Why Community Banks Matter: Customer Perspectives

MARK PEARCE, Director, Division of Depositor and Consumer Protection

My name is Mark Pearce; I'm the director of the FDIC's Division of Depositor and Consumer Protection. Glad to be with you today. We spent most of the morning talking about what a community bank is, whether that's by the numbers or by philosophy, by relationships. We also spent some time talking about the opportunities and challenges facing community banks, had a robust dialogue, felt a little bit like when Congresswoman Capito was talking about going to the fresh foods market and having lots of direct feedback. As the director of our Consumer Protection Program, I got a little bit of direct feedback in the last panel and I appreciate that.

For this afternoon and this next panel, we're going to hear from the community banking industry's most important constituents, their customers. We didn't have enough time or room, this is a fairly wide DIAS up here. We didn't have enough room for all of the diverse customers that are served by community banks, but we do have four panelists here who I think can provide some important insight on how community banks impact their customers. And the value of community banks for them and their communities.

First we'll hear from Eileen Fitzgerald. She's the CEO of NeighborWorks America. For those of you not familiar with NeighborWorks, it's a national intermediary that provides services and support to over 200 housing and community development organizations across the country. The organizations that NeighborWorks serves are both in urban markets and rural markets. They're small; they're large; in the nonprofit community; and have a wide range of relationships with community banks in those local communities.

Tom Curry, who's a member of the FDIC board and who I think will speak after this panel, welcome, Tom. Also serves on the Board of Directors for NeighborWorks.

Next we have Tom Marr, who's the chef and co-owner of Pete's New Haven Style Apizza. Affectionately known in my house at pizza pizza. Tom is a local entrepreneur here in the Washington, D.C., area, and he and his business partner have, over the last five years, grown their business through a close relationship with a local community bank partner. We thought it was especially important to have Tom here to bring the perspective of small-business owner, given the crucial role that community banks play in financing small businesses.

Following Tom, we have Travis Plunkett, the legislative director of the Consumer Federation of America. The Consumer Federation of America advances consumer interests through research, advocacy and education. The federation is composed of, I think, over 200 groups or so, representing over 50 million people, I think, that's right, Travis?

Then finally batting cleanup, we have Woody Barth, president of the North Dakota Farmers Union. We're delighted that Woody would come here all the way from North Dakota to share his perspective on the role that community banks play in rural and agricultural communities. I've asked panelists to keep their remarks short so that we can have an opportunity to have a good dialogue and discussion about some issues we've been talking about today, and hear from you as well. So I look forward to hearing from the panelists. We're going to go a little bit out of order from where folks are seated, and I'm going to ask Eileen to go ahead and get us started.

EILEEN FITZGERALD, CEO, NeighborWorks America

Great, thank you so much, and thanks for having me here. As Mark mentioned, we're a national intermediary established by Congress in 1978 to support a national network of more than 235 outstanding local affiliates who work on housing and community development issues. They are in all 50 states, D.C., and Puerto Rico. What I want you to take away today is that they are small and medium-sized businesses in your community. So they have the needs that a typical business has, then they have their mission-related needs, which I'll talk about. These organizations are assessed annually for financial programmatic and management capacity, so we like to think of them as the best of the best, and we reward performance and work with those who are struggling and eventually disaffiliate organizations that don't meet those standards. So there's a lot of opportunities out there for community bankers. I have some great examples of some wonderful things going on around the country. One of the things that we hear from our organizations is that community banks seem to be outperforming their large bank brothers and sisters. Many community banks are still doing the mortgage lending for NeighborWorks clients, but they are also serving as lenders on affordable housing projects, investing in loan pools, and doing EQ2. EQ2 is equity equivalent investment. And all that is just great.

One executive director of a NeighborWorks organization in the South said that in his state, community banks are great resources for construction lending on tax credit deals. In fact, they are the organization's preferred source and we've heard that again and again. Several organizations said community development banks are faster to make decisions on loans, more flexible, and more willing to negotiate less conventional terms on secured loans, predevelopment acquisition loans, midterm multifamily loans, and business lines of credit. Any of you have been involved in affordable housing community development know there's no such thing as a standard deal, so that ability to be flexible is really key to our success. It often seems that large banks do not offer as much or often no flexibility on terms. Community bank products sometimes have lower transactional costs and fewer administrative burdens. One of our groups said a large bank has expressed interest in expanding their business with us. However, when we do so, we must fit into their product parameters, pay significant transactional costs, and generally, the transactions are processed on their timelines, not necessarily ours.

A number of our organizations also cite the charitable contributions made by community banks to operating at the operations of the nonprofits. They also noted that bigger banks obviously contribute but often not so reliably. They're not there as partners year in and year out. So I wanted to give you a few more examples of what community banks are doing well, and really again to encourage you, if you're not in this space and you don't know your local or regional nonprofit who's working in your community, to get to know them. A number of NeighborWorks organizations have community banks that participate in their loan funds. These are loan funds for making first or second mortgages or home equity loans. So for example in Syracuse, New York, Home Headquarters has a great program they call flex fund, and it finances home improvement loans in Syracuse and nine surrounding counties. Kerry Quaglia, who is executive director, explained that his organization started this program because it's really hard to get a home equity loan in Syracuse. As anyone familiar with New York knows, property values are stagnant and many homeowners need to do home improvements because the housing stock is old and often very energy-inefficient. Home Headquarters invented the flex fund program, and they provide a credit enhancement. Some of our grant money has gone to help them provide that credit enhancement. The banks provide the capital in the loan pool to help Home Headquarters. Without this program, homeowners have to go to subprime lenders for their home improvement needs or just as bad, put them on their credit cards and have a hard time putting that off. The program has been very successful. In total, they've lent $20 million and 2,200 loans within the city of Syracuse and nine surrounding counties. And Kerry Quaglia reports it's the smaller banks who are keeping this program running. Some of the larger banks have pulled out, but there has been no reduction in the participation from the smaller community banks. Another example is in Connecticut. The housing development fund has two funding pools capitalized by banks where they estimate that 50-60 percent of each pool comes from community banks. One of those pools is a $50 million fund for multifamily development. The organization has financed over 900 units through that pool. The second is a $50 million homeownership fund that makes 20-year, 3 percent second mortgages to first-time homebuyers for up to 20 percent of the purchase price. The organization has made over 1,100 loans to low- and moderate-income buyers through this fund and 95 percent of those borrowers are current on their mortgages. I should note that anything that's involving a homeownership loan, a second or a first, would require quality homebuyer education and counseling, which is always, of course, the best solution to foreclosure prevention, right?

