Lessons Learned and Successful Strategies: The Community Bank of the Future

PAUL NASH, deputy to the Chairman for External Affairs, FDIC

Why don't we go ahead and get started with our last panel? We will go ahead and get started with our final panel this afternoon. And I think I can speak for everyone when I say this has been a really fascinating and interesting day. We have heard from a lot of different perspectives on community banking and on the importance of community banking and it has been very valuable for me personally and I know I speak for my colleagues at the FDIC and others in the room. What we want to do with this final panel is turn our eyes to the future and talk about some of the strategies that have been successful in the past and help the agency and community bankers develop a strategy for moving into the future. My name is Paul Nash. I'm the deputy to the chairman for external affairs at the FDIC. I have been here three years, which, if you counted by months, puts me about at the average of my colleagues at the agency.

You have a wonderful depth of knowledge and experience at the FDIC. And we have that same depth up here on the panel. One of my duties on the agency is to staff our Advisory Committee on Community Banking. I'm very pleased to say that we got many members of the community both past and present in the room today and several have been on our panels. That is part of our outreach that really helps explain and decipher what is happening on the ground in the industry for those of us at the agency that don't have the opportunity to be on the ground with the institutions around the country. One of the things that has impressed me the most in working with this group is the strength and the resilience of community banks. I think Tom Curry really alluded to that or even more than alluded to with that described it very well that over the years and decades and even centuries there are a lot of challenges that the industry faces but we see a lot of innovation and resiliency and an ability to figure out and understand the new regime moving forward and to bring the industry forward as the prize. That is what commends the industry to our financial system, to our financial structure and our economic well-being. The overwhelming majority of banks were well-positioned to make it through the financial crisis. We saw things that I'm sure we never imagined we would see over the last three or four years. But the vast majority of institutions were well-positioned and were able to survive the economic downturn, and you did so while maintaining to a very strong degree the same level of lending that you had before. This is a sector of the economy that was well-positioned and able to survive in large part. I don't want to undermine or understate what happened. We had 423 failures due to the financial crisis. To date we have over 800 banks on the problem bank list and that is not insignificant. But it's also not the majority of the industry. Most community banks continue to be productive and to thrive. The panel before you this afternoon will explore the strategies that allow community banks to succeed during the crisis and we will discuss strategies for success in the future. I'm pleased to be joined by six leading community bankers who represent the breadth and depth of the industry. We spent a lot of time together over the past several weeks and these are deep thinkers who spend a lot of time analyzing how we got to where we are and how we are going to move forward. And so I brought them together to share their thoughts with you. I'm not going to introduce them individually because I think you would rather hear from them as they introduce themselves and, more importantly, their institutions and the communities that they serve. We will just go down the line and after that, this is more of a roundtable discussion, so I have a series of questions. As we have with the other panels, I encourage you to write down your questions and send them up to me. If I like them and think they're interesting, I will ask them. If I don't ask them, you can request the microphone and ask them yourselves. Let me start with John Evans.

JOHN EVANS Jr., CEO, DL Evans Bank

Thank you Paul. I appreciate being here. Thank you for inviting me here. It's been a great conference and very worthwhile. I am John's Evan Jr. from Idaho. I'm the CEO of a 970-million-dollar community bank located in Southern Idaho. We have 20 offices, four real estate offices and last year was our second most profitable year in our 108 years of doing business and we are excited about the turnaround. It has been a great run and it's a pleasure to be here.

MARTIN GEITZ , president and CEO, Simsbury Bank and Trust Company

My name is Martin Geitz. Our bank I think is the youngest bank of any bank on the panel. We will be celebrating our 17th anniversary next month. Our bank was founded out of really a state collapse and subsequent banking crisis that occurred in New England in the 1990s. Many communities with consolidation, many of the statewide or regional banks disappeared so a group of business people got together with a commitment to two things that continue to be our enduring mission. One was to provide respectful and excellent customer service all the time, which was something in short supply in the early '90s with many banks. The other was to have a local decision-making, a local source of loans for families and businesses in good times and especially in bad times. The Director of my bank -- about 2/3 of my directors are among the original investors, the original group that raised the capital. They were proud over the last three years we have been able to meet that test as we all know in the worst economic times since the Great Depression. Our loans have grown by 20 percent during that time period. We are now about $370 million in assets. And so we are very proud to fulfill their mission and provide a service to our local community.

JANE HASKIN, president and CEO, First Bethany Bank and Trust

My name is Jane Haskin and I'm president and CEO of First Bethany Bank. Oklahoma City is a suburb of Bethany. Oklahoma City doesn't realize that yet, but trust me, it's true here.

We are a $175 million community bank. We are a commercial bank and have a lot of commercial real estate loans in our portfolio. The bank is 109 years old and we are a Subchapter S. bank and the majority of it is family owned. Unfortunately, it's not my family.

I began my banking career in 1978 four miles away from a shopping center that had a bank in it. So I have drawn on that experience many times over the last few years.

ALDEN McDONALD, president and CEO, Liberty Bank and Trust Company

My name is Alden McDonald. I'm president and CEO of Liberty Bank out of New Orleans. Our bank got started in 1972 and in fact this year it's our 40th anniversary and I'm proud to say I was the first and only president of the bank. And I think when I get back tomorrow, I will still be the president.

I wanted to give you that part of the history because in the last 40 years we have had a lot of experiences not only with the economy, but our bank experienced one of the worst disasters and that was Katrina. Our bank lost everything during the Katrina hurricane. Lost all of its records, all of the files, all of its customers and all of its employees. So not only have we been through different economic cycles, we've also been through one of the cycles that I would not wish on anyone else. The year after Katrina was our most profitable year in the history of our company. Out of the 40 years we've been in business, we have been profitable every year with the exception of five years. Three years, 87, 88 and 89 was the RTC days. The collapse of the oil industry and the real estate market. Which was a major collapse and a major experience for us as well. The fourth year of loss we lost $250,000 because we tried something new. The fifth year of loss was Katrina. We had to make many, many adjustments in our 40-year period and perhaps through the questioning, through the questions that we will receive as a panel I will be happy to share some of those additional experiences. We are presently about $560 million in size and we are located in six different states.

