Massachusetts Bankers Association

Statement of Christopher Oddleifson, President & CEO, Rockland Trust Company
on behalf of the Massachusetts Bankers Association
House Financial Services Committee Field Hearing
Gardner Auditorium, State House
Monday, March 23, 2009

Introduction

Chairman Frank, members of the Committee, my name is Chris Oddleifson and I am the President and Chief Executive Officer of Rockland Trust Company. I also serve as Vice Chairman of the Massachusetts Bankers Association, which represents nearly 200 commercial, savings and cooperative banks and federal savings associations located throughout the Commonwealth and New England. I appreciate the opportunity to testify at today's hearing regarding credit availability for small- and medium-sized businesses in Massachusetts.

Community banks here in Massachusetts are making loans to creditworthy businesses. While these are certainly difficult economic times, I am pleased to confirm that the current environment has proven to be a time of tremendous opportunity for community banks because of how well-positioned they are to address the unmet needs of business borrowers. Many community banks are seeing a sharp increase in loan demand from businesses and, as those opportunities are carefully underwritten, approved, and closed, experiencing significant loan growth. In Massachusetts, both loans and deposits grew last year while loan delinquencies (up a bit in the 4^{th} quarter) remained less than 1 percent. In contrast, the national average approached 3 percent.

The banking industry in Massachusetts is well-capitalized, and holds higher levels of reserves than the national average. Even as the nation continues to struggle through the ongoing recession, Massachusetts banks are well positioned to be an active part of the solution to the state's economic problems. Our banks did not engage in subprime lending or offer exotic mortgages, they did not, and do not, have significant foreclosure problems and managed risk well, including denying certain loans when it was appropriate. With the relative slow growth throughout the state, we did not see as much of the speculative building and lending that has caused significant problems in other areas of the country such as the southeast and the southwest.

Massachusetts institutions also have strong capital and reserves on hand. In fact, loan-loss reserves are far more than the national average and almost twice the percentage on hand during the last major downturn in the late 1980s and early 1990s. While some Massachusetts banks reported losses in 2008, these were not shortfalls in their core businesses but extraordinary items on their balance sheets, such as the losses in Fannie Mae and Freddie Mac preferred stock.

With the recent "flight to quality" and increases in deposits at local banks, there is plenty of money to lend to qualified residential and business borrowers. Local banks continue to lend in a safe and sound manner to local businesses throughout the state. In fact, commercial loans balances at Massachusetts community banks increased from $5 billion in 2007 to $5.7 billion in 2008 and we have heard from bankers throughout the state that loan demand is up sharply in recent months. Therefore, given loan availability here in Massachusetts, we suspect that business

Massachusetts Bankers Association, Inc
73 Tremont Street, Suite 306
Boston, Massachusetts 02108-3906
Tel: 617-523-7595/Fax: 617-523-6373
http://www.massbankers.org

that are having difficulty seeking credit may be experiencing a deterioration in their business model or earnings due to the economic downturn.

However, banks, both large and small, account for only a portion of the commercial credit market in the United States. Finance companies, various investment funds, institutional investors and insurance companies have all played a major role in commercial lending in recent years. Unfortunately, problems in the secondary market have led many of these large institutions to reduce or even discontinue their commercial lending activities.

While there are many underlying reasons why community banks are now seeing a surge in loan demand, a primary reason for the current increase in their lending is the decrease in credit made available by these other entities. Business borrowers who formerly found a home with larger out-of-state institutions are more and more frequently turning to their local banker. While community banks, due to the size of the loans they can make, cannot completely fill the void left by the departure of larger lenders, community banks have done a great deal to fulfill the business lending needs based upon the increased flow of loan applications they are seeing.

To provide you with a specific, anecdotal example of what Massachusetts community banks are doing to expand the flow of credit to business borrowers, let me tell you about our bank. I am the President of Rockland Trust Company, a commercial bank, which currently has approximately $3.6 billion in assets. Rockland Trust offers a full range of banking services through its 60 full service branches and 10 commercial lending centers located throughout Southeastern Massachusetts and on Cape Cod, and can make loans of up to approximately $55 million.

A year to year comparison between 2007 and 2008 of Rockland Trust's commercial loan closings gives some indication of just how much the demand for credit has increased: during 2007 Rockland Trust closed $318 million in commercial loans, while in 2008 Rockland Trust closed $401 million in commercial loans. During the fourth quarter of 2008 alone, Rockland Trust's commercial loan balances grew by $76 million, or 26% on an annualized basis. This fourth quarter growth represented approximately half of Rockland Trust's organic commercial loan growth experienced in 2008. Thus far in 2009 Rockland Trust continues to experience significant commercial loan application activity.

