ICBA
INDEPENDENT COMMUNITY
BANKERS of AMERICA

Testimony of

Jack Hopkins

On behalf of the

Independent Community Bankers of America

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Subcommittee on Financial Institutions

Hearing on

"The Effects of the Economic Crisis on Community Banks and Credit Unions in Rural Communities"

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Introduction

Mr. Chairman and members of the subcommittee, thank you very much for the opportunity to testify today on the state of community banks in rural America.

My name is Jack Hopkins and I am the President and CEO of CorTrust National Bank Association in Sioux Falls, SD. I am testifying on behalf of the Independent Community Bankers of America (ICBA) and I serve on ICBA's[1] Executive Committee. I am a past President of the Independent Community Bankers of South Dakota and have been a banker in South Dakota for 25 years. I am pleased to present ICBA's views on the state of credit conditions in rural America.

CorTrust is a National Bank with 24 locations in 16 South Dakota Communities and assets of $550 million. Eleven of the communities have less than 2,000 people. In seven of those communities, we are the only financial institution. The smallest community has a population of 122 people. CorTrust Bank is currently one of six authorized servicers in the state of South Dakota for the first-time homebuyers program and one of the leading South Dakota lenders for the U.S. Department of Agriculture (USDA) Rural Housing Service home loan program.

Today's testimony will briefly provide the community bank perspective on credit conditions in rural America and offer recommendations for the members of this subcommittee to consider to ensure the availability of vital credit to our rural communities.

The Financial Crisis

As the financial crisis spread and deepened last fall many people wondered what the impact of the worst economic recession since the Great Depression would be on rural America. At the outset, it is important to note, community banks played no part in causing the financial crisis and have watched as taxpayer dollars have been used to bail out Wall Street investment firms and our nation's largest banks considered "too big to fail." During this same time period, dozens of community banks have been allowed to fail while the largest and most interconnected banks have been spared the same fate due to government intervention.

Mr. Chairman, community banks did not cause the current financial crisis, fueled by exotic lending products, subprime loans, and complex and highly leveraged investments. The sharp decline in the U.S. housing markets and the distressed credit markets triggered a ripple effect throughout the entire economy and that continues to strain households and businesses.

[1] ICBA represents 5,000 community banks throughout the country. Community banks are typically independently owned and operated and are characterized by personal attention to customer service and are proud to support their local communities and the nation's economic growth by supplying capital to farmers and ranchers, small businesses, and consumers.

Community Banks Role in the Rural Economy

Community banks play an important role in the nation's economy. There are approximately 8,000 community banks in the U.S. and the vast majority of these are located in communities of 50,000 or fewer residents. Thousands of community banks are in small rural communities.

According to the SBA Office of Advocacy, insured institutions with less than $1 billion in assets make 31.3% of the total dollar amount of small business loans of less than $1 million, even though they hold only 11.5% of industry assets. This is important since small businesses represent 99 percent of all employer firms and employ one-half of the private sector workforce. Small businesses are significant in rural America since many farmers and/or their spouses have off-farm jobs. In addition, the more than 26 million small businesses in the U.S. have created 70 percent of the net new jobs over the past decade. Community banks are small businesses themselves and specialize in small business relationship lending.

Commercial banks extend approximately 53 percent of non-real estate loans to the farm sector and 38 percent of the real estate credit. Community banks under $1 billion in assets make over 60 percent of all agricultural loans extended by the commercial banking sector. Worthy of note, community banks under $500 million in assets extend over 50 percent of all agricultural credit from the banking sector.

Aite Study

The Aite Group LLC released a study,[2] conducted with the assistance of the ICBA, in March 2009, on the impact of the financial crisis on community banks. The study drew several conclusions regarding the ability of community banks to continue serving their customers during the financial crisis.

Although the current financial crisis is impacting all financial institutions, most community banks are well-positioned to overcome new challenges, take advantage of new opportunities, and reclaim some of the deposits lost to larger institutions over the last decade.

