Testimony of

John A. Klebba

On behalf of the

Missouri Bankers Association

before the

Financial Institutions and Consumer Credit Subcommittee

and

Capital Markets and Government Sponsored Enterprises Subcommittee

of the

Committee on Financial Services

United States House of Representatives

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November 16, 2011

Chairman Capito, Chairman Garrett, Ranking Member Maloney, Ranking Member Waters and members of the Subcommittees, my name is John A. Klebba, President and Chief Executive Officer, Legends Bank, Linn, Missouri.

What today is Legends Bank was established in 1913 in the community of Rich Fountain, Missouri, as the Rich Fountain Bank and is a $253 million institution with ten offices and 83 employees. We serve six rural counties in central and east central Missouri. Our bank was one of the few banks in Osage County to survive the Great Depression. In fact, its move to Linn in 1936 was the result of the failure of all of the banks which had been operating in Linn, and the Missouri bank commissioner's subsequent request to the Board of the Rich Fountain Bank to move the bank so that the county seat of Osage County would have a financial institution. Operations being a little simpler then than they are now, it is said that the move was accomplished by loading everything that was needed in the trunk of a car, with the bank reopening the next business day in its new town and under a new name.

I appreciate the opportunity to present the views of the Missouri Bankers Association on the Communities First Act. The MBA represents Missouri's commercial banks and savings and loan associations, and is the voice of over 30,000 bank employees in the state.

At my bank, as is true of my banker colleagues around the country, we are intensely focused on building and maintaining long-term relationships with our customers. It is because of these relationships that Legends Bank will soon be celebrating a century of service to our customers and community. We cannot be successful without such a long-term philosophy and without treating our customers fairly.

The success of Legends Bank is inextricably linked to the success of the communities we serve, and we are very proud of our relationships with them. They are, after all, our friends and neighbors.

Let me give you just a glimpse of Legend Bank's close ties with our communities. We have just under $170 million in loans on our books. Included in that number are approximately 609 loans, totaling $25.8 million to local farmers for agricultural operations, 268 loans, totaling $8.9 million to our local businesses for their commercial and business needs, 68 loans, totaling $8.1 million to developers for commercial construction projects and farmers for purchase of farm land, and 1084 loans, totaling $65.55 million for the construction and financing of 1 to 4 family homes. In addition, we have $6.1 million in loans to our local government entities that help them fund improvements to the services that they provide to our local citizens.

Not only do we provide the funding to meet the credit needs for our communities, our people are truly a part of these communities. For example, each year our bank participates in the ABA's National Teach Children to Save Day. In 2010, we had 9 employees volunteer their time in eleven area schools. We had another 15 employees involved in community organizations, such as The Chamber of Commerce, Lions Club, Rotary Club, and numerous other Civic Clubs. Moreover, in the last two years, our bank has donated over $180,000 for scholarships, community events, and other local projects.

When a bank sets down roots, communities thrive. A bank's presence is a symbol of hope, a vote of confidence in a town's future. The health of the banking industry and the economic strength of the nation's communities are closely interwoven. We strongly believe that our communities cannot reach their full potential without the local presence of a bank – a bank that understands the financial and credit needs of its citizens, businesses, and government. I am deeply concerned that this model will collapse under the massive weight of new rules and regulations. The vast majority of banks have never made an exotic mortgage loan or taken on excessive risks. They had nothing to do with the events that led to the financial crisis and are as much victims of the devastation as the rest of the economy. We are the survivors of the problems, yet we are the ones that pay the price for the mess that others created.

Managing this mountain of regulation will be a significant challenge for a bank of any size. The median-sized bank has only 37 employees – for them and for banks like mine, this burden is already overwhelming and getting worse with every new regulation coming out of Washington. It is important to note that historically, the cost of regulatory compliance as a share of operating expenses is two and a half times greater for small banks than for large banks. Moreover, each new regulation creates more pressure to hire additional compliance staff. More regulation means more money spent on outside lawyers to manage the risk of compliance errors and greater risk of litigation. It means more money to hire consulting firms to assist with the implementation of all of the changes, and more money hiring outside auditors to make sure there are no compliance errors. It means more risk of regulatory scrutiny, which can include penalties and fines. All of these expenditures take away precious resources that could be better used serving the bank's community.

The consequences are real. Costs are rising, access to capital is limited, and revenue sources have been severely cut. It means that fewer loans get made. It means a weaker economy. It means slower job growth. With the regulatory over-reaction, piles of new laws, and uncertainty about government's role in the day-to-day business of banking, our goal of meeting the needs of our local communities becomes more difficult and more expensive.

