



## **Testimony in Favor of HB 2268 House Revenue Committee**

March 9, 2021

Chair Nathanson, Vice Chair Pham and Vice Chair Reschke, thank you for the opportunity to testify in favor of House Bill 2268. My name is Ryan Dempster, and I am the president and CEO of Willamette Valley Bank headquartered in Salem, Oregon. We are one of 15 remaining community banks headquartered in the state of Oregon. I am also a member of the board of directors of the Oregon Bankers Association, which represents state and national FDIC-insured banks doing business in the State of Oregon. I am testifying today on behalf of the Oregon Bankers Association and the Community Banks of Oregon.

Oregon's banks are the premier providers of small business credit in the state of Oregon and are responsible for the safekeeping of \$79 billion in Oregonians' hard-earned dollars. More than 20,000 people work for banks at over 944 locations in Oregon. These banks also support over 1,000 nonprofits and community organizations in Oregon donating \$20.7 million and 225,600 volunteer hours each year. We are cornerstones of the communities we serve.

In addition, Oregon's banks have provided extraordinary assistance to Oregon families and businesses impacted by the COVID-19 pandemic. Some of this assistance was in partnership with the state and federal government, including origination of 85% of the Paycheck Protection Program loans to more than 70,000 Oregon businesses. Less visible has been the assistance banks have provided every day to our customers and communities, including extensive payment deferrals, fee waivers, loan modifications and emergency assistance. From housing families displaced by wildfires to restructuring debt for COVID-impacted small businesses, Oregon's banks have gone above and beyond to assist our state during the past year. We will continue to do so in the year ahead.

While banks will always focus on making small business loans as a core line of business, there are ways the state can provide additional incentives to support small business lending in Oregon. One of these ways is to provide a tax exemption like that which is proposed in House Bill 2268. This exemption is quite narrow, applying only to the Corporate Activity Tax as it applies to interest and fee income from certain small business loans. It doesn't impact income tax, but we think it is a positive step. That said, we are also open to considering other related concepts.

It is worth noting that there are other tax-related incentives that the Oregon banking community has helped the legislature establish and in which banks participate for the benefit of

Oregonians. One of those is the Oregon Affordable Housing Tax Credit Program that provides a state income tax credit for affordable housing loans for which a lender reduces the interest rate.

With regard to the language in House Bill 2268, we do believe the language defining small business needs to be amended. The bill currently references ORS 200.005, which in turn references a Small Business Administration federal regulation (13 CFR 212). This requires an analysis of each small business loan to determine whether it meets the SBA definition of a small business loan. We would prefer a simplified definition, such as businesses with less than a certain number of employees at the time of loan origination, or basing eligibility on a maximum dollar amount of the loan. Both of these are commonly used to define small business activity.

In addition, it is important that the bill clarify that the determination of whether a loan is eligible for the exemption take place at the time of loan origination. The absence of such clarification raises concern that that the analysis of eligibility would be required every year that the loan remained on the books, which would be a major disincentive given the amount of work required to do such an analysis.

Both of these suggested amendments would be straightforward clarifications that would have no material impact on the spirit or fiscal impact of the bill.

As a final point, I'd like to point out that there is ample evidence that tax incentives lead to growth of activity in financial services. The best example is the Oregon credit union industry. Oregon credit unions pay no state income tax and were exempted entirely from the Corporate Activity Tax. Many of the credit unions that benefit from such tax exemptions are much larger than my bank. House Bill 2268 would extend a narrow slice of the credit union tax exemption in Oregon to banks like mine, which in turn benefits small business customers by reducing the cost of small business lending.

As we work to recover from the COVID-19 pandemic, now is the time for the State of Oregon to do what it can to further incentivize small business lending in the state. The more we can do now, the more robust and long-lasting will be our recovery.

Thank you for the opportunity to lend our support to House Bill 2268. I would be happy to answer any questions.