Despite most community banks' lack of participation in subprime lending, the implications of larger bank activities have had an impact. Of the 773 community banks surveyed, 73 percent stated they have seen an increase in their traditionally low loan delinquencies and charge-offs since the start of the crisis. The significant growth in quarterly net charge-offs for the industry is being driven primarily by the largest banks.

Fifty-five percent of bankers stated they have seen an increase in deposits as a result of new customer acquisition. Only 17 percent are challenged by customers withdrawing deposits from their institutions.

Community banks are still lending and 40 percent have seen an increase in loan origination volumes over the last year, while 11 percent believe the financial crisis has "significantly curtailed" their lending ability. In several cases, decreases in community bank lending activity, when it has occurred, is not the result of a lack of funds or financial instability, but rather part of a reaction to mixed

[2] Impact of the Financial Crisis on U.S. Community Banks, New Opportunities in Difficult Times, March 2009, Christine Barry and Judy Fishman, Aite Group LLC, Boston, MA. 773 community banks were surveyed in February, 2009, for this study.

messages coming from the U.S. government. While these banks are told by policymakers to lend money, they also feel the agencies are dissuading them from lending by putting them through overzealous regulatory exams. Moreover, an economic contraction, by definition, means fewer loans will be originated.

Even though some community banks are faced with new lending challenges, they are still lending, especially when compared to larger banks. In fact, while the largest banks saw a 3.23 percent decrease in 2008 net loans and leases, institutions with less than $1 billion in assets experienced a 5.53 percent growth.

The financial crisis and new documentation requirements are also causing some banks to change processes and re-examine their credit evaluation practices. While most community banks have not strayed from traditional prudent lending and underwriting practices, 81 percent have tightened their credit standards since the start of the crisis. Of banks surveyed, 20 percent described this tightening as significant. Banks with more than $100 million in assets have been the most likely to tighten their credit standards, while only 15 percent of banks with less than $100 million in assets have done so. In most cases, tighter standards often means focusing greater attention on risk management and requiring more borrower information prior to making lending decisions.

Small Business Lending

The prolonged recession, turmoil in the financial markets, and pro-cyclical bank regulatory policies continue to jeopardize credit availability for many small businesses in urban and rural areas. Community banks are well-positioned and willing to lend to small businesses especially during these challenging economic circumstances. ICBA strongly supports President Obama's and Congress' recent initiatives to bolster small businesses loan programs included in the American Recovery and Reinvestment Act of 2009. Small businesses will help lead us out of the recession and boost needed job growth. Therefore, it is important to focus on the policy needs of the small business sector during this economic slowdown. SBA lending must remain a viable and robust tool in supplying small business credit.

The frozen secondary market for small business loans continues to impede the flow of credit to small business. Several programs have been launched to help unfreeze the frozen secondary market for pools of Small Business Administration (SBA) guaranteed loans, including the Term Asset-Backed Securities Loan Facility (TALF) and a new SBA secondary market facility. The TALF, implemented by the Federal Reserve and U.S. Treasury, was intended to extend billions in nonrecourse loans to holders of high-quality asset-backed securities (ABS) backed by consumer and small business loans in a bid to free up the frozen ABS market.

Specifically, the TALF program for SBA secondary market loan pools is very close to success. Unfortunately, one program obstacle requiring third-party direct competitor primary dealers to be middlemen has completely stalled the program. SBA loan poolers will not turn over their customers to their direct competitors nor have the primary dealers engaged in the program to date. ICBA recommends either eliminating the primary dealer middlemen in the process or allowing the Federal Reserve Bank of New York to work as the intermediary with the existing SBA loan poolers.

Similarly, the new SBA secondary market program is close to success but the debate over potential additional fees to operate the program has stalled its launch. ICBA recommends using the enacted substantial funded budget authority to run the program in combination with user fees so as not to undermine the program with unworkable double fees.