RICHARD SMITH, president and CEO, Tri Counties Bank

I'm Rick Smith. We are located 85 miles north of Sacramento. Chico is famous for two things, I'd like to say, but we have been dogged by a quarterback Aaron Rodgers and the Sierra Nevada Brewing Co. pale ale. In fact, we made these two young guys a loan when they were going to college at Chico State because they were making beer for their buddies in their garage. And their buddies liked their beer and said you ought to go and develop a brewery and they thought that was a great idea. And they came to our bank with a business plan. We are not that nuts. We didn't say yes right away. But we found a way to do it. And they are now one of the largest U.S.-owned breweries in the United States. So community banks have a big role. We are $2.5 billion in assets, 67 locations. We go by the name Tri-County's Bank and we are located in 23 counties. It still sounds like a community bank.

And to our core, we believe we are a community bank and that's all we will ever be. If we think we need to be something different somebody else will help us. We have also in-store banks, 27 in-store locations inside grocery stores, something unique for us. We also acquired two failed FDIC institutions in the last 18 months. Which has been very helpful in times of trying to find revenue. So we perhaps have some things we can talk about. Thank you very much.

RUSS TAYLOR, president and CEO, RSI Bank

Good afternoon. I'm Russ Taylor, the president and CEO of RSI Bank. I like to think of us as one of the original community banks because we are mutually set up. We formed a holding company about ten years ago, which we only used and only put in place in case we needed to raise capital. We don't want to do that and we've not had the need to do that up to this point in time. We are 160 years old and some of my directors retired recently and that will tell you what we are about. We are very traditional in our approach. We always have been. Up until ten years ago, we were only in residential lending and we only had one office. So we are a fairly large organization with one office. We started to put up a few other branches about five years ago we have four offices now. And we have spread out and tried to diversify what we do. We have an insurance agency at this point in time. We do some non-deposits investment products also, so we have tried to take a little different approach than some of the other more traditional organizations around the country, but we still look to that mutual origin as the foundation and the cornerstone of our principles and what we do and how we operate on a day-to-day basis.

PAUL NASH

Thank you. I'm sure not the only one in the room who has enjoyed Chico's two finest exports at the same time while sitting on my couch. That's after we finish. Jane alluded to this when she talked about one of her neighboring institutions earlier in her career but what was different or what is different about your institutions that allowed you to succeed when so many of your neighbors and neighboring institutions and colleagues couldn't? And specifically, as I think about this, the hardest thing to do over the middle part of the last decade must have been to turn down loans that you knew weren't—credits that you knew were not going to be good and see them go down the street and get funded as your competitors grew. Perhaps to their detriment later, but how did you navigate that, how did you explain to your board or your shareholders or your partners that you answered to and explain to them and convince them of the need to maintain a prudent and steady course?

JANE HASKIN

If you survived the '80s, you would not believe how easy it is to let some people go down the street.

I think the fact that in Oklahoma we realized that we had basically three industries back in the '80s. We had oil and gas industry, we had companies that supported the oil and gas industry, and then we had an Air Force voice. Those were our main industries in the community. And our city and the banking industry played a key role in this. We all got together and said this isn't going to work again. We have to diversify and we did that, and then we lost so many banks in Oklahoma. Oklahoma, Texas, Louisiana, we've all had a recession a long time before the rest of the country. If you have that experience, I believe you come out stronger. We are just getting everything back together in Oklahoma. 1995 comes around and one of our federal buildings is blown up downtown. So we have had many opportunities to sit back and say what are we going to do here and, as a result, Oklahoma City is doing very well right now. Our banks are strong and we didn't get our customers over -leveraged this time. I think that's one of the things we made a mistake back in the '80s. Money was easy, the bank was rolling and there was a lot of competition. People, our customers were expanding their businesses too fast. North Dakota heed these lessons. Everything was going so fast and we were over-leveraging our customers and this time it was easy to let those people go down the street. In fact, we had out-of-state banks coming to Oklahoma, calling on us and saying look if there are some deals you won't do, send them our way and we will see if we can do them and they did. But it is not hard when you've had those experiences to let those customers go by the wayside.

MARTIN GEITZ

In Connecticut, we have had no bank failures in this cycle. We have had a number of banks that either had to be recapitalized or have merged with other banks and sold themselves to other banks because they had no choice and in all of those cases the primary culprit was that they had an unhealthy concentration of commercial real estate loans. I was fortunate enough to earlier in my career to spend quite a bit of time in commercial real estate lending and was with a large New England institution that thankfully got through the cycle, but not without a lot of pain. Twenty years ago, I had a lot of experience with the downside of healthy concentrations of commercial real estate loans; and as I would look at some of my peer community banks with 300 percent or 400 percent or 500 percent of capital in commercial real estate loans, I could not see it. We were very careful about our commercial real estate lending and focused on C&I and consumer and residential lending. And as events unfolded in 2008, we had very low delinquency rates and were in strong shape to be able to go through and be a great resource to our customers in the marketplace we serve.

JOHN EVANS, JR.

Excuse me. We had excellent core earnings. I think that's what got us through this downturn. We are the second-oldest bank in Idaho founded in 1904. And we are the largest community bank in Idaho. We had a great geographical diversity and great liquidity and a great diverse loan portfolio. We kept loan limits low so more than one person had to approve these larger loans. The failed banks they had lack of liquidity. They used brokered deposits. We never used brokered deposits. There was a concentration in commercial and residential real estate loans. The failed bank we only had one, there have only been two banks that have failed in the last 40 years and this last one was in a resort community. Sun Valley, Idaho, a great location, but they expanded into Jackson Hole, Wyoming. And when things went south, people didn't buy second homes. It was very, very difficult in those resort communities. We didn't do participation loans in this last downturn. But the bank that failed had a lot of participation loans and sold those loans to other banks and it hurt a lot of the banks there in Idaho.

