

**Testimony of Michael G. Steelman
Committee on Financial Services
December 5, 2011**

Chairman Bachus, Ranking Member Frank and members of the committee, my name is Michael Steelman, I am the Chairman and CEO of Farmers and Merchants State Bank of Bushnell, Illinois, a \$58 million dollar community bank located in west central Illinois, in a community of 3200 people. Our bank was chartered nearly 100 years ago, in 1913, and we have 19 full-time employees and 3 part-time employees. We are an employee owned ESOP bank, with the employees owning nearly 50% of our company. I appreciate the opportunity to provide members of the committee with a community banker's view of the impact of federal rules and regulations upon our company, our customers and community.

No one today wants to listen to bankers complain. Nevertheless, what is happening to community banks today is like a large weight on our chests that is slowly, yet surely squeezing the last breath from community banking in this country.

When I started in community banking over 25 years ago, I thought the compliance burden was heavy. One of my first duties included computing Regulation Z percentage tolerances to within 1/8 of a

percent, and keeping a log of that. We dealt with several other regulations at that time, and thought we were over-regulated. In hindsight, that was nirvana.

Since that time, including the agriculture crisis of the 80's, the Savings and Loan crisis, and the sins of our brethren big banks and Wall Street firms, there have been many well-intentioned attempts to rescue consumers from perceived problems, and rules and regulations have been added and added again. In my community bank, officers and employees spend an inordinate amount of time trying to understand and comply with the incredible number of rules and regulations that affect us every day in our business. Two employees spend nearly all their time dealing with compliance. Everyone, including the tellers, spend a large part of their day dealing with compliance forms and duties. We have had to hire a full-time professional compliance firm to help with our compliance program, at a very high cost for a very small bank. Many of my younger employees spend so much time in compliance that they don't really understand what real banking is, which should be to provide service to our customers.

The compliance process for community banks in this country subsumes and swallows the underlying goal of regulations. Let me give you an example.

The Bank Secrecy Act, which deals with money laundering, among other things, is a worthy and laudable program. However, with a 300 page examination manual, and many more hundreds of pages of rules, regulations and procedures, banks - not the money launderers - become the target of the process. The examiners, as they are trained to do, hone in on any violations of the program, and the process becomes their focus, not the true goal of catching the bad guys. The banks become the bad guys. We become the subject of regulatory actions and fines, all from this labyrinth of rules and regulations that are impossible for any one small institution to understand or fully comply with.

Well before this maze of money-laundering rules, we successfully identified a money launderer, cooperated with law enforcement, caught the person who was attempting to launder money, and we did so without the incredible amount of rules that are layered into the process today. We did that with common sense and cooperation with the authorities.

The residential real estate closing process is a perfect example of the over-kill of regulations. What should be a relatively simple, understandable and fair process for a home loan customer has become arduous and laborious with a complete lack of clarity. From mortgages and notes that have become many multi-page documents that must cover every possible outcome that might affect a borrower, to HUD disclosures that are nearly unintelligible, to many more pages of spurious disclosures, a typical real estate closing is now a 100 page nightmare. Hardly any borrower I know completely reads all of the documents. My employees do the best they can to go through every document with the borrowers, but the borrowers simply become frustrated, thinking we bankers created this mess, as opposed to the incredible number of regulations that we must comply with to simply close a home loan.

Although the Consumer Financial Protection Bureau is attempting to draft simpler disclosure forms, as a community banker, every time I hear “simplify the process” from Washington, I grow apprehensive. It has never become simpler, it has never become less complicated, and it rarely benefits the consumer by outweighing the costs and agony it creates. For example, the draft consumer financial protection bureau settlement disclosure form does attempt to shorten some of the disclosures. However, I note

that included on the draft forms are an item captioned “lender cost of funds,” which it describes as the cost of funds used to make a loan to the borrower. It further states “this is not a cost to you.” I find it interesting that CFPB is attempting to put the cost of the “product,” that is the mortgage, on the face of the disclosure. I can’t think of any other product sold in the United States which the government forces the seller to include his cost of producing the goods to the buyer. This will simply exacerbate the distrust between customers and banks. Homebuyers will demand to know why, if cost of funds is 1%, banks are charging them 4%. A higher cost of funds would reflect the fact that we are paying our deposit customers higher rates. This disclosure would not be understood and would be confusing for customers.

The creation of the Consumer Financial Protection Bureau, upon the passage of the Dodd-Frank Act, will have broad and yet unknown effects on community banks. Although the CFPB will examine institutions with more than \$10 billion in assets, even if we are not examined by the CFPB, any new consumer protection rules will still apply to community banks. We are already examined by the Federal Reserve Bank, the FDIC, and the State of Illinois. Another layer of regulator is nearly incomprehensible. To try and understand the CFPB’s authority to curb practices that it

deems “unfair, deceptive and abusive,” obviously broad and subjective terms, will be very difficult to deal with. Everyone agrees that abusive practices should be curbed. Who defines abusive, and what exactly that means to community banks and their customers is the question. We are affected by what large institutions may have done in some fashion. Regulation flows down hill, and we are impacted by rules intended for the mega banks and Wall Street firms.

Although well intentioned, the rules and regulations have in many instances, forced banks to become “police” for nearly every financial action in the country. Mandates such as Bank Secrecy Act, internet gambling and other regulations that force us to watch for, report and follow up on financial actions of customers are for us, simply unfunded mandates. Community banks only have so many resources to do our basic job of accepting deposits, and lending to our customers and small business. All of the actions that congress forces us to take to become a financial watchdog for the country are unfair, burdensome, ill-productive, and create an industry of compliance and regulation, not a solution to problems.

There are unintended consequences of otherwise well-intentioned rules and regulations. The economies of small towns are

weakened because our resources must be directed toward compliance and not loans and helping our small business owners and consumers. Needless to say, fewer jobs are created or kept, and the larger goal of a strong local, state and national economy falls by the wayside. The uncertainty that surrounds existing regulations, and how examiners may interpret them are a burgeoning threat. Huge enactments, such as Dodd-Frank, create massive amounts of new rules and regulations, many of which are yet to come. The overall uncertainty created by this environment means that we become hesitant to lend or to take affirmative action that we would otherwise take in a simple, stable regulatory environment.

Community bankers fully accept the fact that there are some rules and regulations that are appropriate and necessary. But, the sheer weight and number of regulations that exist today, and that are forthcoming, are too much. Many of my fellow community bankers have given up, sold out, merged or are ready to do so. This will be tragic for small business owners and consumers in small towns that are understood by the local community banker, but that certainly will not be well-served or understood by larger banks that will never understand the rural base.

I am very proud of the fact that our bank has served our farmers, small businesses, local manufacturers and consumers for nearly 100 years. We know and trust our customers and we are the major contributor in all other ways to our community. The story of our small bank is repeated hundreds and thousands of times across this country. We are simply asking you to preserve the community banking system. We must be freed from the cumulative, choking regulations that keep coming even as we speak.

Thank you for your time and your thoughtfulness in hearing the concerns for our community bank and its customers.