You make the loans to people and you think about whether they can repay them. Another great example comes from Waco, Texas, where community banks have funded a very successful REO acquisition, rehab lease sale program, buying REOs. Then they rehab and they keep them for lease or sale. For our affiliate, which is NeighborWorks Waco. That executive director reports that large banks who are present locally would not participate in the program, but seven local banks have collectively lent the organization several million dollars and they are having great success with this. The funds from the community banks are not inexpensive. They're 5-7 percent, with fairly short terms of one to two years. I will say we always like longer terms, you know, lower costs, but I think the program is a great example. The challenge here was access to capital, and that has helped the program operate successfully and been a win-win for everyone involved. In some places, community banks partner in multiple ways. For instance, our affiliate NeighborWorks UNQUA in Medford, Oregon, notes one of their local banks is an incredible partner. They have pretty much underwritten our corporation. They provide two lines of credit and permanent loans. The bank also purchased business energy tax credits and sold the group their office building at a discount and loaned the group funds for purchase at a reduced interest rate. The bank then leased back a drive-thru facility on the ground floor because they still wanted some presence, which then gives the organization a revenue stream from the lease. So again, a win-win way of keeping the presence of both of them active in a rural Oregon community.

There are many community banks that support homebuyer education funding, I think we heard about that before, and we hope they do this. We know that counseled homebuyers will perform better on their mortgages. In Montana, NeighborWorks Montana received homebuyer education funding from five community banks. They also participate in the EQ2, the equity equivalent lending. It was initiated there by one community bank and they received contributions from four others. And we have many more examples of that around the country. So we see the really critical role that many banks play in many markets, and I would say especially those that are often not a priority to the large banks, especially in terms of CRA, places like Waco, Texas; rural Medford, Montana; and Syracuse, New York. We see banks deeply motivated to invest in their communities and who offer more flexible product on flexible terms to our affiliates. So for those of who you are not doing this kind of lending and investment with community development nonprofits and NeighborWorks organizations, I hope you will think about it. Again, these are small and medium-sized businesses and communities. They have a range of needs, and they're good credit risks. I just wanted to highlight one other thing. I heard in one of the earlier panels about recruitment and retention and the opportunities there even to think about some cross pollination. That is a similar challenge, getting folks with real estate skills, financing skills for many of our community development nonprofits, particularly in smaller markets and rural markets. So what an interesting way for a community bank to partner and think about; how do you both try to attract and retain that talent pool in your community?

So think about those and realize that there are places like Appalachia, where we have a great organization, the Federation of Appalachian Housing Enterprises, who is an active lender deployed around $40 million, reaching 4,000 families in direct financing in 2011, and that's a place they're having so much business because they are not having as much success maybe with some of their community development partners stepping up. So in each case, we think there's great opportunities and for anyone who's interested, I'd love to talk to you some more about that.

MARK PEARCE

Thanks, Eileen. Tom?

THOMAS MARR, chef and co-owner, Pete's New Haven Style Apizza

Thank you very much. Our story actually starts about five years ago. It was back in late 2006, and my partner, Joel, had taken his business plan and started presenting it to some banks. He wanted to open up a little pizzeria and had a great idea, but really didn't have the know-how to get the financing for it, so he started a process by going and talking to banks and getting a lot of no's. Basically being told that he would need significantly more collateral, significantly more capital, and at this point, he basically had what he had. So he decided to keep pursuing it, keep going to different banks, listening to what was being said, trying to revise his business plan to make it more appealing, and to see what else and what steps he could get to talk to the next person. At this point, he had about $100,000 in capital and his home to put up for what he needed was $400,000 loan for this new restaurant. It was around 2007, he and I had worked together for several years at one of the museums here in DC, the National Gallery of Art, and he had brought this to my attention and said this is my idea, I would love to have you involved, in which case we decided this would be a great partnership for both of us, and I brought together essentially the money I had in my home as I was actually looking to start my own business as well. We decided to partner up on this one. In the process, he still was getting denied even with everything that we had at this point. We had about $200,000 in capital in both of our homes, back in 2007, they were actually worth a lot more than they are now, but still we had significant equity in our homes and, for most of the banks, we still didn't have enough to collateralize the $400,000 loan. He had spoken with another local business owner who had recommended a bank. So he went and talked to them. They were a bank that was very heavily involved with small businesses and SBA loans. He went ahead and applied with them.

