Second Session

Challenges and Opportunities for Community Banks

SANDRA THOMPSON, Director, Division of Risk Management Supervision, FDIC

Good morning. everyone. Welcome to our panel discussion on challenges and opportunities for community banks. I am Sandra Thompson, the director of the Division of Risk Management Supervision. As you all know, the FDIC supervises the majority of community banks. We have examiners in six regional offices and in 86 field offices around the country. We talk daily with bankers in cities, small towns and farming communities. Our examiners live and work in these areas, and this up-close and personal contact gives us a unique perspective on smaller, locally focused institutions. We understand how critical they are to Main Street and the national economy. They fund home purchases; they lend to small businesses and farms; and they play key roles in civic, religious and public organizations. The first session this morning provided an interesting overview on the trends within the banking industry. I would now like to explore some of the challenges and opportunities that may be influencing some of these trends. The past several years have been difficult due to the slow economy and distressed real estate markets. Bankers have been diligently working to address loan problems, raise capital and restructure their balance sheets. We are beginning to see improvements as many banks have successfully addressed their most significant problems. While positive signs are evident, we recognize that there are broader challenges facing community banks. Art mentioned earlier the study that the Division of Insurance and Research is undertaking. In supervision, we've also been gathering information through the examination process about some of these challenges. Our examiners are reporting intense competition in credit and deposit markets. They also note challenges from demographic changes, technology and meeting regulatory obligations. Attracting and retaining expert talent is another issue. Despite these challenges, we believe opportunities exist for community banks. Some customers prefer the high-touch personal service offered by locally managed banks. And this provides a significant competitive advantage. Community banks have an opportunity to reach tech-savvy customers as they demand more and more on-the-go financial services. Mobile access and social media are expected to be major delivery channels for the younger generation, who likely have different banking habits than their parents. Small businesses also like dealing with community banks. They want a personal relationship with their banker, local decision-making and trusted financial advice. Small-business lending will remain important for community banks and may be one of the best opportunities for sustainable growth. I have great interest in this panel. They are all bankers from different parts of the country. They are well respected for their leadership and reputations for producing successful business results. We sincerely appreciate the time they are spending with us to talk about this very important issue. I have the pleasure of introducing Dorothy Savarese. She is chairman of the Board, president and CEO of Cape Cod Five Cents Savings Bank in Cape Cod, Massachusetts. She has been with Cape Cod Five since 1993, serving in multiple roles before assuming her present position in 2005. We also have Kelly King, chairman and CEO of BB&T in North Carolina. Like Dorothy, Kelly has served in many roles at BB&T and he started in the bank's management program in 1972. I think that was a successful program. Bill Loving is president and CEO of Pendleton Community Bank in Franklin, West Virginia. He joined Pendleton in 2000, presently serves as vice chairman of the Independent Community Bankers Association, the ICBA. Bill, like others on this panel, is actively involved in numerous organizations that promote the interest of community banking. Ron Hansen is president and CEO of Liberty Trust and Savings in Durant, Iowa. Ron has been with the bank since 1975 and became president in 1995. He is the third member of his family to serve in this role. Ron certainly understands the needs of small communities. In fact, his bank continues to operate and maintain a branch where it was originally chartered, in a town of 121. I think he told me right before the session, 135 people. So the goal for our session is to have an open, frank dialogue. We hope to better understand the challenges facing community banks and to talk about what can be done to address these challenges. The first panel looked at the definition of a community bank and they looked from a theoretical perspective and almost by the numbers. I would like to start by asking the members on this panel from an operational perspective: What are your views regarding community banks? What is the unique role they play in the towns that you serve? Ron, I would like to start with you.

RON HANSEN, President and CEO, Liberty Trust and Savings Bank

I think that the entire community looks to the bank for leadership when you're in a bank the size of our bank. We are about $120 million or $130 million. It changes a million or two every day, it seems. But it's the first place that civic leaders, the first place that community organizations come to when they are looking to start a new project, whether it is for guidance on how to do that or whether it is for charitable contributions. A number of years ago, probably 15 or 20 years ago, we formed an economic development corporation in our community, and one of our officers—we've had two officers over the term of that corporation—served as secretary treasurer. I would say if it were not for the leadership of our bank in that situation, we would not have an active economic development corporation in our community.

SANDRA THOMPSON

Dorothy, what are your thoughts?

DOROTHY SAVARESE, president and CEO, Cape Cod Five Cents Savings Bank

If you forgive me for one minute, I just have to stop and thank the FDIC for their leadership in having this today. I know I share the feelings of many of us in this room and beyond in expressing our appreciation to Acting Chairman Gruenberg and the entire FDIC staff. We spend our days trying to explain the importance of community banking, and for the first time I sat in a room and people laid out an explanation that was better than “ will know it when I see it” or “It’s less than $1 billion.”

So this is so exciting. It's sort of like taking Google maps and drilling down and down. And I think that's how we derive a really good insight. I'm excited about the proactive engagement, because as Chairman Bernanke said, the FDIC is in a unique position to offer us insights to enable us to become more viable. So to you Director Thompson, thank you much. So who are we? This is interesting because, thank goodness, when I finally got the data I found out it was legitimate that I'm on this panel. We are one of the 330. Cape Cod Five is a $2 billion mutual state-chartered community bank on Cape Cod. And yes, it's because what we do and how we do that, we made it into that 330. I have been there almost since the beginning of the study that they presented, so I'm feeling a little long in the tooth but it was also interesting for me to see the migration of my organization. We were a little over $500 million when I started back in 1993. What we have done through the years is continue our commitment to those three pillars that a number of people have identified—our customers, our employees and our community. And from the traditional approach to lending which I will tell you—I'm not making this up—when I first arrived I, found that one of the things they did was look at the neatness of the wood pile of the customer that we were lending to, to see whether or not they were a person who would pay us back, to—over the years—reinventing ourselves to meet the evolving needs of our very diverse community. We have fishermen; we have year-round residents; and we have second homers and we have retirees. We are the leading Mass housing lender in affordable housing, and yet at the same time, because they told me they wanted it, about eight years ago I started a trust department. So we have a range of products and services that meet our community's needs, but we actually consider ourselves a quasi-philanthropic organization and at core our focus is on our community. So we have a $10.5 million charitable foundation and we give away about $500,000 a year to the community.

SANDRA THOMPSON

Bill.

WILLIAM LOVING Jr., president and CEO, Pendleton Community Bank

I tell you, Dorothy, it is interesting we have credit scores and you have the cord score, right?

And truly, community bankers are unique and we are different. I started in banking about the same time you did, Kelly. At that point a bank was a bank. But today that's not the case. The community bank model in the industry is unique. We serve our communities. We are the lifeblood of our communities. We live there. We work there. We know our customers. As a model, that is relationship-based; as we heard this morning, it's not transaction-based. And it has been successful for many, many years. That's because we know whom we are doing business with and we have all heard the stories of those making loans to those who shouldn't or couldn't pay, and community bankers know whom they are making their loans to, and making light of Dorothy's comment on the cord score and the neatness of the woodpile. But that's true. We know our borrowers. We know when they can pay us back and how they can pay us back. And we know that given the unforeseen circumstances, they will pay us back. Even then, when they have problems, we are there to help them. I tell lenders and I tell our collectors that you can build better relationships during the hard times than good times because, when you help somebody through the tough times, they will remember you in the good times. So our model is totally different. We are unique; we are there; we are the lifeblood of the community. I like to say that our success is their success and their success is our success. It's pretty simple.

