REGULATORY REFORM: EXAMINING HOW NEW REGULATIONS ARE IMPACTING FINANCIAL INSTITUTIONS, SMALL BUSINESSES, AND CONSUMERS

FIELD HEARING

BEFORE THE

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER CREDIT

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

OCTOBER 31, 2011

Printed for the use of the Committee on Financial Services

Serial No. 112–79

U.S. GOVERNMENT PRINTING OFFICE

72–620 PDF WASHINGTON : 2012

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

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WITNESSES

MONDAY, OCTOBER 31, 2011

APPENDIX

REGULATORY REFORM: EXAMINING HOW NEW REGULATIONS ARE IMPACTING FINANCIAL INSTITUTIONS, SMALL BUSINESSES, AND CONSUMERS

Monday, October 31, 2011

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
AND CONSUMER CREDIT,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:30 a.m., at the Wausau City Hall, 407 Grant Street, Wausau, Wisconsin, Hon. Shelley Moore Capito [chairwoman of the subcommittee] presiding.

Members present: Representatives Capito, Renacci, Huizenga, and Duffy.

Chairwoman CAPITO. Good morning to everybody. I appreciate everybody coming, and I certainly appreciate the opportunity for me, Shelley Moore Capito. I'm the Chair of the Subcommittee on Financial Institutions and Consumer Credit, which is a subcommittee of the House Financial Services Committee in Washington.

It's an honor for me to be here on my very first visit to Wisconsin. So thank you for holding back on the snow. I guess we did that on the East Coast. And I would like to thank Congressman Duffy for inviting us here today.

I'm just going to talk a little bit—I have an opening statement. I want to tell everybody how it's going to roll out, because we're doing a hearing very similar to what we would do in Washington.

As the chairperson, I will make an opening statement. Then, I will turn it over to Congressman Duffy, and he's going to make an opening statement; and our other two Members will have a word to say as well.

And then, I'm going to have Congressman Duffy introduce the witnesses. All of the witnesses have submitted written testimony and I appreciate that. And they will each be recognized for 5 minutes for an oral statement.

They entrusted me, as the only woman on the congressional panel, with the red, green, and yellow button. This is power right here. So I'm going to put it here. We'll try to keep to 5 minutes, and the reason we'll do that is because a lot of times, the most significant portion of our meetings is the question-and-answer section.

After we have our opening statements, I'll begin questioning for 5 minutes and then we'll go through. We might go through more than once or twice, if that's okay, seeing how time goes.

So I appreciate everybody being here. And with that, I will begin with my opening statement.

I brought my handy-dandy gavel with me, so I'm ready to roll. This field hearing will come to order.

Again, I want to thank everybody for being here. And I would like to thank, in particular, Representative Sean Duffy for inviting us, the Financial Institutions and Consumer Credit Subcommittee, to his district.

This is our second field hearing. We actually had a field hearing in Georgia, where they have had 64 bank failures, by the way.

And so now we're going to find out the unique challenges facing Wisconsin financial institutions, credit unions, small businesses, housing advocates, and see, really, in general, what we can do in Washington to get this economy moving again, to make sure that we have the best possible playing field for our country's economics.

Representative Duffy also has led the effort in the U.S. House of Representatives to bring greater transparency and accountability to the Consumer Financial Protection Bureau. He had a bill put forward to ask for appropriate consumer protections, but also ensuring that the Federal Government is not overly involved in our everyday personal financial decisions.

Today's hearing builds on several hearings that we have had in the subcommittee so far this year. We frequently hear from small business owners that they're having difficulty obtaining loans from financial institutions. And many times, the financial institutions cite concerns about the difficulties with Federal regulators as a large contributor to the difficult lending environment.

Sometimes, it seems as though everybody from the President on down is saying to financial institutions, lend, lend, lend to small businesses, because we know small businesses are the job creators.

And at the same time, the regulators are saying to the financial institutions, hold your capital, hold your capital, hold your capital.

It's a conflicting message, and it makes it difficult for the qualified small business to be able to expand and grow their business and thereby create more jobs in their local communities.

If we're going to get our economy going again, we need these financial institutions to make these small business loans.

We need regulators, financial institutions, and elected officials to work together.

There's a new concept: We're going to work together in Washington to address these challenges.

This is the primary reason why we're here today. We need common-sense recommendations. And hopefully, we'll get some of those here today.

Again, I would like to thank Representative Duffy and the people of Wausau for hosting the subcommittee.

And I would like to recognize Mr. Duffy for the purposes of making an opening statement for 5 minutes.

Mr. DUFFY. I appreciate everyone coming in and participating in today's hearing, specifically Chairwoman Capito, her willingness to come all the way to central Wisconsin and participate in what I think is a very important conversation about how the rules and regulations and the regulators are affecting our small financial institutions, our small banks, and our small credit unions and their ability to get dollars out the door to businesses, manufacturers, and farmers.

I also appreciate Representative Bill Huizenga coming in and participating with us. He's from right across the pond in Michigan. And then Representative Renacci from Ohio who flew in this morning in the fog. So I appreciate everyone coming in.

They're all members of the Financial Services Committee, and the Financial Institutions Subcommittee, all freshman colleagues of mine, and they have been doing an outstanding job representing their districts, but also actively engaging in the conversations that we have in our committee.

If you look at what has happened over the course of the last several years with regard to the financial crisis, I think many of us would look back to 2008 and say we—we need to look at what happened and how do we reform the rules and regulations to make sure that it doesn't happen again.

Whenever you have a crisis, whenever you have an issue like that that in your economy, you want to take a hard look and implement changes to make sure it doesn't happen again.

And so that process started after the crisis. But instead of using a scalpel to look at the problems that we faced in our regulations, we got a sledgehammer, which came down by way of Dodd-Frank, a 2,000-page bill that implemented a number of rules and regulations. There are actually 400 rulemakings coming out of Dodd-Frank.

And some might say that's great; it's wonderful that we have all those rules in our financial sector.

One of the problems that we face in our committee is that many of the rules that came down from Dodd-Frank, that are in the process of coming down from Dodd-Frank, aren't specifically focused on the bad actors from the financial crisis.

I think all of us would agree that it was big Wall Street banks that helped cause this crisis. It wasn't our small community banks and credit unions in central and northern Wisconsin that caused the crisis.

But the rules, the regulations, and the pressure coming from the regulators on our community banks and credit unions has been immense; the ones that had nothing to do with the crisis.

And that breeds great concern for me because, if we're going to grow our economy, if we're going to put people back to work in central Wisconsin, we have to make sure that we have our economic base growing.

And what do we have here? We have small businesses, we have small manufacturers, we have farmers. If they can't access dollars, if they can't access capital, they can't grow. And if they can't grow, they can't put people back to work.

So these financial institutions in our community are very important to make sure that the growth in jobs takes place.

And when you have a crack in that system, it makes it very difficult to put our hard-working families back to work.

I think today's hearing is important because so often, we see the bullhorn in the hands of Wall Street banks. Today, the bullhorn comes to central Wisconsin, where we're able to come together, and I think it's a great panel that we have today, to talk about the issues that we face right here. And we make sure that Washington understands that the rules and regulations that they pass have a true impact on our community.

This is our time to come together and share the impact that it has. I believe that this is the first time the subcommittee, or the committee as a whole, has ever been to central Wisconsin.

So I'm happy that we're here and I'm happy that my colleagues were willing to join me.

I know my time is just about up. With that, I would yield back to Chairwoman Capito.

Chairwoman CAPITO. Thank you.

I would like to welcome Mr. Huizenga from your neighboring State of Michigan.

As I was thinking about the four of us up here, and the four States that we represent, we really have a lot of similarities in terms of the heartland of the country; a lot of reliance on manufacturing.

And so we all know that we have had difficulties, certainly, in our four States. Everybody has, but we have the same and similar difficulties.

So I want to thank Jim Huizenga for coming in, and I recognize him for the purpose of an opening statement.

Mr. HUIZENGA. Madam Chairwoman, thank you.

And to my friends Sean and Jim, I know that speaking, probably, for all of us, this has been quite a ride the last 10 months as a freshman on this committee.

I hope I don't shock anybody here, but Washington can operate in a bubble. That has been very evident. And it's field hearings like this that help break us out of that bubble and help make sure that not only I'm being connected in with west Michigan, when I'm going home every weekend, but I get to hear what the people in Congressman Duffy's district think. And, the same thing with Congressman Renacci.

This is very important to go do this, but I do feel I need to make a slight confession here. In central Wisconsin, I'm seeing a lot of red out in the audience. MSU quarterback Kirk Cousins is a constituent and went to the same high school I did. I know that might cause a bit of a riot, and my apologies to you all, as well as being a Lions fan. I know this is tough.

Hopefully, to try to regain a little credibility in your eyes, I have shot a number of grouse up here near Clam Lake Lodge and in Sean's district here. So I have been very pleased to be up here a few different times, and you have a great area up here.

As Sean was saying, I think that's a concern that I have, as well. So often, whether it's New York or Chicago, you hear sort of the buzz that surrounds a lot of these big banks and what's happening. And we know that, so often, the small community banks, the regional mid-sized banks, the credit unions, all get caught up in that same regulation.

And unfortunately, we have a one-size-fits-all kind of prescription. All it takes is visiting Zeeland, Michigan, my hometown, or Wausau here, or somewhere else, to know that we're a little different than New York and Chicago.

And we like it that way, but we can't necessarily have the same rules apply the exact same way, because we simply don't have the ability to add three more people into a compliance department. Why? Simply because we're adding on 15 telephone books on new, the size of new regulation onto things. That, frankly, if they had just implemented the rules that were on the books as they were, we would have been able to avoid a number of these things.

So I'm pleased to be here today and I appreciate Chairwoman Capito's willingness to take this subcommittee that I proudly serve on. Sean and I sit next to each other on the committee, and we compare notes on a lot of different things.

I'm still trying to catch up to him. I only have five kids; he has six.

But it truly is a pleasure to be here, and I appreciate your willingness to share your experiences so that I can take that back, as well as the rest of the members of this committee.

So thank you very much. I yield back.

Chairwoman CAPITO. Thank you.

And I would like to welcome and thank Mr. Renacci. He's the vice chairman of the subcommittee and has a wealth of experience in a lot of different areas ranging from small business to financial institutions, as well.

So welcome, Mr. Renacci from Ohio.

Mr. RENACCI. Thank you, Madam Chairwoman.

I want to also thank all of you for being here today. I want to thank Congressman Duffy for having us here, and my colleague Congressman Huizenga for being here, too.

It's important that we continue to hear, outside of Washington, what's going on. Now, for me, because as a CPA, as a small business owner, as a small town mayor at one point in time, I have created jobs and I understand the problems with financing.

But what I really never did understand was why Washington put so many constraints on the financing for small banks and small credit unions and small business owners because that is the lifeblood, as we all know, of small business.

And it's been interesting as, also, a board member of a small community bank in my community, to see what the Dodd-Frank legislation has done to many of the small community banks, whether it comes to the regulations, whether it comes to the appraisals, all of those things that are putting constraints on the ability for our businesses, our small businesses, to get the credit they need.

It's interesting, and I use this all the time, what happens sometimes in government—I know, in somebody's testimony, as I read that, we talked about the blanket effect. You take a blanket and throw it over everything.

And even though we did have people and companies and large banks in the industry that caused us problems in 2008, this blanket has been thrown over everyone, and it's causing constraints now that are occurring that are not allowing the capital to flow out to the small business owners.

I was also a small town fireman. And one thing I have used as an example many, many times, and sometimes I think Washington does this; I always remember the theory that you run into a building—this is before I had the training—and you start dumping water on the fire, and that's the answer; you just dump as much water as you can.

But as a fireman, and anyone who has ever really fought a fire, you realize that the more water you dump on it, the more regulations you put on it, sometimes the fire jumps in other places. And sometimes it jumps behind you, sometimes it jumps around you, and sometimes you can cause a building to actually burn down quicker.

With that in mind, I went to Washington thinking, why do we do this. It has been an interesting learning experience for the last 9 or 10 months because I do believe we need to be cautious on how much water we dump on the fire. When you do that, so many other things can happen.

I'm really interested in hearing from the panelists here today some of the issues I know they're running into and some of the things that we can do to maybe change some of the direction we have in Washington.

I know the panel here—we have been working very hard, looking at a lot of issues with Dodd-Frank.

And again, there are probably some things that were necessary, but clearly, throwing the blanket over everything is not the right answer.

So, again, this is my first visit to central Wisconsin. Although, being from Ohio, as we all know, the Buckeyes ended up beating Wisconsin this weekend. It was kind of a fluke play.

But I was also from Pittsburgh originally, and you guys—the Packers were able to beat the Steelers in the Super Bowl. So we're back and forth, one on one.

Maybe this year, the Steelers will get back with the Packers, and we'll see what happens.

But I do appreciate being here and I look forward to your testimony.

Thank you so much.

Chairwoman CAPITO. Thank you.

We will now get to the testimony of the witnesses. And I'm going to ask Mr. Duffy to introduce the witnesses.

Mr. Duffy?

Mr. DUFFY. Thank you, Madam Chairwoman.

We'll start over here and go around. I do appreciate the panel coming in and sharing their testimony. I think it's a great panel that has nice breadth, involving different sectors.

Let's start off with Pat Wesenberg. She is the president and CEO of Central City Credit Union in Stevens Point. Central City is a $179 million credit union serving 22,000 members. Thank you for being here, Pat.

We have Mark Willer, who is the chief operating officer for Royal Credit Union in Eau Claire. He's responsible for deposits and lending that affect 140,000 members. So thank you for coming over this morning, Mark. We appreciate that.

Marty Reinhart, he is the president and CEO of Heritage Bank in Spencer. Heritage is a $100 million asset community bank located right here in central Wisconsin.

And then Todd Nagel, maybe a little bit bigger bank, is at River Valley right here in Wausau. They have 18 branches throughout central Wisconsin and the UP of Michigan. So thank you all for coming in.

And then, she might have traveled the furthest to get here, Bethany Sanchez, who came up—I think you're in Milwaukee; is that right?

Ms. SANCHEZ. That's right.

Mr. DUFFY. She came up from Milwaukee. She directs the Fair Lending Program at the Metropolitan Milwaukee Fair Housing Council. That's a 34-year nonprofit civil rights organization serving the State of Wisconsin with offices in Milwaukee, Appleton, and Madison. So thanks for making the drive up today.

And then, we have Kurt Bauer. He is the CEO of Wisconsin Manufacturers & Commerce. WMC is Wisconsin's largest business and industry trade association.

And then we have Al Erickson. He is the Mayor of Mosinee, but he also owns various businesses in the area and also serves as chairman of the economic development committee for the City, and, I think, has a wide range of background and unique perspectives.

And last but not least, Mark Matthiae is the owner of Crystal Finishing Systems in Schofield. He and his wife, Laurie are a true story of a couple of folks who lived the American dream, worked hard, invested, and grew what started out as a two employee firm that began with $6,000, grew it into an $80 million business, employing 400 people right here in central Wisconsin.

It started in 1993. I had a chance to, a couple of weeks ago, go tour the facility, and they're doing a fantastic job and I think have some unique insights into what's happening here with capital flow.

So with that, I appreciate the panel coming in. And I turn it back over to Chairwoman Capito.

Chairwoman CAPITO. Thank you. And again, welcome.

I have a listing here of an order, and you're not seated in order. So I'm going to go by my listing, and I'm going to recognize the Honorable Al Erickson, the Mayor of Mosinee, Wisconsin.

Welcome, Mr. Mayor.

STATEMENT OF THE HONORABLE ALAN ERICKSON, MAYOR OF MOSINEE, WISCONSIN

Mr. ERICKSON. Thank you, Madam Chairwoman.

I wear two hats as I sit here before you today. First, I am here as a member of the small business world of north central Wisconsin.

I feel the pain, as others do, of the decreasing revenues and increasing expenses. As the owner of Small Business World Web Hosting and Design, I witness the decline in the amount of money spent in the area of promotion and—for small business, even though these are the times when promotion is essential, businesses find paying operational costs as critical.

As the owner of Little Bull Falls Trolley Company, I have realized a major decline in the use of unique transportation opportunities for weddings and special events.

As the owner of three commercial buildings which offer lease space or retail and/or service business, I, as well as others, are faced with the challenge of obtaining and retaining tenants.

Secondly, I am here with you today as the mayor of the City of Mosinee and the chairman of the economic development committee for the City.

We, as a City, have been aggressive in our economic development efforts in all commercial and downtown development. Within the last 2 years, at least 3 large commercial developments have been stalled in the City of Mosinee because they were unable to obtain the necessary financing.

Small businesses have had difficulty obtaining the credit that they need to expand, and in some cases, even to continue operating.

I believe most small business owners are excited about the new future but can't get the loans they need to grow.

But the economic recovery is pinned to job creation, and job creation is pinned to entrepreneurship and small business. And small business owners are having difficulty having the confidence—they do have the confidence, I'm sorry, to invest in and grow their businesses over the long haul.

Many small businesses have been operating at a loss for the last couple of years and are unable to get bank loans. They are sitting on land and buildings that they own which are next to impossible to sell in this economy.