At the same time, he was attending a groundbreaking for his son's school, which is a charter school locally in DC, and found out that the financier of that was City First Bank of DC. He spoke with some folks there at the groundbreaking, and they essentially decided that he possibly could apply for a loan with them, so he went through the process, and we started filling out paperwork, answering questions, answering more questions and more paperwork. Along the process, City First really started asking lots of questions about us. They wanted to see biographies on us, they wanted to get to know us, they looked at our resumes, looked what we had done professionally, asked questions about our families, asked questions about things that nobody else really was asking, and so clearly there was a lot more interest and involvement from

City First, which is a small community bank here in DC., that does a lot with community development. We were actually looking at an area of D.C. that was a very large development project in Columbia Heights, and for many, many years, it really sat very downtrodden, it had lots of crime and the housing market was not very good and so we really had the foresight to see that this was an area that was going to take off and back in 2007, it was still not as good as it is now, but it's significantly better now. After which City First continued to ask us questions, we went through the process, we got to know some of the folks there, and eventually we had enough capital, enough collateral and we were able to answer the questions and we were approved for a loan with them. So we opened up that store, and about a year and a half later, we were growing at about a 30 percent rate in revenue every year for the first couple of years and we decided that we wanted to open a second location.

At that point, we didn't know if we were able to apply for another loan. We didn't know what to do about coming up with the money. We were doing well, but of course we were paying all of our initial debt and loans and there really wasn't a tremendous amount of money left over from the business itself. We eventually worked up the nerve to speak with Stephanie Meyer at City First and find out what it would take for us to apply for a second small-business loan. So we went through that process, and she told us everything that we needed to do, what we needed to do with our business as it stood, what we needed to do so that we would be able to apply for the next loan. We went through that. We paid down significant amounts of debt. We paid everything pretty much everything that we made from that business and it was pretty much the two of us working six, seven days a week, running labor as low as we could so we could pay off that debt, and we were in a position at the end of that period of time, the bank felt like we could go ahead and apply for a loan.

So we went through that process, applied for a small-business loan, and during that process, we were looking at a location that fell through. So we're now in the process of looking at getting a loan and we're still looking for a location, and we had spoken—in the conversation as we do when we go in there to make deposits or anything else—and getting to know everybody. We were speaking with Bill Linlaw. He suggested an area up in upper Northwest, Friendship Heights in the Bethesda area. So we went up there, we took a drive and we looked around, and we found a little spot on Wisconsin Avenue, and really an area where there wasn't a lot around us, but we had this feeling that it was kind of another development area. Even though it was in Friendship Heights, there wasn't a lot around us, wasn't a lot of big businesses, but there was a lot of residences and we feel like we fit in with families very well. So we looked at that, we applied for the loan, we ended up getting approved for that second loan and then we opened up Friendship Heights.

During that process of the construction of Friendship Heights, we were offered an opportunity to open a third location, which was much faster than we had ever anticipated, but it was in the Clarendon neighborhood right up the street here. With all the development that was going on and all of the things, apartment buildings and the businesses, we really felt like this was a great time to get into this area, that it would do really well, appealing to families, single professionals, so we wanted to do it, but we didn't really think that we could go back to the bank and ask for another loan after we had really just closed on a loan a few months before. So we decided to talk to some friends and family and raised a significant portion, plus we were able to in this process make a significant portion of the money ourselves from the two stores doing really well. We were still a little bit underfinanced for project, so we went ahead and went back and talked to the bank and spoke with Michael Nafty, who had been there after Stephanie left for maternity leave. And he really shared a lot of insight with us as to things he had done in the past with other businesses and things that have been able to make them successful, which really made us feel like, you know, we're really developing this really long-term partnership with our local bank and not just, you know, somebody who's looking at all of the materials on paper. They really knew us well and we walk in and we say hi to everybody on a first-name basis, and it's a really good feeling. Michael was able to help us with getting a line of credit for our business to help us finish financing for the third project. So once we were able to do that and we get the third restaurant up and running, we still have almost weekly, if not more than weekly, conversations with Michael, whether it's myself or my partner Joel or our business manager. City First really helps us a lot with everything, every aspect of what we need to do to continue to grow our business. At this point, we have three restaurants. We employ 132 employees. We're generating about $200,000 in payroll every month. So we really feel like City First has helped us to help everybody else. We're responsible for providing jobs for people, we're responsible for putting money back into communities, and we're really doing it with the communities that we're in. That's why we look at those areas for us, we look at the areas in the D.C. area that we can become part of that community. That's all I have.

MARK PEARCE

Great. Great story, Tom.

Travis, if you'll take it from here?

TRAVIS PLUNKETT, legislative director, Consumer Federation of America

Sure. Good afternoon, everybody. Thank you very much to the FDIC for the opportunity to speak here today. My organization, the Consumer Federation, thinks it's very important that we have a vibrant and very diverse financial services community that competes to serve all consumers. Let me start by saying we're glad you're here and we want to work with you. We have common policy goals, I think, and we very much support your broad efforts. From our point of view, from the consumer point of view, there are a number of advantages that community banks offer to consumers. For one, integrity. I mean, the fact that you have a business model that is focused on providing customer service, developing customer loyalty as we've heard about all day in terms of relationship banking, and fulfilling important competitive gaps left by bigger competitors, it's just not financially viable for you all to do what many of the big banks did. Your business ethic doesn't permit traps and tricks, it doesn't permit unsustainable loans or unjustifiable charges that while lucrative in the short term can also be very harmful to alienate customers in the long term. As we've heard all day, most community banks did not deploy abusive financial practices in the lead-up to the financial crisis, although I will note, just as in any sector, that there were some who did take advantage of the loose regulatory environment to offer products that were harmful to consumers. But the vast, vast, vast majority did not.

So integrity is the first advantage we see. The second we see is affordability. Many of your institutions are offering very, very cost-effective and sustainable products. Choice, a third advantage. The fact that you all are smaller and more nimble, you can deploy alternatives to the very similar and often very limited products and services offered in the increasingly concentrated bank and financial services marketplace. Let me just highlight one that one of our member groups brought to our attention, Bank Plus in Mississippi, their credit plus product, you can get a very small loan, $500 or $1,000 at a 5 percent interest rate, one- or two-year terms so a long-enough term, Eileen was saying, we like longer terms in terms of sustainability and repayment. Half the loan amount is deposited into a savings account and held until the loan is repaid. So encouraging savings as well, which as a consumer group spent a lot of time on that issue, we think is crucial. So an example of a very innovative small-loan product that's filling an important niche, the often ignored low- to moderate-income borrower marketplace, competing with much more predatory products like the payday loan product. We view that as a great example of the kind of choice you all bring to the table.