SANDRA THOMPSON

We had our first conference call, Kelly. You weren't always what you started out as a community bank and we would like to hear your perspective on where you started and how you grew your organization and that's very interesting for us.

KELLY KING, chairman, CEO and president, BB&T Corporation

As you said, I've been here 40 years, so I've seen a lot of change. When I started in 1972, we were about a $250 million farm bank. So we really were in the beginning a very small community bank. Interestingly over the next several years, we grew to about $4 billion. In 1998 we realized we were beginning to look and act like a big bank. We were always up against the big banks in North Carolina, which back then were NC&B and First Union, and they were always much bigger than us. We found all of a sudden, at about $4 billion, we started looking and acting just like them and we didn't like that. So we did a major reorganization of our company and created what we call the community bank concept. So today even though we are $175 billion in size, we operate very much like every other community bank in this room. We have 36 community bank regions, each one is geographically compact in their area. Each one has the president and senior credit officer and operations people just like you have. The difference is we do have the advantage of scale of a large back room so that we can bring economies of scale to pricing and products and product development. But 95 percent or more of all the decisions being made in our communities are being made at the local level. And our people are really involved. When I think about the distinction between community banks and large banks, to me community banks are really, really great because they are client-focused. And they are community-focused. The big banks tend to be more product-focused and earnings-focused. So we have always tried and really hold the values of focusing on the client first, whether checking the inventory or, in our case—in the old days you had to count the pigs in the pig farm—really figure out how to count the pigs at the bottom, at the feet, and divide by four.

So we have been there, but we are really pleased that we have been able to find a way to get somewhat larger but not lose the touch to the local communities. Because I think if we ever lose the touch of banking in the local community, we will really lose something really big. I will just add one more point. I think all of us as bankers have really been dealt an unfair and terrible hand in the last several years. We have been blamed for this huge big bank crisis, which basically every bank in this room had nothing to do with. The only problem that community banks have is they work really hard to support their communities. Now we know what happened, the shadow banking system took 50 percent of the loans out of our system over the last 30 years, went out into an unstructured, unregulated environment and created a big mess. Unfortunately we got blamed for it all. So we have to work hard together to restore the understanding of what we do. We are out there leading the community development efforts. We are making loans to create jobs. And so, when the folks down the street would talk about how to create jobs, my answer is “get out and support the community banks in this country and you will figure out how to create jobs.“

SANDRA THOMPSON

I mentioned earlier that our examiners are gathering information about some of the challenges facing community banks and they basically said that earnings is the key issue, so how do you manage shareholder expectations, maintaining your earnings, increasing your earnings without increasing your risk profile. I'd like to get your thoughts on that? Does anyone like to start?

KELLY KING

Again we have been 140 years in business. So we are very proud to have made it through the Great Recession and the Great Depression and a lot of wars and tribulations. But what we have always done is not focus on short-term earnings. We have always focused on long-term strategies and long-term client relationships and long-term community responsibilities. And so we have not chased the boom times. We very consciously in trying to lead our company—we are kind of boring. You don't expect us to boom in the boom times and you don't expect us to bust in the bad times. And so we do not place earnings first. What we say basically in our mission is that we want to help our clients to keep economic success and financial security. We want a great place for our associates to learn and grow and be fulfilled in their work. Make the communities better places because our involvement and thereby optimize the long-term return to shareholders. It’s a derivative effect. If you do all the first three right, you will do well for your shareholders. If you start out trying to make money for your shareholders, you almost always fail.

SANDRA THOMPSON

Ron, what's your perspective?

RON HANSEN

I think maintaining earnings levels moving forward is difficult. We talked about the difficulty of strengthening the net interest margin and I think our cost of funds today is as low as I've seen it in my tenure and probably most of those in the room. So we get daily pressure to decrease loan rates even though our deposit rates are already as low as they can go. We have one bank in our area that is over 100 percent loaned out and they are still calling on our customers and offering below-market rates. It is difficult. I think that controlling expenses is probably a big part of what will help us over the next few years. I think that for most banks in the last couple of years, the biggest expense has been their provision, and hopefully we have most of that behind us. So the burden that some of the regulation and legislation puts on us, I think, it's generally unintended. I don't really blame it on the regulators typically. I blame it more on the legislators. Our bank will spend about $50,000 to replace two ATMs in the next month to make them ADA-compliant. That is not going to add anything to the bottom line and we are probably going to take an ATM out of our town of 130 people because we would have to spend $30,000 on building improvements just to make that compliant. So I think there are a lot of unintended things that get pushed on us.

SANDRA THOMPSON

I can understand that. Given the circumstances in your situation, how do you address those challenges and make them opportunities? You have a lot of things coming at you. How do you keep up with all the changes that are taking place and just understanding what are the best services and products for your customers?

RON HANSEN

Probably one of the most important things we can do in a community bank like ours, $120 million to $130 million, is rely on our trade associations. We get a lot of resources from the ICBA, and in my particular case, the Iowa Bankers Association provides a lot of training to us. They help us keep up to date on initiatives and so forth, but again, it's a challenge for us to keep up on it.

BILL LOVING

I agree. From a community bank or a smaller community bank perspective, and even some of the larger community banks, it's difficult to keep up with the regulations and what is taking place today in preparing for tomorrow because, Kelly, I agree we can't look at short-term earnings. We have to look at long-term earnings and I appreciate what you said about the byproduct of doing everything right. It will create shareholder value and create shareholder worth. That's what we do in our institution. We focus on what we think is important. If we do those three things properly—invest in our community, make sure our customers are successful and we also make sure our employees have an opportunity to be successful—If we do those three things right, then the shareholder will gain shareholder wealth. But it will be tough on earnings and, looking at regulatory compliance, I think that's one area that, again I agree, it's not regulators. It's more the legislators. But if regulations could be tiered—and we have a couple of great examples of that—CRA is one that because of tiered regulation. The intent of the regulation, to fill the calls from the smaller institutions, is not as great. I think there are other opportunities to look at that, such as the escrow rule. I know of a bank as we said earlier that has completely removed themselves out of the mortgage lending business because they felt they could not comply with the legislation and the regulation. In that town, that's one opportunity for the community to lose, an opportunity for growth and stimulus in the community. So I think that if we could look for ways of tiering legislation, it would help us manage the day-to-day business because I certainly commend the guidance or the change in the guidance that's coming out that says this will apply to you and this will not apply to me. Because sometimes you do spend a lot of time trying to determine what direction do I need to go. A lot of things.

