Afternoon Session:

Luncheon Keynote Speech

MARTIN GRUENBURG

It's my privilege to introduce to you our luncheon keynote speaker, Representative Shelley Moore Capito of West Virginia, and I'm sure most of you know that Representative Capito serves as chairman of the Subcommittee on Financial Institutions and Consumer Credit of the House Financial Services Committee. Representative Capito was first elected to Congress in 2001; and before that, she served in the West Virginia House of Delegates. She is a graduate of Duke University, and earned her masters' degree in education from the University of Virginia. As a member of Congress from West Virginia, I know Representative Capito has a keen appreciation of the critical role community banks play in our financial system. She is known for her thoughtful, deliberative approach to financial services issues and is certainly one of the most influential members of Congress on issues of financial regulation. For that reason, we are very grateful that she was able to take the time to come and be our keynote speaker today. Representative Capito.

SHELLEY MOORE CAPITO, Congresswoman for West Virginia, 2nd

District

Thank you, Mr. Chairman, for the introduction and thank you for the warm welcome, and thank you for including me in your lunch. I got a little nervous when it says keynote speaker because that sounds like a big deal and it is a big deal, so I want to try to talk a little bit about what's going on in the subcommittee, what's going on in the committee, what's going on in Congress, and how I see a perspective. I know we've got a broad array of folks in the room today. Sounds like the conference has been going very well, and certainly in any business and the business of regulating and the business of working with regulations, communications has got to be one of the major factors. And I think that's what you're enhancing today, and I congratulate you on that. I'm very impressed with the brown-bag lunch. As you know in Congress, we're looking at everybody's budgets all the time, so I wondered if that was planned just for me to notice that. But it is a good way to get what you want, and certainly is efficient, so congratulations on that. I would like to say that I know there are two of my constituents in this room today. Mr. Bill Loving, who is chairman now of the ICBA—Chairman elect of the ICBA. Bill lives in beautiful Pendleton County. Have you already been on the panel?

You've already heard from Bill, but he lives out in God's country, no kidding. It is next to my smallest county. But it is absolutely beautiful. Bill and I have had occasions to work—more than once, and this is where my appreciation for community banks has been sort of born and grown—we've worked with Almost Heaven, Habitat for Humanity, and Bill's bank to provide housing and affordable housing in a very remote part, in a very rural part of our state. And it couldn't occur if Bill and the bank did not have the feel and the pulse of Franklin and Pendleton County and the surrounding area. That's something he has worked very hard on, and it's generational in terms of what can happen in a small community with his involvement, and then Mr. Robert Baroner, where is he, Bob? There he is, Bank of Charleston, yes, that's him. Please come and leave your money in West Virginia. Bob is from a longtime banking family. His dad was a very prominent banker in my community of Charleston, but for me today to really behave—my brother works for Bob—so I really want to make sure that I make a good impression. Funny thing about my brother. He was a community banker in Virginia for a long time, now back home in West Virginia, happy to be there. I'm glad he's there. That's at least two votes. I'm not sure my sister-in-law is with me, but I'm working on her.

About eight years ago, you might remember when Chairman Oxley was chairman of the committee, there was a regulatory release bill that was huge and they wanted to feature the freshmen on all these bills, and the other freshmen got these very simple bills like electronic signature on checks, I think Catherine Harris had one that was pretty good. The one they give me is like a 40-page regulatory relief bill. I'm going to admit right now that was way over my head, but I was featuring it, and my brother told me he was in a meeting in Richmond with the community bankers and they were talking about, oh, this Congresswoman Capito has this bill and we're not sure about it, we're not sure how it's going to influence us, and I said, “Well, did you mention to anybody that you were my brother and that we could really have some good communications?” And he goes, “heck, no, I didn't tell anybody you were my sister.” I said, “Thanks, brother.”

