

**T. C. Frost**

**Testimony Senate Committee on Banking, Housing and Urban Affairs**

**May 9, 2012**

My name is Tom Frost. I am from San Antonio, Texas and served for 57 years, 26 of these as Chief Executive Officer of a commercial bank established by my great-grandfather. The institution grew and prospered through money panics, wars and depressions. Now with \$20.3 billion in assets at year end 2011 and 115 offices all in Texas, the Frost Bank did not take government funds from the issuance of preferred stock in 1933 and was one of the first banks to refuse TARP money in 2008. I personally survived the very difficult times in Texas of the 1980s where many lessons were learned. The Frost Bank was the only one of the top ten commercial banks in Texas to survive through a period when a significant number of the banks failed and most of the savings and loans were closed.

But, I will start out with my first days as a young college graduate and a fresh employee of the institution I have just described. My great Uncle Joe, then CEO, told me that the very first goal we had was to be able to return the deposits received from customers. Our obligation was to take care of the community's liquid assets and to manage them in a safe and sound fashion for the use (loans) of the community to grow. Uncle Joe told me in 1950 that we were not big enough to be saved by the government. That we would need to always maintain strong liquidity, safe and sound assets, and adequate capital. I was impressed by the fact that the need to make money was not high on this list, but did occur if sound banking principles were observed. Uncle Joe was not a fan of the FDIC saying that it took his money to subsidize his inefficient competition. I, personally, support the FDIC as a protection for the depositor, but want to suggest that this safety net apply only to banks which receive FDIC insured deposits. I am convinced that offering

this safety net to other financial institutions which provide services not deemed appropriate for deposit/loan commercial banking institutions, is not sound public policy. The deposit facilities of financial institutions which provide primarily investment, hedging and speculative services should have no taxpayer safety net. These institutions should be governed by market forces with investors understanding what can be earned and what can be lost.

This would involve the need to separate two cultures. The one which Uncle Joe articulated our family has followed for 144 years by establishing long-term customer relationships, building our community and preserving its liquid assets. Other financial institutions can provide the other services that are not authorized to insured deposit banks at a potential good profit, but without a taxpayer risk through a Federal safety net.

I would suggest that the two types of institutions have separate ownership, separate management, separate regulation. My conviction comes after seeing both systems which were separate, but now have been joined, to create a situation which in 2008 brought about the near catastrophe of collapse of the world financial systems. Following the path that we are on currently will not only provide opportunity for the same consequences to be repeated, but also mean the end of a banking system consisting of many providers. It seems we are rapidly approaching a system which will be an oligopoly of a few major institutions whose management will not have the same concerns and dedication as evidenced by my Uncle Joe. If both cultures are separated, the clients of both will prosper, but without the inordinate risk of a potential massive cost to the taxpayers.

I thank you for giving me the opportunity to express my opinion which has developed through over half a century experience and has led me to the conviction that the insured deposit banking system we had was effective, worked well, and did not require any significant direct federal support until 2008 when the other activities of large institutions involved in so called investment activities nearly destroyed the financial system and imposed enormous costs on taxpayers to the present day.