DOROTHY SAVARESE

There has been a wonderful articulation at the regulatory level and the commitment to tiering and scalability. I think we need to engage in a very proactive way to make that happen because if you look at history, there has been almost no major regulatory bill passed that has not had trickle-down. Again, I was delighted to hear about the commitment on the part of Chairman Bernanke, and Acting Chairman Gruenberg addressed it as well, which is that they will actually say out loud that we are going to differentiate between the methodologies of achieving the same outcome. So I guess one of that sort of challenges is in an engaged fashion between the regulatory agencies as well as the legislators and the banks. Let's work together to find ways of achieving the desired outcomes, but not continue to add to the cost structure of the community banks. It's an exaggeration, but there are times with some of the interagency regulations where it's very, very difficult to get a common approach or even get questions answered, and so we sort of “don't change the way we do what we do,” and I say it's like using medieval illuminated manuscripts to write a NASA flight manual.

So again I'm exaggerating just to make the point that I think we could look at even the way how we gather HMDA, for example, is costing the industry millions of dollars. We are using a manual methodology to collect data that is aggregated and analyzed. But if we looked at what our outcomes—desired outcomes—perhaps we could employ some 21st century methodologies to accomplish the same outcome.

RON HANSEN

Dorothy, if I could just expand on that. We are included in an SMSA and have to comply with HMDA because of our 135-person community that we have an office in. It's in an SMSA county. Otherwise we wouldn't have to comply with HMDA. We could close that office and we would not have to comply with HMDA.

KELLY KING

I might mention one other point on profitability. With regard to size, large or small, the real issue is around risk management and diversification. I have to ask myself a thousand times over the last four years what are the big takeaways we should all take away from this experience. So hopefully we won't have to go through it again. Two really big ones and they are important for us all to remember, and this is true at the system-level and virtually every company. First of all, it was a failure to aggregate, integrate and correlate risk information. At the federal regulator levels, no one knew the level of risk in the system because they did not aggregate data; this is true for every community bank and every bank in this room. So really understanding the risk in the business is critical and how you can afford that at smaller levels is a challenge. The other big failure was a failure to remember the relationship between leverage and diversification. So the AIGs and Lehmans and Bear Stearns, they made the twofold sin where they had massive leverage and concentration. Either one can get you; but if you have both, you are almost always trying to be gotten. So what I think we have to figure out is how to have good risk management systems and good diversified revenue streams so that we don't have too much concentration. Last time real estate, next time agriculture, we don't know. So diversification is a really important responsibility.

SANDRA THOMPSON

That's a good point. You have just come out of some challenging times and you have made opportunities given some very difficult circumstances. I'd like to get your thoughts on what are the challenges you face and how did you overcome them, and as you move toward, what will be the new norm.

BILL LOVING

I think there were some unique challenges in our particular markets that we had not envisioned before. As Kelly said earlier, BB&T was slow and boring, and that's what we used to say about West Virginia—West Virginia is somewhat slow and boring. We did not see the highs, but we did not see the lows. Then I found that I'd like to see the slow and boring once again because we actually saw things starting to filter into our marketplace that we had not seen before. But I agree with what Kelly said. One thing that we learned and one thing we did was we stuck to basics. We did not look to larger markets and other markets because we did not have the familiarity, did not have, the expertise, and so we stuck to the areas that we knew best. The one takeaway that I have is remain true to what got you where you are today. That was basically collecting deposits and making loans to people we knew. So there are a lot of challenges still facing us as we look forward to the future. There will be bright days. Certainly it was exciting to hear some of the comments from the earlier panelists on the future of community banking because there are those that would say it is not so bright, but I believe it is very, very bright for community banking. So I think we have to make sure that we learn from the past and we take advantage of that knowledge as we move forward so we don't do it again.

DOROTHY SAVARESE

The only thing I'd like to add to that because I think truer words have never been spoken. Deriving lessons from the recent crisis or the recent two crises were so important. Just like the other panelists at the table left a significant amount of money on the table, we were reminded of that by our peers all the time because we chose not to change our risk profile. We saw our market share shrink when all the exotic mortgage products entered the market. We stuck to conservative underwriting. That's why today we have an old-fashioned idea, which is you put somebody into a loan they can pay back. That has worked pretty well. The only thing I would suggest—and I know we are all thinking about this because a lot of the panelists talked about it earlier—you have to draw the lessons from the past. You also have to look to the future at the rapidly changing consumer. What it is that they want and how they want it, because what our key to success has been is meeting the needs of our customers, and those customer needs are changing. One of the biggest challenges that I see for community banks is to—through that intrinsic intimacy with our customers—really derive from them an understanding of where they are going and how we can continue to meet their needs in a way that leverages our strengths of trust, delivering locally and having local decision-making and employing brainstorming and creativity to move to uncontested space. An excellent observation was made earlier about the fact that a significant number of banking products have been commoditized. There is a little bit of a pushback in terms of customers recognizing that you can buy it at a lower price, but if someone doesn't stand behind it, that's a real problem. What we have to understand is how to play in the arena in which we can be successful, as Bill said, and then we talked about earnings. With that, do the best that we can do to consolidate or aggregate or use our trade association or use associations to get economies of scale on the stuff where it doesn't touch the customer to keep our costs down.

SANDRA THOMPSON

I want to get to funding because that was another issue that our examiners brought up, the product offerings you just talked about in your customer base. I know that some of the younger demographic like social media and mobile banking and another demographic that likes to have face-to-face personal interactions. How are you managing the span of services and products that your customers are going to require?

DOROTHY SAVARESE

That's a good question because someone asked about the diversity of our community, and we have second homeowners who are savvy young 45-year-olds who use all of the latest technology, and then we have retirees who age up into the 80s. One of the things I learned because we were one of the first Cape banks to introduce Internet banking and everyone said your customers will never use that. They were rapid adopters. We had waiting lines in our senior centers for learning how to use computers. If you look at how many grandparents who are using Facebook to see pictures of their grandchildren, so we can't under estimate.

BILL LOVING

Or Skype.

DOROTHY SAVARESE

Or Skype. The desire of our consumers to use those technologies. We are rolling out mobile banking next month, and what I said to our people is there are two different messages. For our young people, it's how quickly; does it work; and is it easy? For our older folks. is it secure?

BILL LOVING

Dorothy, I agree. I think it's interesting when you look at the population base that is adapting to technology, and yes, the older generation is using your computers for Facebook, for Skype, and keeping in touch with the grandkids. But you know, there's a unique opportunity there and I think community bankers need to understand the opportunity. Often times when you deploy a new product, the problem is within the bank. That is trying to get everyone within the bank to accept and adapt to a technology change to a new product or a fee because it would always be this or it would always be that. I would simply say the problem is within the bank because we would say—like many in your community will—if you roll out mobile banking, the population in Franklin, West Virginia, of 800 or less, many would not use. But it's interesting, I was talking with one of the residents the other day and they asked me the question—and this was an older person—do you have that remote deposit capability for a smart phone that one of those Internet banks have? So they are paying attention. They are paying attention and I believe that once you cross the security barrier, once they feel secure with the transaction, you have a whole new group of individuals that you can call on to cement relationships and further increase efficiency within your organization. I think you have to expand the relationship beyond the face to face and I think we as community bankers can do that.

