-sized businesses that typically have anywhere from 10 employees to hundreds of employees. Most of them seek to access the capital markets as they near retirement and want to transition ownership of the business to a third party - an individual, another company in their industry, or an investment group. This transition is an important one for the owners, the employees, the customers and suppliers of these small businesses. It is consequently a very important transition for our communities. With the aging of the baby boomers this transition is upon us now, with many business owners in their 60s and 70s seeking to turn the equity value of their businesses into the money needed to fund their retirements. By bringing in new ownership with a desire to own, operate and grow the business, jobs are preserved and increased at the companies sold and at their suppliers' companies as well. I would argue that access to capital for these business owners at the end of their business career is even more important, especially now, than access to capital for start-ups and expansions. The reason is in the demographics - there are many more business owners now approaching their business exit due to the aging baby boom, and the amount of capital involved to transition these mature businesses to new ownership is typically much higher than the amount needed for a small business start-up or an expansion. This is the silent majority of capital needs, the group of owners who will never get the press of the high tech start-up seeking venture capital investors, or the bigger business seeking an IPO in the public markets. These are simply family-owned businesses from which the owners seek to retire. Only about one third of them will transition to the next generation in the family. The remaining two thirds will be sold to a new owner or they will be closed and liquidated. An estimated $10 trillion of privately owned businesses will be sold as baby boomers retire. This is happening right now and will continue at a significant pace for over a decade. Access to capital for these businesses and their owners is my concern. They are not seeking a loan, they

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are seeking a buyer for their business, and the highest value they can achieve by accessing the entire capital marketplace of business buyers.

Just this week a longtime friend of mine who owned a small professional service business with 3 employees told me that he had retired and let his employees go. He was pleased that they each found new jobs, but that's not the best kind of a retirement scenario for the fabric of our community. We want those businesses to continue and we want them to grow under new ownership. We want the jobs to be preserved and we want them to increase under new ownership. A business sale to a new owner-operator who can bring an infusion of energy and capital is the best thing for preserving and enhancing our businesses and our communities.

I have previously written to Senator Cantwell, asking her to support and co-sponsor S-1923, a bill identical to HR-2274 (The Small Business Mergers, Acquisitions, Sales and Brokerage Simplification Act) that passed the House of Representatives in a unanimous bi-partisan 422-0 vote. The Senate Bill was also introduced with bi-partisan sponsorship and it continues to attract new sponsors from both parties. In the House identical language to that contained in HR-2274 and S-1923 has now been included in its entirety as section 901 of HR-4304, the "JOBS Act 2.0". This legislation is within the jurisdiction of the Senate Committee on Banking, Housing and Urban Affairs, but I believe it has far reaching implications to the availability of capital for the continuation of small businesses once the owners reach retirement age, and I again request Senator Cantwell's support for this legislation along with support from all members of the Committee on Small Business and Entrepreneurship , and I specifically ask all members of the Committee to consider adding your names as co-sponsors of S-1923.

In general, the proposed legislation is an effort to "right size" regulations pertaining to the sale of small and mid-sized privately held businesses to new owner operators. By right sizing these regulations business owners will be able to increase their chances of a successful sale of their businesses at a reasonable cost. At the same time owners will be in the best position to identify the most suitable new owners for their businesses...the ones who will maintain and grow the legacy they created.

The effort to "right size" regulations for the sale of small and mid-sized privately held companies has been underway for many years, and shortly after passage of HR-2274 in January of 2014, the SEC Division of Trading and Markets issued a "no action" letter on the topic of M&A Brokers (business brokers), stating clearly that M&A Brokers would be exempt from registration under the Securities Exchange Act of 1934, providing that certain conditions were met that are very similar to the conditions in HR-2274 and S-1923. That was at least the third in a series of such no action letters on this topic from SEC dating back to 1986.

In testimony before the House Committee on Financial Services, Subcommittee on Capital Markets and Government Sponsored Enterprises, the House Bill was supported by the U.S. Chamber of Commerce, the North American Securities Administrators Association (state security administrators), and the Alliance of Merger & Acquisition Advisors. All of these entities and the SEC have long recognized that business brokers are not a problem that needs more regulation, they are a solution to important capital needs for the private owners of small and mid-sized businesses. The SEC no action letter on M&A

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Brokers mentioned above is largely in agreement with the conditions in HR 2274 and S-1923 under which an M&A Broker would not need to register with SEC.

With so many knowledgeable parties in agreement it makes sense for the Senate to join the House in supporting this bi-partisan initiative to codify into law what so many parties recognize as common sense, and for all of the members of the Committee on Small Business and Entrepreneurship to support and co-sponsor this bipartisan legislation. S-1923 was introduced this year with bipartisan sponsorship, and it continues to gain new sponsors. This common sense legislation will help to preserve and grow jobs in our communities.

K. Perry Campbell, Ph.D.

GF STRATEGIES
Foodservice Planning for Profit

April 16, 2014

Honorable Senator Maria Cantwell
Senate Small Business Committee
Washington DC 20010

Dear Senator Cantwell and Committee Members:

I have owned my small business since 1993. During that time we have been able to employ a range of employees to help us grow our business, while giving them valuable experience as they help us work with major food service operations at outdoor events, stadiums and arenas.

Many of these employees have gone on to found their own companies, after having gained experience while working as a part of our company. I would like to share with you that these are the kind of statistics that do not show up in the labor reports, job growth statistics or all the other economic gauges. These are the kind of spill off benefits that come from those of us who work every day in small businesses with less than 100 employees, who give many their first chance at a job, and help them learn about cash flow, profit and loss, creating a marketing plan and the other vital things that it takes to run a small business.

I encourage you to do all that you can to make it possible for small business to continue to have access to growth and risk capital so that we can keep being able to teach firsthand the spirit of business ownership to others.

Sincerely,

Greg Flakus
President

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