If they close down part of their operation to save operational costs, this also means that they limit production and eliminate jobs.

Banks are pointing to two reasons for the drop in real loans: lack of collateral; and renewed sense of risk aversion.

For lack of collateral, business owners who were once able to borrow against assets—their land, building or equipment—have seen their property values diminish along with everyone else.

As far as risk goes, banks say that regulators are getting in the way of them making good loans. For business owners, though, those problems are arguable.

But while banks are closing the windows for small business loans, they happily open the back door to any business that wants that money in the form of a credit card loan.

For a small business, credit card terms are generally far worse than regular bank loans. Most small businesses rely on lenders to provide the capital they need to either open a business or to finance capital improvements.

Without loans, many small business owners would be unable to realize their dreams of opening business, renovating their buildings, or expanding their operations.

But long-term planning isn't possible with credit card financing. When they need to get together money to keep going and the loan isn't there, there aren't many options that don't involve plastic.

Bankers worry that companies won't be able to find access to capital, which is ironic, given the banks are primarily responsible for lending out that capital. Increasingly, bankers worry government regulation will become a major issue for small business.

I'm not a believer in the blanket approach to management decision-making. Who gets hurt? Those who did it right. Who suffers? All those people and the organizations they serve.

We need to stimulate the system from the bottom up. It's about jobs. We create jobs by investing.

I believe our economy would be better stimulated if low-interest loans are made available for small business.

I would like to ask why the government hasn't provided stimulus for smaller businesses. Government needs to rethink the concept of trickle-down economics.

Thank you.

[The prepared statement of Mayor Erickson can be found on page 50 of the appendix.]

Chairwoman CAPITO. Thank you.

Our next witness is Mr. Marty Reinhart, president of the Heritage Bank. Welcome, Mr. Reinhart.

Mr. REINHART. Thank you.

STATEMENT OF MARTY REINHART, PRESIDENT, HERITAGE BANK

Mr. REINHART. Thank you, Chairwoman Capito, amd members of the subcommittee. I'm Marty Reinhart, president of Heritage Bank, a $100 million community bank located in central Wisconsin, formed in 1908. So, we have been around for a while.

I'm pleased to be here today to represent the 200 members of the Community Bankers of Wisconsin.

Thank you for convening this field hearing examining how new regulations are impacting the financial institutions and small businesses and consumers in our area.

Community banks are playing a significant role in the broad-based economic recovery of our Nation because we serve rural, small town, and suburban customers and markets that are not comprehensively served by larger banks.

Localized credit decisions made one by one by thousands of community bankers support small businesses, economic growth, and job creation.

While there has been publicity that banks have been unwilling to lend, a recent report published by the Community Bankers of Wisconsin shows banks with assets less than $10 billion, community banks, have an increase of over 4 percent in commercial and industrial loans, as well as small business loans of a million dollars or less, year over year.

And I'm pleased to say that, over the past 2½ years, Heritage Bank has increased our RSA loans by over 30 percent.

I recognize the seriousness of the financial situation that existed prior to the passage of the Wall Street Reform Act and the need for Congress to take action.

The community banking industry appreciates the efforts that were made to distinguish between the large money center banks and smaller community banks. The new system for computing FDIC premiums will lower assessments for smaller community banks for 98 percent of the institutions throughout the country.

And allowing community banks to be exempt from examination from the Consumer Financial Protection Bureau maintains the current examination and oversight conditions that exist today.

And finally, making the FDIC insurance coverage of $250,000 permanent benefits not only the banking industry, but it eases concerns our depositors have about their money being safe.

Having said this, with regulatory and paperwork requirements, both new and old, there continues to be a disproportionate burden placed on the banking industry and community banks.

The uncertainty associated with how new regulations will be written and interpreted causes anxiety about the future of our industry and our ability to compete.

While there are many examples of costs associated with regulations, I would like to highlight some of those associated with a residential mortgage loan.

The application process has been changed several times within the HUD regulations and RESPA requirements. The process for ordering and reviewing appraisals has become more cumbersome and involved.

Extra forms, early disclosures, and having to register and fingertip our mortgage loan officers, adds to the costs associated with this type of lending. It creates delays, additional costs, and confusion on the part of the borrower, and a typical mortgage file has more than 100 pages by the time the loan is closed.

While it's too early to tell how many of the new regulations of the Dodd-Frank Wall Street Reform Act will affect community banks, one source of concern is the new Consumer Financial Protection Bureau.

We remain concerned about regulation to which community banks will be subject.

In particular, we are hoping that we will not have to implement new rules that will adversely impact the ability of community banks to customize products to meet customer needs.

On behalf of the Community Bankers of Wisconsin, I would like to take this opportunity to thank Representative Duffy, Chairwoman Capito, and other members of the subcommittee who support H.R. 1315, the Consumer Financial Protection Safety and Soundness Improvement Act, which passed the House. Thank you for that.

While there is recognition that there has been some improvement as the number of problem banks has diminished, the current examination environment is hampering lending at the very time that the bank credit is needed to sustain economic recovery.

Community bankers nationwide have reported that bank regulators are often demanding significant capital increases above the minimum regulatory levels established for a well-capitalized bank.

As a result, banks are forced to pass deny sound loan opportunities in order to preserve capital. There has to be a reasonable regulatory balance.

What is particularly frustrating to us is the field examination practices are often not consistent with directives from Washington.

We understand that examiners have a difficult job, and the stakes were raised sharply by the financial crisis, but I believe many examiners have overreacted with adverse consequences for banks and the economy.

I understand examiners are not evaluated on the bank's contributions to support the local economy. They have become overly cautious in their analysis of the bank's condition. And as a result, an examiner's incentive is to err on the side of writing down loans or demanding additional capital.

Finally, I would like to advocate for an important piece of legislation that would help to relieve community banks of certain burdensome regulations they face, both in examination and compliance, and help community banks serve customers.

The Communities First Act would improve the regulatory environment and community bank viability to the benefit of their customers and communities, and has gained support of 34 State community banking associations.

There's no question that the current regulatory and examination environment is an impediment to the flow of credit that will create jobs and advance the economic recovery.

I appreciate the opportunity to testify today. Thank you.

[The prepared statement of Mr. Reinhart can be found on page 58 of the appendix.]

Chairwoman CAPITO. Thank you.

Our next witness will be Mr. Todd Nagel, president of the River Valley Bank.

Welcome, Mr. Nagel.

STATEMENT OF TODD NAGEL, PRESIDENT, RIVER VALLEY BANK

Mr. NAGEL. Thank you, Chairwoman Capito, and members of the subcommittee. My name is Todd Nagel, and I am president of River Valley Bank. We're a $957 million asset bank based here in Wausau, Wisconsin.

Thank you for taking the time to bring the House Financial Services Committee to your district.

Wisconsin is home to 270 banks which employ 30,000 people. Wisconsin banks are performing better than their peers and have the fourth greatest loan-to-deposit ratio in the Nation.

Wisconsin banks help young people buy their first cars, we help newlyweds take the first step toward the dream of owning their own home, we help entrepreneurs turn ideas into small businesses.

We live among our customers, employees, and shareholders, and we are always available during good times and bad, because we recognize the value that banks play in the community.

That important service to our neighbors is imperiled, however, by the excessive government regulation coming from Washington.

The amount, intensity and uncertainty of new Federal regulations, chiefly the Dodd-Frank Act, have forced banks to allocate an enormous amount of time and resources to compliance, and away from our primary mission of serving our customers.

Wisconsin banks are not Wall Street investment firms, despite the fact that the media and others generically refer to all financial firms as banks.

In Wisconsin, you can't call yourself a bank unless your deposits are insured by the Federal Deposit Insurance Corporation. Traditional banks are insured depositories and lenders; investment banks are the Wall Street traders.

Some may argue that this is splitting hairs when we point out the difference. We disagree.

We must continue pointing out the difference between traditional banks and Wall Street investment firms because the distinction continuation is lost on some in Washington.

Federal laws meant to regulate Wall Street ought to not adversely impact Main Street, but that is precisely what is happening.

Uncertainty about what expensive new regulation will come out of the growing Federal bureaucracy hampers our ability to lend, which, in turn, stifles job growth in our communities.

I would like to give some examples of the effect on regulatory burden. This economy needs capital investment, as everyone has said here today, by small businesses to create jobs.

Today, banks are required to maintain the highest liquidity and capital ratios in the history of banking. That money is just sitting there. What does that mean? In our case, it relates to capital. It restricts $20 million to $40 million of capital investment into loans. It is capital that is just sitting there due to the higher ratios.

We want to make more loans. We need incentive to lend, not fear. We can't save more money in the form of capital and take more risk in the form of loans. The math simply does not work.

Regarding lending decisions, today, unfortunately, we are not making lending decisions on the financial performance or character of borrowers. Rather, we are only giving loans that will make the regulators happy in order to not be criticized in our next field exam. When a loan is criticized, we have to reserve additional capital expense for each loan.

Appraisal requirements, which you referred to: Our institution has $780 million in loans; $575 million of those loans are to small businesses; most of them are secured by commercial real estate.

The problem: We keep terms and balloons short on these loans to match-fund the obligation of the market conditions. That is pretty simple banking. What this means is, re-evaluate the loan at the time of the balloon or renewal. Now, we are required to get a new appraisal, which costs the customer money.

When the real estate value is less, which is most of the time, an examiner, a field examiner, will criticize the loan, effectively paralyzing the borrower, which forces us to start liquidation on a substandard loan, even if it is performing. In other words, they're making their payments.

A quick example is, we have a $100,000 appraisal on a piece of commercial real estate. We lent them $80,000. We get a new appraisal that comes in at $70,000. They're making their payments, and now we have a criticized loan. That makes no sense.

Consumer home mortgages: Today, we get penalized by regulators for helping homeowners stay in their homes. If we try to extend the term, lower the rate, we now have a criticized or substandard loan, which means we must reserve more loan dollars for the loan.

Regulators would rather us liquidate the loan and get the toxic asset off of our books. We want to help people stay in their homes and stop criticizing restructured loans.

Due to new residential home mortgage reform, again, that Marty referred to, banks must send out 20 to 30 documents for a new mortgage application within 3 days of applying.

If the customer changes their mind and they want to borrow more money, which we like to do, we have to redisclose those documents. At closing, you will have an additional 20 to 30 documents.

This regulation was supposed to protect the consumer and create a more transparent process. Sixty documents is not transparency; it's regulatory burden.

Some quick solutions: Create a one-page truth-in-lending disclosure that shows the fees the customer will pay, the interest rate on the loan, and how much profit the bank makes. Then, at the closing, have them sign a note and a mortgage. Three documents.

What can you do? Capital: For banks that grow their loan portfolios, incent them to have a lower cap ratio. If they're taking the risk and they're out there investing in America, let them lower their capital ratios.

Regarding liquidity: Incent banks to deploy their liquidity into the asset loan growth.

Appraisal requirements: Simply stop requiring new evaluations on performing loans.

Troubled debt restructure: Use this already-established structure to incent banks to help borrowers who are experiencing financial stress. Instead of making this a criticized category, make it a good category, a thank-you-for-helping-your-neighbors category.

Restrict the category to 10 percent of asset size and put a 24 limit on construction.

Again, thank you for allowing me the opportunity to speak today, and thank you for coming to central Wisconsin.

[The prepared statement of Mr. Nagel can be found on page 56 of the appendix.]

Chairwoman CAPITO. Thank you.

Our next witness is Ms. Pat Wesenberg, president and chief executive officer, Central City Credit Union. Welcome.

STATEMENT OF PATRICIA WESENBERG, PRESIDENT AND CHIEF EXECUTIVE OFFICER, CENTRAL CITY CREDIT UNION

Ms. WESENBERG. Thank you.

Chairwoman Capito and members of the subcommittee, thank you very much for the opportunity to testify at today's hearing.

As was stated before, I am the chief executive officer at Central City Credit Union, which is a $179 million credit union, and we serve 22,000 members in the central Wisconsin area.

I am also a member of the board of directors of the Credit Union National Association.

As you know, credit unions did not cause the financial crisis, but we have been affected by it. In the wake of the financial crisis, credit unions face what might best be described as a crisis of creeping complexity related to regulatory burden.

It is not necessarily any one single regulation that is overly burdensome; but rather, the totality of all regulations, the frequency with which the regulations change, and sometimes varying application of the regulation by field examiners, which conflicts with or expands upon the original intent of the regulation.

The barrage of regulations creates an unnecessary burden without any measure of the effectiveness of these changes. They are costly, both in time and personnel, to implement. And they are confusing to our membership.

We would prefer to spend our resources on promoting our mission of financial literacy and the development of new products to serve the needs of our members within our local communities.

However, the recent increase in regulatory burden has forced us to hire a full-time compliance person, just to stay on top of all the changes.

In addition to that, my vice president of lending has dedicated about one-third of her time to all of the changes that impact the lending staff. This is valuable time that could be spent trying to develop products that would help serve our membership better during these extremely difficult times.

The financial cost to Central City Credit Union doesn't end with increased staffing costs. There are also costs to update all of our software to make sure our forms are in compliance.

For a large financial institution, the compliance costs, even if large, are just a very small slice of their total costs. For smaller institutions, like my credit union, they represent a huge increase in relative costs.

While I realize the basis of the changes is to help the consumer be better informed, today our biggest regulatory obstacles involve keeping up with ongoing and piecemeal changes to the various consumer protection regulations.

If regulations continue to come from so many directions, I don't see how we will be able to keep up.

As an example of the frequency in which the regulatory requirements change, in January of 2010, financial institutions were required to completely amend and overhaul the RESPA Good Faith Estimate and comply with new disclosure requirements regarding the Department of Housing and Urban Development, HUD, settlement statements.

This took a tremendous amount of staff time to retrain mortgage lending and compliance personnel to adapt our systems and staff to these regulatory changes.

On the heels of our completed implementation throughout the spring of 2010, HUD issued a series of frequently-asked questions documents, some 50-plus pages in each version with yet additional instructions and clarifications as to how these particular forms were to be completed.

And now, not even 2 years later, these forms are yet again being completely revised and amended, with new regulations being written to implement these changes.

There are costs associated with any change in regulation, even if the intent is to reduce regulatory burden.

Updating and changing documents on a continual basis is hitting the budget hard, especially for smaller financial institutions, not to mention the time spent by staff to try to meet deadlines, take additional time to explain the new forms to our members, and the additional time and resources that are required for training and education.

While the new Consumer Financial Protection Bureau seems to be approaching its job with a watchful eye towards minimizing regulations and has sought ongoing input from credit unions on its work, concerns remain.

The CFPB rules may not necessarily change how credit unions operate; but if we are not careful, they could result in increased costs associated with changing processes, documentation, and training to comply with new rules.

That is why credit unions, through our national trade association, have been working closely with the CFPB staff during this transition period, and we have encouraged them to establish an office of regulatory burden monitoring. We are pleased that they have established an office of community banks and credit unions.

The CFPB was designed to regulate instead of, and not in addition to, the Federal Reserve Board and other regulators.

With respect to the 19 consumer protection laws that it now implements under the Dodd-Frank Act, credit unions are concerned with how the CFPB and the NCUA will coordinate regarding the implementation of consumer financial protection laws.

There are also concerns about whether credit unions will be subjected to burdensome data collection requirements, and how NCUA's own office of consumer protection fits into the consumer protection regulatory regime.

CUNA has urged the NCUA to take several steps to improve the regulatory process and relieve credit unions' regulatory burden.

And I would ask that a copy of the letter that CUNA sent to NCUA Chairman Deborah Matz be inserted into the record.

Chairwoman CAPITO. Without objection, it is so ordered.

Ms. WESENBERG. Thank you.

Among other recommendations, we have called on the NCUA to impose a moratorium on new regulations for at least the next 6 months.

We have also called on the agency to reinstate the Regulatory Flexibility Program, which provides well-managed and well-capitalized credit unions an exemption from certain regulations which are not statutorily required.

We believe that there is considerable merit to these recommendations because there are no new material systemic problems within the credit union system.

And current safety and soundness concerns with a natural person and corporate credit persons are being well-managed.

Madam Chairwoman, thank you very much for coming to Wisconsin and holding this hearing.

Credit unions remain committed to serving their members. The ever-increasing regulatory burdens we have make it very difficult.

We appreciate the attention you're giving to this issue and look forward to working with you to solve the problem.

[The prepared statement of Ms. Wesenberg can be found on page 65 of the appendix.]

Chairwoman CAPITO. Thank you.

Our next witness is Mr. Mark Willer, who is chief operating officer of the Royal Credit Union. Welcome.

STATEMENT OF MARK WILLER, CHIEF OPERATING OFFICER, ROYAL CREDIT UNION

Mr. WILLER. Thank you.

Welcome to all of you. Thank you, Representative Duffy, for coordinating this subcommittee.

I welcome all the Representatives from our neighboring States. It's great to have you here. We would welcome you back in January, when it's a little colder, as well.

But I appreciate the opportunity to testify before the subcommittee.

Royal Credit Union is a community-based credit union serving 140,000 consumers in 18 counties in Wisconsin, in west central Wisconsin, and 12 counties in eastern Minnesota.

Our members, as well as their financial services needs, are diverse.