KELLY KING

You know it was interesting Ron was talking about the ATMs, so we are getting ready to spend $100 million, Ron. And it's not for ADA; it's for our paperless deposits. We did ADA some time ago. So we have mobile banking today. Now we are getting ready to follow that software, so that people can have their paperless deposits through taking a picture with their phone. So, one of the interesting challenges that I think we all have for a while, maybe forever, we are having to run parallel distribution systems. You know when I first started out, we didn't have drive-in windows. So it was a big invention when we had satellite branches with drive-in windows. Then we had ATMs and home banking and so forth. But nowhere along the way has anyone given us permission to close the branch. Because why? Because some people still prefer the branch. Most people we find, young or old, still want the branch when they have a problem and the small-business class absolutely has to have the branch. So we have to spend all this money on the technology for the new distribution approach and at the same time, keep the other approach. It's a huge challenge for banks. And I think what you simply have to do is prioritize. You cannot do everything. So you have to prioritize and what we try to do is prioritize based on our clients' feedback. We don't listen to industry. We don't watch what the other banks do. We talk to our clients and we try to prioritize based on what they say they need us to do.

SANDRA THOMPSON

You know, during the crisis, the deposit insurance limit was increased from $100,000 to $250,000, and certainly that had an impact on community banks' ability to retain deposits. Will the expiration of the unlimited deposit insurance for transaction accounts pose challenges for community banks? I'd like to hear your thoughts on that. Ron?

RON HANSEN

The approach I like that I've seen the best so far is a recommendation that the ABA come back to the FDIC with what they study and determine what they feel the impact is going to be. I am not sure yet. I know that ICBA has taken a firm stance on what they think, but I'm not sure yet whether it really makes a difference to us or not. Funding in general has not been a big issue for us; we are only 50-55 percent loaned out. Our deposits grew about 4.4 percent over the last year. So it's hard to find investment alternatives and loans to make up for that deposit growth. In rural areas, we have to maintain competitive interest rates with what folks see on the Internet or advertising in the paper from larger banks and so on. So the biggest challenges from a funding standpoint we have is competing with credit unions, who by the way, if you don't know, they don't pay income taxes.

And as we lose our elderly, more affluent customer base, trying to retain those deposits in our rural communities [is a big challenge] as their children don't stay in the rural communities. We have a tough time keeping those deposits.

SANDRA THOMPSON

Understood. If you would touch on the expiration of the transaction account guarantee. And also, core deposits, because that has been a big issue with regard to community banks. Can you continue to retain core deposits?

BILL LOVING

Well, first let me speak to the increase to $250,000. I want to say that was a welcome relief at a proper time. Most of our customers have acquired wealth over time. I would often have many conversations with regulators about the definition of core deposits and I would even have to convince that CDs over $100,000 are classified as core deposits because they had been there for years and years and years. During the crisis, it did create concern. The extension of the TAG program is critical for many banks. It may not impact some banks, but I think others are going to be impacted significantly. If a bank’s business model is to bank business customers or municipalities, generally 1) they wake up—and obviously there is going to be media surrounding this—and their customers will be concerned again and they run the risk of losing liquidity or having to securitize municipality deposits just to keep them. So I think the extension of the TAG program is critical for the continued growth in our economy. Now is not the time to take that provision away because there will be a lot of unintended consequences if that happens. So I think it is critical that it does. Now, core deposits, we have looked at ways that we can drive and grow core deposits at our institution. Certainly we've been talking with our lenders and our personal bankers about the need for the transaction account; it begins there. So we are focusing on the transaction account and building relationships from there. Core deposits are not as hard to come by today as they were years ago. I think we will face the time in the near future where they will be harder to get. So we need to work on them today.

RON HANSEN

I think a lot of customers are happy to keep their deposits in those low interest- and noninterest-bearing transaction accounts right now, but if rates got back up in the 3-4 percent range, then they will want to start shopping around, and then they are going to start putting them into other banks because they are going to meet their $250,000.

DOROTHY SAVARESE

Ron said that he supported doing a little more investigation on this. I think it's warranted only because Bill presents a very effective case of why it has made a difference for a lot of community banks. But I understand also that it has FDIC insurance ramifications as well. So I fall into the camp of getting input from people like Bill who can tell you what it has meant for him. Clearly now, we are awash in core deposits. When there is greater certainty about the stock market and when rates go back up again, it will be a very different situation.

I did talk to a lot of bankers to get their input on this. In Massachusetts we have a Depositors Insurance Fund that we are members of that does provide that unlimited guarantee. If you are going to keep it, make it permanent, don't make it—and Bill you spoke to this—don't make it continually renewable because then effectively you've gotten rid of it because if people don't feel it is certain, then they will go ahead and make other arrangements for that money. So signal it clearly.

KELLY KING

I would have to respectfully disagree with my fellow panelists, but not because of the reason you may think. I really think it is very important that we disengage from this government support because, if we remain on that as an industry, we are already dangerously close to being viewed as a utility and that would be the final blow. If we have permanent insurance coverage, we will be under intense scrutiny from Washington like you have not seen yet. And the public will absolutely demand and have a right to expect everything to be free because the government is insuring everything. It's a horrible place we're at today. I don't necessarily disagree that the 250 is a good idea. People had more information than I. I don't argue with extending for a couple of years. But I think that at the end of the year, we really need to let it go. It know it might be problematic for some institutions, but if it will go away at some point, better to go away now while Ron's point that rates are low. Because rates go up, deposits will leave anyway. So it's a good time to do it. And if you say well don't do it ever, you need to really reflect on what you are getting into because it will be the end of independent banking, in my humble opinion.

BILL LOVING

If I may add and certainly not to be totally disagreeable.

I understand your point, but I'm not saying there needs to be a permanent extension. I think there needs to be a further extension for a period of time because I do believe that we are still at a very fragile point in the economic cycle. And given the projection for interest rates being low for the next several years I think it may be good to go ahead and do an extension for a period of time so we can get our economy back on more stable footing.

SANDRA THOMPSON

Of course, that decision is left up to the Congress. Having said that we have also raised the issue of management succession and Ron, I am dying to ask in a town such as Durant. Most of our examiners said most banks had succession management plans. Talk about how difficult it is or is not to try to attract and retain talent for your institution.

RON HANSEN

I feel it's very difficult to attract and retain talent in rural communities like we live in. We've raised a generation who is not as content to live in a town of 1,600 people. We are fortunate because we are located halfway between Davenport and Iowa City, so it's easy to make that transition, but we want our people to live in our community and they don't necessarily want to do that. We had a position open for an operations person three times over the last ten years and it took us over one year to fill that position each time. I knew you were going to bring this question up and so to help answer it I would like to—as I knew I was going to be on this panel—I sent out an e-mail to members of the peer group I belong to and asked them what they would like to have us talk about today. I will just quote and it's lengthy: One element that I believe also poses a huge threat to the future of community banking is the ability to attract and/or retain quality human resources and intellectual capital with which you can run a quality bank. The growing complexities of the industry dictate that the intellectual capital of the bank has to advance at a pace to stay ahead of industry demands. It's a real challenge, but not impossible, to find that type of talent. However, my far greater concern is the impact of the precipitous onslaught of regulation is having on the existing talent pool within the bank. Over the past 30 days I have completed an annual review with my officer staff at the bank. One question I routinely ask is are you still enjoying the work and what you do from day to day. It is a sad day when over 50 percent of your management staff honestly answers: even though I still love serving the customer, I will exit the industry for another opportunity should it present itself. When pressed to answer why, every single time the answer comes down to the fact that the regulatory environment and pressure to comply with it is slowly suffocating, sucking the life and joy out of their work. They honestly don't know how much longer they can keep it up.