RUSS TAYLOR

One of the things that I question was what happens when somebody came into your office and it was not a good credit and they walked down the street. We would smile obviously. The real question to me was what happened when a good credit came into your office and because of the crazy underwriting, walked down the street and we lost a good customer. That was the thing we had to constantly try to explain so what I found out through this whole downturn was most important thing was communication. It was a discussion on a regular basis with the Board of Directors of our strategic plan, our vision, who we were as an organization, reminding them we could be making more money if we did this, but here is why we are not doing that. Having the same kind of conversation with my senior management team to a different level and a different conversation. Having a conversation with our staff and employees when you could and needed to with customers who walked into the bank to help them understand why you weren't doing certain things, what was going on in the economy at the time and generally being available for communication to the entire community of the surrounding towns we serve so that there was a dialogue. It was not just me talking. It was me listening as well as talking. Trying to allay the fears of my employees and trying to explain to my directors why it was important we were doing what we were doing. If we are looking to match for the long term, there's certain things we should not be doing right now. There's reasons not to change the business model. Always question it and look at the business model and see if there's a paradigm shift you need to respond to. But short of that, if you have a plan that got you 160 years and it's working, don't change it and don't see the bright lights out there and think I want a piece of that pie and I want to be part of that game. It's not a sexy business. It's an incredibly important business and we have to take seriously and remind our board members, and I think I am very fortunate to have a good board that understands this that it is something that is very important to the economy and the community, and there's a reasons why we are doing and not doing certain things.

ALDEN McDONALD

There were a couple of lessons that we've learned and we were reminded in two short periods of time. One was in the late '80s, when there was the collapse of the oil industry and the real estate industry and a lesson learned there was make sure that you have diversification. And diversification has been a key to our success over the years. Diversification and the customer base, diversification in the lending side and we really focused on that in all of our strategic planning.

And then came 2005 we were reminded again that diversification was very important. Diversification in no way that it's hard to imagine but we lost 85 percent of our customer base that literally moved out of town into new communities. We literally lost 70 percent of our employees that moved to another community. So after the 2005 we had to go back to focus again. One of the fortunate things that we have done over the years—we've always had strategic planning sessions that really gave us focus—after the 2005 we went to our strategic plan to help us with some of the obstacles. And in looking at the previous strategic plans, the diversification issue came up over and over and over again. And we have a theme that runs pretty high in our institution. And that is whenever you run across an obstacle that “O” also stands for opportunity. So with the hurricane in 2005, with the collapse of the real estate industry in the late '80s, we looked for opportunity. That's when we began looking at a number of different diverse areas of business. We became a community development bank prior to the 2005 collapse. Not collapse, it was not a collapse. It was a collapse for us as far as our community was concerned. We were into the new market tax credit business. We had a community development corporation where we put a lot of special products together. So diversification is the lesson that we have learned and was reminded of it two times in a row, and then this last economic downturn told us and gave us a validation that because of diversification we did not have the credit issues everybody else had.

RICHARD SMITH

I think one of the things that really helped us in looking at the past cycles and the things that have happened is not necessarily looking from a banking perspective, but our culture really comes from agriculture and our board, at least half of our board has generally been in agriculture throughout our existence and farmers think differently than the rest of us. They live in a world of peaks and valleys. So they tend to try to find the middle pretty easily because that's a safe zone and they like to make sure they protect themselves that way. I came into the bank. I was not a banker. I was not born to be in this sport. I was in the produce wholesale business, a very interesting business to relate to banking because it is a fast-paced supply demand business with a perishable inventory.

And it really makes you think about risk management a little bit differently. So we really from a cultural perspective put boundaries and parameters on ourselves. And I think staying within those is what makes a bank stay over the long haul. When you think you can violate those rules—and sometimes you do, we sure make our share of mistakes—we find out very quickly, those rules are pretty certain and you will be punished by them. Fortunately for us, our mistakes have been small enough that they did not bring us down. And we have watched others make much larger mistakes and therefore lose their banks. Of any lesson I've learned, that's one of them.

PAUL NASH

I hear a lot of discussion about diversification and the flipside of that of course is concentration risk. I think the earlier panel this morning added a very robust discussion about concentration risk. As you think about the community banking industry going forward what other revenue sources exist, how do you find that diversification that Alden has talked about that some of you have? How do you find that diversification and avoid or protect against concentration risk?

ALDEN McDONALD

What we have done over the years, as I stated in our strategic planning session, we always looked for new sources of revenue. I talked about the theme that we have, the obstacle versus an opportunity. And we have learned to look at downturns; we've learned to look at changes in the marketplace and to extract an opportunity. Someone on the previous panel mentioned that the banking industry in the early 2000s, let the mortgage business to nonbankers. And the nonbankers basically outmarketed the banks as far as selling that product. They took it to another level. They took it beyond where the banks would have taken it to if it would have stayed within the industry. We also looked at the consumer loan industry. And now we see payday lenders in that space for the consumer lending that we previously had in the bank. And the third piece that we are looking at now is the credit card industry. We permitted nonbanks, we permitted the larger banks, to take over the credit card industry. We stayed in those three industries. Because we saw opportunity. We saw less competition. We saw a niche in the marketplace that made sense for us. And we created income sources that perhaps others forgo in their planning process. In addition, we looked at community opportunities. In our Community Development Division, for example, we rehabilitate houses. We build houses in our Community Development Division. We mitigate the risk by having a partnership with different nonprofit agencies, the city and the state. That has been a good business for us. And we have a way of mitigating that risk. New market tax credit has been a great source of revenue for us. We were one of the first community banks to be awarded new market tax credits. That's in the early 2000s. So we have been involved and we have been trying to identify different mechanisms to bring in different types of mechanisms. We've been an innovator. If you take a look at your community today, you have cities, state and government agencies that are putting nonprofits into the lending business. My question is, how come we have not gotten into that same space? Because we do it every day and it's a source of revenue. So we try and create new opportunities with problems that we see in the communities in which we service. And all of those things have been pretty good in developing new revenue sources for us, which has been helping us on the net interest spread side as well. So those are some of the things that we have done to generate new revenues.

MARTIN GEITZ

I'll tag onto one of the things that Alden mentioned, which is the residential mortgage business. In the past four years, the independent mortgage sector in Connecticut has shrunk by about 80 percent. So there's a lot of opportunity for other players, predominantly banks, to increase their residential mortgage activity. Although we are a commercial bank, our balance sheet looked more like a savings bank. About three-quarters of our bank were in mortgage and consumer loans and about one-quarter in commercial loans. So we feel pretty good to do that business beyond our home franchise area. Our balance sheet currently is only about 25 percent commercial, so although it's not new and it's not novel, one of the things that will help us in the next few years is to take advantage of the disruption in the marketplace with some competitors disappearing. Some competitors have grown through mutual conversion and have capital and are now focusing on a different market tier. Changes in what the big banks are doing creates an opportunity for us to expand our commercial business. That's a secondary we are looking at and working on today. The third area is a little bit down the road. The first year of the baby-boom generation last year hit 65. There are an awful lot of people in the baby-boom generation who need advice and counsel not only in wealth accumulation but how do you take that bucket of money in your 401(k) and turn it into income streams that will last you through 20 or 30 years of retirement? The community bank model, which is high touch as we've heard throughout the day and very customer service and friendly-oriented is a natural delivery model for helping retirees manage their cash, convert their investments into safer longer-term investment or medium term and short-term investments at the bank. We think a bank is right in the middle of that, so we will work on that as well.