Then of course you had a lot of discussion today about local groups. The importance of knowledge of and service to the local community. I'll give you an example from our point of view. We have helped to organize a national social marketing campaign that encourages low- to moderate-income people to save money for emergency savings and midterm savings needs. It's called "America Saves." Many of your banks are involved in that. In fact, I've been told in the 58 communities that America Saves is operating, and it's also part of America Saves Week, little promo, next week, that community banks are the bedrock of those efforts. That is by far the largest participation in America today is from the community financial—community bank sector—and not from larger banks. So to us, that's an example of how commitment to the community can have very important benefits for consumers.

We have two goals moving forward in terms of the regulatory environment and the marketplace. And I think we share these goals and we would look for opportunities to work with you all on them. They're beneficial from a business point of view as well as to consumers. First, we've talked about this today, a level regulatory playing field. Never again do we want to see different rules, and from the consumer point of view, different products and options based on the type of institution that's being regulated. Whether they're bank or nonbank, whether they're state regulated or federally regulated, whether they're large or small. Everybody needs to be held to the same basic standard. That, I think, in the long run, is going to be enormously beneficial to consumers. Just aside, today the Consumer Financial Protection Bureau announced that they are going to supervise two nonbank financial sectors: credit reporting agencies and debt collection companies, and add to that the mortgage, nonbank companies, the payday loan companies and the student nonbank companies. And you've now got five major financial sectors that nonbank sectors the CFPB will be supervising. Our hope is that what will happen here is it creates a business environment for you all that allows your more productive, more sustainable, frankly more pro-consumer products to flourish. I think we all saw a situation during the lead-up to the financial crisis where very lucrative but very damaging financial products, primarily mortgage products, drove the bad, drove the good, out of the marketplace.

So now we have a situation where little by little, either the marketplace itself or the regulatory environment, is helping to create a situation where your more sustainable approach, your more community-oriented approach can flourish. With that, we hope you all will look to some of your colleagues, look to some of the best practices that community banks have been leaders in offering, and start to serve that marketplace. That so-called alternative financial services marketplace that many of you are already addressing in your communities, but serve it more broadly throughout the nation and show the bigger banks how to do it. A couple more examples, Virginia National Bank is offering loans of up to $650 at 18 percent APR. No other fees or charges in a six-month to a one-year term. Security Federal—these are all examples that our member organizations brought to our attention—in South Carolina, they have a very interesting program called the Second Chance Program. You get your credit, they help you. They give you advice on fixing your credit if you've made credit mistakes. And then they create both savings and credit options for you at reasonable rates and fees. So these are exactly the kinds of best-practice products that we hope you all will be deploying widely and showing your larger competitors how to serve this marketplace. Because step one is obviously a regulatory playing field, get rid of the most harmful products or facets of products that are not justifiable, but step two is step in and fill that void. I guess I'll leave it there and just wait for questions. Thank you very much.

MARK PEARCE

I'll remind you right before Woody's talk, we do have question cards on the table, I think we will have some time for questions and look forward to it. Woody?

WOODY BARTH, president, North Dakota Farmers Union

Thank you, and good afternoon. Thank you for allowing me to be a part of this panel here in Virginia, part of this FDIC panel on community banks. As is mentioned, I'm a family farmer and rancher from southwest North Dakota. My farm and ranch is about 40 miles southwest of the capital city of Bismarck. I raise corn, beef cattle in cooperation with my family and brother there on our family farm in North Dakota. For the last couple of decades, I've been a part of the North Dakota AG Mediation Service in North Dakota. I was a board member. This mediation service was started in the mid-80s during the financial crisis for family farmers and ranchers there in North Dakota. We help financially distressed family farmers and ranchers through their credit problems. At that time, as a board member, we set policies and procedures for that mediation service, so we worked with a lot of credit institutions there in North Dakota, family farmers, to solve those problems.

We worked with institution of all sizes, all types of institutions, and our success rate was very high. We were up in the upper 80s when trying to bring farmers and ranchers together with creditors to move through those difficult times back in the late 80s and early 90s.

In November this past year, I was elected president of the North Dakota Farmers Union, the state's largest farm organization. We have over 40,000 members statewide. Our principles are cooperation, legislation, and our foundation is education, working with family farmers and ranchers to create profitability for those operations. A big part of that is the rural communities in which they live and service those areas. We also operate an insurance company there in North Dakota, insurance products for family farmers and ranchers, rural systems for their homes. We're also involved in many business opportunities, ventures in the upper Midwest that create resources for North Dakota Farmers Union members back in North Dakota. On a side note, we also are the controlling interest in two restaurants here in Washington, D.C. Founding Farmer’s restaurant, just four blocks from The White House, is one of our restaurants. It has been open for about three years now. Very successful. I think we're the No. 1 open tables reserve restaurant in the Washington, D.C., area. That was a concept built back in North Dakota of trying to get family farmers, ranchers more closely linked with their people, the consumers that buy our products. That restaurant has been very successful for us. It's doing very well. I was in there the last couple of nights. It's doing very well, we're very appreciative of what's happening there and the idea of getting the concept of where food comes from, but also creating resources for our members back in North Dakota.