In our statement of commitment developed by our board of directors and management team, we state, "As a member-owned, not-for-profit financial cooperative, RCU is committed to our members. We will uphold our fundamental responsibility to actively serve people within our field of membership and in the communities in which we live. We will continue to deliver a wide range of products and services to the diverse economic needs and social make-up of our members and potential members."

RCU's strategic plan includes efforts that encourage our members to become financially self-sufficient and successful. We will continue to place a high importance on consumer education and financial thrift.

RCU strives to offer services designed to improve the economic and social well-being of all members from all socio-economic backgrounds and to return financial value to all those who participate in our member-owned financial cooperative.

The current regulatory environment creates a significant challenge to achieve the statement of commitment.

As a result of the ongoing economic crisis, Congress has enacted legislation that has created a significant burden on the financial services marketplace. The well-intentioned legislation has had significant unintended consequences that confuse and financially harm the very consumers it's intended to protect.

The regulatory pendulum has swung so far that the financial institutions are faced with eliminating services or charging for them to offset the cost and increased regulatory burden of providing them.

Many of the new regulations are intended to address abuses in the financial marketplace or prevent unethical financial practices that harm consumers.

For example, the new rules that are being developed on a consumer's ability to repay mortgage loans and debit interchange provisions in the Dodd-Frank Act were advocated to correct problems that some may have engaged in.

Yet, I would challenge any member of this subcommittee to find a single local community credit union or community bank that has been accused of such practices. To the contrary, we are seen as the trusted local financial services provider.

Unfortunately, new regulations do not consider this. As a result, costs to provide services have increased. Unfortunately, these costs are passed on to our members.

Costs include training and education for credit union personnel, forms or form revisions to reflect rule changes, brochures, software programming costs, and compliance and auditing expenses, just to name a few.

The consumers are confused.

Mr. Reinhart pointed out the number of pages now required for a mortgage loan. I assure you, consumers have a hard time wading through a one- or two-page application, let alone 30 pages' worth of disclosures.

I can provide a sample real estate file, as well, to show the difference between an auto loan and an example of a mortgage loan; it is significantly different.

The cost of regulatory burdens to credit unions has been enormous. At RCU, we have an executive vice president who oversees our compliance function.

As a result of the increase in regulations and rule changes, we recently hired a full-time compliance specialist. This is in addition to an internal manager that we have and two internal auditors.

Additionally, RCU hires multiple third-party providers to ensure compliance with any and all regulatory requirements. These are real costs that ultimately are passed on to the consumer.

As we are coming out of the financial crisis, we have a new government agency to deal with: The Consumer Financial Protection Bureau.

Like many of my colleagues in the credit union system, I'm afraid the CFPB will only add a layer of regulation, not replace a layer of regulation, as it was intended to do.

We understand that the intentions are to protect the consumer. Unfortunately, history has shown that regulations, rules, and bureaucracies reach beyond their original intentions.

We hope Congress will exercise prudent oversight of the CFPB, especially in the early days of its operations.

Thank you for the opportunity to provide this testimony.

[The prepared statement of Mr. Willer can be found on page 68 of the appendix.]

Chairwoman CAPITO. Thank you.

Our next witness will be Mr. Mark Matthiae, president of Crystal Finishing Systems.

Did I say your last name correctly?

Mr. MATTHIAE. It's "Matthiae."

Chairwoman CAPITO. "Matthiae." I made it French, I think. Welcome.

Mr. MATTHIAE. It's actually German.

Chairwoman CAPITO. German.

Mr. MATTHIAE. Yes.

STATEMENT OF MARK A. MATTHIAE, PRESIDENT, CRYSTAL FINISHING SYSTEMS

Mr. MATTHIAE. Good morning. I would like to thank Chairwoman Capito and the members of the subcommittee for the invitation and for allowing me to speak to you this morning.

My wife and I have lived the American dream, starting small businesses, creating jobs, supporting our family and community, and building our dream home.

So I'm giving you our perspective not only on small business and banking, but also as homeowners.

We have enjoyed the success with the help of our local banking system, the SBA, Wisconsin Business Development Corporation, McDEVCO Corporation, and a great customer base.

Our core business is aluminum extrusion, painting, powder coating, and fabrication, along with distribution of our customers' products.

Our current business employs 430 full-time employees, with an annual payroll over $13 million.

Our company annually pays, in real estate taxes, our share of payroll taxes, fuel tax, over $2.2 million before our company makes one dime of profit.

I feel this is important, as a perception of the public today is that businesses and business owners do not pay their fair share of taxes.

If we are fortunate to have profits, these profits result in additional tax contributions, as well.

During the past 3 years, we have employed as many as 468 full-time staff and as low as 305 due to the severe economic conditions. We have gone from a business that banks were competing to do business with to a company that struggled to keep enough financing to keep our business running.

The large banks simply look at either your market segment, your ratios after current appraisals and past history; experience or track record mean nothing.

I have seen a true shift in the current banking climate that has American homeowners and small business owners worried about even renewing a loan, let alone seeking new money for updates or expansion.

In today's competitive business climate, locally, nationwide, and worldwide, without constant upgrades to equipment, infrastructure, and facilities, it is nearly impossible to grow a business, create jobs, or simply remodel your home.

We have spent countless hours on renewals, thousands of dollars in fees, appraisals, just because we are looked at being equal to that risky short-term investment return greed of Wall Street when all we want to do is run a business with good long-term business plans.

But the pressure on the banks currently today to simply look at the bottom-line ratios along with deflated appraisals on real estate, equipment, and property, both small businesses and homeowners are losing their equity.

This loss of equity is a direct result of a lack of consumer confidence and a lack of consumer demand, resulting in more economic pressure on businesses and workers alike.

As a homeowner, you fear to do a home loan, only to find out not only do you not qualify for more money against the equity you thought you had in your home, you may find out your loan is undercollateralized and the bank may actually ask you to write a check to pay the loan down further.

By forcing banks into the situation of analyzing loans not on the merit of the project or the past relationship of the customer, you are ultimately compounding the already depressed housing market and the commercial real estate market alike.

If banks are no longer able to do the right thing with their customers and negotiate payment terms, etc., without having to be punished, our economy will not recover anytime soon.

If this same climate existed when Laurie and I started our business, there would be no Crystal Finishing, there would be no 430 jobs today, no $13 million payroll, and no tax contribution of $2.2 million annually from our company, before profits.

I again would like to thank you for allowing me the time to share our experience with you.

[The prepared statement of Mr. Matthiae can be found on page 52 of the appendix.]

Chairwoman CAPITO. Thank you very much.

Our next witness is Mr. Kurt Bauer, who is president of the Wisconsin Manufacturers & Commerce.

Welcome, Mr. Bauer.

STATEMENT OF KURT R. BAUER, PRESIDENT/CHIEF EXECUTIVE OFFICER, WISCONSIN MANUFACTURERS & COMMERCE

Mr. BAUER. Thank you.

Chairwoman Capito and members of the subcommittee, I very much appreciate you coming to Wisconsin, although I could have gone without knowing that two of the Members were Ohio State and Michigan State fans, respectively. It was a tough 2 weekends in my household.

I am Kurt Bauer, president/CEO of Wisconsin Manufacturers & Commerce. We're the largest business trade association in the State. We represent about 3,500 businesses from all sectors of the economy.

The vast majority of our members, however, are small businesses, under 50 employees; and about 53 percent of our members are in the manufacturing sector, which is Wisconsin's largest business sector.

In preparing my remarks for today, I went back and I looked at the surveys that we do of our membership and also of our chamber of commerce partners to see whether or not credit availability was an issue that was raised. And the answer was "no."

There are a lot of things that they're concerned about, but credit availability has not been a major one.

I also went and looked at the U.S. Chamber of Commerce. They do a small business survey on a quarterly basis. Credit availability was not mentioned.

And then also, we have a partnership with the National Association of Manufacturers, and they do a survey quarterly, as well, with IndustryWeek.

Their most recent one did show that 6.1 percent of their more than 300 small business respondents said that credit availability was a challenge.

So you can see that it's not a major issue that's bubbling up to the surface to our membership via our surveys; but having said that, we are certainly aware that credit availability is a concern.

We hear anecdotal stories. We had a phone call to the office last week on the topic. And it's something that we're certainly concerned about.

I should have mentioned that I spent 18 years in the banking business prior to coming to WMC. So I'm very much familiar with Dodd-Frank and how massive that piece of legislation is.

Forgive me. I don't remember exactly how large Glass-Steagall was, but I often like to try and compare the two, because Glass-Steagall was another landmark piece of banking legislation that was passed in reaction to a crisis; and I believe that was around 30 pages, or certainly nowhere near the 2,300 pages of Dodd-Frank.

Mr. DUFFY. It was 78 pages, I believe.

Mr. BAUER. Seventy-eight pages, okay. Very good.

So we're aware that there are concerns. And we're monitoring it very closely because, like the other panelists have said, credit is, without a doubt, the lifeblood of our economy.

And without having partnerships with financial institutions, particularly our small member businesses, we would not be able to be successful. I think that was very well pointed out by Mr. Matthiae.

I think it's also important to point out here that it's not just Dodd-Frank. New regulations certainly are a problem, but you have to also look at the examination environment, and that has been expressed by the bankers and credit union panelists.

But you are seeing a lot of regulation by fiat, by examiners in the field, and of course, by the regulatory agencies themselves with the reinterpretations of rules.

And I imagine that they're reacting to a lot of the pressure that they feel for supposedly having allowed the financial crisis to occur, which I don't think is a fair criticism on their part because I think that there are a lot of different factors that caused the financial crisis. And there's a lot of blame that can be pointed in a number of different directions.

But from our perspective at WMC, I think we're seeing a bit of an overreaction, which has been compounded by overregulation. And I'm afraid to say, also, that scenario of overreaction, overregulation is not unique to the banking sector.

We're seeing that, as well, in some of the other areas that we monitor at the WMC such as environmental protection, OSHA regulations, health care reform, etc.

So from our perspective, we have a broader view, and Dodd-Frank is certainly something that very much concerns us, but I think it's all part of this deluge of regulation coming from Washington.

And I guess my final comment would be that, when I talk to my members, it's pretty clear that they believe that Washington is the biggest drag on economic recovery, more so than anything else that they face.

Thank you.

[The prepared statement of Mr. Bauer can be found on page 48 of the appendix.]

Chairwoman CAPITO. Thank you very much.

Our final panelist is Bethany Sanchez, director of community development, Metropolitan Milwaukee Fair Housing Council.

Welcome.

STATEMENT OF BETHANY SANCHEZ, DIRECTOR OF COMMUNITY DEVELOPMENT, METROPOLITAN MILWAUKEE FAIR HOUSING COUNCIL

Ms. SANCHEZ. Thank you, Madam Chairwoman, and members of the subcommittee. I appreciate your invitation to come here today to provide my perspective on these important issues.

Let me share with you the basis for my perspective.

I have worked in the housing and economic development field for almost 35 years. In addition to my 10 years at the Fair Housing Council, I'm on the board of the Urban Economic Development Association of Wisconsin, and I'm the current chair of the board of the National Community Reinvestment Coalition.

The Fair Housing Council works to eliminate discrimination and increase housing choice in Wisconsin. My work on this issue is important to the Fair Housing Council because increased housing choice and healthy communities depend on access to reasonably-priced home and small business loan products.

All of the organizations I'm affiliated with work in partnership with small, medium-sized, and large banks, credit unions, and other financial institutions. We collaborate on projects and policy work that will help create and sustain healthy neighborhoods and strong, stable communities across the State and the country.

To answer the credit needs question, yes, there's an unmet demand for small business loans and home loans in the communities that we serve.

Small business owners and those who work with them have often shared their frustration with me over their lack of access to credit and capital.

And just this past Friday, the need for small business loans was again highlighted at a community development forum I attended at the Marquette Law School.

There's also a big demand for home mortgages and for home repair loans. But the financial crisis and the uncertainty it created has resulted in loans not being made, even to well-qualified borrowers.

Regulations can and will help address this need. Federal regulations already in place, like the Community Reinvestment Act, encourage depository institutions to make home loans and small business loans to all sectors of the community, including the low- and moderate-income areas that we work to assist.

CRA does not, as some people insist, force banks to make bad loans. On the contrary, it requires safe and sound loans.

Our experience in Milwaukee and, indeed, the experience of organizations across the country has shown that CRA provides underserved communities with a mechanism that encourages institutions to work with us to do a better job of meeting the community needs and to make a profit along the way.

In addition to CRA regulations, Dodd-Frank will also be important to our economy, providing safeguards to borrowers in the mortgage market and ensuring that large institutions looking to acquire another bank will need to evaluate not only the bank's records in CRA assessment areas but whether the acquisition would be a significant benefit across the country.

A month ago, and in testimony at the Federal Reserve, Chris Cole, who is a senior vice president of the Independent Community Bankers of America, noted the importance of Dodd-Frank's requirements to consider the extent to which a proposed acquisition results in greater or more concentrated risks to the stability of the United States banking or financial system.

In Milwaukee, we know firsthand the impact of creating too-big-to-fail institutions and allowing them to engage in overly risky business practices.

In Milwaukee County, since 2008, on average, over 500 homes per month have gone into foreclosure. Within the City's limits, we still have over 2,000 vacant foreclosed homes, and another 6,200 in the foreclosure process.

And the foreclosure crisis has affected, as you know, the entire economy, creating more job loss.

Had Dodd-Frank been in place, the damage could have been contained. Dodd-Frank's provisions are aimed not only at ending too-big-to-fail, but are also designed to level the playing field between the mega banks and the rest of the industry, our colleagues around the room today, and to provide a way to warn of the systemic risk before toxic financial products and those activities threaten the economy.

It was crafted as a response to consumer advocates like me and my colleagues at NCRC, as well as small businesses and community bankers who had been asking Congress to modernize and strengthen financial regulations to ensure that mortgage brokers and independent mortgage companies could not continue the practices that started this subprime mortgage crisis.

In tacit acknowledgment that small banks did not cause the crisis, most of the provisions of Dodd-Frank apply only to a few dozen of the country's largest banks, those with more than $50 billion in assets.

And Dodd-Frank allows community banks to pay lower premiums for deposit insurance and to continue to work with their existing regulators.

In some respects, no one likes regulations, even me. Complying with regulations and doing reports is not my idea of a good time.

My work days are often spent writing reports to our various private and public funding sources, detailing the outcomes of our work, which takes away from the time spent actually doing the work that I'm funded to do.

But regulations and reporting provide accountability, accountability that in this case is a necessary framework for our large, complicated, and interconnected economy.

The Dodd-Frank law is long and complicated, but please give it a little time. Don't throw out the baby with the bathwater. Ninety percent of it is yet to be implemented.

I would support the position articulated at the Fed hearing by Chris Cole with the ICBA when he said, "ICBA strongly recommends that the regulators impose a moratorium on all acquisitions and mergers involving financial institutions with over $100 billion in assets, including Capital One's acquisition of ING Direct. This moratorium should continue until the banking agencies have finalized all the rules under Dodd-Frank."

He went on, and that's in the testimony.

Dodd-Frank's provisions have been characterized by some as generating job-killing uncertainty. But as Christopher Dodd recently wrote in the Washington Post, "In fact, it was the uncertainty inherent in a nontransparent and reckless financial system that made Dodd-Frank necessary in the first place."

Dodd went on to say, "The truth is that the catastrophe was years in the making caused by regulatory negligence and Wall Street gambling. We can't expect to rebuild our prosperity overnight, but we can't rebuild it at all if we let false political talking points undermine our efforts to restore confidence in our financial system." I agree.

Dodd-Frank was created in response to immense gaps in our modern financial system which allowed profits and greed to supersede the prudent extension of credit and the systems that support that activity.

Wisconsin residents and the rest of the country need the opportunities and safeguards generated by CRA and Dodd-Frank. Rather than pushing new legislation that would weaken Dodd-Frank before it's even fully implemented, please concentrate your efforts on helping the CFPB staff to understand the areas of concern and assist them as they write rules that can truly help everyone.

I look forward to working with you on that. Thank you very much.

[The prepared statement of Ms. Sanchez can be found on page 62 of the appendix.]

Chairwoman CAPITO. Thank you.

I would like to thank all the witnesses, and now we're going to proceed to the question portion of the hearing. And I get to be the first one to ask the questions.

I'm going to start with a comment, but I'm going to put myself on the clock, because I don't want to go past my 5 minutes of questions.

In partial response to Ms. Sanchez's 5 minutes of testimony, in terms of, was regulation needed? Absolutely. I think we agree on that.

But I think what you heard is the great disconnect. The disconnect of what Congressman Duffy alluded to in his opening statements of what was happening on Wall Street and what has been happening on Main Street and the frustrations of the regulatory burden that we have now pushed, not just to Wall Street because of the lack of transparency and accountability, but how it's bleeding out into our smaller institutions that don't have the capacity and don't, quite frankly, probably need the capacity to fulfill a lot of the demands of a large regulatory environment.

So I think that's the balance that we are trying to reach.

We are having a hearing next week on CFPB in our subcommittee—actually, it's this week, on Wednesday. And we'll be delving into some of the questions that Ms. Sanchez brought up in her testimony.