So anyway, I really want to talk a little bit about three major areas that I see in terms of community banks and the FDIC and the future. Just from the brief conversation that we've had today, some of these were sort of touchtone issues that you've already dealt with through the research or when you're looking at plans for the future. I think we all know—and this is reinforced every time we have community bankers in front of our committee, which I certainly appreciate—you were not the cause or the reason or the main precipitators of what happened in our financial meltdown of 2008. We as members of Congress recognize that, and I think we are great protectors of that, in terms of when we go to try to formulate policies. When I think about all of the different ways that communications that you have with your own constituents, small businesses, family-owned businesses, expansions, you have the same issues that I have, in that if you go to the grocery store in your own home community and you're offering a product that is troublesome or you're not responsive to your community or you're not returning your phone calls or answering your letters. It's the same as me, you get an earful at the local fresh fruit area. I shop at Kroger's on Sundays usually because that's when I'm home, and we were doing the debt limit bill, I started over at fresh fruit and, honestly, before I could even get over to the potatoes, I had four people, with four different opinions, on what I should be doing about the debt limit. Well, I have a friend who works over in the bread area, and that was the next area, so I was all by myself too, my husband, I've never let him forget this, I said you're never letting me go on controversial votes to the grocery store, you're either going by yourself or you're coming with me. My friend in the bread area, I said, “Wow, I got worked over in fresh fruit and vegetables.” He said, “Yeah, I have to admit; I looked over there and thought what is she doing here by herself?” But you do the same thing, so you know what I mean.

That's the kind of accountability that is, I think, great for a member of Congress, but it's really good for you all because of the vital role that you play and fulfill in your individual communities. So it's a relationship, it's a relationship, building relationships, networking, listening, flexibility, all the things that are important for community bankers to have at their fingertips and traditionally have, have to be preserved in the less populous areas or not even less populous, but in the communities across this country. And we recognize that. So after the crisis or even before that, we have folks that are focusing on living more within their means. We're trying to do that up on Capitol Hill. We're in the middle of a big thing on the payroll tax relief which has been solved, I guess, we'll see. It's not quite all the way out there yet, but you do see people beginning to look at their own personal financial literacy. I know this is something you work on behind your desks every day with individuals and families and businesses, but this is something where I'm concerned about the future of our country in terms of what we're turning out in high schools and in colleges and, you know, this mobile banking phenomenon that's just taking over, our young people and our financial wizards of the future. Are they actually literate in things of financial literacy? And you'll see that our committee goes to this.

Judy has been a big champion of that, Judy Biggert from Chicago, on financial literacy. Unfortunately what's happened—fortunately or unfortunately— because we've had some bank failures but we've also had a lot of consolidation in the banking industry, and this is something that is concerning me. In 1984, there were 14,884 banking organizations; as of February 9 this year, 7,349. These are the statistics you probably used this morning, probably got them from you. That's half. And what has happened here?

Consolidation can be a good thing, but we want to make sure that we preserve the local flavor, the local flexibility and the local abilities for financial institutions to be able to react and adjust and move forward. It's something that worries me because, remember "Too Big to Fail?" While we have a big controversy, did we end "Too Big to Fail?" I won't get into that today, but if we're building bigger and bigger, are we really just inculcating the same culture of bigger is better, and is that the direction that we want to go?

I hope not. Because I think that would be damaging to our country, it would be damaging to our communities, it would be damaging to our small businesses, it would be damaging to you all in this room, I think, because of the relationships and the communications that you've built. So I want to see us keep a watchful eye on this from a policymaker standpoint, and you can help us. The FDIC has been very helpful with us in educating us; we have hearings on this issue around other issues. Regulatory burden. Nobody is standing up and clapping on this one. Especially not the FDIC. We've gone back and forth, I think we missed an opportunity in Dodd-Frank to really—instead of foisting large amounts of—I voted against it, I'm sure that's no shock to anybody in this room, but we missed an opportunity to see what are we doing right and what are we doing wrong, and then let's make the adjustments. Instead, it was just an overall readjustment, 2,000 pages, 400 rules. We had a hearing on the Volcker Rule the other day with the regulators, and I think, the Federal Reserve said that the rule they came out with, they had 1,300 questions—that they issued 1,300 questions still, and this rule is supposed to go into effect in July. I don't know how they're going to sift through all this to figure out the best way to move forward. My hunch is this is going to have to be a timeline that's going to have to be extended because of the complicating factors and the potential of unintended consequences of something quite this large. But I do hear from community bankers all over the country and in West Virginia, the growing burden of meeting the regulatory burden.