In November this past year, we just opened a second restaurant up in Potomac, Maryland, Founding Farmers Potomac. Opened November 1. It was profitable within a couple of months. It's doing very well now in that new subdivision up in Potomac, a very nice area up in Maryland. A third restaurant, which was actually our original restaurant, was in the Georgetown Harbor area that got flooded in April as some of you from the D.C. area remember that. Our restaurant had 7 feet of water in it in the middle of April. That restaurant did struggle because of the area, the harbor, the lack of people there at the right time, the winter was a slow period for us. But believe it or not, we were profitable for the last two weeks we were open right before the flood came. So five years of struggle, then we got the profitability and along came the water. The good news is the Board of Directors of the North Dakota Farmers Union, right before I was elected, voted to re-open that, and we're on track to open that up by Christmas time and re-open that area and hopefully that Georgetown Harbor area can come back into play and be a successful partner for us.

I think we understand our business ventures a little bit more. Tom talked about the struggles and trials and tribulations of starting a business. Do that from 1,600 miles away, it's just a little bit added—added stress on your life, but I was part of the original co-op that helped develop this idea, the concept, and it's doing very well for us, and we're looking for future growth of restaurants here in the D.C. area. So if you do have a chance, please stop by Founding Farmers, and enjoy the atmosphere and the family farmers’ foods served there. I believe community banks are a vital part of rural fabric here in North Dakota, but especially across all rural America. The personal contact customers have with the community banks is very important. They are relationship-based institutions that fulfill a great need in rural America, they are important parts of many local markets, most of them locally owned, not branch offices. Community banks are important to the customers that they serve and are woven into the fabric of that community. The owner of the community bank is often a vital part, a vital player in that town and surrounding areas, serving on many organizations within that community, and also helping that community move forward with his or her participation in that community. All the money deposited in those banks, lending activities, financial services, fees are all local decisions. They are not made in a corporate office or some other place. In a lot of places, community banks are the most economical and low-cost services that their customers have in that area for their financial needs. Most of the time, large banks are not serving these small towns, especially the small town in North Dakota where I come from. I believe the future of community banks is strong; they're built over many generations. They are part of rural America, rural North Dakota. While I think it's difficult to predict what will happen over the next 10, 20 years for community banks, community banks will play an important role in the banking systems here. Smaller markets they serve and the specialized relationships they have are going to be very important as we move forward. Except for the very small institutions, community banks continue to compete successfully.

I believe some of our smaller banks in North Dakota do exceptionally well. In conclusion, community banks play an important role in the financial system of our economy. They complement the larger role of large banks by specializing in serving rural citizens, many of those are family farmers and ranchers, small businesses on our main streets. They are very important and key sectors to rural America, and will continue to serve a great need in those areas.

As I said, I'm from North Dakota, and we are experiencing tremendous growth in North Dakota right now. I just turned 51 a couple of weeks ago, and this is a boom town in North Dakota.   I think we're one of the few states right now with a balanced budget, great growth; the oil boom in western North Dakota has been tremendous. It's a boom town, it's a gold rush. Some of us believe that we're probably going just a little bit too fast with development, but it's overwhelming when you drive out to west North Dakota, the area of low population, dying towns over the last couple of decades has completely changed. The changing economy is there, the amount of people moving in, the infrastructure, schools, emergency services. Great changes in west North Dakota. I think we'll get it under control as we move forward, but there's a lot of activity out there. Ag has been great in North Dakota, very profitable times over the last two or three years. I would like to tell you from you my personal experiences, I've been farming for about 33 years now, and I made more money in the last three years than I did in the 30 years combined before that. There's just no doubt about it that AG has been good, there's a lot of reasons for that. Good crops, good prices, a strong farm bill are a big part of that, but it has been very good for ag. Terry is also from North Dakota., she can tell you the same story that I did. The North Dakota ag economy is very strong, the ag economy in a lot of areas.

The third thing I want to talk about is—I should mention too that there are some banks, financial institutions in west North Dakota that are actually turning away deposits. Those deposits, they just can't utilize those deposits making their capital requirements not compliant with the regulations. They don't have enough activity to move that money back out, so they're having to turn away deposits because there's people with oil checks coming in, million dollars, a couple of million dollar oil checks. That first oil check that comes as those wells are being developed, and those institutions are not able to take those deposits. They're going to have to go to some other place. An interesting concept when you talk about capital here this morning. And the need for community banks to obtain capital. And the third thing I'll mention is North Dakota, as most of you know, is the only state in the nation with a state-owned bank. The Bank of North Dakota has been a great asset. Part of the work of the ag mediation service, the board I served on, was working with that bank in North Dakota, recommending ag loan policies to the Industrial Commission, which is the governor, the AG Commission and attorney general in North Dakota, who is our bank Board of Directors there, and the work that the Bank of North Dakota has done has been tremendous to help us grow, to help us through the economies, the ag economy, the slow economies of the 80s and the 90s, into the boom times we see right now. That bank has helped strengthen rural North Dakota and a lot of that work is done with community banks as participation loans, loans developed through the North Dakota Legislature, pace loans as they call them, participation loans to help those banks move forward. Lending limits, the overrides can go to the Bank of North Dakota but that bank is now at about $4 billion in assets and growing because of the deposits of the State of North Dakota are held there. And I think it's a tremendous part of our growth in North Dakota, because of our bank of North Dakota and the stability over the last couple decades. Because that was first started in 1919, so it' has had a long history and it's doing very well for us. It's quite the concept, and I see where California is trying to move one So with that I'll stop and I'll be happy to answer any questions and thank you again.

MARK PEARCE

Thanks, Woody and to the other panelists. Again, we have questions and I want to go ahead and start by following up on something that came up on the second panel this morning. A number of the community bankers on the panel talked not only about their customer relationships, but about their community relationships and how the bank was really part of the community. I'd be interested for , Eileen or Woody or anyone on the panel to talk about either how community banks that you've worked with, how they've provided leadership in local communities and been creative about addressing the needs of the community at large.

