Testimony of Peter Haleas

U.S. House Committee on Financial Services

On behalf of the

Illinois Bankers Association

Before the

Committee on Financial Services

United States House of Representatives

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Chairman Bachus, Ranking Member Frank and members of the committee, my name is Peter Haleas. I am Chairman of the Bridgeview Bank Group, in Bridgeview, Illinois. We are a $1.4 billion commercial bank with 15 offices and 290 employees including an active mortgage company.

I believe that community banks offer one of the few solutions to lift our economy out of malaise. Jobs and economic growth are stimulated by community banks which provide “blood” to small businesses and communities which are the backbone of our nation.

One specific example is a $20,000,000 construction loan for a new grocery store (among several other stores), the fifth in a family operated chain of grocery stores. This project not only provided jobs for construction, but the grocery store added 200 new jobs not to mention additional community needs like police and fire support. This loan, made in a challenging time for commercial real estate lending is a success not only for the bank but the community as well.

Unfortunately the harsh regulatory pressures have stalled lending. Regulators are fine individuals who generally are conscientious and are trying to do what is right for the banking system. We value our strong ties with them. However, it is the regulatory system which is flawed. To quote former Chairman Barney Frank and Congressman Walt Minnick from their letter to regulators dated October 29, 2009:

Community banks became strong and viable players in the financial services industry because they fill an important need, and it would be short-sighted to weaken that role through over-zealous regulatory actions – actions based not on wrong-doing or poor management practices at these banks, but on changes in the economic environment and toughening regulatory standards.

We agree. The system needs to change.

To begin, the exam environment continues to be harsh and as a result, hampers economic growth. Many banks have received arbitrary capital requirements well above statutory limits for a well capitalized institution with limited time to achieve these higher marks. Consequently, banks are forced to pass up sound loan opportunities in order to preserve capital ratios. In fact many bankers discuss shrinking their balance sheets in order to achieve capital ratios placed on them by regulatory orders. Consequently, community lending suffers and the current process in requiring additional capital at best seems arbitrary and punitive. In addition, increased percentages required in a bank's loan loss reserve do not count in a capital ratio. Simply put, higher capital ratios coupled with higher loan loss percentages which do not count as capital stifle lending activity as banks race to preserve capital and use cash to bolster its allowance for loan losses ("ALLL"). One possible solution is to allow all funds in loss reserve to be included in a bank's capital calculation. Another possible solution is to fix capital ratios at an acceptable level for all banks so that privately held institutions have ample opportunity to achieve the required mark.

As community banks, we also believe banks have a moral and social responsibility to the communities we serve. In part, this means assisting Borrowers who in good faith are trying to survive. Yet another regulatory categorization dissuades this effort. The Troubled Debt Restructuring ("TDR") categorization of virtually any borrower accommodation forces a bank to mark to market the value of the underlying collateral on a loan (depleting capital) and carry the loan as a classified asset (the problem "bucket" for regulators). Does this not cut against the spirit of how a bank is supposed to support its community? We are charged with assisting housing in blighted areas (CRA) yet dissuaded from helping borrowers who potentially supply jobs to help in affording the homes? These diverging policies are inconsistent.

Allow me to highlight a specific example. We have a local Borrower who owns a gas station which faced an enormous real estate tax increase. This tax increase caused the Borrower to come to us and plead for assistance (a lower rate and modified amortization schedule). Yet because we would then be forced to carry this loan in a TDR category resulting in a classified asset, we told this Borrower we could not help him. The result? He shut his business down and fired his employees. The Bank was left with no alternative but to incur a loss via the sale of the asset in order to avoid carrying a classified asset on the books for an extended period of time. These actions forced upon us were morally gut wrenching. We did not help an individual and we certainly did not assist an economic recovery.

Specifically, we would ask Congress to review the requirements on TDR and allow banks to positively reflect borrowers accommodations on their balance sheets.

One concrete suggestion to the TDR issue is to disallow the requirement to mark a loan to market value simply when accommodating a Borrower. After all, the Bank has taken an economically injurious action (by lowering an interest rate) in order to attempt to help a Borrower.

Another positive step Congress could take to assist the economic recovery is allow Banks a three to seven year window to amortize a mark to market on property securing impaired loans. Quite simply, banks are currently forced to follow a current market analysis subjecting the Bank to the lowest ebb of devaluation. A longer amortization period would provide bankers with the opportunity for the market to correct itself and not deplete precious capital ratios. This action by Congress could help strengthen lending activity.

Another ABA and IBA supported bill, H.R. 3461, the Financial Institutions Examination Fairness and Reform Act sponsored by Representatives Shelley Moore Capito (R-WV) and Carolyn Maloney (D-NY), warrants strong support is intended to address a number of concerns with bank examinations. The bill would ensure that financial institutions receive timely examination reports, including all of the documentation that regulators used to make their determinations. It would provide for new standards for exams, which would include restricting the placement of commercial loans in nonaccrual status solely because collateral has deteriorated in value, and not require new appraisals on commercial loans unless new funds are involved. In addition, the bill would establish an Independent Office of Examination Ombudsman within the Federal Financial Institutions Examination Council (FFIEC), and would create a timely, independent, and fair process for financial institutions to discuss examination decisions.

Congress has the power to fix our economic problems of today through, in large part, easing the regulatory burden confronting community banks. The entire banking industry simply wants to ensure that we can have a supervisory climate that contributes to the economy and job growth rather than stymies it. Thank you for the opportunity to testify before the Committee, and for your keen interest in helping find ways to restore economy and create jobs.

Thank you.