While there may be excess capacity among traditional banks, some businesses are less creditworthy than they were 12-18 months ago due to the recession. As I mentioned earlier, community banks have not tightened their underwriting criteria, however some of the lenders that had been offering credit with more favorable terms may not be in the market any longer. We would encourage the Committee to focus on policies that help responsible lenders expand their capacity to lend instead of loosening the credit markets only to have some of the more egregious practices of the last several years return.

The Association, along with our member institutions, has also been working with the Patrick Administration over the last several months on initiatives to further revitalize the commercial credit market here in Massachusetts. We have been working with the Governor's Secretary of Housing and Economic Development Greg Bialecki on a proposal to create a "soft-second" type of program for commercial loans that will provide a small government guarantee on a portion of the total loan amount. The program, which is similar in structure to the state's successful Soft Second program for residential mortgage loans, would help encourage lending to businesses that may be suffering from the effects of the current recession.

In addition, the Association is hosting a Commercial Lending Summit on April 7 that will bring together bankers, state and federal government officials, quasi-public agencies, and academics to discuss the state's economic climate and potential opportunities for local banks to expand their commercial lending business. Representatives from the Patrick Administration as well as the Small Business Administration, MassDevelopment, and others will also provide an overview of the state's plans for use of the economic stimulus funds to help spur job creation and economic growth.

Other Issues Affecting the Flow of Credit

The Association would also like to offer our comments on several legislative and regulatory issues that could have an impact on the lending capacity of all institutions in Massachusetts. First, from a perception standpoint, a better distinction needs to be made between Wall Street investment banks and the traditional retail banking community. MBA is working very hard on this problem, and we appreciate the Chairman's past comments on this issue. However, the misconception that all banks are having problems dampens public confidence, makes consumers believe that loans are not available, and hampers the economic recovery.

Second, the recently announced increases in FDIC deposit insurance premiums along with the 20 basis point special assessment will impose significant costs on the banking industry and result in capital being removed from the system at a time when policymakers are asking banks to lend more in their local communities. While the banking industry has always and continues to stand behind the FDIC fund, both the timing and the amount of these new assessments may have a serious impact on lending. We would encourage the Committee to work with the FDIC to determine ways in which the impact of the special assessment can be minimized and spread over time. We appreciate your work in passing legislation recently that would increase the FDIC's line of credit with the Department of the Treasury, and we urge you to work with your colleagues in the Senate to ensure this legislation is signed into law soon.

The Association also applauds the Committee's work on mark-to-market accounting issues, in particular the hearing on March 12. As you know, many of the losses suffered by local banks are largely accounting losses. Inflexible rules have led to an erosion of earnings and capital at many institutions which, in turn, inhibit their ability to lend. For example, the Federal Home Loan Bank (FHLB) of Boston recently was forced to write down more than $339 million in other-than-temporary-impairment (OTTI) charges on its mortgage-backed securities portfolio, when the actual anticipated loss is only expected to be approximately $22 million. This has led the FHLB to suspend the dividend on its stock – much of which is held by community banks.

The Association appreciates the recent announcement by the Financial Accounting Standards Board (FASB) that it will act within the next three weeks to finalize changes to the mark-to-market accounting rules. However, the current proposals released by FASB, while a very good first step, do not go far enough – particularly with regards to the regulatory and capital impact of these accounting losses. We believe that further changes to the rules may be needed, and that action in this area will provide significant benefit without any cost to the federal government. We encourage the Committee to continue with your strong oversight of this process.