EILEEN FITZGERALD

Certainly for our NeighborWorks organizations, they are required to have private-sector participation on their boards, and that has been a model from the start that requires both public, private and resident participation on the boards. And we see many who would have local community bankers on that board, so I think that is very helpful because it informs the community banks of some of the needs maybe that they're not as in touch with, but also brings a better sense of the economic awareness and the needs of the community to the nonprofit. So I think that is one good example, and then the other is just understanding what is happening in that market, and particularly in the smaller markets and more rural markets that we just find large lenders not responsive to. And if you're not fitting in a cookie cutter, it's not working. We also hear examples of like Tom's how you help grow a business—gain, these are all small, medium-sized businesses—So they grow, whether that's buying a different facility or picking a line of business and doing some more multifamily housing, whatever it might be.

WOODY BARTH

Just a side note, the mediation service we worked on—we work with a lot of community banks—there was never a problem working with the community bank. I mean, these were very, very difficult situations, families, farms and ranchers were at risk. There was a lot of debt piled up over the number of years. The high interest rates of the early 80s had caught up to us, the declining land values at that time were a part of that, but just no profitability in agriculture. There were very difficult times. We had high rates of suicides, people leaving their farms and ranches. But the ability to work with community banks— the bankers that were a part of that community that went to church on Sunday mornings with their friends, the friends they had to deal with in these situations through these difficult situations, they were a part of that community that made all the difference because they were able to work through those situations, whatever rules and regulations had to apply at those times. We all know we had to work through those. The mediation service was very professional when we worked through those situations, but the community bank was there. They were part of the community and the workout situations with them compared with other institutions, whether it was the federal government or the agriculture system, it was a lot different when we worked with community bank, and I think that goes back to the structure they have in North Dakota and across the upper Midwest.

MARK PEARCE

Anybody else want to touch that one? You know, as Eileen was just talking about, whether things fit into a cookie cutter mode or not. Tom, you are a great example of someone that didn't fit into the model for a lot of banks that you talked with. I'd be curious from your experience if you have thoughts about what was different about working with City First that made them willing to lend you money for your first business and your second and work with you on your third?

THOMAS MARR

I think when it came to the first time, the first go-around of applying, the first part, you really don't know exactly what you need to provide, what your perception of what you need in terms of capital and collateral. The first time we ever heard we need 110 percent collateral for a loan it was just like, I wouldn't need a loan if I had that much money.

So it took a while to get used to what it was going to take, and the very first banks, you couldn't get past just: “we can't help you." You can't get any feedback; you couldn't get anything to get you going in the right direction. Then slowly but surely, you get the idea what it's boiling down to is you need more money, but it was not until we really got to it with City First that somebody was able to tell us what we were going to need so that we could get the SBA guarantee on the loan. The SBA has the very specific needs, and it takes banks that do that and do that a lot to know what you're going to need, so that's what it really was is them getting involved with us and helping us and telling us what we needed to do and what we would need to provide so that we could get this approved. I mean, essentially City First was not going to present this without knowing that they were going to get it approved. So it was a great help, and that was really it> If somebody else had done that, then great, but nobody else ever took the time to have those conversations and ask all the questions and make us get the answers that we needed because we didn't know what we needed.

MARK PEARCE

Great. Thanks. So Travis, you know, I think you mentioned this in your remarks, that community banks did not cause the mortgage crisis, and that maybe it was some of the nonbanks and other institutions that were involved in that. Can you talk a little bit more about the level playing field, regulatory imbalance and how important was that in leading to the problems we've had recently?

TRAVIS PLUNKETT

Well, in the mortgage sector, the nonbanks started. I should add that the big banks followed. By 2005, 2006, larger banks were into subprime lending at a pretty high level. But for you all, for the most part, what we saw is what you said. That your underwriting standards did not falter, and you were not the cause of the problem. I should say that consumer groups identified other concerns, we've talked about high-cost short-term loans like payday loans, or other forms of abusive lending like some of the credit card lending that occurred, at least on the credit card side for the most part, community banks don't really do credit card lending anymore, so this is not an issue. There were some small banks—I won't use the word community, I won't spoil your name—but there were some smaller institutions that were involved in unsavory practices. But as I said, a very small minority. So we now have the CFPB, Congress, the advocacy community, the public- interest community, the lending community and the financial community all focused on leveling the playing field, and I think this occurs piece by piece. Congress put some pieces in place in the Dodd-Frank Act when they said that those three types of lenders, nonbank lenders, would be supervised by the CFPB, and then the CFPB is going to start supervising the other so-called larger financial sector participants, the other major sectors. And it's going to be a huge priority, both in understanding what the causes of the crisis while looking back, , but also looking forward to prevent future unlevel playing fields that the bottom feeders in the financial sector can exploit.

MARK PEARCE

So since I've got you on that, who do you think the impact that will have, the regulatory shifts, obviously a lot of discussion about pros and cons of that, but what do you think kind of opportunity, what does that do for community banks?

TRAVIS PLUNKETT

I hope it offers an opportunity, I never pretend to be a business person. But as I mentioned, the first step, you level the regulatory playing field, the second step is to step in and allow some of the more beneficial products that weren't allowed to flourish beforehand to operate. And I hope you all will be out there experimenting and promoting what works and what doesn't, so that we can continue at conferences like this, point to five or six or a dozen examples of innovative sustainable financial products

MARK PEARCE

Certainly we have an advisory committee on economic inclusion; we've had a number of institutions that have piloted those kinds of initiatives.

TRAVIS PLUNKETT

Yes, Mark, your small-loan guidelines have been very helpful in helping all of us, certainly community banks, but also folks out there in the public-interest community to think about what is a sustainable loan and how it might work, and how it might work in a way that is profitable.