We had a community banker before my committee last year, and he told me this was just last year that he'd already hired one or two more folks dedicated solely to the regulatory regime and the new regulations that were coming forward. I know we're looking for stimulus and job creation, but I'm not sure this was the job creation we had in mind, because every time you hire a regulator or a new regulator, or four regulators, that's money out of your bottom line that could be dedicated to small-business lending, enhancing your community presence, upgrading your technologies for better service, whatever you would use that with, and I think that's a concern. It has got to be a concern for everybody in this room, it certainly is now. In fact, here's the statistics: In the 2010-2011 Bureau of Labor Statistics Occupational Outlook Handbook, how's that for a government name, it estimates a 31 percent growth— there will be a 31 percent growth in financial examiners and compliance officers for the years 2008-2018. So if you have young kids in the room going to college, you might want to tell them to look in this direction, there could be jobs for them. But I think if we're trying to spur job growth in our communities, we're trying to get folks back working again, if we're trying to get lending to small business, if we are trying to get clarity and certainty to our job creators and to you as the lenders, we've got to make sure that this regulatory burden is not duplicative, is not burdensome, is clear and concise guidance. And I know the FDIC is working on this, and that's part of why you're here today. We sent a letter to Secretary Geithner. The President, in his state of the union, I believe it was last year, said that the whole point of his new regulatory issues with Dodd-Frank was to scrape out the old burdensome, untimely, no-longer useful regulation, and move to a regulatory environment that's the environment of the future. Well, that sounds great, but our question to Geithner was, what have you really scraped out here? And I asked him that in committee, and he said he would get back to me. Which he did. He did actually get back to me. He told me—I hope I'm getting this exactly right, I know Aaron is in the room here probably having a heart attack if I mess this up but—Aaron is my staff guy who helps me quite a bit, but Secretary Geithner basically said… he named two regulations, I can't remember one of them, but the other one was he named the creation of the CFPB as part of the way they are removing old regulations.

That’s kind of what I thought. So we're having continued conversation, and we have talked with him and he has expressed a willingness to work with us on this, because I think this is, if we're going to modernize and do it right, we've got to get rid of the old burdens that are, the old regulations or the regulations that are no longer useful or the duplicative ones that something else has come up on top of, get rid of the old ones, and fashion the new ones in a way that not repetitive thinking the whole time.

The last thing I want to talk about are the examination standards. We had a hearing on a bill that the ranking member, Carolyn Maloney from New York and I put forward. In response to the two—we've had two field hearings, one in Georgia—anybody from Georgia? Georgia has had a rough time, yeah. My mother was born in Perry. I probably told you that there. Anyway, and we also went to Wisconsin, and we had community bankers and businesses on our panels, and we had regulators on our panel in Georgia. What we heard was sort of a mixed message. Some of the community bankers were saying what we see on the ground with our examiners differs from what happens when the examiner reports back to Washington and we get a different report or a changed report or a report that we don't—doesn't really jive with our exit interview with the examiner. The FDIC, to their credit, when they testified before our committee, acknowledged this disconnect every single time, that they know that this is something that members of Congress hear daily from our community bankers, and that it's a source of concern for us. So we have several bills out there. I put a bill out that basically goes to four different areas. It goes to timeliness of examination reports, it goes to—I keep wanting to say a grievance procedure but it's not actually grievance—it's an appeals procedure, if you don't agree with certain judgment, what kind of appeals procedure you might have. It also goes to—and this is where we have a big difference of opinion with the FDIC on the examination standards. But I think it's a conversation we need to have in our committee, and at the highest levels, because it is pervasive in our country, no matter where you are. We have folks from Florida. We have folks from Georgia. We've got folks from West Virginia, across the country into California that are expressing concerns about some of the examination procedures and how they're—not that they're not being conducted in good faith—but are they the most efficient? Are we getting the guaranteed results, the desired results, because it's breeding uncertainty in the financial institutions? And uncertainty means you're going to hold on to your cash because you're just not sure, and that small-business owner or the small-business owner that testifies in front of our committee, that we always have one or two on the panel, says I've had a relationship with this bank, I've had all kinds of loans, I've always been timely, I can't get another loan on my next project and I want to know, why is that?

It is the financial institution saying, you know, our examiners are telling us that's probably not prudent, there's not enough capital, whatever reason that good longtime job creating customer has a lot of frustrations, and I'm sure you have them as well, and I'm sure you hear them, not just in your bank, but also at the grocery store, hopefully not in fresh fruits and vegetables because that's the first stop, so we're working hard on that and we're listening. And I think that's what you're doing here today. So I congratulate you for the openness with which you're conducting your meeting today, and I want to tell everybody in this room if you don't know your member of Congress, shame on you. You should have either been to their offices in Washington or you should go to their district office, invite them to your bank.