JOHN EVANS, JR.

I joined the bank in 1979. We were 100 percent agriculture. The first office is located in a community of about 350 people. I expanded and opened that second office in our present location in Idaho. We started using FSA-guaranteed lending. Which was just tremendous when examiners come in they only classify 10 percent, not 100 percent.

That helps. We are also the second largest SBA lender in Idaho, so we give those government guarantees to help support our bank.

RICHARD SMITH

Noninterest income is a big proponent of ours—consistently 25 percent of our revenues. And that's extremely helpful in these times when we talked about earlier about spread. The first question today was about spread and declining over a long period of time. What is the realistic prospects of it going backup? I don't have a lot of high hopes for that. And that's what makes this noninterest income component so important. For us the noninterest income we've been at this a while. Certainly service charge fees are an important component. I see a lot of community banks afraid to charge their customers a fee for services. They provide great service and great convenience to our customers. I know we did. We have 74 ATMs sitting out there and seven days a week there's a lot of cost to that. And so in return we should expect to charge a fee for that service, although these days that seems to be under attack. The other component is mortgage and lending as others have talked about. I also agree there has been an exodus of people and there are fewer out there to compete against, and we are finding our spreads on that business is a little bit better and we are excited about that component. And of course, with these interest rates, it's a good time and we also service those loans. Not that we think we make any money servicing but we do identify we think with our customer when every day, every month they write their check for their mortgage, and it has our name on that check. So if you have a checking account and we finance your house, you develop deeper relationships, which leads to other products that are important. We are affiliated as our broker dealer and we sell mutual fund annuities and retirement plans and 401(k)s for that vehicle. And we see that going forward a real opportunity as that industry is in a little bit of an uproar, but consolidation of the traditional Merrill Lynch group into the big banks, those people working there are starting to rethink where they were. And we've had some success bringing those into our organization that have more talent than we've had in our bank. We see that is a real opportunity for growth to continue to try to drive noninterest income because we heard years ago that you can't live on a spread income alone; if you really look at the industry, particularly the banks, we are still living too much on spread income.

RUSS TAYLOR

I alluded to a couple of things we started to do to diversify number of years ago. Let me take you back to when I became president in 1993. We pretty much did one thing, mortgage lending. We had one product. An ARM and you either took it or you didn't bank with us. Or at least you didn't get a loan from us, so the diversification was definitely in order. One of the things we did in those days was try to pass on as much savings to the customer as we could so we ran a very, very efficient shop by intent. But then we were not broad with what we did. The problem was that as you start to do more things, you need to look for income from some source and the thing that our customers would not let us do is jack up fees. So we made the decision at that point that we were not going to increase fees significantly. We would watch the market. As things went up, we would go up, but we do not get much income off fees. When the overdraft checking programs came out, I refused to put them in. We have an overdraft program. It does not make a lot of money, but I always thought that if you are a community bank, why would you try to get the customer to overdraw and spend a lot of money on overdraft fees if what you're trying to do is build a relationship with them. I've had that argument with people down here in Washington D.C. I don't think that makes sense and I don't think anyone that runs community banks should do that. So what do you do? We decided we could probably do some insurance sales and establish an insurance agency and try and bring fee income in that way and that's what we did. We went against conventional wisdom and did not buy one initially. We started it from scratch and we did that intentionally, knowing full well that would cost us money. But that's one of the beauties of being a mutual institution. All you had to do was make sure the regulators understood and were happy with what you were doing and you had a plan in place, but we didn't have to worry about spending money to get this started. And that's what we did. Shortly thereafter, we bought a local agency and that gave us a basis to get started with. In the early days, we made quite a bit of money off it, but it was mostly from annuity sales, which there's nothing wrong with that. But obviously that will go up and down with interest rates in the marketplace, and what we wanted was a full service insurance agency. So it has taken us a number of years to build that, but my concern was that if I buy an agency, how do I know that the way I deliver banking products and services is the same way that man, woman, or group will deliver insurance service sales? So that was the reason we needed to build it ourselves and take the time to get it done. But we did that and it's now profitable. It did not make a lot of money over the last couple of years, but we have a young guy running it now that's making money. At the same time, we started to look at can we diversify our lending practices, our residential lending practices. Honestly I have no hard feelings to the FDIC at all because they came in and kicked us with CRA. I literally took over in the first of the month and two weeks later I had my first CRA exam after five years of telling our board that you will get killed and you will get killed and sure enough I became president and we got killed.

But it was the greatest opportunity in the world for us because of Alden's comment. We look at every problem as an opportunity to find something good to do, something different to do that challenges us. If you're sitting there with money in the bank, people don't take the chance. That's the time to question what can you do and is there an opportunity out there. So at that point I cursed out the FDIC to my board quite honestly, not meaning it because I was thinking I can make them the bad guy. I have to do this because of them knowing full well I needed to do to survive and grow the institution. So we became a full-service mortgage lender. We do all the things out there better, normal and traditional beyond the one product. We don't do any of the problems that got everybody into trouble during the 2000-2010 time period, but we go beyond one mortgage. If you don't want it, you don't have to come here, so we changed that philosophy. At the same time, we worked in commercial and we decided we would not get into that quickly. We took a number of years to do that and we first started talking in 1998, when I came back from a conference and suggested to my board we needed to look at it. And 2003 we actually started to do some. So it only took 14 or 15 years. When we started then, it was a slow process. We decided we were not going to do it quickly because it's a whole new ballgame for us. We are not used to this. We had a young lady who was an attorney and worked for us for a while and we asked her to start putting a program together and work with outside counsel. That took a couple of years and in that time period we started to look for a lender and some support staff. We did that. We are located just south of New York City; that is a heavily industrialized area of New Jersey. As a result, there are a lot of small, midsize organizations that we knew were not happy with big banks and at some point in time, they would start to leave those guys and guess what, we started it and three years before there was a problem and the beauty we have now is we are able to take some really good account relationships and customer relationships and make them long-term relationships right now. That has done a lot to add income to the bottom line, both fee income and spread income.

