

STATEMENT OF SENATOR TIM JOHNSON

Financial Institutions Subcommittee

**“The Effects of the Economic Crisis on Community Banks and Credit Unions in Rural Communities”
July 8, 2009**

It is no exaggeration to say that our economy is currently experiencing extraordinary stress and volatility. As Congress and the Administration look at corrective policy changes, I am pleased to hold this hearing today to take a closer look at the role smaller financial institutions, specifically community banks and credit unions, play in our economy, especially in many rural communities. Throughout our nation’s economic crisis there has often been too little distinction made between troubled banks and the many banks that have been responsible lenders.

There are many community banks and credit unions that did not contribute to the current crisis –many rural housing markets that didn’t experience the boom that other parts of the country did, and community lending institutions didn’t sell as many exotic loan products as other lenders sold. Nonetheless, small lending institutions in rural communities and their customers are feeling the effects of the subprime mortgage crisis and the subsequent crisis in credit markets. Jobs are disappearing, ag loans are being called, small businesses can’t get the lines of credit they need to continue operation, and homeowners are struggling to refinance.

Smaller banks play a crucial role in our economy and in communities throughout our nation; we need to be mindful that some institutions are now paying the price for the risky strategies employed by some larger financial institutions.

In coming weeks, the Banking Committee will continue its review of the current structure of our financial system and develop legislation to create the kind of transparency, accountability, and consumer protection that is now lacking. As this process moves forward, it will be important to consider the unique needs of smaller financial institutions and to preserve their viability as we come up with good, effective regulations that balance consumer protection and allow for sustainable economic growth.

I would like to welcome our panel of witnesses, and thank them for their time and for their thoughtful testimony on how small lending institutions in rural communities have been affected by our troubled economy. I would also like to thank Senator Kohl for his interest in today’s hearing topic. I will now turn to Senator Crapo, the Subcommittee’s ranking member, for his opening statement.