Let's just talk about it. Why would you want them to come to your bank? Because you employ people that vote and it's an election year. So it's a great time to get folks like me, not to say that we're one-sided or narrow-sighted, but in election years, it's a great time to get people into your financial institutions to talk about it. Our West Virginia Banking Association is very active. The community bankers are very active in our state in letting us know how they feel, not just me because I'm chairman of the Financial Institutions Subcommittee. Every single member of our delegation. So you should be doing that too, because there's nothing that hits home more for somebody like me, who represents 650,000 people, than to have somebody who creates jobs, who keeps people working, who donates to the local Little League, who keeps people in their houses, helps people get their cars, all the things you do every day, we have like interests. And we want to see. So we should be working together, no matter what political party you're in, you need to go out and make sure that your member of Congress knows exactly how you feel about those issues, and that's how we're going to get the best policy forward, even in a very divided Congress. So I look forward to those meetings, I know I'll have them, and I want you to have them with your members at the same time. Thank you very much, and I guess if we have time for questions, I'd be happy to try to answer them.

No questions? In the back there.

FEMALE SPEAKER

Thanks so much. Judy Kennedy of Affordable Housing Lenders. For those of us who try to explain what's going on in Washington to people outside of Washington, it hasn't been easy to explain what the next Congress plans to do on mortgage finance reform. Sometimes we hear it's in the reform of Fannie and Freddie. Sometimes we here it's reform of all government-sponsored enterprises, all mortgage finance. I was just wondering if you had any perspective you could share with us, or if you're chairing financial institutions again, the next committee, the next Congress, or maybe even the full committee, what do you see as the landscape that's going to be reformed?

SHELLEY MOORE CAPITO

This has been an interesting evolution, I think, it has probably been a year ago, we had a very small meeting with Secretary Geithner on the Fannie and Freddie reform, what are we going to do? The White House just put out their white paper with, I guess, the three options as the way they saw it, kind of skeletal framework, and I really thought we were really going to move on this. We haven't. I think the reason we haven't is—well, is there are a lot of different reasons, but I think one of them is, we don't want to mess it up because we know the housing market is fragile, we know that in order to really get out of this recession solidly and get people back to work, the housing market has got to come back in a better way. In West Virginia, the area Bob represents, you know, that's where we've had our foreclosures but I'm sure there are folks here from areas like Florida, Las Vegas, California, that can't wait for this to come back. But I don't think anybody is convinced too much and I'm not a prognosticator that we've hit bottom on our real estate prices in some of these areas. So we don't want to mess it up. So actually Scott Garrett is doing this in his subcommittee, he's on capital markets, he has a plan to sort of ramp down Fannie and Freddie and try to ramp up the private sector so that that gap would be filled. We all know the FHA is taking a huge amount of burden, and actually their capital reserves have fallen dangerously low, below the mandated 2 percent, and almost to the point of needing a $750 billion—billion? Billion, Aaron, or million? B? B. It's always a B around here. Yeah. When would I ever think $750 million?

Oh, that's not so bad. $750 billion bailout, and the only reason the bailout is not occurring is because some of the servicing decision money that was made in the agreement that was struck is going to be used to patch that up. Well, that's a one-year patch. That's not a good thing. So we have that issue with the FHA. So I don't know; it's something we need to do. We must do. We know bipartisan we need to do it, but there are Republicans split on how to do it, there's no one-single, one-party way to do it. A lot of it depends regionally where you are, if you're in some of the higher-end markets like California, you're really concerned about stalling that because they're already in a free fall on their real estate values. So I hope that we can get to this, but I think—I'll be candid here—we need more leadership out of the White House to do this, because they're going to have to be the driver at the end of the day that's going to drive this reform. I mean, Congress can drive it, the House is going to drive a different plan than the Senate, this is a repeating theme no matter what we're doing. So I think we need the leadership from the executive to really help us formulate the best plan. So that's not a very good answer, but I think it's—we're stalled and you can see it. Scott Garrett has moved some things out of his committee, and we're going to keep doing that, and I will be supporting his efforts and hopefully we can get the attention of the other side and also the Senate side. Thank you all very much.