ICBA believes with these minor adjustments, these targeted SBA secondary market programs will keep money flowing to consumers and small businesses providing the intended value and results. In addition, government sponsored enterprises and U.S. government loan programs should not reject a loan for the sole reason the property is in a declining market.

The Agricultural Sector – Farm Income

Many rural lenders have been quite concerned that a global recession would lead to fewer exports of U.S. agricultural products, thereby reducing markets and income for American farmers, and causing a ripple effect up and down Main Street. The agricultural sector was fortunate that at the outset of this severe recession, in which unemployment figures continue to march toward double digit levels, U.S. net farm income had reached a record high of nearly $90 billion for 2008.

This followed the $87 billion level reached in 2007 and a ten-year average (1999-2008) of $65 billion. However, production expenses also increased dramatically during the past two years, and although expenses are projected to be approximately nine percent lower this year, net cash income is also projected to fall to $71 billion. While still above the ten-year average, 2009 net farm income will be 18 percent less than last year's record level, according to USDA's Economic Research Service.

Perspective on Agricultural Credit

ICBA agrees with various economists who have noted there is an ample amount of credit available to the agricultural sector for credit worthy borrowers. However, there are several problem areas of concern that warrant continued monitoring. For example, the dairy industry has been hard hit by lower prices and high feed costs which have also impacted the livestock sector. In addition, there are several states where farmers have been impacted by drought conditions that will threaten yields and farm income.

In recent testimony before the House Agriculture Committee, the Federal Reserve Bank of Kansas City stated that despite some increasing risks in agriculture, ample credit appears available at historically low interest rates.[3] In addition, recent data from the FDIC indicates farm loans (non-real estate) and farm real estate loans increased collectively by $8 billion for the period ending March 31, 2009 compared to March 31, 2008.

ICBA's Agriculture-Rural America Committee Input

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[3] Jason Henderson, Federal Reserve Bank of Kansas City before the Subcommittee on General Farm Commodities and Risk Management, April 1, 2009, page 2.

ICBA conducted a conference call last month with its Agriculture-Rural America Committee to further assess credit conditions. This committee consists of twenty-five agricultural bankers from every region of the U.S. representing virtually every agricultural commodity grown in the country.

A number of these bankers stated they had no classified agricultural loans. This is in part due to several areas of the country having excellent crops during the past two years, allowing farmers to increase their cash reserves or pay down their lines of credit. Some bankers have seen a significant increase in agricultural loans and have seen little deterioration in their agricultural portfolios but are concerned higher input costs will reduce farm income. Some community banks have picked up agricultural loans as larger banks have cut back their lines of credit. Land values have remained steady for highly productive farm land although sales have slowed considerably.

Land values for less productive farmland have fallen five to ten percent in some areas. Some banks have tightened underwriting standards, including taking a stronger collateral position, slightly shortening loan maturities, or requiring greater documentation from borrowers. The dairy, cattle feeding and cow-calf sectors are areas experiencing stress.

Several bankers stated they are concerned with the potential for their regulators to second-guess their desire to make additional loans and some bankers are under pressure from their regulators to decrease their loan-to-deposit ratios. In addition, several bankers stated their regulators do not want them to use Federal Home Loan Bank (FHLB) advances as a means of funding their loans. The regulators are suggesting FHLB advances are not as "stable" as core deposits. Bankers disagree, noting it is quite easy for depositors to withdraw funds in search of higher yields in the stock market, which has risen rapidly in recent months, or in shopping for higher rate Certificates of Deposit (CD) at other institutions.

The real issue, bankers believe, is that regulators do not want to be in a secondary security position behind the FHLB if there are widespread bank failures. FHLB advances have become an important source of funding for community banks that must be allowed to continue.

A number of bankers also complain about a very harsh examination environment from field examiners and believe there is a "disconnect" between the public statements from policymakers in Washington and the treatment of local banks during examinations. This bolsters the findings of the Aite study.