SANDRA THOMPSON

Thank you. I respect their right to feel that way. Bill, do you have a different perspective?

BILL LOVING

It might be a good question to add to our evaluation process. It is a challenge. Fortunately for us we have not had a severe problem, but I could see it mounting in the future. Like Ron has indicated, young adults today do not prefer to come back. The lifestyle is not the same as what they would find in college, which they were used to. It is hard to attract the talent. One thing that we have done, and I'm sure many have done as well, is use summer internships and other programs where we can have students for December work for us and it gives them an opportunity to learn about the industry as well as gives us an opportunity to learn about them. From that, we have been able to select and retain quality individuals for key positions and determine if they want to live there. We can train them and engage them into our industry and oftentimes it's easier to build a culture than change a culture. So that is one thing we have done to at least try to combat that problem.

SANDRA THOMPSON

We talked a little bit about regulatory challenges and I think my colleague from the Federal Reserve in the previous panel talked about our attempt to communicate significant changes. We have financial institution letters. We are communicating an expectation or rule we that we say does not apply to institutions under a billion dollars. But we also have banker conference calls on issues that are of importance to many bankers, and we also have our *Supervisory Insights* journal. Are there other ways that we could communicate better as regulators to the bankers on issues that are of importance to them? Are there ways we could use technology or are there other thoughts that you have in this manner in terms of increasing the quality and level of communication on significant policy issues?

DOROTHY SAVARESE

One of the things I know that everyone on this panel is involved in the different trade associations and there has been proactive work being done at the association level to aggregate information about emerging examination issues and share them. One of the things we've always hoped for is a little more formal engagement in the surfacing of the exam issues in real-time and promulgating those as quickly as possible and, Director Thompson, I'm not saying something you haven't heard before, which is sometimes there is a feeling that there's an "issue du jour" that arises and flies across the country and bankers sometimes become surprised that something that did not seem to be an issue on a prior exam suddenly becomes an area of focus. So again if there is a way of quickly using modern tools of social media and electronic communication—I know you work very, very hard with folks in the regional and districts to have to get the word out—to help people understand what those emerging issues are so they can be proactive about addressing them. And of course there is floodplain, Reg B, and the gas station debit card challenge that is flying across the country right now. I know that through regulation you unearth these issues, but once again, as a partnership, it would be very helpful if those would come out more quickly.

SANDRA THOMPSON

Emerging issues, communicate them more freely. OK. I have a question from the audience. It says what areas of the exam process provide the most value and in all fairness, it says the least as well.

So, Ron, please.

RON HANSEN

Well, I've been around long enough that I think we've lost our focus on safety and soundness and put more effort on consumer protection. I know Mr. Gruenberg is a consumer protection advocate and I don't mean that in a negative way. I know it's something that he's very interested in, but I also think he's obviously interested in what community banks are doing because he's having this conference today. I just think that the most beneficial part to me is the overall interaction with the examiners when they are there. We've always had a good relationship with our examiners. I guess I would say over the past ten or so years I've seen more of a shift from a gotcha-type mentality from compliance examiners to a “give us a call if you are working on a new product and we will help you talk through that and try to help solve the problem before it becomes a problem.” So I think that's one of the big changes I've seen from the exam standpoint in recent years.

KELLY KING

I will just say over the years we have always had really good relationships with our examiners, whether it's the Fed or FDIC. We view the examination process and the whole relationship as a relationship. And so we spend a lot of time with our examination team trying to help them understand what's going on in our company. I meet with our entire examination team once a quarter before the information is public. They know exactly what's going on. They know our merger plans and all of our strategic planning going forward. We asked them in return to give us a heads-up on things they think are coming. And we don't have any problem with knowing what is at stake. We do have a problem sometimes with what's expected.

BILL LOVING

Director, I would agree. We have always looked at it as a partnership and had a good relationship with the examination teams at the FDIC in the state of West Virginia. They provide a great resource. We try to provide them with information when they come in as quickly as we can so they can get their job done and we can get our job done. And as some people say: so they can leave. But we want to provide the information as timely and accurately as possible because it is a partnership and we want to know if there is an issue. Truly we want to know if we are doing something wrong, and if there is a problem lurking out there that we need to be aware of. So I agree with Dorothy if we could have some additional information on what is coming, what you are seeing in the industry or a particular area because, yes, it does move across and around the country from time to time. So if we could have information on what is coming and what we could look out for now. And I agree Ron with you, I think we have moved away into consumer protection. Again through no fault of the examination team; they were only doing what has been told, but we had a compliance examination and because the word was not posted and cleared in the advertisement, we were cited for a violation. We had posted—the transaction was posted within the statement cycle. It did not say posted and cleared within the statement cycle, and so we were cited. So I think we have moved away from some of the important things of safety and soundness to a degree in focusing in that area.

DOROTHY SAVARESE

We all have to say something right.

SANDRA THOMPSON

You don't have to.

DOROTHY SAVARESE

That's why we are here. As you or may not know, I always invite the exam team to my board meetings even if you are not allowed to discuss your findings. We've had a wonderful relationship with them, but I still ask them to come and they are always so gracious and they make the time because I say to my board this is free consulting. They give us insights into “gee, you are growing in this area and that area, and we know from your peers here is something to think about.” So I sleep at night because they are an extra pair of eyes for me. As chairman of the board, I sleep at night because they are an extra pair of ears for me as CEO. So it has always been a very, very positive and engaged relationship. We have so benefited that we probably take more time than they want us to take only because we enjoy it so much. The only thing going back to the illuminated manuscripts is again I won't ever be able to repeat exactly what Kelly said about the idea of aggregating and analyzing information and then drawing appropriate correlations and causality about them. But one of the things that I think we have to be careful about doing is after World War II, a lot of walls were built. Planes were invented. So they were fighting the next war with the last—actually one of my succession management trainees is in the audience and she gave me that analogy—but it's so true, which is we have to make sure we have not overreacted or moved the pendulum in a way. The second thing is, digging into the data is so critical and the previous panel was so good. I think we have to be very careful about drawing false conclusions about causality from correlation. Someone could have, for example, brokered deposits and Federal Home Loan Bank borrowings but have a stable business model and a stable environment and a stable risk profile. Let's not take that too far. But the only thing we would continue to encourage—I am speaking from someone who has seen the effort you've undertaken on the exam side to improve it— please continue to use the risk scoping, the tiering that you have done to minimize the implications for banks. It's a huge time sink. I don't even want to put a cost to how much it takes us to put this together and I review every single bit of data that is submitted because one time someone made a mistake and I said something to Director Curry and he pointed out it was a mistake so from there on in—but it's a significant amount of data and a lot of work. The more you can do to improve the exam cycle the better for all of us.