I would like to, on my first question, Mayor, you mentioned why has government not helped small businesses in terms of being able to get financing. And we need to stimulate from the bottom up.

I would say that there was a small business lending program, I don't know if any of your financial institutions have—did you all, banks, apply for that.

It was supposed to last for a year, but because the regulations only got going 9 months into the year, only 3 months of lending. It was only $4 billion, which it could have been $30 billion. But of that, a lot of the banks that availed themselves of the small business lending fund used the Federal dollars to pay back the Federal TARP dollars that they owed to get out from under the TARP program.

So there's a big disconnect here, did it ever really reach Main Street, and I think the answer is no, it didn't.

And that's a frustration for us, as policymakers, that policies are going forward without legislative approval that really are not meeting the challenges.

What would be a good way for us to stimulate small business lending?

We have heard a lot about forms and all those kinds of frustrations. Is it more leeway on—in terms of performing loans? We've heard a lot about that in committee. Do you have any suggestions on that?

Mr. ERICKSON. That's an excellent question.

I wish I had more suggestions. But I look at it from situations I've been involved with from the—I'm also on the board of directors of McDEVCO, and, of course, working with our small business in our community and other areas.

But it seems like so many of the programs that are aimed to small business are aimed to small businesses who—they say, how many jobs are you going to create from it? If you're going to get this money, how many jobs are you going to create? If you can't demonstrate that you're going to create a number of jobs, then it's very difficult to get help.

Chairwoman CAPITO. Right.

Mr. ERICKSON. And I would like to say that we forget that, when we talk a lot of small business, we have a lot of operations out there, mom-and-pop operations.

Again, just for an example, a good friend of mine has a florist business, and he's really struggling right now. He has 40 years in. He's wondering if he's going to lose everything he's worked for for 40 years.

There's no help for the mom-and-pop small business-type operations. I just use that for an example because I'm saying—they say, what kind of jobs do they create?

If it wasn't for the thousands and thousands of independent florists that are all over the country, we wouldn't have the floral distribution, we wouldn't the big business we have with—that's worldwide as far as buying those products. It all starts down with the small business.

Chairwoman CAPITO. Right. Right.

Mr. ERICKSON. They create a lot of jobs, but their help—they can't demonstrate and say, I'm going to be able to be trained or create a hundred new jobs. No, they're not going to be able to do that.

Chairwoman CAPITO. In terms of how can we help that person, it's creating a good solid economic environment where we're growing jobs so more people are buying flowers. And they have the confidence that if they extend $100 to a floral arrangement for a wedding or whatever, that they're going to be able to pay for that and they're not going to—people are hunkered down now in their own personal spending habits, and several of you have alluded to the lack of confidence.

Let me ask you, Mr. Matthiae. I tried to make your name French.

You mentioned the SBA. I think, in your statement, you mentioned that you have recently gotten an SBA loan. Is that correct? Or have you been funded—

Mr. MATTHIAE. We have actually used the SBA over the years to help get us going and we have used—USDA has been our most recent.

Chairwoman CAPITO. Rural development?

Mr. MATTHIAE. Yes.

Chairwoman CAPITO. And has that process been easier? Are you still using the same financial institutions, or do you use different ones for—

Mr. MATTHIAE. We still use some of the same institutions.

Chairwoman CAPITO. So we're talking—you mentioned a lack of consumer confidence, a lack of demand. Part of it is this feeling of the regulatory burden. Part of it is this feeling of inability to make new acquisitions.

As an employer, do you feel hunkered down into your business? Are you just sort of in survival mode? Do you feel any confidence coming back? How are your long-term and short-term projections?

Mr. MATTHIAE. Short-term, if you would have asked a year ago—how long have you been with WMC, Kurt?

Mr. BAUER. Seven months.

Mr. MATTHIAE. Seven months.

I think, if his survey would have been a year ago, there would have been a great deal of frustration over access to capital.

What businesses have done is we have gotten very lean. We have actually cut spending. We have had to pull back in a lot of areas, and a lot of businesses have stabilized.

And the businesses that did not address the rapid pullback in the economy probably didn't make it.

Chairwoman CAPITO. Right.

Mr. MATTHIAE. Our business did. We have just enjoyed the best year we have ever had as far as growth. The future looks great. We're buying equipment, we're building buildings, and we're working kind of like we were in 2008 and 2007 and prior.

I think the biggest concern out there right now is really the ratios. And what I think is—it's almost a double standard. You take out a 20-year loan and you anticipate paying it off in 20 years. Nothing's for sale. It's no different than a stock, everything is fine.

But then a third of the way through, they—because the economy falls, they do this appraisal out of the blue, and you lose all of your equity. That's what's causing the hardships.

And, I think Todd did a very good job of pointing out the fact that businesses can get in big trouble, homeowners can get in big trouble, because they need this ratio, 70, 80 percent.

Chairwoman CAPITO. Right.

Mr. MATTHIAE. If you had 20 percent down, but the real estate fell by 25 percent, you haven't even caught up to that yet on a normal payment. So you have done nothing but what you have signed a contract to do. And now, the rug is kind of getting pulled out on a lot of businesses and a lot of homeowners.

And it's not right. Somewhere, it should be illegal, I think.

At the end of the day, I thought the contract was that you made your payments, and if you make your obligations, that should be it.

Chairwoman CAPITO. Right.

Mr. MATTHIAE. And the negotiation was about interest rates. If the rate went up, that's a chance you took in short-term. It shouldn't be about, geez, did I buy the right piece of property and is it going to be worth that same amount all the way through when I—that is what I think is driving a lot of the frustration for the banks on the lending side and I think for tboth the businesses and homeowners alike.

Access to the capital is there. There is no question it's out there. But you really have to work to get it.

Chairwoman CAPITO. Right.

Mr. MATTHIAE. And it's the time lag. There are times, like this year, we purchased four major pieces of equipment. We didn't have time to get—if we would have had to finance it and we couldn't pay cash in some areas, it never would have happened. And we wouldn't—we hired people and we put people to work on those, on that equipment, but we didn't have 6 months to get a loan approved or 90 days.

In years past, once you had your line of credit, you had your operating—within a week to 2 weeks, it was approved, you're going, you're ordering that equipment, you're moving. You can't—business needs to move fast.

Chairwoman CAPITO. Right.

Mr. MATTHIAE. It cannot be moving at the speed of government. It has to actually function in a real-time format.

Chairwoman CAPITO. Thank you.

My 5 minutes is up, but I will make a comment. When you said, when you saw the downturn coming and you saw the difficult times, one of the first things you did, and businesses across the country did, was cut spending.

Sound familiar?

That's what we're trying to do in Washington. It's very difficult, as you know.

But—and then you said, the next thing you said, was the cutting the spending and then led to your growth. This is a big debate we're having in Washington right now. And I'm glad to hear you sort of reinforce that concept. Certainly for me, it's very helpful.

So with that, I'll go to Mr. Duffy for 5 minutes for questions.

Mr. DUFFY. Many of you may know we had a jobs fair here in central Wisconsin last week, and it was well-attended. We had about 100 businesses that came that were looking to hire and we had about 1,200 folks who were looking for a job, folks who had lost their jobs the week before, some had been out of work for a month, some for years.

But one of the continual things I heard from the employers was the quality of workers in central Wisconsin who were coming through looking for the opportunity to get back to work.

And there was, I think, a great area of improvement, once the economy turns around, for a great workforce that we have here.

Ms. Sanchez, I thought of that as I heard your testimony. I'm not as familiar with your organization down in Milwaukee, but the folks that you represent, are those the higher-income, wealthier folks of the Milwaukee community?

Ms. SANCHEZ. For the most part, no. We actually don't have any income requirements for people we serve, but the bulk of the people who come to us for assistance are low- and moderate-income folks.

And my work on fair lending and CRA work is directed at low- and moderate-income communities.

Mr. DUFFY. Okay. I want to make sure I have an understanding, as well, because if you look at some of the rules and regulations that came out, specifically, say, in Dodd-Frank—and I'll ask this to our banker/credit union panel here: Have the interchange changes that have taken place with debit cards and the new rules and regulations, have they helped you continue to give free checking and free debit cards to your customers? Or has it made it more difficult to provide free checking and free debit cards? Anyone on the panel can take that.

Mr. NAGEL. Absolutely not. It has made it more difficult.

The regulatory burden—I would disagree with Ms. Sanchez's comments completely. The regulatory burden from Dodd-Frank has—it did create a new job at our bank, but now we have six people focusing on regulatory burden.

And it has certainly diminished our revenue 10 to 15 percent on interchange alone, just the interchange, which was one piece of that legislation.

Mr. REINHART. I know, in the bill, there was kind of a carve-out that said community banks weren't going to be impacted by the interchange, but the fact of the matter is, markets work the way markets work. We're all concerned that, ultimately, that's going to have an impact on us, and it will.

Have we made any changes to pass on those costs to our consumers at this point? Not yet. But whether or not it will have an impact, it certainly has a bottom-line impact on our operation.

And at a time when we're trying to comply with all the regulations and having to spend resources, both financial and with employees to comply, we're looking for every opportunity to try to continue to be a viable organization. Certainly, that is something we'll have to think about.

Mr. DUFFY. Would you all agree with that?

MULTIPLE SPEAKERS. Yes. Yes.

Mr. DUFFY. Oftentimes, folks in our communities are struggling to pay their bills and is it—I have to imagine it would be tougher for them to start to have to pay extra bank fees for their checking accounts or for the use of their debit card, especially in these difficult times. Would you not agree?

Ms. WESENBERG. I would certainly agree. And I would say our membership is mostly low to moderate income, as well.

And, even if you're talking the $5 a month that Bank of America is talking about—or is implementing, for some of our members, that is what pushes them over the edge.

I think there are many unintended consequences when these regulations occur. People don't understand that the opposite side of the Dodd-Frank Act, or the interchange piece, is that credit unions and banks, we have to absorb all the losses. The merchants don't really have that piece of it.

And so, part of these fees that people are talking about is to recoup some of those costs.

Mr. DUFFY. I think you guys talked about the increase in the application size for home loans. Is that a fact? Have they increased recently?

Mr. WILLER. Yes. We have actually had two or three people retire indirectly as a result of the rest of the changes. It just has become so burdensome, so complicated, the training is never-ending, the changes are never-ending.

Again, the intent is to help the consumer. And what has happened is it has created a lot of confusion.

Mr. Reinhart pointed out the number of pages, and I just have a hard time imagining anybody being able to wade through all that information and come to any conclusion as to whether or not they have the best deal available.

Mr. DUFFY. I'm a big fan of transparency. I want to make sure that customers who have come into the bank know the products which they're going to get and they understand the cost and what the arrangement is.

And one of my concerns is, when you make the process so much more complex, you add that much more paperwork to it, I don't see that our customers are going to want to wade through more paperwork and that they're going to understand more what the arrangement is and what the deal is.

I think simplifying it, condensing it so they can understand it, would be beneficial.

You get your credit card statements where they're going to change the rules on you, where you have four pages of small type, I don't know who reads through that.

And if you have a better understanding of what the arrangement is with your credit card, I bet most people might throw it away.

Simplifying, streamlining the process, I think, would help consumers, instead of stacking up more documents on them, because they're not going to go through it.

Do you guys disagree with my assessment?

Mr. WILLER. Just as an example, this is the paperwork for an auto loan. So as you can see, there are probably 5 to 10 pages there. That's probably too much, to be honest with you.

I think Mr. Nagel hit it right on the head: Three pieces of paper, and that can contain all the necessary disclosures.

Mr. DUFFY. I have a lot more questions, and I think we're going to be able to go through our panel a few times, but I'll yield back. My 5 minutes are up, and we'll have a chance to come back.

Chairwoman CAPITO. All right. Mr. Huizenga, for 5 minutes for questions.

Mr. HUIZENGA. Thank you, Madam Chairwoman.

I appreciate all of you coming and giving this testimony. And it is similar testimony to what I've been hearing as I've been going around the 2nd District in Michigan, which is about a 250-mile stretch of Lake Michigan shoreline; really a pretty unique mix of manufacturing, and a number of tier 1 and tier 2 automotive suppliers, office furniture, largest three office furniture makers are in the district; everything from tool and die and extrusion and metal forming. It's also very heavily agriculture and food production, and then it's also tourism.

So we have seen a lot of different effects on that. But I'm struck by the similar themes that I'm hearing about lack of certainty, especially, as we're talking about credit availability and what businesses are doing or not doing as they're trying to make those decisions.

And I think it was Ms. Wesenberg who was talking about the piecemeal consumer protections that were being put in place.

My background is in real estate developing. My family is involved in construction. I own a sand and gravel company with three employees, third generation. My Dad and my uncle had started a ready-mix concrete company, which at one time had about 18 employees, and it's down significantly, as you can imagine, construction in Michigan.

And I'm struck by that exact same point. The thing I wrote down, as I was starting to hear some of this testimony, is that more documents don't necessarily equal more transparency.

It's sort of that old concept of hiding in plain sight. Right? How do you confuse somebody? Flood them with all this information that you just kind of go, whatever, I'm not sure.

And I think Ms. Sanchez, getting to sort of what Congressman Duffy was talking about, are we really serving constituents, really serving customers, by doing what we've been doing?

That's one of my main concerns with Dodd-Frank. And I would like to hear your point again, because I know, when I was going through my real estate licensing 20 years ago, I was taught that people aren't brown, people aren't white, people aren't yellow; they're green.

People are green, and they can either afford things or they can't afford things. And that, I think, would be very healthy if we could—I can't remember who exactly, maybe Mr. Nagel, was making the comment that we're not making decisions based on people's ability to pay and those kinds of things. We're looking at what's going to please the regulator.

So I don't know if you care to address that at all.

Ms. SANCHEZ. Thank you for giving me the opportunity, because I think there—I do have a fair amount of agreement with a number of the points made by the other witnesses, including this issue of regulation and—not regulation, well, some on regulation, but the disclosures in particular.

Yes, I don't think a stack of papers is helpful in helping anybody except for maybe a lawyer. And, generally, lawyers that I've talked to even say, I don't read that at my closing, why would I expect anybody else to have read it.

So no, I don't think that long disclosures are effective. I do think that short disclosures, if they're structured right, can be much more effective in helping people to understand what they're getting into.

Mr. HUIZENGA. But I you thought I heard you say, also, sort of, let Dodd-Frank play out here a little bit, give it some time, and we'll see where we're at. That's my concern. I'm not sure that we have that ability or that time.

Ms. SANCHEZ. As has been noted, there is a lot in Dodd-Frank. And the protection that Dodd-Frank gives to borrowers is the part that I'm concerned about and the part that I support.

When there are regulations that are duplicative or that don't make any sense for our small businesses and for our small bankers and credit unions, then yes, let's take a look at those. And that's what I said at the end. Let's figure out how to make it work.

But don't repeal Dodd-Frank, because we need the protections that are in Dodd-Frank. We need the playing field to be level. We need a more overall look at our financial system in terms of too-big-to fail and other kinds of issues that it raises.

Mr. HUIZENGA. That has been the interesting part, having come in there at the implementation side of it. I wasn't there for the creation of it, but I'm there living with the after-effects of it.

And the stunning part to me has been it is treated like holy writ on high that neither a jot nor a tittle can be changed in this bill, especially by the former chairman whose name happens to be attached to it, or on the Senate side, as well.

So you see, I think any discussion of trying to hit some of those reasonable accommodations is treated in a very hostile manner.

I think that's my goal, personally, and I think that is the goal of my colleagues here, as well, but I appreciate that input.

So thank you. I think my time is up. Thank you, Madam Chairwoman.

Chairwoman CAPITO. Thank you.

And next, we'll go to Mr. Renacci for 5 minutes for questions.

Mr. RENACCI. Thank you, Madam Chairwoman.

Ms. Sanchez, you made the comment, "Most of the provisions of Dodd-Frank apply to only a few dozen of the country's large banks, those with only $50 billion in assets."

Would any of the witnesses here agree to that?

Mr. NAGEL. No.

Mr. RENACCI. That's what I thought.

"Most" is, I guess, a unique word to use there.

I think one of the problems with Dodd-Frank is the blanket effect. And you also made the comment, "Had Dodd-Frank been in place, the damage could have been contained."

There are some who say that if the regulations that were in place in 2008 were followed, the damage could have been contained.

Would you agree with any of that?

Ms. SANCHEZ. I think that if the Fed had the ability to regulate the banks more effectively, if they had the ability, under unfair and deceptive practices, to do a better job of regulating banks and mortgage companies that were abusing the system and abusing borrowers, but the overall structure of how Dodd-Frank regulates the mortgage system, if that had been in place, I think it would have gone a long way.

Mr. RENACCI. Would you possibly agree that if we would have taken the things that didn't work and tried to fix those, and left some of the other stuff alone for now, that might have been the better approach, versus throwing the blanket over everything?

Ms. SANCHEZ. I haven't read all 2,000 pages of the Act, so I'm probably not qualified to answer that.

Mr. RENACCI. Okay. But you did say that you were hoping that it would stay intact, without reading the whole 2,000 pages. So that's a—

Ms. SANCHEZ. I hope that the aspects of the bill that help the borrowers that we serve, and keep things fair for borrowers across the country, including small businesses, and encourage small business lending, remain in place.