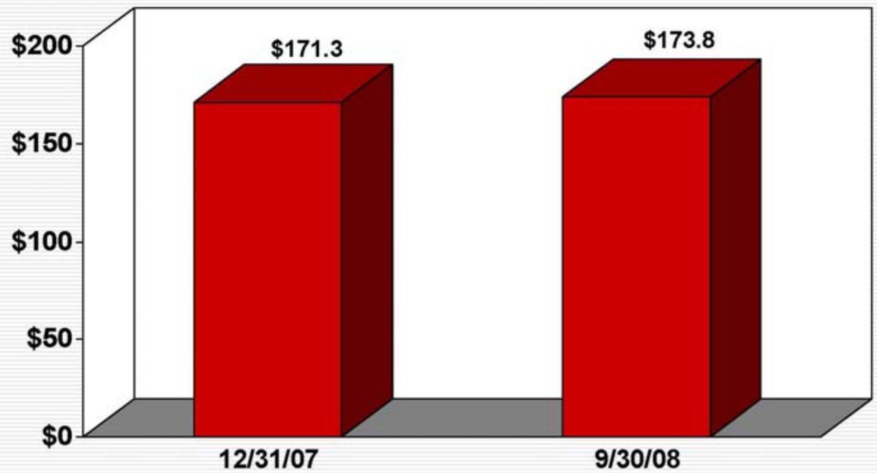
Finally, the Association remains concerned about the potential impact of changes to the bankruptcy laws that would allow cram-downs on all residential mortgages. While this doesn't specifically impact commercial lending, it will certainly increase losses in the mortgage backed securities market which many banks hold and also discourage banks from making credit available to certain borrowers in the future. We hope this legislation can be narrowed to apply only to those that received high cost or non-traditional mortgage loans originated during a set period of time.

Conclusion

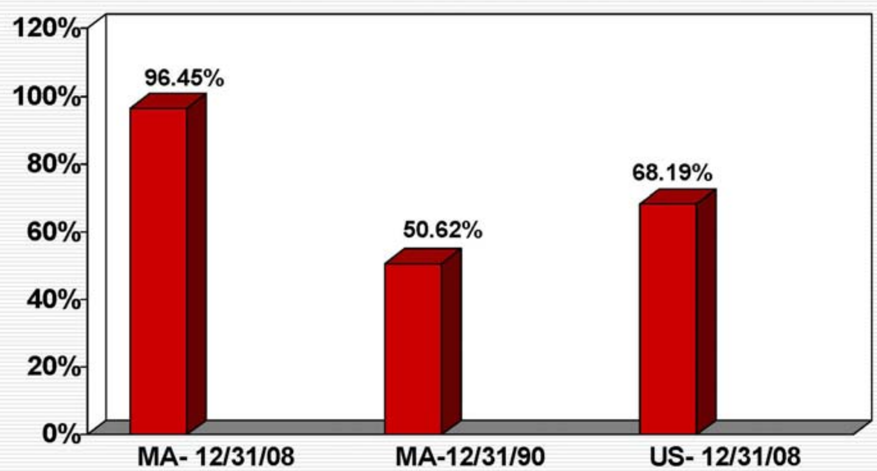
Massachusetts community banks are currently experiencing increased loan demand and, in accordance with prudent underwriting and decision-making, are actively working to address the unmet needs of credit-worthy businesses. To the extent that there is any "credit crisis" here locally in Massachusetts, community banks are very much a part of the solution and are not the ones causing any of the problems.

I hope this information is helpful. Thank you for considering our views.

Massachusetts Banks
Loans
Amounts in Billions

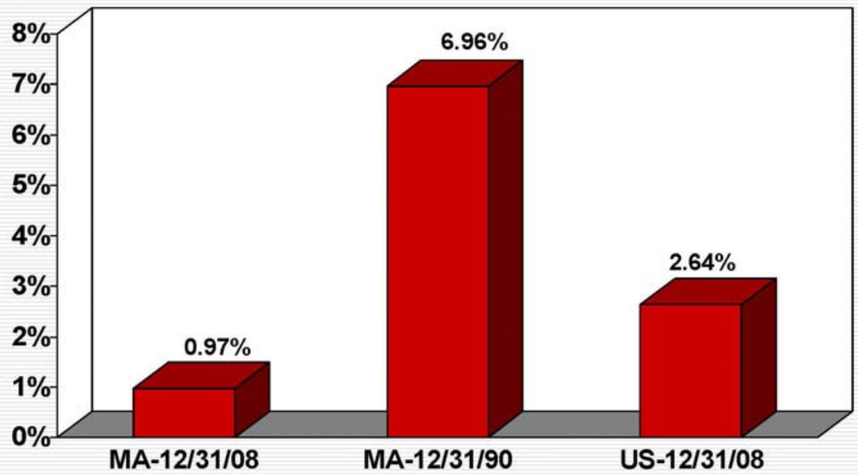


State Chartered Institutions
Reserves to Noncurrent Loans and Leases
Percent



State Chartered Institutions

Noncurrent Loans and Leases to Total Loans and Leases
Percent



State Chartered Institutions

Net Charge-offs to Loans and Leases
Percent