MARK PEARCE

Great. Thanks, Trav. Eileen and Woody, this may be another one for you, then I've got one card here that I'll throw back Travis' way. Can you talk a little bit about any differences you perceive in the community banks' role or relationships in rural communities versus urban communities? Eileen, you've got members in both. I'd be curious as to the challenges or opportunities about how community banks work with your organizations.

EILEEN FITZGERALD

I think it depends on the size of the urban community. Certainly in larger urban communities, that are prime CRA markets. We see different kinds of behavior by banks and flexibility by a range of folks, so I think that's different than a smaller urban area, which has actually often allowed the same characteristics as rurally in how the relationships are developed. I was reflecting after our last question another example where sometimes community banks have been very helpful in neighborhood revitalization, where you might have an adaptive reuse of an older building, whether that's a factory or a warehouse, or a closed school or hospital or something that is an anchor institution or anchor site in the community, and how a community bank gets that, because of their real estate familiarity with that market. And they also get— at some level there's more self-interest because to the degree that that particular block or little section of the urban neighborhood can serve as a catalyst— more business. While if I'm a big bank that's kind of in and out, I may not get that business. So I do think there is -- you see in those kind of projects which are really tough and take quite a long time to do, we often see more participation by community banks. I think part of the biggest difference between rural and urban is rural just gets ignored all the time. So the role of the community bank is super essential there. Folks think there isn't an economy of scale, it's just larger banks don't want to make it worth their while, so I think that is a fundamental difference about how they might view the market opportunity and their point of investing in it.

WOODY BARTH

Please laugh with me when I talk about my state of North Dakota, but I think urban is anything over a thousand people. Is that urban?

In North Dakota, it would be. I talked about that's changing in western North Dakota. We're seeing some of those small towns triple in size in a few months' time. Some of those cities like Wilson are going to double in size. School districts are not able to keep up with that, but the important part is like the town next to me, you drive on the main street out of town, there's not much there, the grocery store, the local liquor establishment, but the biggest building on Main Street is that bank. There's another town I can think of to the north of me, they installed a large room for the coffee shop is now part of that bank, where farmers and ranchers and people with their morning coffee right in the bank. So it's a big part of that, those members that are—people that own that bank— within that community, their kids go to school in the small towns. They're friends with their customers. We talked about that in the ag lending industry back in the 80s.As they move forward, they're partners, they're part of that community, so the important part is that that bank is vital in many parts. Many small towns in North Dakota as well as when you go out into the capital city of Bismarck. It's a big part of that community, and the growth of that community is because of the services those banks held. We haven't talked about the whole movement here of people uprising over the last two or three or six months of the take-back America type of thing and how that all started. That was interesting that that started with some pushback and some large fees, and how that all started. I don't think community banks were a part of that. Somebody else was.

MARK PEARCE

Travis, this one is probably coming your way. Question from the audience. From a consumer protection perspective, are there ways to meet the bank's need to reduce compliance burdens while maintaining a high level of oversight quality? For example, would a tiered regulatory structure for different sectors be acceptable?

TRAVIS PLUNKETT

I think tiered regulation can work in some cases and not in others. For example, my organization, CFA, supported the tiered approach when it came to the interchange regulation. We definitely supported an exception for smaller financial institutions, be it community banks or credit unions. Where I don't think it works is when you're talking about a specific abuse that needs to be addressed I'm not sure this is what you mean, but if what you mean by tiered regulation is one, , smaller institutions might be accepted from a requirement that would either restrict or prohibit that abuse. I'll give you one example, the Credit Card Responsibility and Disclosure Act dealt with what the consumer folks call fee harvester credit cards. I don’t know how familiar you are with these products because I'm sure you don't offer them, but these were cards that were pitched to people with bad credit, and the upfront fees often came close to eating up the credit line that was being offered. These are low credit line cards like \$300-\$400 and the fees could cost \$200-\$300. They were largely done away with by the card act.

Unfortunately, some of the financial institutions that were offering those cards were smaller institutions. I would have a hard time as a consumer person telling someone, “I'm sorry, you get one set of protections if the issuer is larger and another set if it's smaller.” That doesn't seem like the right approach. So we're completely open to talking about ways to achieve the same goals with a lesser regulatory burden, but we wouldn't be in favor of a lesser standard when it comes to eliminating abusive practices.

MARK PEARCE

Anybody else want to touch that one? Are there questions from the audience? Let me turn to Tom again and ask, we've talked a little bit about the road you've traveled so far with your your three locations now. What is your plans for growing your business in the future, and what role do you see for community banks?

TOM MARR

Our plans are that efficiently we'd like to have more locations, we feel like we can serve more areas, there's certainly lots of the D.C. metropolitan area that we're not serving in any capacity. We have folks that—families that will come visit us, from Capitol Hill to Columbia Heights, but certainly not a vast majority of people that live in Capitol Hill are going to travel to Columbia Heights to get some pizza. So we know we can serve more areas; and for us, we would certainly go back to City First to look at financing that. But our first goal is really in the three that we have right now, making them perform as well as they possibly can perform. It's very different to go from one business to two businesses to three businesses, and it's not just double the work and triple the work, it becomes exponentially more for us because there's so many more problems for each one and more things that we're dealing with and then we're constantly just trying to make sure that we uphold the standards and that we're making sure that we're developing the people that are running them do the e exact same thing. So our primary goal right now is focusing on the operation of those three, growing from within, doing everything we can to become more efficient, to handle growth that we've had. Again, our Friendship Heights location is going to be 2 years old in June and it's going through that same kind of 30 percent, 40 percent growth. So in order for us to be able to handle that, we have to have people that know how to react to it, and it can't be us. We can't open a fourth location or a fifth or even a different concept if— which we'd love to do as well at some point— if we're in there busing tables on a Friday night. So we have to get to the point where that becomes where everybody else runs it as well as we do. And that's really our focus right now. We do have plans for growth.