Mr. RENACCI. And again, I think that's a good point. There might be some pieces in there. The problem is we wrote a 2,000-plus page bill that is affecting credit unions and small banks and community banks in so many ways that maybe we should have taken a look at what didn't work and fixed that first but—

Mr. Bauer, you mentioned that Washington is the biggest drag on the economic development. I think that was one of the things you closed on. Can you give me some specific examples?

Mr. BAUER. Yes, I would be happy to.

If you would look at—and this is directly from the membership surveys that we have done and the feedback that we got back, not only from our specific surveys but also the surveys that I read from, conducted by the U.S. Chamber at the National Association of Manufacturers.

But I mentioned EPA, National Labor Relations Board, of course, Dodd-Frank, and health care reform.

On EPA Industrial Boiler MACT Rule, and in particular in this area, in central Wisconsin, which is a heavily papermaking area, that rule alone could cost thousands of jobs in Wisconsin because it disproportionately impacts papermaking in that process.

There are other regulations that are being implemented that we're very concerned about.

And to the point on EPA, it disproportionately affects us because we're coal-dependent in Wisconsin, very similar, probably, then, to the chairwoman's home State of West Virginia. We tend to get our coal from Wyoming, however. But 70 percent of the energy that we use in Wisconsin for industrial use is coal.

Because the EPA regulations have really gone after fossil fuels, and coal in particular, it has a disproportionate effect on us.

We say, at WMC, that there are two major threats to manufacturing in Wisconsin, which, again, is our largest business sector, an important sector, because it creates jobs not only in factories but in other sectors of the economy.

Workforce, making sure that we have that quality workforce that Congressman Duffy talked about; and then energy because, as energy costs go up, it makes us less competitive, not only here in the United States, but certainly to our competitors internationally.

Mr. RENACCI. Thank you.

Mr. Matthiae, you indicated that your business is booming today, but credit was an obstacle. Can you give me some ideas of how you're capitalizing your new purchases and your growth?

Is it through cash flow? Is it because—or are you still able to borrow money?

Mr. MATTHIAE. With the USDA's help, we were able to get financed. We were able to convert leases that we had actually had equipment that was worth something. So we were able to actually draw a value out of that.

We were able to—first of all, we, again, cut our costs, and we got ourselves profitable again.

And it all starts with not necessarily the bottom line, but also, we got very aggressive in sales. And we expanded our markets. We really—I guess I am a believer that if you're going to wait for something to happen to you, it's not going to happen. And so we decided that maybe we should make it happen, and we hired additional sales staff and really got aggressive. We had a 39 percent growth this year, which is, for a company our size, a lot of growth.

Future, we are regulated, certainly, with what the ratios are, and where we should be. All businesses should have to follow good business practices. Consumers should have to do the same thing, keep the house in order.

When you're a fast-growing, high-capital business like we are, there's never enough cash and there's never enough time.

So at the end of the day, I encourage you to support the USDA, the SBA. They are good programs. They don't cost money. They help lending institutions borrow where traditional rates may not happen and traditional borrowing may not happen.

Some of our loans were actually held up because the USDA was out of money. The loans were approved but the USDA was underfunded at that point.

But yes, we are getting enough funding to operate today.

Mr. RENACCI. But it's through current cash and the USDA?

Mr. MATTHIAE. Correct.

Mr. RENACCI. In the past, did you use the small—whether it's a small bank, small community banks? Were those dollars available to you in the past? Are they available to you today?

Mr. MATTHIAE. Not in the same form, no.

Our traditional banking, we have not been able to do that today.

Mr. RENACCI. All right. Thank you. That's—

Mr. MATTHIAE. We needed the help of the USDA.

Mr. RENACCI. Thank you.

I see my time is up. I have other questions, but I'll wait until the next round.

Chairwoman CAPITO. Okay. I'm going to start over again here and ask a question of the credit union and community bankers.

We have heard Dodd-Frank—how large it is and the regulatory structure that's just now beginning, because it hasn't even been fully implemented. And there are a lot of carve-outs in there. I think the four of you, your institutions, are supposed to be carved out.

I just want to re-emphasize, because we are going to be having this hearing with the CFPB on Wednesday, that your feeling is that you're not, in reality, exempted, because it—could somebody speak to that issue one more time for me, please?

Mr. NAGEL. I think I can.

Most banks and credit unions, for that matter, borrow from larger banks. So I think that's the largest myth out there, that we need larger banks or correspondent banks to do our relationships.

So as it relates to interchange, the $10 billion bank, or whatever the limit is, they issue our debit cards and credit cards. That's where our interchange comes from.

What happens—it's the spin-off effect of this legislation that's happening. And we're already feeling it across our revenue streams in many different areas.

I agree with Representative Renacci, though. If regulators did have the power to stop this crisis—all the regulations that were in place, had they been followed, we wouldn't be in this situation.

Chairwoman CAPITO. Mr. Nagel, let me ask you, when we had our field hearing in—no, Mr. Reinhart, I want to ask you this question.

When we had our field hearing in Georgia, when you talked about the re-appraisals of the properties and we—this is what has sunk their 64 banks. This is the commercial real estate issue.

And there was a frustration from the community bankers that, and I alluded to this in my opening statement, on the one hand, there's a pressure to lend. But the regulators—and you all talked about this—come in and tighten down.

And you mentioned you could make loans but only if they're the ones that make the examiner's report look favorable.

Is this a change of behavior from the last 2 or 3 years? Obviously, you think it's an unfavorable change. How can we make that connection?

Because we did have the regulators at that hearing to hear what our community bankers and those in Georgia were saying.

That's a big disconnect, I think. Do you have a comment on that? First of all, is it a change? You have been in banking for—

Mr. REINHART. Thirty-five years.

Chairwoman CAPITO. —35 years.

Mr. REINHART. Yes, it has been a big change.

And we can all appreciate the fact that we have been through a very, very difficult period of time.

One of the changes that's happening is, because of the pressure that has been put on the regulators, the FDIC, etc., we're getting examination teams from all over the country. They're coming in from Iowa or Kentucky or wherever. They don't have the same perspective of having worked with you over the years and knowing the management team and knowing what your strengths and weaknesses are, so you have to kind of go through that whole educational process as part of it.

The other thing is that, because of the concerns about capital and liquidity that was mentioned, we have to be overly sensitive about how our loans portfolio is going to be viewed; are they going to be classified, not classified, because that has a big impact on our reserve requirements.

And so, whereas in the past, a lot of the credit decisions were based on historical performance, character, collateral, not that we weren't looking at cash flow and capacity and—and all of the five "Cs."

But it seems like there's been more and more pressure put on, as was pointed out, getting updated appraisals. And if those appraisals come in poorly, how are you going to deal with it? Is the loan going to be classified, not classified? If it is, you have to have more reserve requirements.

And cash flow requirements have become much more complicated than they were in the past, and you need to look at more factors.

When we're trying to determine what kind of provisions for loan losses that we have to make, we have to go through a much more involved calculation today than we used to. And it has become so difficult.

So, whereas the examiners are erring on the side of being conservative, some banks feel like they have to do the same thing for fear of the next examination and how you're going to be viewed.

Chairwoman CAPITO. Do you have this phenomenon—one of the bankers in Georgia mentioned that he sits down with the review team, and the report is verbalized to him. And then the report comes out, I don't know, a month later, the written report, and it doesn't even look like the same; it doesn't look like the same review because of what is written. They have to cover themselves so much more.

Is that an area where you have seen any differences, or not really?

Mr. REINHART. Yes. Certainly, from my perspective, and having talked to people, there's definitely a disconnect.

You really don't know exactly what's going to be in that document when it shows up 2 or 3 months later.

Chairwoman CAPITO. Even after you've had the verbal review?

Mr. REINHART. Correct.

Chairwoman CAPITO. Let me ask Ms. Sanchez one quick question, because my time's up.

Does your organization—have you acquired any of the Neighborhood Stabilization money?

Ms. SANCHEZ. No.

Chairwoman CAPITO. No?

Ms. SANCHEZ. We work with the City on their NSP programs, and try and get the word out on the programs as they're working on it, but we don't get—

Chairwoman CAPITO. Okay. But you mentioned—

Ms. SANCHEZ. We don't get NSP money directly.

Chairwoman CAPITO. You didn't get NSP money.

You mentioned in your statement that there were 2,000 vacant homes in Milwaukee?

Ms. SANCHEZ. Right.

Chairwoman CAPITO. That had been foreclosed on?

Ms. SANCHEZ. Yes.

Chairwoman CAPITO. Is the City using that Neighborhood Stabilization?

Ms. SANCHEZ. It is.

Chairwoman CAPITO. To do what with the properties?

Ms. SANCHEZ. To—

Chairwoman CAPITO. Rehab and resell?

Ms. SANCHEZ. Right. Exactly.

Chairwoman CAPITO. Is that meeting with success, or—

Ms. SANCHEZ. Limited success. It's not enough and it's not fast enough. My understanding is this is sort of a low bar, but compared to NSP programs around the country, we're quite successful.

Chairwoman CAPITO. It's a little discouraging, just because there's billions and billions of dollars in there.

And in the Dodd-Frank Act, there was another, I think, billion dollars that was put into that program. I was wondering how successful it was being.

I will go to Mr. Duffy for more questions.

Mr. DUFFY. You have all—I think we were talking about the traditional analysis you do on your loans, whether it was historical performance, collateral, character, there's a whole bunch of different factors you would look at.

What I keep hearing is those traditional factors, based on your relationship with the individual, that has been thrown out, and you're managing your loans for the file. So when the regulators come in, the file looks appropriate.

Is that the case? Or are you still able to go with some of these traditional analyses? Anyone on the panel?

Ms. WESENBERG. I would have to agree with your comments. I think we certainly know the businesses that we've dealt with for a long time that have the character.

We do try to back into it and make it look good on paper, so to speak. But sometimes you can't because of property values declining. It could be a good performing loan, but because of that, you can't renew. And that is because of the examiners.

If we had an option on those loans, we would most likely renew because we have a good relationship, we know that borrower, but it puts us in a position not to.

Mr. DUFFY. But to be clear, the performing loan is—there's no default?

Ms. WESENBERG. Correct. It means they're making their payments.

Mr. DUFFY. They're making their payments every month, but because of changing valuations and pressure from regulators, you'll pull those loans? In essence, is that what's happening?

Ms. WESENBERG. Yes.

Mr. DUFFY. I just wanted to make sure I was clear on that.

Before I come back over to the right, I want to talk to you about the CFPB because we passed a bill in the House that's waiting in the Senate. And it was going to streamline the CFPB, and make it more accountable.

One of my concerns with that bill was that, basically, to have FSOC review rules that came from the CFPB, you almost had to have a complaint that the rule from the CFPB was going to create systemic risk to the economy as a whole.

And one of my concerns about that was—I don't know how any of the four of you go to FSOC and make the claim that the way this rule impacts you and your credit union or your bank is going to create systemic risk to the economy as a whole.

Maybe you guys are more compelling than I think you are, but now, if you're Bank of America, if you're U.S. Bank, if you're Wells Fargo, those bigger banks are able to go in and make that argument. They have a far larger claim that the rules that impact them can affect the economy.

Am I wrong in that assessment? Do you think you can go in there and make those claims and change rules that come from the CFPB the way the law has been currently written?

Because if I'm wrong on that, I want you to tell me.

I think that what's important is we want to make sure that we give a voice to our small financial institutions to have push-back on rules that impact them. Because if they impact you, they impact our community as a whole.

And I think we see the connection between lending, expansion, and jobs.

One of my concerns was with what Mr. Matthiae indicated, and I have heard this before: Folks who have been in business for a while will say, if I had to start my business today, I wouldn't be able to do it.

I will use Ron Wanek as a example. He started Ashley Furniture, he says in 1971. He knew how to make furniture, and he knew how to sell it. He started his business in a little shop and grew it into a billion dollar business.

He said, "If I had to do it today, I'd never be able to do it because of all the mandates and regulation and the red tape."

And to hear you say that as well is disturbing. What has changed, do you think, between 1993 and today that makes it so much more difficult for folks with an idea to pursue that dream and invest and work hard?

Mr. MATTHIAE. My original business plan was, they have parts, I'm going to paint them. That was the plan.

I had 3 weeks to get the financing, find a building, get the equipment, and I had a whole lot of cash. Not.

That wouldn't happen today, pure and simple.

Is that how every business would start? Heck, no. I wouldn't recommend that for anybody, by the way.

But at the end of the day, that's why I'm here today. It's not for myself, it's not for—my company is fine now. We are actually a better company, I think, than we were 3 years ago.

But when you go to start a business, there are very few business plans that are going to show a profit in that first couple of years, no matter how good that business is.

If you present that to a bank or any—you lay it out, and it's already a classified loan, and you haven't even—the ink isn't dry. So you're already in a classified segment.

The amount of cash you need down would be so high that those loans are just—you can ask the banks that question, but I don't think any of them would touch me today if—other than the bank that I went to, which happens to be across the table, and in the back of the room, actually.

They knew that I was a hard worker and that I knew what I was doing. And at the end of the day, that meant something. I don't know of a form that you can fill out that says, okay, this guy knows what he's doing. There has to be that heartbeat there. And there's no wiggle room anymore, with all these forms you're creating.

With all the restrictions, it's difficult. Business was much simpler back then, as well.

Today, we have a very good relationship with our local DNR, but the DNR and the EPA aren't on the same page.

So you can be totally compliant with the DNR, and the EPA can come in and shut you down because you're not. We have specialists in just that part of regulation.

It's unfortunate that you feel that you're complying and then you potentially could not be because another agency says you're not.

But it's those types of issues that are stopping small businesses from either starting or—I feel for the florist who is struggling. They're not going to be able to create any jobs. They've been a two-person company or a business forever, and they're happy and they were successful. And for whatever reason, things are happening to them. Who does help those people?

It's not right. And it's certainly going to do—when you hear that businesses are—and homeowners are making their payments but, again, it comes down to these appraisers that are—that the market is flooded with foreclosed properties.

Obviously, you could never replace these facilities or buildings or homes for what they're getting sold for. In some cases, the higher the value, the worse it is.

So, at the end of the day, let banks be banks and judge people. And somewhere there should be a—if you're going to do a rating, that should count for something. Somewhere, that experience, that—whether it's a college education, something substantial with your past business experience.

I graduated from high school, by the way, and then I got a ton of education form the school of hard knocks. I have paid for many Harvard educations by several mistakes. And so, I have one of the most expensive educations you can get. I have made more mistakes than most people, but you learn from your mistakes and you go forward.

At the end of the day, let banks judge people and give that some credit. It still should be a solid loan.

And I agree, this Wall Street mentality, the quick strike, make the quick buck and get out of it, small business isn't like that. Homeowners aren't like that. They want to live in a home. This is their home they want to buy.

A business is—this is my—I want to sell these flowers. But they need to keep on selling flowers. If they're making their payments and, just because an appraiser says their property is worth less than what they may or may not owe, that was a solid loan in 2007. Today it's junk? And you've made payments for 5 years? It makes no sense.

Mr. DUFFY. Just quickly, are you a billionaire?

Mr. MATTHIAE. I'm not a billionaire, but I am a millionaire, yes.

Mr. DUFFY. Are you a corporate jet owner?

Mr. MATTHIAE. No.

Mr. DUFFY. Are you involved in big oil?

Mr. MATTHIAE. I do have a jet ski.

Mr. DUFFY. And you just—you guys just hired 30 new people; is that right? Or roughly 30?

Mr. MATTHIAE. We have hired, since the first of the year, about 120.

Mr. DUFFY. 120. So let me just—I'm going off in a little different area.

If we could just raise your taxes a little more, would that help you create more jobs in central Wisconsin? If we just got a little more money out of your pocket into the Federal coffers, could you do a better job of putting more people to work?

Mr. MATTHIAE. If you would do a better job of spending that money.

I think, at the end of the day, I don't have a problem paying taxes. I have been at both ends of the spectrum. If I'm paying taxes, that means I'm successful.

However, there is a limit. And when—when cash is—you need to keep building a balance sheet. How do you build a balance sheet when you pay 30, 40 percent in taxes?

You have your depreciation. You have all these tax items going on. Yet, at the end of the day, you could tax-smart yourself right out of business, according to Ms. Wesenberg there.

You could make your payments, but you could have your accountants write your business down so far that you're going to be out of ratio and guess what, you're out.

Mr. DUFFY. What you're telling me, and I want to make sure that I'm clear on this, is as a constituent and as a job creator, you would say that you could create more jobs if we tax you more?

Mr. MATTHIAE. Oh, no. No.

Mr. DUFFY. I just want to be clear. I want to help you create jobs. And if we could really do that by raising your taxes, I would.

Mr. MATTHIAE. The deal was if you did a better job of spending money that I pay in, then it would be a good investment.

You guys are not going to spend your way out of this. You need to cut the programs. You need to cut spending. You need to get your own house in order.

And to keep taking us further in debt isn't the answer. I'm working very hard to get out of debt. I'm working very hard to get my balance sheet in order. And I work every day at that, and I think most people sitting here do that.