At least one banker relayed to other Committee members when he called the regulator to inquire about receiving TARP funds he was questioned as to why he needed the money. When he explained he wanted to supplement his capital position and also make more loans, the regulator told him the agency didn't want banks making more loans in this environment. This attitude has led many community banks to conclude there is reluctance to extending TARP money to community banks and that the program was primarily designed to assist large, troubled banks. Community banks in danger of failing would not be eligible for TARP funds.

In addition, many banks have concluded TARP funds are an expensive source of capital both in terms of the dividend cost as well as the administrative costs.[4] There is also the risk requirements will be changed after banks receive funding and new conditions will be imposed.

Generally, the bankers' conclusions are that ample credit is available for creditworthy borrowers; they would like to make more loans; and they're concerned about heavy-handedness from their regulators going forward. It is important to repeat: community banks remain very well-capitalized and are in a good position to assist with new borrowing needs as the economy strengthens. While, there are some sectors of agriculture that are struggling; the agricultural portfolios at many rural banks strongly contribute to each bank's overall income and stability.

One limiting issue is that regulators recently required community banks to increase their capital levels. Previously, regulators increased community bank capital levels from eight percent to ten percent. Now the regulator requires a 12 percent capital level for all banks that have commercial real estate loan volumes three times their level of capital (e.g. $30 million in commercial loans and $10 million of capital). Obviously, the regulators believe commercial real estate loans are more vulnerable in the current economic climate. For example, many banks in northern Colorado exceed this threshold due to the region's fast growth in recent years. However, since capital is leveraged approximately ten times for new lending, a $2 million increase in capital reduces the amount of lending the bank is able to provide by $20 million. Many rural bankers believe this new requirement is unnecessarily restrictive.

Federal Reserve Bank Agricultural Surveys

Several of the Federal Reserve District banks (Kansas City, Dallas, Chicago, Minnesota, and Richmond) conduct quarterly agricultural surveys of bankers in their regions. A summary of these surveys follows.

The Federal Reserve Bank of Kansas City[5] notes the average return on assets (ROA) and equity (ROE) at agricultural banks steadily declined in 2008. ROE at Ag banks last September declined to 7.6 percent and ROA declined to 0.8 percent. Yet, these returns were much stronger than returns at other commercial banks. Contributing to the decline in Ag bank profits were lower interest rates which have dropped significantly below 2006 levels. At smaller banks, delinquency rates on agricultural loans actually declined. Delinquency rates and net charge-offs on agricultural loans remain well below other types of loans and help explain the relative strength of agricultural banks. The delinquency rate on all types of loans and leases in the third quarter of 2008 was almost triple the rate of agricultural loans. Ag banks report ample funds for operating loans.

Banks have tightened lending standards to preserve capital and manage risk arising from the economic downturn. Collateral requirements rose almost 20 percent above year-ago levels but this increase does not appear to have severely restricted loan activity as farm real estate accounted for approximately 17

[4] The cost of TARP funds includes a 5 percent dividend payment for the first five years increasing to 9 percent after five years. On an after tax basis, ICBA estimates the cost would be 7.5 percent the first five years and 13.5 percent after the first five years.

[5] The Kansas City region, the Tenth Federal Reserve District, includes Colorado, Kansas, Nebraska, Oklahoma, Wyoming, the northern half of New Mexico and the western third of Missouri.

percent of the collateral used for the nation's farm operating loans. Bankers report deteriorating loan quality as livestock profits were elusive and margins declined for the crop sector. Carry-over debt appears to be rising as more Ag banks report an increase in operating loan renewals and extensions during the fourth quarter. In response to rising risks, banks reduced the length of operating loans to approximately 12 months.

Rising job losses from the recession pose a risk to deposit growth because people could lose their income stream and tap savings for household needs. Ag banks are increasing their use of USDA guaranteed farm loans. Continued deterioration in the agricultural economy could further erode the creditworthiness of borrowers. Farmland values edged down in the fourth quarter.