I served on the board of one of the pension companies and they came up with a great non-deposit product a number of years ago. We decided we will take a look at that, and it allows us to sell to our customer base—the same family if you will—of mutual funds that are in my pension that are supporting me and all my staff when we make our contributions on a monthly basis or paycheck basis. Those same mutual funds can be sold through the agency to our customer base. So that's the things we were looking at in our diversification. We had an insurance agency and commercial lending, we brought our non-deposit projects. We did not increase fee income on traditional services, and at the same time we started to change the complexion of the organization and become a community bank that was more rounded and diversified.

JANE HASKIN

We made a decision that we were not going to change our model of the way we were lending money because it was working very well for us. We decided to invest in technology. For a $175 million bank, five years ago we were $125 million. We had 40 full-time public employees and we have 39 now. We have added remote deposit capture. So I can thank anyone in Oklahoma City or anyone in Oklahoma. We've added mobile banking. There was a wonderful gentleman by the name of Gordon Moore who is a cofounder of Intel, and back in 1965 he developed a theory that is known as Moore's Law. Basically, it says that the power of computing doubles every two years, but the price remains constant. And so we are really betting on that because we are growing. We had the best year we've ever had last year profitwise. So we have been able to grow the bank and keep our costs really steady. Let me give you some of the numbers. We spend hundreds of thousands of dollars on technology, but over the last three physical tiers, our costs increased $41,000 per year in technology. However, our postage and/or stationary cost went down $31,000 per year. So the net cost of those three new pieces of technology to my bank was $10,000. Now I can get a lot of customers and spend those kinds of dollars. So if as a community bank you are concerned about technology, don't be. Embrace it. It is here and it could really help you.

PAUL NASH

Do the others want to address the technology issue? I think it is safe to say that the technological innovation has played a critical role in the evolution of the banking industry. And new applications and devices abound. There are so many ways to get in touch with your customers, or more importantly, I would think your customer's children who are your customers of the future. So what steps are you taking to meet the customer preferences for new technology and how are you addressing that in your markets. Let me start with John and go down the line.

JOHN EVANS JR.

We formed a technology committee that meets monthly to talk about new technologies and get on a plan to be successful. We also have a three-year technology budget that is based on what we think is expected changes that will be going on in technology. We have to continue to put resources in technology. We use vendors and technology providers to provide us with comparable products. We are not the number one out of the chute in technology but we have top IT talent, smart, hard-working, and honest owners and employees. In 60 days, we will get our mobile banking going, and our technology committee and our group attend conferences. Of course, we read trade magazines and listen to our employees through our technology committee.

ALDEN McDONALD

I keep referring back to Katrina. In 2005 I mentioned to you that we lost staff etc. And in our planning process, in our strategic planning process pre-2005 we looked to the future. As we normally do every three years. We take a hard look. So when we have to hire new employees, we made a conscious decision to bring in 15 young people into the industry where most of them came without any banking experience. And we had the 15 people to meet with the management team every month. And we still meet today. Some 5 1/2 years later, every month. And the charge we gave to them was tell us what the people of your age group want to see in a bank and what services are they looking for. So we have been transforming our institution with the technology to meet those needs. And today some 5 1/2 years later, those 15 individuals are in charge of some of the major areas of the bank. We have three new products that we just launched and we have launched a number of them prior to this. But there was a software that was developed out of California where we partner with the company and we also partner with our commercial customers. We picked up a $50 million average-balance zero-interest account because we were able to offer some services to the employees of that company. And it takes the place of payday lending because the loan is made to the employee. The employees make it by way of the Internet. It is payroll deduction that is sent out automatically with the employer. And we also have a lot of education courses that we do on site for all of the employees. As a result of that, we now have mortgages that we are doing for the employees, opening accounts and things of that nature. The second product we just opened is called overflow. We have not given it a name yet. But this product can lend online and removed a lot of the cost of handling a customer. It is our credit standards, by the way. We also have a second-look piece in there. And it could also open accounts. And we follow all of the regulations, all of the compliance and it is all built into the software. Those are just two pieces that we were able to use in soliciting a $50 million average-balance DDA account from a corporation because they needed some services for their employee base. The technology for us has been very good. We have all of the whistles and bells with the technology, to remote-capture and things of that nature, and the remote capture has worked well for us because a lot of the customers who were with us pre-2005 are still banking with us. And now we have consumer capture where they can make deposits from where they are today.

MARTIN GEITZ

In an earlier panel, one of the bankers was talking about what we all know that by the end of March, we have to comply with ADA requirements that affect ATMs. As we looked at our different options for ATMs, there were a range of options. We could have replaced what we have with relatively inexpensive but compliant machines, or we could go with really the state of the art that would allow customers to do a lot of different things with an ATM and reduce paper and so forth. It was going to be a lot more money. We decided, for two reasons, to go with the most expensive option. One was we thought from a productivity point of view, it would create some efficiencies internally. The second thing was from a marketing point of view. One of the challenges we have with those potential customers who are considering us but they are worried that we have a community bank that don't have the level of technology, the level of products and services that they think they can get with the regional and national banks. That by having a state-of-the-art ATM would be another visual example that we are state of the art and they make no compromise in doing business with us compared to a larger bank. Another area of mobile banking has been mentioned where we will implement that later this year or early next year. And the third area has been things that are helping us internally. I was at a Connecticut community banker event a few weeks ago and the speaker was a technology person who started a company that has developed technology that will help us, community banks with compliance issues. It's terrific and one of the things that we will experience over the next few years is that there will be plenty of entrepreneurial people out there who will come up with ways to help us manage our compliance responsibilities in a relatively manageable cost effort. But one of his slides were series of slides was comparing the assets per employee by different types of banks and community banks it was whatever the number was. Regional banks was more assets per employee. Big large national banks have a lot more assets per employee. And then a compare that to the mutual fund industry. Lots more assets per employee. And so essentially this point was you in the community banking industry need to focus on your internal productivity and how many people it takes to service that set of assets with the customers associated with those assets and we've been trying to find ways internally to be more productive. And one area I mentioned earlier we have expanded our mortgage business significantly and made a big commitment about a year 1/2 ago to a whole new technology system. For that will not only lead us to the business well, but it will be a lot more productive in terms of tracking data, populating HMDA, process flow, a great leap forward for us in terms of technology. We think that will allow us to grow that business without necessarily having to spend as much money as we would've had to spend on people for that part of the business. And then maybe the final example of that is we have had a core system for years. We were the first customer for our core system provider 17 years ago. Over the years they have added enhancements but the folks who use the system were very comfortable in the way they were doing the business five years ago, three years ago, ten years ago. So some of those spreadsheets that really were no longer necessary they continue to be part of the process. So that's an area we've been working on for last couple of years. Embracing technology, let's use the tools available to us. It is hard for people to change the way they do business but we have to let go of some of these spreadsheets and let the system do what it can do for us.