RON HANSEN

Dorothy, I would say it's consulting, it's not necessarily free consulting.

If I can just expand on that a little bit. I think that a lot of the problem is still the legislative process, and not the regulatory process. The Financial Institutions Examination Fairness and Reform Act was introduced in November. As a community banker in rural Iowa, my first reaction to this was this legislation should not be necessary. It's something the regulators should be doing without having it legislated to them. Our last exam was in May. FDIC exam was in May. And when the examiner in charge came back to meet with our board two and a half weeks later, he had the completed exam report with him. I thought that was pretty impressive. So what are all these comments about we don't get our exam reports on a timely basis. I talked to the president and CEO of an Iowa bank before I came out. They had their compliance exam that ended at the end of October. They still do not have a final report. They are a $1.5 billion bank with about 25 offices. They don't have any indication when they might receive their final report. They had a fair lending violation, which is limited to one location. They acknowledged that violation and sent out 400 letters to correct it. The local exam team was complimentary on both their compliance staff and the compliance program that the bank had, but he tells me their head of operations and their compliance officer are not sleeping very well these days because of the uncertainty surrounding what might happen as a result of those fair lending violations, even though it was something that was acted on and they made some minor refunds and it was no big deal. They thought they moved on, but here they are they still don't have that. Compliance is so difficult today that if we can't get reports back on a timely basis, then I think we have a problem.

SANDRA THOMPSON

You raise a good point. We do work on report turnaround and communication with the bank whenever there is an issue or not, so I will take those comments and place them with the senior staff at the FDIC so we can move forward. I did have a question from the audience for Mr. King. It says: Mr. King mentioned banks need to diversify their assets. In reality how do community banks diversify? Can they afford to have expertise in several areas?

KELLY KING

That's a really good question because it's more challenging for a smaller bank than it would be for a larger institution. But I think there are clearly ways to do it. And I think the key is to set a clear-cut strategic direction. One of the things that happens to companies of all sizes is we end up where we are not necessarily because we intended to get there, but because we didn't focus on where we wanted to go. So my best advice is to set some very clear strategic directions and percentages of diversification based on what's available in your market. Our territory covers 12 states in rural and urban areas and it's a pretty good representation of America, I'm not aware of any market that we have that does not offer reasonable diversification opportunities. So you know if it's in an urban area we may have more C&I, we may have more health care, technological software companies. And if it's a rural area we have agriculture, we have real estate lending, we have wealth management for the owners. There are plenty of ways to diversify. It's really more a matter of setting out the clear-cut direction and then developing the strategic initiatives to get it done and being relentless about it. I myself had that challenge when I came two or three years ago while we were doing relatively well. We were one of only three large regional banks in the country that did not lose any money through the whole cycle, but as I stepped into my role, I recognized that we still had too much of a concentration in real estate because we had just drifted to what the market gave us. And we set out a five-year diversification plan that required some investment and mostly a lot of leadership time to make that happen. So I just think the CEO has to say this is what we are going to do and your job is to help figure it out. And then I learned something during this crisis that's a neat thing to say to your people when you know they will say it's hard to do this. I say I know this will be extraordinarily hard, but I believe you are smart enough to figure out how to do this.

SANDRA THOMPSON

How do you manage resources, specifically training for loan underwriters and credit administration? This question is being asked because small community banks have expressed this issue in that training provided to employees of large banks is significantly different than training in small community banks.

DOROTHY SAVARESE

We mentioned before: with the trade associations. We are lucky enough with Massachusetts Bankers Association that we do conduct a commercial lending series for community banks because we do know they can't afford to do that themselves, but that is critical. Somebody talked about the opacity of information, that you have to balance the training with the ability to follow around local lenders to understand the intricacies of local lending. No formal training will ever replace that.

WILLIAM LOVING

I would agree. I think a lot of resources are available to trade groups and other graduate schools and banking organizations. West Virginia has a school that starts student off in the right direction. You could send someone to commercial lending school and they have two or three years and then they come back to our marketplace and they may or may not have an opportunity to look at the types of transactions they studied. So I think we have to tailor the education with the market and then you have to tailor the education with the experience and put them with someone that could mentor them and help them through the process.

KELLY KING

We can have our own training because we are large enough. But speaking of the small community banks, I would encourage regulators to think about ways that you can deliver. All of this is fundamentally standard because the regulations are standard and with teleconferencing and other forms of electronic interface, it would seem to me you could come up with a clean straightforward educational process and make it available to everybody, which would be even more efficient than 50 trade associations trying to do it.

SANDRA THOMPSON

Excellent point. I will read a comment and then ask the question. This is to your point, Dorothy, toward the non-illuminated manuals. How can we simplify regulations so they don't read like *War and Peace*?

Answer that. How do you keep your staff and yourself motivated given the amount of changes that you are dealing with while at the same time being active participants in your community? I know all of you are very active in your respective communities. Ron?

RON HANSEN

We have to rely on our trade associations. When I started my career, I worked for a bank in California and it was a formal management training program. So that dealt with that side of it. But we always had the home office to call if there was something that was outside of our normal scope that we could fall back on. I look in our state of Iowa anyhow, as the Iowa Bankers Association being our home office. We have a compliance staff. We have a human resource person we can fall back on if we need to, legal counsel we can discuss mortgage issues with and so on. So we would be lost without the trade associations.

KELLY KING

I think this is one of our greatest challenges as leaders of our companies today of all sizes. Because the last several years have been really, really hard years and our people have had to work extraordinarily hard and long hours and at the same time they have been beaten up on every time about everybody in leadership and that we have been blamed for everything. So I find when I'm talking to bankers that it is very troubling to them, because they grew up doing really good work and wholesome work. But when the president of the United States and others keep saying you are the bad guys and you are fat cats and that applies to banks in general, it's very, very difficult for the morale of our people. So what we try to do is I spend an enormous amount of my time putting into perspective for our associates what's important and the truth about what happened versus what they may hear on TV and what they may read in the paper. What I try to do is to get our associates to really figure out how to gain a sense of happiness out of their work. We have ten core values at our company that we talk a lot about. We have for a long, long time. We talk about in terms of character, judgment, success and happiness. Of late I spend more time talking about how you get happy inside of your work, which is really about getting self-esteem and pride in doing something worthwhile, doing it well and feeling good about it for yourself. That's up to the CEO to connect the dots because if you are an operator, it is not necessarily obvious to you what your work does in terms of growing the economy and helping schools. And if I were you, I would advise you to do what I do, which is spend an enormous amount of time being with the troops, helping them understand how important their work is and hopefully help them feel richly and justly proud of what they are doing.