The Federal Reserve Bank of Minneapolis[6] reports farm income, capital expenditures and household spending decreased in the first quarter. Loan demand was flat and collateral requirements increased. Banks reported no shortage of funds and interest rates decreased from the fourth quarter of 2008. Survey respondents expect decreases in income and capital expenditures during the second quarter. Dairy producers are hard hit as the price of milk has fallen to below breakeven levels. Most respondents from Wisconsin report below average income for their borrowers. One quarter of Minnesota respondents reported above average income, but 49 percent reported below average income. Producers are responding to lower spending by reducing capital equipment spending. Approximately 25 percent of respondents reported lower levels of loan repayments and 19 percent reported higher levels. Twenty-five percent saw higher renewals or extensions and only 8 percent saw lower levels.

The Federal Reserve Bank of Dallas[7] includes the states of Texas and portions of New Mexico and Louisiana, a region impacted by a severe drought. Many ranchers are unable to reach a breakeven point, forcing livestock liquidations. The dairy industry is suffering from large losses. The outlook for crop production, due to the lack of moisture, remains bleak. Eighty-four percent of bankers report loan demand remains unchanged or has decreased compared to last quarter.

The Federal Reserve Bank of Chicago[8] reports sale of farms were below the levels of the prior year. Bankers anticipate declines in land values during the second quarter. For the second quarter of 2009, respondents expect higher loan demand for operating loans and USDA guaranteed loans. As of April 1, District interest rates had reached historically low levels with the level for operating loans at the lowest since the early 1970s. The average loan-to deposit ratio was 76 percent, or four percent below the desired level. As land values have stalled, cash rental rates for farmland increased seven percent for 2009. Twenty-one percent of bankers reported more funds for lending were available than a year ago and nine percent reported fewer funds were available.

Bankers expect the volume of non-real estate farm loans to grow during the second quarter compared to year ago levels and expect higher FSA guaranteed loan demand. They expect farm machinery, grain storage construction, feeder cattle and dairy loan volumes to decrease.

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[6] The Minneapolis Federal Reserve serves the six states of the Ninth District: Minnesota, Montana, North and South Dakota, 26 counties in northwestern Wisconsin and the Upper Peninsula of Michigan.

[7] The Federal Reserve Bank of Dallas covers the Eleventh Federal Reserve District, which includes Texas, northern Louisiana and southern New Mexico.

[8] The Chicago Fed serves the Seventh Federal Reserve District, a region that includes all of Iowa and most of Illinois, Indiana, Michigan and Wisconsin.

The Federal Reserve Bank of Richmond's[9] fourth quarter 2008 survey reported the demand for farm loans was little changed from its sharp drop off in the third quarter, which bankers attributed to variations in commodity prices and production costs. Lenders expressed concern about escalated feed costs which had reduced profits for livestock production. Requests for loan renewals or extensions increased at a quicker pace. Agricultural lenders reported that farm loan availability turned positive, and collateral requirements eased slightly from third quarter levels. Reports also indicated interest rates for agricultural loans moved lower across all categories. Compared to third quarter levels, rates for intermediate-term loans decreased 34 basis points and rates for operating loans moved down 28 basis points. In other categories, interest rates for long-term real estate loans fell 19 basis points (bp), and interest rates for feeder cattle loans dropped ten bp.

In the fourth quarter, 75 percent of lenders reported that they had actively sought new farm loans, up slightly from last quarter's reading of 73 percent. Fourth quarter land prices were slightly below the previous quarter and considerably lower than year ago levels. Bankers expected farm loan volumes in the first quarter of 2009 to continue a downward trend led by further weakness in the demand for dairy and feeder cattle loans.