MARK PEARCE

Thanks. Woody, let me ask you, we talked a little bit and you shared the importance of community banks in North Dakota back when you had some of the farm problems and in the workout space where community banks were helping folks locally work out their loans. Can you talk a little about the role community banks are playing on areas such as helping families become homeowners, helping folks get into farming, sort of the front end of the issue?

WOODY BARTH

There’s a lot of that in North Dakota. In cases where beginning farmers need to start, we have a lot of good programs put together by the state of North Dakota through the Bank of North Dakota. They work well, the participation loans; they're able to buy down the interest rate in some cases to allow that family farmer and the rancher to start. Probably a little more important during the 90s into the new decade here, to help those people get started. A big part of beginning farmers and ranchers programs in North Dakota were done in cooperation with the Bank of North Dakota, and community banks played a big role in that, and now as it becomes more successful, hopefully the community banks and I know they are in a lot of cases are taking over those lines of credit, those mortgages on real estate, on chattel property of livestock and machinery. They're able to take that over and that family rancher becomes a big part of the portfolio as it's transferred away from the Bank of North Dakota to the community bank. The same example comes true with homeowners, any kind of real estate mortgages, a lot of those started out with some type of participation loans; the overrides went to the Bank of North Dakota. Now as they become more successful with the strong housing economy we have in North Dakota, those loans are stabilized; the community banks are able to take the whole loan into their portfolio and be a part of that person's housing needs as they move forward and also the services within that community bank allow that customer to be a part of that community. So they played a vital role in that; and as the growth comes forward with the businesses, especially the growing businesses we're seeing in North Dakota. Our Secretary of State's office, we're working on North Dakota Farmers Union and they're backlogged by two or three months trying to get new corporations formed in North Dakota. So that's the kind of economy we're seeing now, but a lot of those are formed to help out either agriculture or the oil industry move forward, and a lot of that monetary resources, the loan resources for those are going to be coming through community banks, so there's tremendous growth there, and a lot of that is because of the relationships that have been built over the past number of years.

MARK PEARCE

Thanks, Woody. Do we have any questions from the audience?

I know you speak loud— you're with Cary. Let's see if we can get him a microphone.

ALDEN MACDONALD

Thank you very much. My name is Alden MacDonald, with the Liberty Bank out of New Orleans. My question is to Travis. As I sat here to listen to the panel, I want to first congratulate the FDIC by bringing the diverse group of individuals to speak to community bankers. Travis, you're the legislative director, and my question to you is, how often does your organization get together with the ABA, ICBAA, the regulatory folk, in order to talk about some of the consumer legislation?

As you mentioned, a lot of the consumer financial policies came about because of someone perhaps ignoring a population and perhaps someone taking advantage of another population, and it just dawned on me to ask the question as to how often you guys get together, because if everybody was in the room, I think we could maybe prevent some of the onerous legislation from taking place if everybody would just talk to each other. So my question to you is how often you guys get together, because it dawned on me that if your organization and other organizations like yourself got together with the regulatory bodies, the FDIC, the Fed, ICBAA and the ABA, you should be able to work it out in the room, because community banks and banks in general, along with your organization all want the same thing for the customer and the consumer.

TRAVIS PLUNKETT

I agree. I think forums like this should happen more. My organization holds conferences as well. We try to bring all major players together, including big bankers, small bankers, credit unions and various parts of the consumer community> But honestly, I wish we did it more in a slightly less structured environment. You get lots of interaction if you want to call that around specific proposals in Congress or at the agencies, but in terms of addressing in a more open-ended way, here are the problems. We've got some consumer problems on this side and we've got the community banks who are concerned about regulatory burden and survival. And we get the large banks concerned about this, and in a more open-ended way. It doesn't happen very much. I can tell you that my organization, though, on a one-to-one basis, we try to. We make it our job, we don't do our job well if we're not talking to everybody. So we do. But in terms of a larger discussion, when it doesn't involve specific legislation, not as much.

MARK PEARCE

Travis, just for a moment, I know you mentioned America Saves, and that community banks really are a bedrock. Working with you some on that, I don't know if you want to speak a few more words about that program.

TRAVIS PLUNKETT

Absolutely. ICBA and many, many smaller community institutions. So next week is the one week in the year that we get to promote America Saves. And there are activities going on all over the country, and one of the great things that are occurring is that banks are offering savings-friendly accounts and products through the course of the week to try and encourage low- to moderate-income people to start saving. I mean, you all know this, but in Washington, it's hard to convince people that even in the depths of a recession, that if it's done carefully and continuously, low- to moderate-income people can actually save significant sums. And that will help them a lot when there are income shocks or income shortfalls, or they're tempted by the payday lender down the street. So for example, Marquette Bank in Chicago, their America savings week incentive is a promotional rate for 60 days to start a savings account, and they do a $25 savings match if any minors open up these accounts. The community banks around the country are offering these kinds of promotions and we really appreciate it. We think it's going to help get the broader message out.

MARK PEARCE

We may have time for one last question, if anyone has got one. One over here. We've got a microphone honing in on you, if you'd wait just one second.

MALE SPEAKER

I liked your point about having a level playing field. Would your organization support having a level playing field for credit unions and community banks?

TRAVIS PLUNKETT

That’s another conversation.

Just in the interest of fair disclosure, credit unions are members of CFA. So we have supported federal incentives for credit unions, but of course we're completely open to discussing all of this if you all would like to talk to us.

MARK PEARCE

Thanks. Well, I want to appreciate the panelists for taking their time and talking with us today, it's been a great panel. And give the folks a round of applause. Thank you.