CenterPointe
COMMUNITY BANK

Mahlon Vigesaa Testimony Re: SB 712

My name is Mahlon Vigesaa and I am the President/CEO of CenterPointe Community Bank, a fairly new community bank headquartered in Hood River, Oregon. We have been open just over 6 years and have been very successful. The bank is locally owned and our full focus is on the well being and economic growth of the Columbia Gorge market area. I have over 40 years of banking experience, mostly at large banks.

If we are going to address the capital needs in Oregon we need to consider more tools for the financial sector to keep investments and profits circulating in-state. There are many good opportunities to partner with existing Oregon based financial institutions though loan participations, especially in rural areas and smaller towns across the state. These high quality investments in our communities strengthen our economy and keep money from leaving the state. Partnering with existing financial institutions in Oregon would be a win-win for the state and the local economy, especially in rural and smaller towns. Making sure loan participations are structured into the state's investment activities is extremely important.

Banks generally have an excess of liquidity to lend right now yet some credit-worthy deals are being held up and/or are lost to out of state banks which means at worst job creation is being delayed and at best profits are not staying in Oregon. Creating a mechanism for the state to do loan participations would improve the ability of capital to make it to where it is needed while helping the Oregon community bank sector be more resilient.

Take our bank for example. Our legal lending limit is $2 million. Even in the Gorge this is often not enough to fund a transaction. Recently we have been approached for three strong, credit-worthy projects that we were not able to fund because of this issue: a small wind development project, a $2.5 million local new/used car dealership, and a $3 million local hospital loan. In the first case the deal and profit went to a Montana bank with no employees in Oregon. The other two deals would similarly have been kept in-state if we could have found a willing and able loan participant, but for a variety of reasons other community banks were not immediately in position to make participation loans. A few years ago we had to pass on a really nice affordable housing project that was just outside of our limit as well. In that case the big banks initially said they would not fund the loan because The Dalles was too small and the community banks we approached were not in a position to partner.

The way loan participations would work is like this: When an Oregon community bank is approached for a loan that falls outside of their lending limit (like the cases above or downtown/main street commercial properties in smaller cities, or perhaps to a strong business who already has a number of loans with us, etc) the bank would still be able to take a look at it. If it was a credit worthy loan the bank would approach the state with a request to participate. In the case of the $3 million hospital loan we would do $2 million and request the state lend the remaining $1 million. The state would also underwrite the loan and if it deemed it credit worthy, would participate. This is a fairly efficient way for the state to aid lending. The community bank originates the loan and does the initial vetting. We put all our skin in the game and never get rid of our risk. The state would be in first position on the loan, prorated according to their portion so they have solid collateral to back up their loan. The community bank then services or administers the loan, handling all of the customer service and first line of communications, etc. Meanwhile the state gets a market rate return on their capital. By entering into a participation only when a community bank is willing to put their skin in the game and only for traditional lending opportunities, the state shares in the risk rather than being the risk back-stop for non-traditional investments that have a higher level of loss.

Another important consideration is to allow the state to sell these loan participations to other Oregon community banks. We are bursting with money to lend. If the state partnered on a loan in Southern Oregon we would love to be able to buy that credit. The state would sell this at a market rate profit to the state. We have this option with out-of-state entities but do not wish to take the risk in far away markets we don't know. Being able to buy a loan from the state where we know the state would be willing to hold it long term gives us extra assurance, plus it keeps it all in Oregon. Similarly, by having a centralized, consistent system, this would save time and money as right now we have a different process to go through with every individual lender, which becomes really hard if a project requires 3 or more participants.

This form of partnering with the community financial sector helps connect capital to where it is needed. Partnering with community banks also indirectly benefits small business and family farmers. Community banks have decision makers actually living in the communities they take deposits from. This is one of our best competitive advantages especially in small towns and rural areas – we know our markets. Even though nationally community banks have only 21% of all bank assets they do 54% of all small business lending (per FDIC). So when the state partners with community banks for the types of loans we are talking about it helps strengthen the local financial sector. Not only do these good medium sized projects get funded, but strong community banks means more small business lending in general.

This conversation being stimulated by SB 712 is an important one. I urge you to consider ways to keep more Oregon dollars invested in Oregon in partnership with the types of financial institutions that serve our communities and keep profits in-state.

Thank You,

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