National Agriculture Risk Education Library Survey

In an effort to better understand what is happening in the agricultural economy, a survey[10] was conducted in January 2009 by the Extension Risk Management Education Regional Centers and the Center for Farm Financial Management at the University of Minnesota, funded through the USDA CSREES Risk Management Education Program. Twenty-three hundred agricultural professionals responded to the survey, whose respondents represented various agricultural disciplines: Lenders – 21 percent; educators – 43 percent; crop insurance representatives – seven percent; consultants – six percent – elevators, cooperatives, marketing brokers and non-profits 22.5 percent.

Currently, 63 percent of respondents stated that ten percent or less of the producers they work with are experiencing financial stress, with 15 percent indicating that less than two percent of the producers they work with are currently experiencing financial stress.

In the next three years, however, more than 28 percent of respondents expect at least 30 percent of their agricultural clients will experience financial stress. Seventy-five percent of respondents expect 11 percent or more of producers will experience financial stress in the next three years.

Twenty-six percent of lenders think the probability is very high that producers will experience financial stress in the next three years. Fifty-four percent of lenders expect the probability of financial stress to be "high."
It is particularly interesting to note the reasons stated for expected financial stress in agriculture over the next three years. The first five reasons given were: Price / input cost margins; price volatility; negative cash flows; inadequate business planning; and lack of financial planning skills. Tightening

[9] The Federal Reserve Bank of Richmond, (Fifth district) comprises Maryland, the District of Columbia, Virginia, North Carolina, South Carolina, and most of West Virginia.
[10] This survey can be accessed at: http://www.agrisk.umn.edu/Library/Display.aspx?RecID=3971

credit availability was sixth on the list of thirteen reasons and was cited as having "moderate" impact. The lowest rated factors expected to have an impact on farm financial stress were rising interest rates and declining land values.

Farm Credit System Considerations

The Farm Credit System (FCS) is a government sponsored enterprise (GSE) that, unlike other GSEs, competes with private sector lenders at the retail level. The financial crisis has proven that not only do GSEs have the *implicit* backing of the federal government; they also have the *explicit* backing of the federal government. Just like the nation's largest banks, they would not be allowed to fail in times of financial difficulty. The FCS, as a competitor with community banks, also has unique advantages – it can typically raise funds cheaply in the government debt markets and FCS institutions have numerous tax advantages enabling them to offer lower rates than commercial banks.

This has led to FCS entities "cherry picking" prime farm loans from community banks as FCS institutions seek the very best customers from bank portfolios. Allowing this practice, unintended by Congress, can discourage community bank involvement in the agricultural sector, reducing the amount of resources and institutions available to farmers.

The performance numbers of the FCS indicates this as well. Compared to commercial Ag banks' ROE of 7.6 percent and ROA of 0.8 percent for September 2008, FCS associations' ROE for the same time period was 10.85 percent and associations' ROA was 1.70 percent.

Community banks serving agriculture should receive the same tax benefits as FCS associations. In this century, it no longer makes sense to provide billion-dollar and multi-billion dollar FCS institutions tax advantages over much smaller commercial lenders to compete for the same customers. The benefit of equalizing the playing field will accrue to the end-user, the farmers and ranchers.

Administration's Regulatory Reform Proposals

ICBA supports the administration's goals of making the overall financial system more resilient and less vulnerable to "too-big-to-fail" institutions that were a key factor in the recent financial turmoil. The administration's proposal offers community banks both constructive measures ICBA will support and those ICBA will oppose.

The proposal addresses a longtime ICBA priority by dealing with the risks created by too-big-to-fail institutions. It is a good, strong step in the right direction but Congress needs to go further. ICBA is pleased the administration decided to maintain the dual banking system. This will allow the maintenance of federal and state bank charters and allow the concerns of community banks to be heard, rather than to be drown out by the larger and more complex financial institutions.