BILL LOVING

I agree. We provide a benefit. We provide positive direction for our communities and we need to be proud of what we do every day regardless of what's in the media. Regardless of what is said about bankers as a whole. We need to be proud about it. So Kelly, I commend you on what you said. I was talking to a banker and he said my position is head coach. That's my position. I'm the head coach of the organization. There's a lot to be said about that because you have to rally the troops and make sure they understand the end result. We have recently had some of our tellers go to the operations area and work for a day or two in the operations area. We wanted them to understand what happens through the process and how they can help, they can contribute to not only their customer, but they can contribute to their internal customer and create some camaraderie between the two. And understand the process. So connecting the dots is very, very important in making sure people understand they are appreciated. Oftentimes it's very easy to be negative and we just need to remember and it's obviously something that we all know, but sometimes we are not always proactive to say thank you and great job and we need to do that more.

DOROTHY SAVARESE

This is so hard these days because, as you said, these are wonderful comments. It used to be good that you felt good as a banker and now the attorneys always come up and say thank you because finally they say you are the low man on the totem pole. My apologies to all the attorneys in the room. My residential mortgage guy is one of the most heartfelt and passionate people about what we do and we do a lot of affordable housing loans and we do a lot of writing loans and trying to continually adapt our processes to provide an exquisitely good customer service experience at the same time keeping up with all the changes and regulations. I have said it is like changing the wheels on a car driving down the highway. It's really so stressful for all of our people and we are working through that right now. He for himself keeps the letters of appreciation from the customers that he gets; that keep him going. One of the things we try to do for all of our employees is—the whole issue of communication is so critical—we constantly let them know things that we are doing in the community through a variety of means and we let them know we are doing this for the customer. We actually have expanded our teller appreciation day to employee appreciation week, and that is happening next month and we have a variety of things, including taking a picture of every employee and we are giving that picture to them. I know that this sounds hokey, but the whole theme is everyone counts. That they are all part of it. I feel privileged to work at a 156-year-old bank and we have a wonderful reputation. Before I got there for our people one of the nice things is and this happens consistently—they go into the community and say where do you work. They say Cape Cod Five and the person always says Cape Cod Five, that's my bank. That's what really makes it worthwhile.

SANDRA THOMPSON

All right. Here is a question. Are we dancing around the central issue of compliance burden? Community banks say it is strangling them and regulators say they are sympathetic. But what specifically can—should be—done about it? Bankers first.

KELLY KING

Well, we are all strangling and we are close to death. I personally think that good regulation is good. I agree with the point made earlier that we have drifted way too far away from safety and soundness to too much focus on consumer protection, not because bankers—it's ironic somehow some people want to think bankers don't care about consumer protection. That's completely irrational because obviously we want our clients to do well. It would be stupid for us not to want our clients to do well because they pay our checks. So we obviously want to do good consumer protection and I think generally we do. I think there are some parts of the nonbanking sector that does not do a good job and they need some support. But we do have a risk today that when we created the CFPB and I hope Mr. [CFPB Director Richard] Cordray is not in the room, but I did have dinner with a group with him recently, so he knows where I stand on it. It is potentially an extraordinarily damaging part of our industry. First of all, it's extraordinarily dangerous to separate focus on compliance from safety and soundness. I think the prudential regulators have done a fine job over the years in balancing that. And I don't think compliance is the problem with the banks. I think it was the nonbanks. So I think we charted a course that, with this CFPB, potentially it was so distorted on consumer protections that it does a lot of damage to the proper institutions and actually makes the consumer protection less real, because by the time you take the 350 rules of the Dodd-Frank and the thousands of rules that come out of that, I doubt anybody can figure any product. What we need is clarity, transparency and simplification, not more and more. But I'm afraid this will create problems for the consumer, problems for the economy, and big problems for the banks.

RON HANSEN

I would submit that community bankers did consumer protection before anyone knew what consumer protection was. If we took advantage of our customers as community bankers, we would not have any customers. It was just what you said, Kelly, it was the nonbanks that have created this. I'm going back a ways, how do we get the right of rescission? Swimming pool and siding salesman. It was not the bankers. But we live with it.

BILL LOVING

I agree. I think the regulatory burden is something that is continuing to grow and is the cause of concern for community bankers. The cost of compliance is growing every day; and as we look around the room and ask yourselves ten years ago, 15 years ago, how many did I have in my compliance area then and how many do I have today, I'm sure everyone would say it has grown. We are not against regulation. We want regulation and we wanted regulated in the right industry. Obviously shadow banking industry is an example of what happens when there is no regulation, but I think, as with the word bank, we try to apply the regulation to the banks in the same passion; and many times, I think, it's unfair for the smaller institutions to be facing the same type and the same extent of regulation that some of the larger institutions are facing. As I mentioned earlier, we need to look at tiered regulation. We need to look at how we can simplify the regulation to fit the bank, the institution and the risk profile. For the most part, we make and hold all of our real estate mortgages. We have customers that are farmers and so they have an annual, and they are poultry farmers and they may have monthly and quarterly or they might have semiannual income streams. If I make a mortgage, I have to do a monthly escrow because of the escrow requirement, even though I'm holding it within my portfolio. That creates problems for them. I think we need to look at the regulation and make sure it fits the institution and the risk profile that they have.

DOROTHY SAVARESE

In a larger sense this really is a matter for both the legislators and regulators. We need to maintain an engaged approach, and I think the FDIC can work with us as an ally in terms of revising some of this. I will not repeat everything that has been said because it's all absolutely right on, but one of the things we were getting into a wonderful degree of granularity in studying community banks. One of the things I think we should be studying is the actual impact on consumers from the activities of various institutions. Because again, to Kelly's point, if you look at where the actual damage happened, it was not from community banks. Yet there is this completely plain-vanilla approach to that which is excessively overkill. So again if you begin with the desired outcome and work back from there, you can be more effective. The other thing is to Bill's earlier illustration that there is a zero-tolerance on UDAP and a number of regulations that presuppose a negative impact on the consumer, where it would be very difficult in your circumstance to argue that that had in fact happened. So one of the things that I think we need to be very cautious about is if there is again the legislation and the regulation. For example, I don't think that anybody would have intended that QRM would make home mortgages out of the reach of most consumers, but that may in fact be something that happened. Last, in terms of the management, and again I know that the FDIC is focusing on this very aggressively right now. But when you create expectations for people and if I want to be successful as an examiner — as a compliance examiner, for example—am I going to be thought of well if I spend a lot of time getting to know Bill's specific needs and the needs of his customers and interpret the regulation in a rational way to fit that? Not if things go up to Washington and then there's this box and they say someone else comes in later and said you let that slip by. So there's a human resources management. Again I know Director Thompson, you are focused on this, so I am speaking to the choir, but it is important.

SANDRA THOMPSON

We have to try to take a balanced approach to supervision and in terms of having this conversation, we did say that it was going to be open and frank; to not raise this issue would not have been appropriate given it is on the minds of so many community bankers around the country. So I take your comments. We receive them and as we go around the country and listen to other bankers, we will certainly try to take those into consideration.

RON HANSEN

As a community banker for almost 40 years, I can't make a real estate loan today. I can make the decision and tell you whether it's a good real estate loan. I can document it from a safety and soundness standpoint. I know we need a note and a mortgage, but I can't do the rest of it. I talked to a guy the other day when he started banking, he said when I made a mortgage loan, it was four documents. And he just refinanced his house recently and it was 62 pages of documents. Even the consumer does not want that. We have to get realistic.

