



LEGACY BANK

2102 West Fond du Lac Ave. Milwaukee, WI 53206

**TESTIMONY FOR MARGARET HENNINGSSEN**

Founder, Vice President, Legacy Bank, WI

Before the

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

*Business Start-up Hurdles in Underserved Communities:  
Access to Venture Capital and Entrepreneurship Training.*

September 11, 2008

Chairman Kerry, Ranking Member Snowe and members of the Committee, I am Margaret Henningsen, Vice President and Founder of Legacy Bancorp and Legacy Bank. I welcome the opportunity to speak to the Committee on Small Business and Entrepreneurship today. I will share with you how we grew and how the success of the small businesses we finance make Legacy Bank successful. My testimony will also focus on the need for entrepreneurial training, coaching and support – three services provided by our bank – that make for strong minority small business customers in underserved markets.

I began thinking about starting a bank in the mid 90s as the result of the lack of capital for minority entrepreneurs, who were seriously underserved, and a significant number of people who were under-banked in Milwaukee. I was joined in this effort by co-founders Deloris Sims and Shirley Lanier. We were three Black women in our 50s who recognized the need for greater access , and pent up demand for commercial capital for minority and women owned businesses in our target market.

Legacy is a state chartered commercial bank located in Milwaukee, Wisconsin. Our charter was granted in July of 1999 by the Wisconsin Department of Financial Institutions after we raised seven and a half million dollars in capital. We were the first women in the history of the state to form a bank holding company and charter a commercial bank. Our bank provides financing for existing businesses, start-up businesses, commercial real estate, home purchases, home equity loans and a variety of retail products including products for under-banked and unbanked consumers. We will celebrate our tenth anniversary next year and have assets of over two hundred million as of August 31st this year. This was no small feat as some predicted that we would not survive given the location of our bank and the market we wanted to serve.

For the last five years, Legacy Bank achieved nearly double digit growth every year and has consistently exceeded our annual goals for net income. Our growth has been fueled by the never ending demand for loans in our community and surrounding areas as more people, particularly minorities, strive to achieve their dream of being an entrepreneur and having a successful small business. Many of the major businesses around today were small businesses

that a financial institution took a chance on. Even some of the largest financial institutions started out as small community banks serving a niche market in particular underserved neighborhoods that needed financial services and access to capital. That is the model for Legacy Bank. We have a niche market in an underserved community and we are growing by providing financial services to that community and beyond. Our bank has continued to climb in the ranking of the top 25 minority owned banks. It is now in position 13. Ms. Deloris Sims, who serves as the bank President, will be featured in the October issue of the US Banker magazine as one of the top 25 women in banking. We are touted as a national model for community banking for serving underserved and unbanked areas.

When considering minority businesses we first need to look at the major issues they face - with lack of capital and access to capital being number one. As the credit crunch has accelerated, we have seen a major increase in the number of existing and start-up businesses, especially minorities, coming to Legacy looking for capital after larger banks turn them away. As a matter of fact, customers come to us on a regular basis that have been referred to us by larger financial institutions that don't want to do their financing. Your Committee must address the need for capital in underserved minority communities or small businesses will decline. In minority and underserved communities this would be devastating. Another major issue, along with capital, is loan requirements for collateral and cash from borrowers. We encourage our customers to have both. However, the accumulation of wealth and assets is not always at the same level in underserved communities. These criteria must be taken into account when establishing criteria for the Small Business Administration's (SBA) lending programs.

Close behind the lack of capital, especially for minority entrepreneurs and existing small business owners, is the need for training, coaching and support. Data demonstrates the fact that many minorities, who become or want to become small business owners, are often first generation entrepreneurs. These enterprising owners do not have the benefit of family members handing down a business or providing them with the necessary training and coaching that is so crucial for business success. At Legacy, we have found that when financial training and business coaching are provided businesses will succeed. The process of working with owners to

strengthen their business, is part of our banking model. Many major financial institutions provide the same type of assistance to their “less risky” customers.

Let’s look at the attitude of many financial institutions towards small firms. Many banks argue that small business loans are too small, that not enough money can be made from them, that they involve too high of a risk, or that the borrower lack the skills, or is unprepared, to run a successful firm. Additionally, minority entrepreneurs often face misconceptions about their capacity to run a profitable business. At Legacy Bank, what we have found is that many of our customers have excellent ideas, good locations, a customer base and the drive and tenacity to make their businesses succeed. Once they are given the opportunity, access to capital, training, coaching and the support necessary to make these businesses work – these entrepreneurs are successful.

To prove that very point let me share with you our last twelve months of lending data. From July 2007 to June 2008 Legacy Bank financed 392 loans. Of those, 269 were loans categorized as minorities and or loans in underserved areas. The dollar volume of those loans was almost \$35 million. Do the math – we made and continue to make money from minority and underserved lending. These loans are good investments in solid companies such as educational institutions; service firms; entertainment venues; day care businesses, beauty salons; upscale clothing stores; services stations; churches; restaurants; and grocery stores. More than half of these loans went to start-ups or newer businesses needing capital to grow. This March thru June our loan numbers spiked as fewer lenders would take a look at small business loans and so more of these businesses came to us - enabling Legacy bank to fund 122 business loans in only four months!

Employment in our target market increases because of our small business lending with more than 2,500 jobs being created or sustained by Legacy Bank clients. This creates economic development, generates taxes, and is good for the city, state, county and federal government. Our companies provide their employees with money to spend on needed services, buy homes,

acquire other assets, and build wealth. All of which strengthens a community and turn it from underserved to a productive and thriving area.

Now, do we have loan losses, a watch list, a past due list? Of course we do, as does every other financial institution. But, to use the terminology of your Committee, we jump over hurdles along with our customers everyday pushing towards success. While other banks are loosing money, we continue to be profitable as we nurture and cultivate our businesses. We say “No margin, No mission.” We are mindful that in order to fulfill our mission we must reach the businesses on the margin – but also remain profitable. We strive to maintain a balance between the margin and the mission. We would say to this Committee that SBA programs must help the borrowers on the margin so that your mission is also not overlooked.

I believe, we have shown through our growth that lending to minorities and doing business in underserved communities is good, profitable business. We provide customers with the training they need to be successful and we are rewarded with our own success. However, their remains a great need for entrepreneurial programs. As a matter of fact, we are so concerned about the lack of training for entrepreneurs and programs, which can create entrepreneurs, that we have started the Legacy Foundation to fund efforts focused on creating entrepreneurship in our area.

But, Legacy and other banks like Legacy cannot do this alone. Help, support, and resources, in the form of more funding for entrepreneurial training and lending programs that support underserved communities, MUST be a priority for this Committee. The microloan program; a streamlined application and approval process for SBA loans; rethinking the requirements related to assets and collateral in underserved markets, grants for training as well as other financial support to minorities and underserved communities will increase the capacity of entrepreneurs. These are all things you must consider as you work to pass legislation to reauthorize the SBA’s programs.

Senator Kerry and Senator Snowe, I appreciate the opportunity to testify here today.