So it's unfortunate that our country, which is—I never served in the military, but I think if I ever served in the military, I would be pretty upset with where things are going today.

The freedoms are being eaten up every time we make a new law. And these laws are made for—there's consequences.

In business, any business, when you make a change, you have to follow that change through the whole process. Because what started out very good, with good intentions, doesn't turn out so good always. And I think the same thing is true with the regulations and with laws.

Mr. DUFFY. I yield back.

Chairwoman CAPITO. Thank you.

Mr. Huizenga?

Mr. HUIZENGA. I appreciate that. I'm going to have to use that line, "jet ski owner."

It is interesting. As you were talking, I was reflecting back on my own family business. How my family got involved in ready-mix concrete was because when my dad and my uncle were digging basements and building roads for people, they finally looked around and said, we don't have enough concrete coming in.

And, as you said, it's not a way to start a business, but I think that's exactly how most businesses start. They see that need and they go to fill it.

That's a concern I have, as well, is now, with the parameters that have been placed on there, all—and many times, for good intentions, we have just created these choke points that people can't get beyond.

I appreciate my colleague from Wisconsin here with his line of questioning about the CFPB. And that's something that we get to pursue. I sit on the subcommittee, and we get to pursue that on Wednesday.

Right, Madam Chairwoman?

Chairwoman CAPITO. Right.

Mr. HUIZENGA. He's probably too modest to tell you that was his bill that was trying to introduce some modicum of reasonableness into this whole process.

And all of us on that committee were pretty much vilified as we were trying to protect the small banks and the credit unions here in central Wisconsin, and I was trying to do it in west Michigan, I know Jim was trying to do it in Ohio.

That is the kind of attitude that I think is getting in the way of trying to find new solutions as we're moving forward on this. And so that gives that sort of, that holy writ from on high sort of aura around this piece of legislation.

We just have to be honest with ourselves, and that's why I appreciate that conversation.

And Mr. Bauer, right? Kurt, right? You had talked a little bit—this is a point that we all need to know about. Boiler MACT—M–A–C–T—Maximum Achievable Control Technology.

There were two pieces of legislation, one dealing with boilers, the other one dealing with cement plants. I happen to know a little bit about that one, and you're right.

I also have a constituent who owns a company that makes those boilers. And under the regulation that has been proposed, not quite implemented yet, but proposed by the EPA, in the case of cement plants, we would shut down 20 percent of all the cement plants in the United States.

Forty-six percent of all cement is created in China. Guess where it's going to be coming in from? And they have a little bit less concern about what they're putting into the environment than what we do.

Exact same thing with the boilers. Last week, when I was back in the district on our district work period, I sat down with this owner from Hines Corporation—H–I–N–E–S—not the ketchup people.

But he was telling me he has a number of contracts, potential contracts, for these boilers and that they're frozen; that lack of certainty has caused these people who are wanting and needing to buy a new boiler from him to not do so, because even if they bought that brand new boiler, which would almost double their efficiency, it still would not come in compliance with what the proposed rules were from the EPA.

And in the area of the cement, the EPA was proposing regulations that were 5 times more stringent than the European Union—5 times more stringent than the European Union. And it parallels that with the boiler.

So that is the kind of thing that I'm very concerned about. I believe it was you who said, it's not just Dodd-Frank; it's overregulation on a lot of different areas.

I am just wondering if you can maybe expand on that uncertainty element and how that may be affecting the business owners?

And, Mayor, if you have any businesses in your area that are dealing with some of those things?

Mr. BAUER. I'll just make a comment, and then I'll yield to the mayor, because I've already had a chance to talk a little bit about this.

You look at the stimulus package that we passed, I think that was in 2009, almost a trillion dollars and a lot of consternation on whether or not that was effective.

It was supposed to prevent us from going over 8 percent on unemployment, and we're somewhere north of 9 percent. We're a little bit better here in Wisconsin.

But I think that a lot of the Federal spending has been undermined by the compression layer of regulation coming down from Washington. It absorbs the benefit and negates the impact on the economy.

So I think, if there's a message that I can deliver, whether it's Dodd-Frank, whether it's EPA, whether it's some of the things that we're seeing from the Department of Labor with OSHA regulations and what we're seeing with health care reform and the uncertainty that creates for small businesses in particular, try and create certainty because—

Mr. HUIZENGA. I'm sorry. I have to interrupt, though.

So you're not in favor of small children becoming asthmatic?

Mr. BAUER. No. No.

Mr. HUIZENGA. Or elderly people dying?

Mr. BAUER. I think the—

Mr. HUIZENGA. Or workers being injured on the job?

Mr. BAUER. No, we're not in favor of that.

Mr. HUIZENGA. I just wanted to clarify that.

Mr. BAUER. But the OSHA regulations, in particular, considering you ended with that, is analogous, I think, to what's going on in banking because you have the rules and then you have the examiners who go on site and they have tremendous leeway.

And what we're hearing is is that they go on site, they give the factory or the work site a clean bill of health, and then they come back the next day and say, I was told that I have to write you up on something.

It creates more and more uncertainty and frustration. And I do think that is just another example of the problem that we're talking about here today.

Mr. ERICKSON. Just to expand a little bit, too, Madam Chairwoman, when we're talking about how do we stimulate small business, how do we get things going there, I think—and I said it's a tough question. And it really is. But I just wanted to expand on that a little bit, as it relates directly to what we're referring to here.

It's not—I don't know if it's stimulus money coming down here as much, or how it can be done for small business. We're talking about the mom-and-pop organizations that are 20-year loans.

The big issue is, it can be stimulus money, but it has to come from a different direction.

Most small businesses—and I'm talking, again, the 20 and smaller. Once they develop and they start to grow, they're—and I did the same thing. You look at concentration.

I mentioned before that I do have some commercial buildings. And I told my son this, who is working into the business, you have to have some stability. Your stability becomes the properties. That's the only way you can stabilize your business.

You build the equity in those properties, and then you look at it saying, I need working capital. If I don't have money here, I can go borrow against that. And now it's really difficult to do that.

It also means retirement for so many of the small businesses. That's what they work for and that's what they build. And they put all their energies and efforts into real property. And all of a sudden, this real property isn't worth anything anymore.

Now, you're looking and saying, how do I maintain, how can I keep operating? You go to the bank and they say, it doesn't matter if you are over 800 in your credit rating; we can't give you any money.

Why? Because you don't have that equity in your property anymore. Why don't they have equity in their property anymore? Because it has been devalued.

And it's frustrating. I look at my son coming into the business. It's frustrating as heck for him because I always told him, too, sweat equity. You put everything in.

A lot of the buildings we purchased needed—they were projects, not that it wasn't a good investment on our side from the standpoint of building stability. But, we looked at, then, also building equity, because the more we put into it, the more they're worth.

Now, they're twice the building that they ever were, but they're worth half as much. And so a lot of sweat, but not much equity.

And so now we're looking at it, and we're looking at growing, with him being young. At my age, I'm not looking at a lot of growth anymore. But—gray hair.

But we're looking at the—what's in it for him, and I'm saying—he's saying, we should do this, Dad, we should move forward here, and I agree with you 100 percent. And I say, okay, where are we going to get the dollars to do it, because you're absolutely right, that's where we have to go.

But if you go talk to the bankers that we're working with all along—and my banker is apologetic all the time. He says, jeez, I know your credit rating is awesome; I know you have everything going for you and you have always done everything right; but, there's no money in your building anymore. No. You have already borrowed what you can.

That's where the stimulus needs to come in, because I still believe that it's those small businesses that create all the jobs. That's where they come from.

Mr. HUIZENGA. My time has expired.

Chairwoman CAPITO. All right.

Mr. Renacci?

Mr. RENACCI. Thank you, Mayor; and I would agree with you. What is interesting about stimulus from Washington is, when it goes up, it never comes back down in the same amount.

The best stimulus is what Mr. Matthiae talked about. When you cut costs, you can get your costs down to where you can stimulate your own business by using your own dollars.

Mr. Matthiae, I also appreciate your comments. At age 24, I borrowed $265,000 with $10,000 in the bank and just the background experience that the bankers believed in me that I was able to start my own business, too.

The concern I have now, and I'm going to look over on this side, is I'm concerned about those who have started their business and—and I know there are some examples in my district, where people started their business, they're profitable, they're making the dollars they need to make, they're making maybe even the same amount of money they made 3 or 4 years ago. But their building value went down in one example, from $5.5 million down to $4 million, and their notes are being called.

And now, all of a sudden, even though they're making the same dollars and they're the same stable company, just because their building value went down, their business is somewhat in trouble because they can't refinance.

Can you tell me some examples, not specifics, but how many times you're starting to see that in the banking industry? And even in the—either of the bankers, is that something that's happening here, too, and you're seeing that often?

Mr. NAGEL. I would say that's what I was alluding to earlier, and what Mark was alluding to earlier is we're seeing equipment hold its values; but as it relates to real estate, an example I use it that it is devalued 30 percent.

If we don't have collateral to shore up that loan and the bank examiner walks in, they'll require us to downgrade the credit or create a—make it substandard, which we'll have to go from a 1 percent reserve on a million dollar loan to a 15 percent reserve. So the expense to the bank is quite large.

We'll be "forced", is the word I use, to go to the customer and ask them for more collateral, which they don't have, which then creates a default, which then creates a piece of property on the market that's already devalued that, once the bank has it, now it gets devalued to 50 percent.

So it just—the downward spiral is going to continue every time the renewal comes up because real estate values are continuing to go down.

The same thing is happening in the residential market. That's why there are 2,000 foreclosed homes that no one's buying in Milwaukee, because they're not worth anything.

Mr. RENACCI. So how many customers are you seeing this occur to? Five percent, 10 percent? I'm talking about good solid businesses. Their model hasn't changed, their economics haven't changed. The only thing changed is some of their assets have been devalued through foreclosures of other properties.

Mr. NAGEL. Yes. Almost all of our small business customers are seeing their commercial real estate devalued. All of them.

We had a conversation with a customer last year who's performing, everything is excellent with it, and we had to ask them for more collateral.

They went and called another bank and the bank told them the same thing. So it's happening daily. I don't know the exact percentage, but I think anyone who is attached to commercial real estate is seeing them going down, even on brand new buildings.

We're seeing it in—another example is, Friday we had a residential appraisal that, because of market comparables, came in 25 percent less than the cost to build, than the actual cost to build. So we can't give them that loan unless they come up with the extra dollars, according to the regulation.

Mr. RENACCI. Right. It's the regulators. It's the appraisals.

Mr. NAGEL. Right.

Mr. RENACCI. And that's what I keep trying to get at.

So I think of the person who has started that business, and now has been in business for 20 years, they are coming to you and saying—or you're going to them and saying, we need you to put more capital in?

Mr. NAGEL. Right. The simple solution is to let us lend on cash flow. If the customer cash flows and the debt coverage ratio is adequate, let us lend; don't criticize the loan. That's the solution.

Mr. REINHART. Just a couple of comments on the subject.

Number one, the commercial real estate appraisers are coming under a lot of pressure as well, because they've been criticized because of the fact that when these properties become distressed, they go down in value.

So I think that there's a chilling effect with them, as well; that they have a tendency to appraise these properties for less than they did in the past, for their own protection so that they can be safe.

Separate from the fact of whether or not you're going to be able to continue to work with a company, as was pointed out, the ability to fund expansions and help businesses grow, because of those collateral values, is a very limiting factor.

You may be able to continue to work with a company to help them through these difficult times, difficult times meaning because their real estate is worth less, but your ability to significantly loan more money to them to help with the expansion is impacted.

Mr. RENACCI. In my district, there was a business that appraised for $2.7 million, had a million dollars' worth of debt on it, and a $100,000 line of credit. When the $100,000 line of credit came due, the bank didn't have the cash to pay the $100,000 line of credit. That business today is in foreclosure and is being sold at probably $200,000 to $300,000, even though the bank had $1.3 or $4 million worth of debt on it.

So again, the process that we're talking about is hurting—and this business was making money. It's sad that we're seeing that. That's why my concerns are that it's affecting those business owners today.

I see I've run out of time. Thank you.

Chairwoman CAPITO. Thank you.

I have no further questions. Mr. Duffy wants to make a closing comment and then I'll close up.

Mr. DUFFY. Again, I appreciate the subcommittee coming and hearing everyone's views here today, to take the insight and information back to Washington.

I appreciate the panel coming in and sharing your views. I know sometimes it's not always easy to come in and tell us what you think and do it publicly. We appreciate that.

And I guess I would just leave all of you with a message that I do think, especially in the House, there is a movement afoot to say, let's try to do things better.

It's not—no one's saying let's get rid of Dodd-Frank, let's not have any regulations. That's not what we're saying. But we can do it more effectively. We can streamline it. We can make it easier for our businesses to expand and grow and create jobs, easier for our banks and credit unions to get capital out and still be safe and sound.

And I guess my pitch to all of you would be, if you have any ideas, if you have any information, don't be afraid to share it. I think the best ideas do not come from Washington. I guarantee you that. They come from right here.

And so, if you're willing to share those ideas with us, you have a Committee and a House with open ears, and we'll take those ideas and implement the best ones.

I appreciate you coming in today. Hopefully, this is just the starting point of many more conversations that we can have to hopefully make government work better.

Thank you all for coming in. And I thank the chairwoman and my colleagues for joining us today, as well.

Chairwoman CAPITO. Thank you.

I would like to thank you, again, Mr. Duffy, for inviting us here. This has been, I think, very interesting and illuminating.

And I hope that you feel that it was worth your time. It certainly was worth our time to come and listen and hear.

I'm certain that we would hear very similar things in all—and I have been hearing that in my district.

And please take heart that there's a lot of cynicism around Members of Congress. What are we down to now? A 9 percent approval rating?

And a lot of is, I think, a view that we don't listen and that we don't take back what we hear, that this is just window dressing. And I want to assure those in the audience and those who have taken time out of their valuable business days, that we are listening and we are going to take this back.

I just leaned over to Mr. Huizenga and I said, "What do you do about the appraisal issue?" That is obviously a resounding theme here.

And so, we're already starting to think what kinds of built-in mechanisms we can put in to help with that.

The Chair notes that some Members may have additional questions for this panel which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for Members to submit written questions to these witnesses and to place their responses in the record.

And with that, this hearing is adjourned. Thank you.

[Whereupon, at 12:45 p.m., the hearing was adjourned.]

A P P E N D I X

October 31, 2011

WMC

WISCONSIN'S BUSINESS VOICE SINCE 1911

Testimony before the
Financial Institutions and Consumer Credit Subcommittee
of the U.S. House Committee on Financial Services
October 31, 2011
Wausau, Wisconsin
By **Kurt R. Bauer**
President/Chief Executive Officer
Wisconsin Manufacturers & Commerce

Chairman Moore Capito and members of the committee, my name is Kurt Bauer. I am president and CEO of Wisconsin Manufacturers & Commerce (WMC), Wisconsin's largest business and industry trade association. Founded in 1911, WMC represents 3,500 businesses of all sizes and from every sector of the economy.

It is my honor to appear before you today to discuss business credit availability and other obstacles impeding job growth and a broader economic recovery in Wisconsin and in our nation.

In preparing my remarks today, I reviewed recent surveys WMC has conducted of our member businesses and our local chamber of commerce partners.

Access to credit was not listed as a primary concern in any of those surveys. That can perhaps be attributed to the fact that Wisconsin is fortunate to have nearly 300 banks, which gives businesses many options. Clearly, those banks continue to serve the needs of their business clients.

In a survey, conducted by the National Association of Manufacturers (NAM) and IndustryWeek, 6.1 percent of the more than 300 respondents report that access to capital has been a challenge.

WMC agrees with comments made repeatedly by the U.S. Chamber of Commerce about the negative effects of the massive Dodd-Frank financial regulatory reform act on the national economy.

Credit is the life blood of free enterprise. Our members rely on relationships with financial institutions to grow in good times and to survive in challenging times. Dodd-Frank clearly threatens that relationship by adding more costly regulatory burdens on an already heavily regulated and much maligned industry.

I have heard antidotal evidence from business leaders about how much more difficult it has become to apply for credit, even with a financial institution the business has a prior relationship with. To be sure, the greatly expanded regulatory burdens being imposed on financial institutions from new laws, reinterpreted rules or simply by fiat from examiners are also being passed on to businesses.

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Hardest hit are small businesses, who employ the majority of our workforce in Wisconsin and nationally, and who are by far the most vulnerable during weak economic conditions like what exists today.

In my view, there has been an overreaction, which has been compounded by overregulation in response to the financial crisis. Both have been fueled by a stunning failure to understand the root causes of the Great Recession. Our economy was not damaged by too few laws and regulations on lenders. It was damaged by failing to enforce those laws and regulations on entities that operated outside the structure of highly regulated and examined depository institutions.

Unfortunately for our economy, that overreaction-overregulation scenario is not unique to the financial sector. Businesses are seeing the same formula repeated in too many other areas, including from the Environmental Protection Agency, National Labor Relations Board, Occupational Safety and Health Administration and the 2010 health care reform laws.

In fact, federal laws, policies and proposals are by far the biggest cause of uncertainty, which I define as a lack of confidence in the economy caused by factors beyond a business' control.