Without quick and bold action to relieve regulatory burden we will witness an appalling contraction of the banking industry, with a thousand banks or more disappearing from communities all across the nation over the next few years. These are good banks that for decades have been contributing to the economic growth and vitality of their towns, cities, and counties but whose financial condition is being undermined by excessive regulation and government micro-management. Each bank that disappears from the community makes that community poorer.

In my testimony today, I'd like to focus on two key themes:

- ***Regulatory relief for community banks and their customers***

  Banks are working every day to make credit and financial services available. Those efforts, however, are made more difficult by increasing regulatory costs that are slowly but surely strangling traditional community banks, handicapping our ability to meet the credit needs of our communities.

- ***Tax Relief for Rural Banks***

  Tax relief for banks would be one way to help create jobs and get the economy going. Any tax relief granted to banks would be reinvested in loans to small businesses, farmers and individuals. In turn, the investments would allow for expansion and job creation. It would also help level the playing field as community banks try to compete with tax advantaged credit unions and the tax advantaged Farm Credit Services.

I will discuss each of these in detail in the remainder of my testimony.

I. Dodd-Frank Rules on High Priced Mortgages, Including Required Escrow Accounts, Increase Costs of Doing Business

Increasingly, the government has inserted itself in the day-to-day business of banking. Micro-managing private industry should not be the role of government. Inevitably it leads to negative unintended consequences.

H.R. 1697 addresses one of these issues by allowing the Federal Reserve Board, at its discretion, to exempt banks from DFA provisions that mandate the establishment of escrow accounts. Sec. 201 would require the Board to exempt all banks with assets of $10 billion or less. The proposed language would be of benefit to many banks, including mine. In the small towns we serve, many of our customers don't want escrow accounts. They are used to paying their insurance and tax bills directly to the insurance companies and county collector. Think about how much easier it is to change insurance companies or change coverages without the involvement of a third party, in this case the bank. Requiring a service our customers don't want doesn't make any sense. It only adds a significant cost to the bank and increases the cost to our customers in the form of higher fees or less attractive interest rates. Many of these loans are small loans. For example, on a mobile home loan the monthly escrow account payment can be very small, sometimes less than $20 per month. Someone doing a cost-benefit analysis would certainly determine that the costs of maintaining such escrows clearly outweigh the benefits.

II. Privacy

Section 208 exempts banks with $1 billion or less in assets from the DFA's Small Business Data Collection requirements. Data collection and reporting for the government is a major burden for community banks and making that information public could violate customers' privacy. Every small business loan has unique characteristics. We question the usefulness of this data for regulatory purposes. Once again this would require that more time be dedicated by bank employees to compliance, when bank resources could instead be dedicated to working with businesses to help those businesses expand and create jobs.

III. Enhanced Rural Lending

Section 302 would permit qualified agricultural lenders insured under the Federal Deposit Insurance Act to exclude from gross income the interest on loans secured by agricultural real property. We strongly support this. This section would help level the playing field between banks like mine and the government sponsored, tax-advantaged Farm Credit System, in that such an exclusion would mirror the exclusion currently available to the FCS. Lets face it, community banks are having a harder and harder time competing with tax advantaged entities, such as the Farm Credit System and credit unions. When the government picks winners and losers at the expense of other industries, in this case, community banks, our communities suffer the consequences.

Many of the rural areas in this country are struggling. Demographically, their population is getting older, especially with respect to individuals who own and operate family farms. In my experience one of the main reasons for this is that it is very difficult for younger people to be able to afford the land and equipment necessary to get them started as farmers. The proposed tax relief for qualified ag lenders would certainly help level the playing field and give a boost to our ag borrowers.

I am concerned about the long term viability of community banking. Tax policy is one of the main reasons.

IV. Tax Relief for Community Banks and Holding Companies

This provision would help community banks redirect their capital back into their communities. Section 403 would extend the net operating loss (NOL) carryback period for banks with less than $15 billion in total assets from two to five years for losses incurred in 2010 and 2011.

Conclusion

The economic recovery is critical to the well-being of families, businesses and all levels of government. Bankers are in a position to be the engine of job creation and to assist in the acceleration of growth in the country. The more that can be done to assist community banks in helping our communities, the sooner this resilient US economy will prosper.

It is for these and other reasons that we strongly support H.R. 1697. We urge quick action to enact this important piece of legislation.

United States House of Representatives
Committee on Financial Services

"TRUTH IN TESTIMONY" DISCLOSURE FORM

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name:	2. Organization or organizations you are representing:
John Klebba	Legends Bank Missouri Bankers Association
3. Business Address and telephone number:	
[redacted]	
4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?	5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?
☐ Yes ☒ No	☐ Yes ☒ No
6. If you answered yes to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.	
7. Signature:	
J Klebba	

Please attach a copy of this form to your written testimony.