PAUL NASH

As we continue to answer the technology questions, one question we have from the audience is how supportive are your boards relative to new products and innovation and how do you bring them along if you sense any reluctance?

JANE HASKIN

I will tell you when we first got our mobile banking app—and I would suggest you get started on that right away—we had to pull a lot of those services back under our core provider so that we could enable our local banking to work. So it has been about a 13-15 month process for us to accomplish that. We had to convert our Internet banking to our core provider. So it's not just a simple thing you roll out. It takes six weeks to get an Apple app approved. But anyway we go through all of this and we got the mobile banking and we were so excited. We knew customers wanted it and the numbers were not getting there for us. So we took a step back and said why are we not getting this product out? Our employees didn't know how to use an iPad or an iPhone or an android phone, so we went out and bought all of our officers iPads. We bought all of our directors iPads. And we bought our people in IT iPads. It sent a powerful message to our people that we will embrace the technology. Our numbers are going up very well on our new products. But the mobile banking, you really have to show customers even if they are tech savvy. You have to walk them through how that all works. And if you don't have the people that know how to do that that, have never used those products— the first time our directors were trying to use that they could not yet the finger swipe on the iPad —and if you're trying to show someone how to work that it makes it very difficult. But also the powerful thing about that was it sent a message to all of our employees that we will accept and embrace technology in the future of our bank.

RICHARD SMITH

I've been working for a long time trying to get our directors to step up.
So they were getting their information—you send these packages of papers home and cutting down national forests to do it. And then they started to receive the information on their PCs and the solution to that was you can just print it out yourselves and then I was getting the complaint saying you need to start buying the paper.

And I said I don't think that will work. You don't need to print it off. So the last board meeting they all sit down at the table and they all opened up iPads and there it was. We built the solution for them and everyone is using it now. But wow, that worked. So they are embracing it at a level I never thought was going to happen. So that's very positive. If anything will happen in the future that will change our industry, it's technology. I know almost every day there is a new thing that becomes intriguing on how we could apply that technology to our banks. The biggest reservation I have is security. And that doesn't mean just banks, I mean computers in general. We are chasing something that's chasing us. And we feel confident in our systems and for example, in one area, commercial accounts, we think we are doing the things we need to do, but I'm not sure our customers are. And we have had situations where the customers have not managed their systems and they have been hacked and they have lost substantial money. That loss becomes suddenly our problem. Because whether it's our problem or not, we are their banker and it's our problem. So I think the security area—all of this is coming real fast. We want to adopt it and at the same time it is push and pull at all times. So it's a little bit scary.

RUSS TAYLOR

I will start with the question first and then talk to about my views on the tech in general. On the day that iPad came out I pre-ordered one. And had it delivered that Saturday. And within two months, my entire board—even though my old directors had just retired—my current board was on IPads. We bought them iPads by June of that year and we do all of our meetings that way. There's no paper anymore. And they are all comfortable with it. Some are younger and some are older and nobody had an issue with it. In the long run and they understand it and embrace it. We always looked at it high-tech, high-touch. We always looked at technology from behind the scenes to do the things that would make us more efficient maybe we would not have to add as many people. And high-touch because that's what we do as a community bank. We engage the customer in that face to face. So we have a lot of the tech things out there and we don't believe in them. But like everybody else is concerned about security on some of these things, that's what keeps me from moving too quickly on them. There is one thing that bothers me and we all have to be concerned and think about it. Whenever one of my employees comes and says how about we do this and that, and my first question to them, I say, what would Bank of America or Citi or Chase do? That's what they are doing. And I say that's what we don't want to do.

Because at the end of the day as community banks, if we take that leap and start to do those things, then my question to them is what makes us different than them? Why would anybody want to come to me or to us if what we do is what they do. So we have to look at how we deliver products and services differently. We have to have the basket of things that are there no question about it. I remember this all started and we had ATMs and we got all the direct deposits went through the roof and debit cards and I had a line three times a month that would go from that podium to that door with customers waiting in my lobby. They never had to wait long, it was maybe ten minutes because that's how quick the tellers were but you know what it did is it let me see my customer, let me talk to them and cross the products because while they were in mind, start asking questions. The question I have about technology is if we are successful in delivering technology the way we think we will need to, what will be that face to face? What will be the relationship we have with our customers? I have a CEO who came to me that my son came home and this is about technology a story. And he lost his cell phone and he said use the house phone and call. “I can't do that.” So after a long conversation, he realized that it was not cool anymore for this generation to talk to each other. That they actually had to text so he had to wait till his brother got home, got his phone and text that he needed the homework. So what does that say about the next generation of customers that we will get? Do they care to see my face or your face? And if we bring in the technology which I think we can't not do, we don't have just security issues. How do we stay that touchy-feely community-oriented bank and banks that are in this room that we've always been? So I think that's the challenge. One of the things I'm talking to people about right now and we are in the early stages of it. We've been doing some of this, but it is time to start developing emotional connections with your customers. Anybody that has a brand out there has developed that emotional connection. There is something about you that they like whether it is IT or not. We are small and we are all smaller in this room and don't have the kind of ad campaigns that are out there, but what happens is the emotional connections are developed. And I think while we still have them coming in our door—we are bigger now than we ever were and have fewer customers—so how do I get to my customer? There's technologies and ways to deliver information, but I want to do it this way. I want to sit across the table from someone. So now is the time with technology that if we win, we have to start developing the things that differentiate us enough, that develop that emotional connection with customers and then worry about how do we develop with the customer that may never come into the bank.