Quite literally adding insult to injury, Wisconsin's business and industry leaders chaff at calls for federal corporate tax increases and the continued vilification of job creators by some national leaders.

Businesses in Wisconsin and nationally face many headwinds in this economy. In order for a sustained recovery to begin and for employment to grow, businesses need certainty, confidence and demand. That will be difficult to achieve under the current punishing regulatory and political environment.

To: House Financial Services Committee

From: Alan Erickson, Small Business Owner and Mayor – City of Mosinee

Subject: Congressional Field Hearing in Wausau on Monday, October 31, 2011

I wear two hats as I sit before you today.

First, I am here as member of the small business world of North Central Wisconsin. I feel the pain, as others do, of decreasing revenues and increasing expenses.

As the owner of Small Business World Web Hosting and Design I witness the decline in the amount of money spent in the area of promotion for small business. Even though these are the times when promotion is essential, businesses find paying operational cost is critical.

As the owner of Little Bull Falls Trolley Company I have realized a major decline in the use of unique transportation opportunities for weddings and special events.

As the owner of three commercial buildings which offers lease space for retail and/or service businesses I, as well as others, are faced with the challenge of obtaining and retaining tenants.

Secondly, I am here with you today as the Mayor of the City of Mosinee and Chairman of the Economic Development Committee for the city.

We, as a city, have been aggressive in our economic development efforts in all commercial and downtown business development.

Within the last two years at least three (3) large commercial developments have been stalled in the City of Mosinee because they were unable to obtain the necessary financing.

Small businesses have had difficulty obtaining the credit that they need to expand and, in some cases, even to continue operating. I believe most small business owners are excited about the near future, but can't get the loans they need to grow. But the economic recovery is pinned to job creation, and job creation is pinned to entrepreneurship and small business owners having the confidence to invest in and grow their businesses over the long haul.

Many small businesses have been operating at a loss for the last couple of years, and are unable to get a bank loan. They are sitting on land and buildings that they own which are next to impossible to sell in this economy. If they close down part of their operation in order to save operational costs this also means they limit production and eliminate jobs.

Banks are pointing to two reasons for the drop in real loans: lack of collateral and a renewed sense of risk aversion. For lack of collateral, business owners who were once able to borrow against assets –their land, building, or equipment – have seen their property values diminish along with everyone else. As far as risk goes, Banks say that regulators are getting in the way of their making good loans. For business owners though, those problems are arguable. But while banks have closed the window for small business loans, they've happily opened the back door to any business that wants that money in the form of a credit card loan. For small business, credit card terms are generally far worse than regular bank loans.

Most small businesses rely on lenders to provide the capital they need to either open a business or to finance capital improvements. Without loans, many small business owners would be unable to realize their dreams of opening a business, renovating their building, or expanding their operations. But long-term planning isn't possible with credit card financing. When they need to get together money to keep going, and the loan isn't there, there aren't many options that don't involve plastic.

Bankers worry that companies won't be able to find access to capital (which is ironic, given that the banks are primarily responsible for lending out that capital) and increasingly, bankers worry government regulation will become a major issue for small businesses.

I am not a believer in the blanket approach to management decision making.

Who gets hurt – those who did it right!

Who suffers – all those people and organizations they serve.

We need to stimulate the system from the bottom up. It's about jobs. We create jobs by investing in one another. I believe our economy would be better stimulated if low interest loans were made available for small businesses. I would like to ask why the government hasn't provided stimulus for smaller businesses. Government needs to rethink the concept of trickle down economics.

Sincerely,

Alan Erickson

Alan Erickson

CRYSTAL FINISHING SYSTEMS, INC.

Testimony of

Mark A. Matthiae

President

Crystal Finishing Systems Inc.

A Wisconsin Corporation

Appearing before

House Financial Services Field Hearing on

Banking Regulations affecting Small Business

Monday October 31, 2011

Wausau, Wisconsin

2610 Ross Avenue, Schofield, WI 54476 www.crystalfinishing.com (715) 355-5351 Phone (715) 355-8812 Fax

CRYSTAL
FINISHING SYSTEMS, INC.

Good Morning:

I would like to thank Chairman Capito and other members of Subcommittee for the invitation and allowing me to speak before you this morning.

My wife Laurie and I have lived the American Dream of starting small businesses, creating jobs, supporting our family and community, and building our dream home. So I am going to give you our perspective on not only small business and banking but as home owners also.

We have enjoyed this success with the help of our local banking system, the SBA, Wisconsin Business Development Corporation, McDevco Corporation and our great customer base. Our core business is Aluminum Extrusion, Painting, Powder coating and Fabrication along with Distribution of our customer's products. Our current business employs 430 fulltime staff with an annual payroll of over $13 million dollars. Our company annually pays in real estate taxes, our share of payroll taxes, fuel tax over 2.2 million dollars before our company makes dime one profit. I feel this is important as the perception of the public today is businesses and business owners do not pay their fair share of taxes. If we are fortunate enough to have profits these profits result in additional tax contributions.

During the last 3 years we have employed as many as 468 fulltime staff and as low as 305 due to the severe economic conditions. We have gone from a business that banks were competing to do business with to a company that struggled to keep enough financing to keep our business running. The large banks simply look at either your market segment, your ratios after current appraisals and past history, experience or track record means nothing. I have seen a true shift in the current banking climate that has American home owners and small business owners wary of even renewing loans let alone seeking new money for updates or expansion. In today's competitive business climate locally, nationwide and worldwide without constant upgrades to equipment, infrastructure and faculties it is nearly impossible to grow a business, create jobs or simply remodel your home. We have spent countless hours on renewals, thousands of dollars in fees, appraisals just because we are looked at being equal to the risky short term investment return greed of Wall Street when all we want to do is run a business with good long term business plans.

With the pressure that the banks are currently under today to simply look at the bottom line ratios along with deflated appraisals on real estate, equipment and property both Small Businesses and Home Owners are losing their equity. This loss of equity is a direct result of the lack of consumer confidence and the lack of consumer demand resulting in more economic pressure on businesses and workers alike.

CRYSTAL
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As a home owner you fear to do a home improvement loan only to find out not only do you not qualify for money against equity you thought you had in your home. You may find out that your loan is under collateralized and the bank may ask you to write a check to pay the loan down further. By forcing banks into situations of analyzing loans not on the merit of the project or the past relationship with the customer you are ultimately compounding the already depressed housing market and the commercial real estate market alike. If banks are no longer able to do the right thing with their customers and negotiate payment terms etc. without having to be punished our economy will not recover any time soon.

If this same climate existed when Laurie and I started our business there would be no Crystal Finishing, No 430 jobs today, no 13 million dollar payroll and not tax contribution of 2.2 million from our company before profits.

I again would like to thank you for allowing me the time to share our experience with you.

Mark Matthiae
President

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FINISHING SYSTEMS, INC.

Outline of discussion for the House Financial Services Committee Field Hearing 10-31-2011

1. Point out the differences in lending practices today vs. 3 years ago. What used to take weeks to get financial deals done now takes months, quarters and even years.

2. Discuss the time lag of renewals and added paperwork resulting in added cost and time for appraisals, accountants

3. Discuss Businesses that have had successful track records and then a bad quarter or year and credit is downgraded.

4. Discuss Banks not being able to look at the Merits of individuals and businesses just bottom lines.

5. Too many decisions are being made because of market segments rather than the history of the individual or business.

6. Regulators are forcing banks to reserve extra money on loans that are not bad but have been refinanced or reworked to adjust to the changing economic conditions resulting in less borrowing.

7. Large banks have become worse than small banks willing to just get out of loans even at the cost of jobs and people's lives. In the case of our business we employed 465 in the fall of 2008, the recession hit and we dropped to 300. Our local small bank worked with the USDA, SBA, and Wisconsin Business Development and helped save the 300 jobs and now we are back to 430 jobs with another 75 to 100 additional jobs coming in the next 12 months.

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Testimony of

Todd Nagel
President, River Valley Bank

before the

U.S. House Financial Services Committee

hearing on

Regulatory Reform:
Examining How New Regulations are Impacting Financial Institutions, Small Businesses and Consumers

October 31, 2011
Wausau, WI

River Valley
BANKING • INSURANCE • INVESTMENTS

Chairman Capito, Members of the Committee, my name is Todd Nagel, President of River Valley Bank, a $957 million asset bank based in Wausau, Wisconsin.

Thank you for taking the time to bring the House Financial Services Committee to Wisconsin to examine how new regulations are impacting financial institutions, small businesses and consumers.

Wisconsin is home to 270 banks, which employ 30,000 people. Wisconsin's banks are performing better than their peers and have the 4th greatest loan-to-deposit ratio in the nation.

Wisconsin's banks help young people buy their first cars. We help newlyweds take the first step toward the American Dream of owning their own home. We help entrepreneurs turn ideas into small businesses. We live among our customers, employees and shareholders, always available during good times and bad, because we recognize the value that banks play in the community.

That important service to our neighbors is imperiled, however, by excessive government regulation from Washington.

The amount, intensity and uncertainty of new federal regulations, chiefly the Dodd-Frank Act, have forced banks to allocate an enormous amount of time and resources to compliance and away from our primary mission of serving our customers.

Wisconsin banks are not Wall Street investment firms, despite the fact that the media and others generically refer to all financial firms as "banks".

In Wisconsin, you can't call yourself a bank unless your deposits are insured by the Federal Deposit Insurance Corp. Traditional banks are insured depositories and lenders. Investment banks are the Wall Street traders. Some may argue that this is splitting hairs when we point out the difference. We disagree.

We must continue pointing out the differences between traditional banks and Wall Street investment firms because the distinction is lost on some in Washington. Federal laws meant to regulate Wall Street ought to not adversely impact Main Street, but that is precisely what is happening.

Uncertainty about what expensive new regulation will come out of a growing federal bureaucracy next hampers banks' ability to lend, which in turn, stifles job growth in our communities.

Wisconsin bankers appreciate Congressman Duffy's bills to bring transparency, oversight and accountability to the Consumer Financial Protection Bureau. I want to thank Congressman Duffy for his leadership in this regard.

Getting the federal regulatory burden under control will increase certainty in all industries and improve consumer confidence. I applaud Members of the committee for recognizing the need for regulatory reform as a necessary first step toward more job creation and a healthier economy.

Subcommittee on Financial Institutions and Consumer Credit
"Regulatory Reform: Examining How New Regulations are Impacting Financial Institutions, Small Businesses and Consumers"

Monday, October 31, 2011
Wausau City Hall, Wausau, WI

Testimony of Marty Reinhart, President
Heritage Bank, Spencer, Wisconsin

Chairman Capito, Ranking Member Maloney, and members of the Subcommittee, I am Marty Reinhart, president of Heritage Bank, a $100 million asset community bank located in central Wisconsin. Almost 50 percent of Wisconsin's banks have been serving their communities for more than 100 years and Heritage Bank is one of them, having been formed in 1908. I am pleased to be here today to represent the 200 members of the Community Bankers of Wisconsin. Thank you for convening this field hearing examining how new regulations are impacting financial institutions, small businesses and consumers.

Community banks are playing a significant role in the broad based economic recovery of our nation because we serve rural, small town, and suburban customers and markets that are not comprehensively served by large banks. Our business is based on longstanding relationships in the communities in which we live. We make loans often passed over by the large banks because a community banker's personal knowledge of the community and the borrower provides firsthand insight into the true credit quality of a loan, in stark contrast to the statistical models used by large banks located in other states and regions. These localized credit decisions, made one-by-one by thousands of community bankers, support small businesses, economic growth, and job creation.

At the end of 2008, the national economy and that of rural Wisconsin were starting to feel the full impact of the recession. While there has been publicity that banks have been unwilling to lend, a recent report published by the Community Bankers of Wisconsin shows banks with assets less than $10 billion having an increase of over 4.0% in commercial and industrial loans as well as small business loans of $1,000,000 or less, year over year. I am pleased to say that over the past two and one half years, Heritage Bank increased our outstanding loans by over 30%, while maintaining our rating with the FDIC.

Dodd- Frank Wall Street Reform Act

I recognize the seriousness of the financial situation that existed prior to the passage of the Wall Street Reform Act and the need for congress to take action. The community banking industry appreciates the efforts that were made to distinguish between the large money center banks with assets greater than $10 billion, and smaller community banks. The new system for computing FDIC premiums will lower assessments for 98 percent of these smaller institutions, saving community banks roughly $4.5 billion over the next three years. Allowing the community banks to be exempt from examination by the Consumer Financial Protection Bureau maintains the current examination and oversight conditions that exist today. And making the FDIC insurance coverage of $250,000 permanent, benefits the entire banking industry by easing the concerns our depositors have about their money being safe.

Having said this, with regulatory and paperwork requirements, both new and old, there continues to be a disproportionate burden placed on community banks due to their more limited resources, diminishing their profitability and ability to attract capital and support their customers, including small businesses. Every provider of financial services – including every single community bank – feels the effects of increased regulatory burden. The uncertainty associated with how new regulations will be written and interpreted, causes anxiety about the future of our industry and our ability to compete.

While there are many examples of the costs associated with regulation, I would like to highlight some of those associated with a residential mortgage loan. The application process has been changed several times with new HUD regulations and RESPA requirements. The process for ordering and reviewing appraisals has become more cumbersome and involved. Extra forms with early disclosures and having to register and finger print mortgage loan officers, adds to costs associated with this type of lending. It creates delays, additional cost and confusion on the part of the borrower. A typical mortgage file will have more than 100 pages by the time the loan is closed.

Consumer Financial Protection Bureau

While it is too early to tell how many of the new regulations of the Dodd-Frank Wall Street Reform Act will affect community banks, one source of concern is the new Consumer Financial Protection Bureau or CFPB. While we are pleased that Dodd-Frank allows community banks with less than $10 billion in assets to continue to be examined by their primary regulators, we remain concerned about CFPB regulations, to which community banks will be subject. In particular, the CFPB should not implement any rules that would adversely impact the ability of community banks to customize products to meet customer needs. Because bank regulators have long expertise in balancing the safety and soundness of banking operations with the need to protect consumers, CBW supports amending the law to give prudential regulators a more meaningful role in CFPB rule writing.

On behalf of CBW, I would like to take this opportunity to thank Representative Duffy, Chairman Capito and other members of the subcommittee that supported H.R. 1315, the Consumer Financial Protection Safety and Soundness Improvement Act, which passed the House. This bill would improve the current structure of the CFPB by changing its governance from a single director to a five-member commission. It would also raise the threshold for the FSOC to be able to overturn a CFPB rule from a 2/3rd majority to a simple majority and it would postpone transfer of functions to the CFPB until a Director is named.

Examination Environment

While there is a recognition there has been some improvement as the number of problem banks has diminished, one of the most frustrating aspects of the current regulatory environment has been the trend toward oppressive exams. The current examination environment is hampering lending at the very time that bank credit is needed to sustain the economic recovery. While all banks accept the need for balanced regulatory oversight, the pendulum has swung too far in the direction of over-regulation. Specifically, examiners are:

- Requiring write-downs or reclassification of performing loans based on the value of collateral, disregarding the income or cash flow of the borrowers;
- Placing loans on non-accrual even though the borrower is current on payments;
- Substituting their judgment for that of the appraiser;
- Criticizing the use of certain types of non-core funding such as Federal Home Loan Bank advances;
- Moving the capital level goalposts back beyond stated regulatory requirements.

Community bankers nationwide have reported that bank regulators are often demanding significant capital increases above the minimum regulatory levels established for well capitalized banks. For example, some examiners are requiring banks to maintain minimum leverage ratios as high as 8 to 9 percent (versus the 5 percent required by regulation) and minimum Tier 1 risk-based ratios as high as 10 percent (versus the 6 percent required by regulation). To bankers, the process appears arbitrary and punitive. A moving and unpredictable capital goalpost makes it nearly impossible to satisfy capital demands in a difficult economy and capital marketplace. As a result, bankers are forced to pass up sound loan opportunities in order to preserve capital. This is not helpful for their communities and for overall economic growth. All bank lending requires judgment and calculated risk. If regulators work to squeeze every ounce of risk out of the system, they will only succeed in stemming the flow of credit to local economies and threatening bank viability. There has to be a reasonable regulatory balance.

What is particularly frustrating to us is that field examination practices are often not consistent with the directives from Washington. A disconnect exists. For example, the November 2008 Interagency Statement on Meeting the Needs of Creditworthy Borrowers states: "The agencies expect all banking organizations to fulfill their fundamental role in the economy as intermediaries of credit to businesses, consumers, and other creditworthy borrowers." Unfortunately, this policy is often overlooked, especially in the regions most severely affected by the recession. We understand that examiners have a difficult job, and the stakes were raised sharply after the financial crisis. But I believe many examiners have overreacted, with adverse consequences for banks and the economy.

Before the crisis, examiners frequently worked in partnership with the banks they examined. They were a resource in interpreting often ambiguous guidance. Where corrections were needed, opportunity was given to make them, and compliance was a mutual goal. This is the best means of achieving safety and soundness without interfering with the business of lending. I understand examiners are not evaluated on the banks' contributions to support the local economy. They have become overly cautious in their analysis of the bank's condition and as a result, the examiner's incentive is to err on the side of writing down loans and demanding additional capital. The current crisis was not caused by a failure to adequately examine community banks.

