

**Written Testimony of Robert Craft
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**Before the House Financial Services Committee
July 29, 2010**

Chairman Frank, Ranking Member Bachus, and Members of the Committee, first let me state again how much the coastal residents along the Gulf of Mexico appreciate your interest in our region in the aftermath of the BP oil spill.

This hearing concerns possible legislative efforts to address the on-going difficulties in the commercial real estate market. Of course, these difficulties have had a very significant impact on the Alabama Gulf Coast. Property values have fallen in our community as they have fallen elsewhere.

Banks that provided credit to our community have been significantly damaged. Over the last several years, these banks have charged off tens of millions of dollars in loans in Gulf Shores alone. But now federal bank regulators are requiring further write offs based on the temporary loss of real estate value given the uncertain conditions created by the oil spill.

Once the leak is stopped and the beaches are cleaned up, tourism will return and property values will return as well. This doesn't mean they'll return to 2006 valuations, but they should return to pre-spill valuations. In fact, Mr. Feinberg has stated that his

BP escrow fund claims process will not recognize real estate claims for just this reason...real estate values are only down temporarily.

Unfortunately, the bank regulators are aggravating the problems on the coast by various actions that they have taken. The interagency statement that these regulators issued is of no value either to the affected banks or to the residents of the Gulf Coast. The statement urges banks to waive late fees and ATM charges, gestures of no meaning.

Our banks have had federal bank examiners force them to write off millions of dollars in performing loans that are current simply on the basis that the underlying collateral has lost value since the oil spill. This makes no sense. It just makes recovery of the region that much more difficult.

Without help, Gulf Shores and Orange Beach could lose what has taken decades to develop across multiple generations of families. With the loss of business revenue, Gulf Shores and Orange Beach are at risk of losing businesses needed to serve the driver of our island economy, tourism. Once this business infrastructure is lost, it can't be magically recreated.

Every business located on the island is directly affected by this disaster and has suffered loss. There are no exceptions. From the beginning of this disaster, our

community has been assured that we would be made whole by BP. This has not occurred.

The financial impact of the oil disaster is devastating. Our local community of Gulf Shores and Orange Beach has approximately \$1.3 billion in debt that is dependent on tourism revenue. The two cities have a permanent population of 15,000, but between Memorial Day and labor Day, we have a population of 150,000.

The Gulf Coast would urge this Committee to work with the federal bank regulators to provide its banks time to work out of the problems created by this spill. They need more than an interagency statement on ATM fees. Here are a few concrete examples of what is needed.

Appraisals. Bank regulators continue to insist on new appraisal valuations even though the real estate market is so unstable as to make meaningful comparables impossible. It is essential that bank regulators accept existing pre-spill valuations, not distressed valuations caused by arbitrary valuation mark downs in the aftermath of the spill.¹

Bank Examiner Recognition of Feinberg Claims. Bank regulators ought to recognize BP and Feinberg claims as equivalent to insurance claims, when those

¹ A year from now, once the leak is stopped and the beaches cleaned up, the real estate market will have stabilized and reasonable market values can be determined. In the meantime, the uncertainties make it impossible to determine real market value.

claims are corroborated with data. Thus, examiners ought to take these claims into account when assessing the repayment prospects of a loan.

Other Relief. There are several other steps that the regulators ought to take with respect to banks invested along the Gulf Coast.

- Bank regulators, as they are classifying loans and requiring charge offs, ought to consider the reality of the temporary nature of the loss in value.
- Another reality that they should consider is the effect this spill has had on coastal banks' raising of capital. The investor community has begun to reenter the bank capital market, even for troubled banks. But the investor community has indicated that it wants to let the market settle after the spill is over before investing in these banks. The regulators should work with the banks to give them more time to raise capital.

In sum, the bank regulators need to give these banks some breathing room. And, in the long run, this will reduce the cost to the taxpayer by saving many of these banks and also allow lending to begin again in the affected area.

Finally, these points are exactly in line with the letter that Chairman Frank and Mr. Minnick sent the federal bank regulators in the fall of last year. I am told by bankers that the regulators have not responded in the requested manner. We appreciate this Committee's interest in the problems we confront on the Gulf Coast, and we would deeply appreciate any help you could provide in obtaining the relief mentioned here and

in Chairman Frank's and Mr. Minnick's letter of October 29, 2009, attached to my testimony.

Thank you.