PAUL NASH

Do you avail yourself of the social media at your institution? And what do you think of its potential?

RUSS TAYLOR

A couple of things on that. I was the one that had been asking all my young people do we need this, do we need this and to date nobody came back and what if we go on Twitter and make sure we complied and just put information about the products and things to anyone who wanted to follow us could. And I said why would anybody want to be a friend to the bank? Because that's what you have to do. I'm not on the social network personally, so I'm talking from an ignorant position but from what I understand, you have to say yes, I want to be your friend. But why does someone want to be my friend and I don't understand that. One of the first things I did was say I may know banking up until now, but I don't know these young people. So I talk to the young people in my bank and I have them redeveloping our website. They are tellers and I'm giving them the opportunity sit down and talk and what is it they want to see on the website. What do they want to see and delivery of services and I'm taking my lead from them because I'm too old and my 30-year-old people are too old. If you listen to 30-year-old people about social media, you are out of it. You have to talk to people in their 20s and probably in their teens if you will get information. So maybe this summer we should all hire high school kids to work for us and then pick their brains because that is really who will be driving the profits in our organization in the not-too-distant future.

PAUL NASH

My 15-year-old doesn't text anymore; it's only Facebook for him. Rick, are you on Facebook? Do you tweet?

RICHARD SMITH

I'm not on Facebook and don't plan to be on Facebook. I have a hard time as a banker to be on public airwaves that has so much personal information when you are taught every day to keep that information protected. So that's a huge dilemma. So there must be another way to use this at home to our benefit and we should not ignore it, but I guess you could type my name in Google and it comes up and says how much money I make. I can live with that part, but I can't live with my information that came from my bank about my customers. So we have to draw the line somewhere.

ALDEN McDONALD

Two years ago, that was one of the first recommendations the young group made to staff, to management is to go to social networks. We spent some $300,000 putting all systems in place and looking at the rebranding and went through a couple of companies that we fired after they wasted some of our money. And the conclusion was that we would not do Twitter. It was too risky, reputational risk and they are still trying to convince us to do Facebook. So we are looking at the Facebook but one thing we did employ we call it in-your-face marketing campaign. And we have developed some 15,000 e-mail addresses and we are in the face of those 15,000 people twice a week. And we have developed a marketing campaign for products and information, the social media piece we intend to use in the market. This is the only way we are going to be able to get our product out, our message out and spend less than the Chase or Bank of America with their marketing budget. We can't compete so we feel we can compete by using this social media.

JANE HASKIN

If the newspaper came to you and said that we will allow you—this is a national newspaper, very reputable and they came to your bank and they said we will allow you to run an ad in our paper for free any time you want to, but you are responsible for the content and it has to meet all the regulations and as an added bonus, if you will give us the address of all of your customers we will give them a free subscription and make sure they get your ad for free. Social media is simply using the Internet. If you are using e-mail, you are using social media. If you have a website, you are using social media. It is just different channels of delivery of our products. I see social media as a way to embrace more of my business with my customers, not an alternative. My daughter I can call her on the phone and she won't answer it, but I can tweet her or send her an instant message and she will instant message me back. It drives me nuts.

But that is her choice and that's what we are missing. This is our customers' choice in how they want to receive their information. That's what social media is. It's the customer telling us how they want to get their information, not us telling them how they will get it. And that's the beauty of it. Have any of your banks looked at crowd sourcing? Do you need a new graphic? You can put out a site with crowd sourcing and they will do graphics and you can have 300 in a month. I bet you could have 300 suggestions for a new logo and it might cost you $500. Those are things that we can use and embrace and as community banks that are inefficient. And I tweet, I do Facebook, I didn't want to, but as CEO of my bank, I have to understand that to know how we can use it in our bank. By the way, I will say mobile phones most of them have 128-bit encryption. If you don't know what that is that means, that it's equal to sending a secure e-mail. Now we send e-mails all day to people talking to them. It's a vital part of our bank. Those are not secure. Secure is like when you are doing shopping on the Internet. And that's the security we have in a phone. I think we need to educate our customers on that. They can't use my system unless they use their same Internet code that they sign on with their computer. We have to teach them how to secure that handheld computer that they are carrying around, but I see this as an opportunity like nothing we have seen before. It will be revolutionized when Apple starts putting a chip in their phone. That whole system will be revolutionized. And we need to be there at the table and be part of it.

MARTIN GEITZ

We are currently not -- OK.

QUESTION

If there is one thing that I think I heard today, it's how important innovation and change is as it relates to the future of community banking. And I'm wondering if the panel might comment as we think about innovation and change as to what the FDIC might do in innovating and changing that would make our jobs much more effective than we are doing?

MARTIN GEITZ

I thought that was a question for you.

PAUL NASH

I heard it as what does the panel want to see. We have probably seven or eight questions here that I'd like to get to in the few minutes we have left. One of them is what would a regulator of the future look like and how does regulation need to change. Is our examiner force prepared to examine you for your security and your encryption technology? Do we need to give all of our examiners iPads and android devices so they are familiar with it? These are issues that we have to tackle and address and we need to do it ourselves and in conjunction with you. But if you have thoughts as to maybe through Twitter, I don't know. But what are your thoughts as to how we need to evolve with you as the industry changes?

MARTIN GEITZ

Our experience with IT exams from the FDIC has been the focus of those exams is on risk assessment, risk management. Do we have systems, processes in place to ensure that we have a secure environment for our customers, for ourselves and our own data? So I would say on a high-level, I think that the FDIC's approach to technology has been appropriate and they are looking at the right things and essentially expecting us to be up to a standard on identifying our risks and managing our risks effectively. I would say that, as with the advent of the iPad and the iPhone, it seems that the change is accelerating. There's a burden on the FDIC to keep up with that and to look at ways to ensure that the process that is helpful to us, that they take us through now in the examination, continues to be helpful and is at the next level.