SANDRA THOMPSON

Next question. I think we do have microphones out there. While they are out, I would ask this question to the panel. If there were no boundaries other than applicable law, what type of assistance would you ask for from the regulators in the consumer compliance or risk management arena that you believe could enhance the ongoing viability of community banks? What kind of assistance would you ask for from the regulators? I think Kelly had a good point earlier with regard to the training. Ron.

RON HANSEN

I guess I would ask the regulators to join forces with the banks and go to the legislator and say this stuff you're proposing is ridiculous.

KELLY KING

Well said.

SANDRA THOMPSON

Anything?

BILL LOVING

It's tough to top that one. But we talk about the education process and the opportunity to provide more information to the bankers. We have internal audits and best practices and often times you are reluctant to share information because it may be considered confidential or otherwise. But if there is a way going back to what is happening across the country and bring in best practices or areas of concern so we can be looking at and understanding, there may be a different way to approach this; and from a regulatory perspective, from a safety and soundness perspective, you are looking at it to make sure it is compliant with regulation. But you also see a lot of unique opportunities and unique circumstances across the country. If some of that information could be shared in a fashion that is not divulging confidential information, but providing resources for the community banker—if you think about doing it this way. Did you think about doing it that way? That would certainly be helpful.

DOROTHY SAVARESE

Again I can't top Ron's comment because I do think there has to be a united front with the legislators to help them understand the real-life implications for community banks and I think we've established the criticality of the viability of community banks. But one of the things that the regulators could do was having a willingness to actually opine specifically on questions that are raised. So if someone says is this disclosure OK? Being willing to say yes, that is OK, and we will stand up to that in the next exam. In other words, being like a little bit of the battleship and keep trying to get an answer. Actually providing some sort of a collaborative approach that lets people provide questions. Get answers and then to Bill's point, share that answer in a way that other people can say if I need a disclosure on X, I can do that and that language is approved. So we don't have to reinvent the wheel each time.

KELLY KING

There is one impending area that I think we as an industry and regulators need to work on and we have to do this together. If you go back 30 years ago, if you know then what you know now, you could have seen this economic crisis coming around credit. I believe, looking forward, we have a far greater risk, and this is cyber security and cyber fraud.

We are doing virtually little about it. We have to find a way as institutions to work together and it has to be done through the regulators as well, particularly the Fed, where we transfer so much data and I'm chairing a committee and we will try to get the large banks and the regulators engaged. But every bank needs to be focusing on this and it has to be an industry solution, because the way it works is that one of us today and tomorrow move onto the next one. If you all could help us in charging, that it would be really helpful.

RON HANSEN

In Iowa, we have a payment task force that the Iowa Bankers Association has formed recently and we invited the Fed from Chicago to sit in on that and they've been gracious and supportive, but they've also expressed concerns about going too far and having some of the large banks be critical of them as regulators being involved in the protection of the payment system. I understand you have to walk a fine line there. You can't endorse products of particular vendors and so on and so forth. But we do need the support of the regulatory agencies as we work through this issue. This payment issue will be a huge issue for us going forward when you look at PayPal and what some of them are doing out there. I have concerns that we could lose control of the payment system.

SANDRA THOMPSON

Someone wrote a question: rank the following companies that most worry you in their involvement in financial services PayPal, Apple, Google, and Wal-Mart.

DOROTHY SAVARESE

That's the point I made earlier about you can't—when you think about your customers' needs and preferences—this disintermediation that's going on electronically with monolines and with payment systems is huge. I think both points are critical. The issue of cyber security is an enormous threat and has hit far more institutions than are willing to admit, and losing payments is important. I guess a less tangible thing, but I think one that might speak to some of the concerns of the people in this room, is the fact that you initiated an effort to really understand. Acting Chairman Gruenberg was fabulous this morning talking about the three primary reasons why community banks are so critical to the economic lifeblood of our country. We could use some support on a public basis because talking about it being perceived as a utility—and actually there does seem to be a complete lack of understanding with the cost of provision of banking services right now—but at the end of the day having some of the research that shows how critical the community banking system is to our country, particularly in semi-rural and rural areas, inner cities, has been pointed out. I think that would go a long way toward supporting the viability of community banks.

SANDRA THOMPSON

We have a few minutes left. I would like to ask each of you to just describe an opportunity as we move forward that you think community banks have. Where's the next sweet spot for community banks?

RON HANSEN

Let's start on that end. Dorothy.

DOROTHY SAVARESE

Oh good, because you will use all my ideas, I think, we have covered. We have covered wonderful, wonderful ideas today. Here's what I would say. there's tremendous opportunity that was touched on in the previous panel. I do think there is something that community banks have that almost no other institution has and that is the trust of its local customers. So as an opportunity, if you look at the fact that what you are trying to do, and our purpose is very similar to what was the mission statement that has been articulated, our goal is to empower our customers to achieve their financial goals. So we need to understand how to unleash that. For example, one of the major things we are undertaking—we make no money from it, but it's because we see it as needed—is financial literacy. I actually think engagement and financial literacy is an important opportunity for community banks.

BILL LOVING

I think there's a great opportunity for community banks to show their wealth and their worth to communities in programs such as financial literacy and educational programs to grade school, middle school and high school. That's critical going forward. It's surprising to talk with a particular customer service rep and they are helping someone balance the checkbook because they do not know how to write. We fail as an industry if we have that taking place in our country, and that's important. There's also another opportunity to take advantage of technology. That is a sweet spot we have got to use because we have the trust and have to find ways to become more efficient by the use of technology and products that the customers today and the customers of the future want.

KELLY KING

My best advice to all of us as community bankers is to own the relationship banking space. The large banks are moving with blinding speed toward commoditization and standardization for a lot of the reasons that have been mentioned. It's difficult for large institutions to own at a local level the relationships. In my 40 years there's only been one large paradigm shift in our industry and that's toward the demand for convenience and that's why all the investment in technological change is all about convenience. It's important. You have to do it. But there has been no diminution of the focus of clients on a really good relationship. So community banks can absolutely kill the big banks on relationships and that's where you should draw your line in the sand and stand firm.

RON HANSEN

What can I say after all that?

We need to keep doing what we are doing as far as our relationships with our customers. I think that will help community banks succeed. It will not be without challenges and we need to have as little regulatory burden to do what we do with our customers as possible. If we can't make mortgage loans because of some regulation that came out on escrows or qualified residential mortgages and so on, that would be a real shame in our rural communities. The one takeaway as I prepared for this is about the technology issues, and one of the problems we have on technology is every time we go to a vendor and try to add on another product such as mobile banking, they want another arm and another leg to add to that. I know Kelly's bank, I've heard one of his technology people talk and they've done a lot on mobile banking. We will just have to pay after hearing Tim Koch talk about his seniors in college. We will have to pay and have the product.

SANDRA THOMPSON

Thank you. I'd like to have everyone join me in thanking our panelists.

I think lunch will be served out in the hall. So thank you very much.