ICBA Recommendations to Congress

While it is difficult to predict accurately what will happen in the economy in the next two or three quarters, we believe Congress can have a positive influence by making a number of key policy choices. ICBA recommends:

1. **Provide additional funding for USDA direct and guaranteed farm loans. Prior to the July congressional recess, Congress passed and the President signed the supplemental appropriations bill which added** $400 million of direct operating loans, $360 million in direct ownership loans and $50 million in guaranteed operating loans. There may be a need even more for guaranteed operating loans and Congress should closely monitor loan demand in these important programs. These programs assist borrowers who cannot obtain credit elsewhere and are an important backstop for farmers who need temporary assistance until they are able to graduate to commercial credit.

2. **Enhance USDA's Business and Industry (B & I) loan program.** Congress added significant new money for USDA's rural development efforts as part of the recently enacted economic stimulus package (P.L. 111-5). The new funding would allow an additional $3 billion of business and industry loans in addition to $1 billion of loans provided as part of USDA's regular budget. However, the funds to provide $3 billion in new B & I loans will expire October 1, 2010. It will be important for USDA to aggressively market the program to lenders and provide adequate information in order to utilize these new funds.

Even more importantly, the B & I program needs to be enhanced (at least for the new funding) by: A) implementing no more than a one percent origination fee; B) increasing guarantees on loans under $5 million from the current 80 percent level to 90 percent – perhaps even 95 percent on smaller loans; and C) not eliminating the low document application as USDA appears to be on the verge of doing for smaller loans. These changes would help ensure the program is attractive for lenders and their customers and will ensure Main Street rural America has the resources necessary to ride out any storms on the horizon that could result from stress in the agricultural sector.

3. **Ensure that the FCA does not proceed with its Rural Community Investments Proposal.** This proposal poses significant new risks to the FCS and its borrowers and should not be adopted. The proposal appears to be illegal and was never considered or authorized by Congress. It allows FCS to extend credit, mislabeled "investments," for a vast array of purposes never intended by Congress. These purposes include extending credit for non-farm business financing, apartment complexes, construction projects and virtually any other purpose. This wide non-farm reach of FCS institutions will move FCS lenders further away from serving farmers and ranchers – the specific reason it was created and granted GSE tax and funding privileges.

4. **Ensure the regulators not unduly restrict lending by community banks.** Regulators can have a major impact on the ability of lenders to extend credit particularly if they engage in unduly harsh examinations at the local level. Many community banks believe this is occurring. Members of Congress should interact with regulatory agencies and stress the need to allow the banking sector to work with rural customers during difficult financial times that may lie ahead. Such regulatory flexibility allowed many farmers and small businesses to survive the turbulent times of the 1980's farm crisis but was the result of clear and strong messages sent by Congress.

5. **Avoid unintended consequences resulting from imposing new requirements on the banking sector.** In recent months there have been various proposals aimed at bank recipients of TARP funds that would impose unnecessary costs and regulatory burdens on banks. Such proposals have included requiring commercial banks to write down principal and interest on troubled loans as the first option to

consider when restructuring loans. Bankers already work with their customers and utilize a wide variety of options to keep customers in business. Washington should allow community banks to work with borrowers in troubled times without adding to the costs and complexity of working with customers.

6. Support the Administration's proposals on systemic risk and dual banking charters. It is important to prevent too-big-too-fail banks or nonbanks from ever threatening the collapse of the financial system again. Community banks support the dual system of state and federal bank charters to provide checks and balances, which promote consumer choice, and a diverse and competitive financial system that is sensitive to financial institutions of various complexity and size

Conclusion

Thank you, Mr. Chairman, for the opportunity to testify today. As stated several times in the written testimony, community banks continued conservative and prudent lending practices during the last several years and have worked with borrowers and even increased lending during this latest period of economic contraction. In addition, thousands of community banks are providing loans to farmers, ranchers and small businesses at historically low interest rates. ICBA urges the Banking Committee to consider the recommendations provided in the testimony to enable the community banking sector to do even more to serve our rural communities. ICBA looks forward to working with the Senate Banking Committee as these proposals move through Congress.