Additionally, bankers used to receive prompt feedback following their exams which they could act on immediately as part of the exam process. Today, detailed examination reports often arrive months after the examiner's visit, with little opportunity for the banker to sit down with the examiner, go over the results, and respond to the examiner's concerns on the spot. The misplaced zeal and demands of examiners are having a chilling effect on credit. Loan opportunities are passed over for fear of criticism and examiner write-downs, resulting in loss of income and capital. The contraction in credit is having a direct, adverse impact on the economic recovery. Exams could be greatly improved by being made more consistent and rational. This would encourage prudent lending without loosening standards.

The Communities First Act (CFA)

Finally, I would like to advocate for an important piece of legislation that would help to relieve community banks of certain burdensome regulations they face, both in examination and in compliance, and help community bank customers save and invest.

The ICBA and CBW-backed Communities First Act (CFA, H.R. 1697), introduced in the House by Rep. Blaine Luetkemeyer (R-Mo.) and cosponsored by members from both sides of the aisle would:

- Increase the threshold number of bank shareholders from 500 to 2,000 that trigger SEC registration. Annual SEC compliance costs are a significant expense for listed banks (this legislation mirrors H.R. 1965, recently approved by the entire committee);
- Require the SEC to conduct a cost/benefit analysis for any proposed accounting change;
- Provide relief from new Dodd-Frank data collection requirements in connection with loan applications from women-owned and minority-owned businesses;
- Extend the 5-year net operating loss (NOL) carryback provision to free up community bank capital now when it is most needed to boost local economies;

These and the many other provisions of CFA would improve the regulatory environment and community bank viability, to the benefit of their customers and communities. This legislation has gained the support of 34 state community banking associations, including CBW. There is a hearing scheduled on November 16th and I would encourage you to learn more about the bill and ask if you are not a cosponsor that you consider cosponsoring H.R. 1697, the Communities First Act.

Closing

There is no question that the current regulatory and examination environment is an impediment to the flow of credit that will create jobs and advance the economic recovery. I appreciate the opportunity to testify before the subcommittee and your keen interest in this matter.

Thank you.

Testimony of Bethany Sanchez
Field Hearing of the House Financial Services Committee's
Subcommittee on Financial Institutions
Wausau,WI October 31, 2011

My name is Bethany Sanchez, and I direct the Fair Lending Program at the Metropolitan Milwaukee Fair Housing Council. Madame chair, members of the Committee, thank you for inviting me to provide my perspective on this important set of issues.

Let me share with you the basis for my perspective. I have worked in the housing and economic development field for almost 35 years. In addition to my 10 years of staff work at the Fair Housing Council, I am on the board of the Urban Economic Development Association of Wisconsin, and am also the current chair of the board of the National Community Reinvestment Coalition (NCRC). I believe you have my bio, which provides additional details.

The Fair Housing Council works to eliminate discrimination and increase housing choice in Wisconsin. My work on this issue is important to the Fair Housing Council because increased housing choice and healthy communities depend on access to reasonably-priced home and small business loan products.

All of the organizations I am affiliated with work in partnership with small, medium-sized and large banks, credit unions and other financial institutions. We collaborate on projects and policy work that will help create and sustain healthy neighborhoods, and strong, stable communities across the state and the country.

I was asked to focus my remarks on the demand for small business lending in my community and the effect of examinations on the ability of financial institutions to lend. That's easy. Yes, there is an unmet demand for small business loans and home loans in the communities we serve.

Small businesses owners and those who work with them, have often shared their frustration with me over their lack of access to capital. And just this past Friday, the need for small business loans was again highlighted at a community development symposium at the Marquette Law School.

There is also a big demand for home mortgages and for home repair loans. Our partners in housing counseling agencies have developed a strong pipeline of qualified borrowers who are ready to put down roots and raise their families in their own home. The interest rate environment is ideal. But the financial crisis and the uncertainty it created has resulted in loans not being made – even to well-qualified borrowers.

Regulations can, and will help address this need. Federal regulations already in place, like the Community Reinvestment Act (CRA), encourage depository institutions to make home loans and small business loans to all sectors of the community, including the low and moderate income areas that we work to assist. CRA does not, as some people insist, force banks to make bad loans. On the contrary, it requires safe and sound loans.

For the first several years of the foreclosure crisis, before it had fully rippled out into the rest of the economy and forced massive job losses, the bulk of the problematic loans going belly up were loans made by institutions *not* covered by CRA. A February 2009 Federal Reserve Board study showed that nationwide, 94% of the high cost subprime loans sold in 2006 were issued by lenders who were not covered by CRA regulation.

Our experience in Milwaukee, and indeed, the experience of my colleagues across the country, has shown that CRA provides underserved communities with a mechanism that encourages institutions to work with us to do a better job of meeting community needs, and to make a profit along the way.

In addition to CRA regulations, the requirements of Dodd-Frank also will be important to our economy, providing safeguards to borrowers in the mortgage market, and ensuring that large institutions looking to acquire another bank will need to evaluate not only the banks' records in CRA assessment areas, but whether the acquisition would be a significant benefit across the country.

A month ago, in testimony at the Federal Reserve, Chris Cole, Senior Vice President of the Independent Community Bankers of America, noted the importance of Dodd-Frank's requirements to consider "the extent to which a proposed acquisition results in greater or more concentrated risks to the stability of the United States banking or financial system."

In Milwaukee, we know first-hand the impact of creating "Too-Big-To-Fail" institutions and allowing them to engage in overly risky business practices. Our neighborhoods are still struggling to recover from the devastation caused by the foreclosure crisis. In Milwaukee County, since 2008, on average, 500 homes per month have gone into foreclosure. Within Milwaukee's City limits, we still have over 2000 vacant, foreclosed homes, and another 6200 in the foreclosure process. And the foreclosure crisis has affected the entire economy, creating more job loss. The unemployment rate in Milwaukee is 9.6%, for African American males in Milwaukee it's 34%.

Had Dodd-Frank been in place, the damage could have been contained. Dodd-Frank's provisions are aimed at not only ending "too-big-to-fail" but are also designed to level the playing field between the megabanks and the rest of the industry, and to provide a way to warn of systemic risks before toxic financial products and activities threaten the economy.

And it was crafted as a response to consumer advocates like me and my colleagues at NCRC, as well as small businesses, and community bankers, who had been asking Congress to modernize and strengthen financial regulations, to ensure that mortgage brokers and independent mortgage companies would not continue the practices that started the subprime mortgage crisis.

In tacit acknowledgement that small banks did not cause the crisis, most of the provisions of Dodd-Frank apply only to a few dozen of the country's largest banks, those with more than $50 billion in assets. And Dodd-Frank allows community banks to pay lower premiums for deposit insurance and to continue to work with their existing regulators.

In some respects, no one likes regulations – even me. Complying with regulations, and doing reports is not my idea of a good time. My workdays often are spent writing reports to our various private and public funding sources, detailing the outcomes of our work, which takes away from time spent actually doing the work I am funded to do.

But regulations and reporting provide accountability – accountability that in this case is a necessary framework for our large, complicated, and interconnected economy.

The Dodd-Frank law is long and complicated. Please give it a little time. Ninety percent of it is yet to be implemented. I would support the position articulated at the Fed hearing, by Chris Cole, of the Independent Community Bankers of America. Mr. Cole said, "ICBA strongly recommends that the regulators impose a moratorium on all acquisitions and mergers involving financial institutions with over $100 billion in assets, including Cap One's acquisition of ING Direct USA. This moratorium should continue until (1) the banking agencies have finalized all their rules under Dodd-Frank Act (2) all of the SIFIs have filed their contingent resolution plans, their credit exposure reports, and their capital plans, and have undergone another full year of stress testing (3) FSOC has completed its designations of systemically important financial institutions and (4) the Office of Financial Research has completed at least its first round of data collection to determine systemic risks in our financial system."

Dodd-Frank's provisions have been characterized by some as generating "job-killing uncertainty." But as Christopher Dodd recently wrote in the Washington Post, "In fact, it was the uncertainty inherent in a non-transparent and reckless financial system that made Dodd-Frank necessary in the first place."

Dodd went on to say, "The truth is that this catastrophe was years in the making – caused by regulatory neglect and Wall Street gambling. We can't expect to rebuild our prosperity overnight, but we can't rebuild it at all if we let false political talking points undermine our efforts to restore confidence in our financial system." I agree.

Dodd-Frank was created in response to immense gaps in our modern financial system, which allowed profits and greed to supersede the prudent extension of credit and the systems that support that activity.

Wisconsin residents - and the rest of the country - need the opportunities and safeguards generated by CRA and Dodd-Frank. Rather than pushing new legislation that would weaken Dodd-Frank before it is fully implemented, concentrate your efforts on helping the CFPB staff to understand the areas of concern, and assist them as they write rules that can truly help everyone.

I look forward to working with you.

Testimony of
Patricia Wesenberg
President and Chief Executive Officer
Central City Credit Union
Before the
House Committee on Financial Services
Subcommittee on Financial Institutions and Consumer Credit
Hearing on
"Regulatory Reform: Examining How New Regulations are Impacting Financial Institutions, Small Businesses and Consumers"
October 31, 2011

Chairman Capito and members of the subcommittee, thank you very much for the opportunity to testify at today's hearing. My name is Pat Wesenberg and I am President and Chief Executive Officer of Central City Credit Union in Marshfield, Wisconsin, a $179 million credit union serving 22,000 members. I am also a member of the Board of Directors of the Credit Union National Association.

As you know, credit unions did not cause the financial crisis, but we have been affected by it. In the wake of the financial crisis, credit unions face what might be best described as a crisis of creeping complexity related to regulatory burden. It is not necessarily any one single regulation that is overly burdensome but rather the totality of regulations, the frequency with which the regulations change, and the sometimes varying application of the regulation by field examiners which sometimes conflicts with or expands upon the original intent of the regulation.

The barrage of regulations creates an unnecessary burden without any measure of the effectiveness of these changes. They are costly, both in time and personnel to implement, and they are confusing to our membership. We would prefer to spend our resources on promoting our mission of financial literacy and the development of new products to serve the needs of our members within our local communities.

However, the recent increase in regulatory burden has forced us to hire a full time compliance position just to stay on top of all of the changes; my VP/Lending has dedicated about one-third of her time to all of the changes that impact the lending staff. This is valuable time that could be spent trying to develop products that would help serve our membership better during these extremely difficult economic times.

The financial cost to Central City Credit Union doesn't end with increased staffing costs; there are also costs to update all of our software to make sure our forms are in compliance.
For a large financial institution, the compliance costs, even if large, are just a very small slice of their total costs. For smaller institutions like my credit union, they represent a huge increase in relative costs.

While I realize the basis of the changes are to help the consumer be better informed, today, our biggest regulatory obstacles involve keeping up with the ongoing and piecemeal changes to the various consumer protection regulations. If regulations continue to come from so many directions, I don't see how we will be able to keep up.

As an example of the frequency with which the regulatory requirements change, in January of 2010, financial institutions were required to completely amend and overhaul the RESPA Good Faith Estimate and comply with new disclosure requirements regarding the Department of Housing and Urban Development's (HUD) Settlement Statements. This took a tremendous amount of staff time to re-train mortgage lending and compliance personnel to adapt our systems and staff to these regulatory changes.

On the heels of our completed implementation, throughout the Spring of 2010, HUD issued a series of Frequently-Asked Questions documents, some 50+ pages in each version, with yet additional instructions and clarifications as to how these particular forms were to be completed. And now, not even two years later, these forms are yet again being completely revised and amended with new regulations being written to implement these changes.

There are costs associated with any change in regulation– even if the intent is to reduce regulatory burden. Updating and changing documents on a continual basis is hitting the budget hard especially for smaller financial institutions, not to mention the time spent by staff to try to meet the deadlines, take additional time to explain the new forms to our members and the additional time and financial resources that are required for training and education.

While the new Consumer Financial Protection Bureau seems to be approaching its job with a watchful eye toward minimizing regulations and has sought ongoing input from credit unions on its work, concerns remain.

The CFPB rules may not necessarily change how credit unions operate, but if we are not careful they could result in increased costs associated with changing processes, documentation and training to comply with the new rules. That is why credit unions, through our national trade association, have been working closely with the CFPB staff during the transition period, and we have encouraged them to establish an office of regulatory burden monitoring. We are pleased that they have established an Office of Community Banks and Credit Unions.

The CFPB was designed to regulate *instead of* and not *in addition to* the Federal Reserve Board and other regulators, with respect to the 19 consumer protection laws that it now implements under the Dodd-Frank Act. Credit unions are concerned with how the CFPB and the NCUA will coordinate regarding the implementation of consumer financial protection laws. There are also concerns about whether credit unions will be subjected to burdensome data collection requirements and how NCUA's own Office of Consumer Protection fits into the consumer protection regulatory regime.

CUNA has urged the NCUA to take several steps to improve the regulatory process and relieve credit unions' regulatory burden. And, I would ask that a copy of a letter that CUNA sent to NCUA Chairman Matz be inserted into the record.

Among our recommendations, we have called on the NCUA to impose a moratorium on new regulations for at least the next six months. We have also called on the agency to reinstate the Regulatory Flexibility Program, which provides well managed and well capitalized credit unions an exemption from certain regulations which are not statutorily required. We believe that there is considerable merit to these recommendations because there are no new, material systemic problems with the credit union system, and current safety and soundness concerns within natural person and corporate credit unions are being well managed.

Madame Chairman, thank you very much for coming to Wisconsin and holding this hearing. Credit unions remain committed to serving their members; the ever increasing regulatory burdens we have make it more difficult. We appreciate the attention that you're giving to this issue and look forward to working with you to solve the problem.

Testimony of
Mark Willer
Chief Operating Officer
Royal Credit Union
Before the
House Committee on Financial Services
Subcommittee on Financial Institutions and Consumer Credit
Hearing on
"Regulatory Reform: Examining How New Regulations are Impacting Financial Institutions, Small Businesses and Consumers"
October 31, 2011

We are a community-based credit union serving consumers in eighteen counties in west central Wisconsin and twelve counties in eastern Minnesota. Our members, as well as their financial services needs, are diverse. In our Statement of Commitment developed by our Board of Directors and Management Team we state:

"As a Member-owned, not-for-profit financial cooperative, RCU is committed to our Members. We will uphold our fundamental responsibility to actively serve people within our Field of Membership and in the communities in which we live. We will continue to deliver a wide range of products and services to the diverse economic and social make-up of our Members and potential Members.

RCU's strategic plan includes efforts that encourage our Members to become financially self-sufficient and successful. We will continue to place a high importance on consumer education and financial thrift.

RCU strives to offer services designed to improve the economic and social well-being of all Members from all socio-economic backgrounds and to return financial value to all those who participate in our Member-owned financial cooperative."

The current regulatory environment creates a significant challenge to achieve this statement of commitment.

As a result of the ongoing economic crisis Congress has enacted legislation that has created a significant burden on the financial services marketplace. The well-intentioned legislation has had significant unintended consequences that confuse and financially harm the very consumers they intended to protect.

The regulatory pendulum has swung so far that financial institutions are faced with eliminating services or charging for them to offset the cost and increased regulatory burden of providing them.

Many of the new regulations are intended to address abuses in the financial marketplace, or prevent unethical financial practices that harm consumers. For example, the new rules on that are being developed on a consumer's abilty to repay mortgage loans and the debit interchange provisions in the Dodd-Frank Act were advocated to correct problems that some may have engaged in.

Yet, I would challenge any Member of this Committee to find a single local community credit union or community bank that has been accused of such practices. To the contrary, we are seen as the trusted, local financial services provider. Unfortunately new regulations do not consider this. As a result:

- Costs to provide services have increased – unfortunately these costs are typically passed on to the consumer. Costs include:
    - Training and education for credit union personnel
    - Forms or form revision to reflect rule changes
    - Brochures
    - Software/programming costs
    - Compliance and auditing expenses.
- The consumers are confused.
    - New disclosures only add to the overwhelming process of obtaining a mortgage loan, and
    - They look to us to provide a quality product with no hidden strings.

I will provide a sample real estate file as compared to an auto loan file as an example of regulatory burden.

The costs of regulatory burdens to credit unions have been enormous. At RCU we have an Executive VP that oversees our compliance function. As a result of the increase in regulations and rules changes we recently hired a compliance specialist. This is in addition to an Internal Audit Manager and two internal auditors.

Additionally, RCU hires multiple third party service providers to insure compliance with any and all regulatory requirements. These are real costs that ultimately are passed on to the consumer.

As we are coming out of the financial crisis, we have a new government agency to deal with: the Consumer Financial Protection Bureau. Like many of my colleagues in the credit union system, I am afraid that the CFPB will only add a layer of regulation, not replace a layer of regulation as it was intended. We understand that the intentions are to protect consumers, unfortunately history shows that regulations, rules and bureaucracies reach beyond their original intentions. We hope Congress will exercise prudent oversight of the CFPB, especially in the early days of its operation.

Thank you for the opportunity to provide this testimony.