

Statement by Mike Whalen
President and CEO of Heart of America Restaurants and Inns
Before the
Subcommittee on Financial Institutions and Consumer Credit
July 8, 2011

Dear Chairwoman Capito, Ranking Member Maloney, and members of the Subcommittee, thank you for the opportunity to speak today regarding today's hearing topic on "Legislative Proposals Regarding Bank Examination Practices." I appreciate the invitation.

Many bankers on Main Street are fearful of making commercial loans that they believe are good, solid loans. They are fearful because of the enhanced scrutiny they have been receiving from federal banking regulators in the past few years since the "financial crisis" began. The bankers fear that even though the loan meets quality underwriting standards, the decision to make a loan will be second-guessed by the regulators for what may be unforeseeable or subjective reasons. The "safe harbor" response is to not make the loan. The result, which does not require a Ph.D in economics to assess, is slower growth and the killing of many new jobs. Americans need jobs and the over-reaction by the banking regulators is stopping people like me from creating jobs.

The conventional wisdom inside the beltway, which causes entrepreneurs like me to viscerally respond, is that soft loan demand coupled with banks sitting on cash, is the root

cause of diminished lending. Certainly loan demand is softer than the go – go days a few years ago, but this diminished demand is distinctly amplified by the fear of regulatory backlash.

I started my company in 1978 by opening a small 100 seat restaurant – the Iowa Machine Shed – on the rural edge of Davenport, Iowa. I have built the company starting with sweat equity. Today, Heart of America Restaurants and Inns operates 26 restaurants and hotels in Iowa, Minnesota, and Kansas. I have been turned down by many banks as I have sought to expand over the past year. I am not a rookie in rejection.

Our company is now financially very stable. We survived this last precipitous downturn because we are not high leveraged – we have a low debt to value ratio. We put real equity into projects.

We are currently building a six-story Hilton Garden Inn with our own Johnny's Italian Steakhouse in growing Olathe, Kansas. It is a great brand in a great market. The financial structure was probably the strongest we have ever assembled. It is as close to a no-brainer as it gets. We even had an allocation of over \$12 million in Economic Recovery Zone Bonds. When we started our search for the debt component, banks eagerly met with us. They were enthusiastic when we presented the project in detail, but, one by one they sheepishly, apologetically came back and declined, stating they were reluctant to proceed because it was both a commercial real estate deal and a hospitality deal. They feared the reaction of the banking regulators. Over 20 banks said no, all in the same dynamic. We eventually found financing, but as I said, we are a strong company.

We were persistent. Most entrepreneurs probably would not have been so tenacious. How many jobs have not been created because of this regulatory environment?

On June 30th, the Wall Street Journal reported on a recent poll conducted earlier in the month by Pepperdine University stating, “75% of bankers felt increased pressure from regulators and 61% of those bankers reported they have rejected loans they otherwise would have made, to please the federal overseers.” I would suggest these numbers underestimate the problem.

I appreciate the efforts of Representative Posey and Representative Westmoreland to address the regulatory problem in the bills they have introduced. I am here today to tell you that the problem is real. There is a need for our elected Representatives to inject some common sense in the way banking regulators have been recently evaluating financial institutions. More jobs will be created and the economy will grow if Congress can start getting regulators to focus on real safety and soundness and not be a part of the problem.

I encourage you to go talk with your hometown bankers, off the record. Hear the story firsthand. My experiences are just a snapshot of a problem across the country.

United States House of Representatives
Committee on Financial Services

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1. Name:	2. Organization or organizations you are representing:
Mike Whalen	
3. Business Address and telephone number:	
	
4. Have <u>you</u> received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?	5. Have any of the <u>organizations you are representing</u> received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?
<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
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