# ICBA/NM Member Survey Results

## Impact on Bank Lending Using Liquor Licenses as Loan Collateral

September 1, 2016

In mid-August, 2016 ICBA/NM was asked to participate in a panel discussion regarding revisions to New Mexico's "liquor control p olicy". It was suggested that our comments be directed toward "quotas, the high cost of licenses and, the unintended consequences of the current regulatory scheme, for exa mple the use of liquor licenses as bank collateral." ICBA/NM asked senior management at our members banks to respond to ten questions.

Twenty-five of our forty-one New Mexico headquartered member banks complied with our request. The questions , answers , and comments are summarized below.

**Does your institution make commercial loans to retail liquor establishments or restaurants that serve alcohol?**

| | Number of Response(s) | Response Ratio |
|---|---|---|
| Yes | 21 | 84.0% |
| No | 4 | 16.0% |
| No Responses | 0 | 0.0% |
| **Total** | 25 | 100% |

**If you answered "yes" to the previous question, do you utilize the state-issued liquor license as collateral for these loans?**

| | Number of Response(s) | Response Ratio |
|---|---|---|
| Yes | 19 | 76.0% |
| No | 1 | 4.0% |
| No Responses | 5 | 20.0% |
| **Total** | 25 | 100% |

6 Comment(s) **Taken with R/E, FFE **Value will be negatively impacted with more licenses **Would not make solely on license value

**If you answered "yes" to the previous question, what is the approximate total dollar amount of loans in your institution that are collateralized by liquor licenses?**

| | Number of Response(s) | Response Ratio |
|---|---|---|
| $50,000 to $100,000 | 1 | 4.0% |
| $100,000 to $250,000 | 2 | 8.0% |
| $250,000 to $500,000 | 4 | 16.0% |
| Over $500,000 | 12 | 48.0% |
| Other ($5.5M) | 1 | 4.0% |
| No Responses | 5 | 20.0% |
| **Total** | 25 | 100% |

**If changes to the liquor licensing process resulted in more licenses being available in your institution's market area would you expect to see more loan demand from liquor retailers?**

| | Number of Response(s) | Response Ratio |
|---|---|---|
| Yes | 12 | 48.0% |
| No | 5 | 20.0% |
| I Don't Know | 8 | 32.0% |
| No Responses | 0 | 0.0% |
| **Total** | 25 | 100% |
| 6 Comment(s) **Possibly from small "Mom & Pop" eateries ** | | |

**How would current loans that are secured by a liquor license be affected if more licenses issued in your market area?**

23 Response(s)

**18 respondents stated values would be diminished **Loans could be classified **Could see loans called **Would make financing more difficult in the future

**Could there be regulatory impacts on your institution as a result of the state increasing the numbers of liquor licenses issued?**

| | Number of Response(s) | Response Ratio |
|---|---|---|
| Yes | 9 | 36.0% |
| No | 7 | 28.0% |
| I don't know | 9 | 36.0% |
| No Responses | 0 | 0.0% |
| **Total** | 25 | 100% |

9 Comment(s) **Safety & Soundness scrutiny would be amplified **Regulators could require loans to be down-graded **Increased regulatory oversight for these type of loans

**If you answered yes to the previous question, please list possible regulatory impacts that might occur.**

8 Response(s)

**Safety & Soundness issues due to collateral values **Potential losses due to inability to meet required capital calls **Stricter underwriting standards due to market changes

**Would your institution consider making loans to liquor retailers based solely on the strength and character of the principal(s) along with furniture, fixtures, and property if liquor licenses were not viable collateral?**

| | Number of Response(s) | Response Ratio |
|---|---|---|
| Yes | 17 | 68.0% |
| No | 7 | 28.0% |
| No Responses | 1 | 4.0% |
| **Total** | 25 | 100% |

9 Comment(s) **Five qualified "yes" **Four "No" to the question with explanations regarding intentional devaluation by the state, or ability to take secured position on license

**Do you favor or oppose increasing the number of retail liquor licenses in your market area?**

| | Number of Response(s) | Response Ratio |
|---|---|---|
| Favor | 15 | 60.0% |
| Oppose | 8 | 32.0% |
| No Responses | 2 | 8.0% |
| **Total** | 25 | 100% |
| 11 Comment(s) **If increased over a set period of time **If state were to compensate current license holders **Limited increase could be good for high tourist areas | | |

**If more liquor licenses are issued by the state, should the increase be immediate or limited to a certain number or percentage issued over a number of years?**

| | Number of Response(s) | Response Ratio |
|---|---|---|
| Increase Immediately | 6 | 25.0% |
| Increase over a five year period | 6 | 25.0% |
| Increase over a ten year period | 7 | 29.1% |
| Increase over a fifteen year period | 3 | 12.5% |
| Other **Opposed **30 years | 2 | 8.3% |
| **Total** | 24 | 100% |