JANE HASKIN

One of the things we are going to have to do is to enhance as an industry, embrace and enhance how we handle mobile payment systems. Our customers are used to Twitter. And for those of you who don't tweet its instant message and I challenge you to follow the *Wall Street Journal*. I promise they will help you. But I would suggest that we need to look at one-day settlement of ACH. I think we need a national registry or some kind of organized system to allow for P2P payments within banks. There is no reason with the technology we have that I shouldn't be able to send you money at your bank just with your phone number. We ought to be able to tie all those together, but we have to come together as an organization and people as part of our payment system. We've always prided ourselves in having a payment system, the control of the payment system. It is rapidly leaving us. Look at PayPal. They are taking deposits and holding our customers' money. They are not FDIC-insured. Our customers feel very comfortable using those because they feel comfortable in our banking system. They don't realize that they are outside of the regulation or outside of the banking system. So I think we need to encourage our customers to use us for those products because we have regulation and we have the FDIC insurance and we have their trust. And so I think there's some modifications that need to be made in the payment system to help us react properly to our customers, and I would suggest that we have the same rules as we do for wires, where the burden is on the sender. If you make a mistake, you have to take responsibility for that. So those would be my suggestions.

ALDEN McDONALD

Earlier I mentioned that the banking industry permitted nonbankers to do credit cards, nonbankers to do consumer lending; and if we are not careful, nonbankers will be handling our payment system.

RICHARD SMITH

They will be handing the payment system except for the paper part that costs the most money. We get to keep that part. And that's the part I'm worried about. I think one area the FDIC could help us is in our core processors. And I think the core processing companies that we are all doing business with are getting further and further and further behind. And as we have these new regulations and all these connections that we have to comply with on an immediate basis, the time delivery of that core processing solution is getting pushed further and further back and we are becoming extremely antiquated. Because of that, these new add-ons and business to business and all these great things we would like to do will never happen until that core works properly. For me, as one bank out there yelling and screaming at my core processor, I get nowhere. I team up with other banks and say let's all go in together and yell and scream, we get nowhere. We get told that it will be in the next version coming out in 2017. I think the FDIC—and I thought about this during Y2K when we were all trying to prepare for Y2K and try to think of every possibility—at the end of the day, the core processor was largely responsible for much of our risk there. Perhaps the FDIC is extremely involved with those groups, but I feel powerless as a community banker to take them on.

PAUL NASH

Alden I have a question from the audience for you relative to your $50 million depositor that you referenced. How do you address deposit insurance coverage with that customer? Are you concerned about it and then let me broaden that into a question for the group if we could just go quickly? Where do you stand on the transaction account coverages, extending that or letting it expire at the end of the year?

ALDEN McDONALD

I think it should be expanded because that's one of the benefits we get when we are selling our bank to a large group of customers, and I think that's very important for it to be extended. It permits us to really participate.

PAUL NASH

That particular depositor, that's a transaction account?

ALDEN McDONALD

That's correct.

PAUL NASH

Quickly.

JOHN EVANS, JR.

I think it should be expanded and continued.

MARTIN GEITZ

I am with Kelly King. I think that the trend from the Hill—we are in a moment where there's a lot of anger in the country that has translated through our legislators that create this opportunity to have regulation shift from what is historically been healthy and appropriate to something that's more prescriptive and more centralized group-making decisions, rather than having the great economy and the 7,000 banks in the country find different solutions for their customers. So I actually found his comment this morning compelling, that that is another way to head toward the banking system becoming a utility, which I think, would be a bad thing for America and capitalism and free enterprise. We at the bank have never had a problem with deposits. So I'm sure on the margin we have benefited from it in the last few years during the period of the crisis and the panic. But I also am not unduly concerned that we can't deal with getting back in repose and so forth in order to become -- make those large depositors comfortable.

JANE HASKIN

We made special efforts to move any depositors as a result of what we have received into sweep accounts. So as far as our bank is concerned, we will just let that go.

RUSS TAYLOR

Not much to say other than I would let it go for the same reasons as Kelly outlined this morning.

RICHARD SMITH

I agree.

PAUL NASH

Russ, you mentioned earlier forming a holding company for capital raising purposes. So the question is how does your institution or the other panelists go about raising capital if institutions are not in the position to convert to stock ownership?

RUSS TAYLOR

A real quick answer, we are mutual and intend to stay mutual, but it was at a time when we thought it was a good time to convert or to form a holding company so that we had the structure in place in case we had to raise capital because you know you can't get it through retained earnings. We've covered in the 15-16 percent capital level for quite a bit of time now. And it has only gone down a little bit because there's some growth in the flow deposit, so we don't foresee the need for that. That was the structure and we have never used this, but it has been put in place.

I just wanted to have control of the organization so we have the approval we needed, the process we needed to go through.

PAUL NASH

What is the group's perspective on AD&C lending in the future? How long will it take for that sector to recover and what do you think the terms might look like? We could maybe go down the line if anyone wants to jump in on that.

JOHN EVANS, JR.

I think you have to do what you know best. You should not be getting into lending if you don't know about doing it. Do what you do best. Offer those services to the customer that you can offer. Don't make mistakes. We've made mistakes jumping into some types of lending that has not worked out so well. So do what you do best and if you don't have the expertise beware.

MARTIN GEITZ

In our market, real estate developers and homebuilders who are still active or the homebuilders who had some capital in the downturn came. Homebuilders that were not that far ahead of themselves in terms of speculative development. And so they are still active and they can finance the folks who were hurt that were taking excessive risk and the lenders who are lending to those developers. So I would echo John's comments that in the area of construction lending, homebuilding lending, the important thing is do it only if you understand the risks you are taking and manage the risks affectively. Know who you are doing business with and what kind of risk they are taking, so that when an inevitable downturn comes you know how well capitalized they are to handle the downturn.

JANE HASKIN

The main construction financing we do at our bank is for our customers who are building custom homes. We do have a couple of homebuilders that we work with. It has never been a huge concentration in our bank. We did have two developments when the crisis hit and fortunately, we were in those. We were not highly leveraged and those customers were able to drop their prices. Sell those lots. And one was commercial development and one was residential. The residential development has totally paid off and the commercial development is progressing nicely. So it sat there, the commercial development sat there for some time without any activity but the individual that owned it had enough financial wealth to go in and build some spec buildings or warehouse office buildings to get something going in the development and that kind of primed the pump and got the development going. So both those situations could have been tragic. But the people had good equity and that's what saved them and the bank.

ALDON McDONALD

We do very little development lending. We are not good at it and I don't have the expertise. We recognized that some 20 years ago so we stay away from it.

RICHARD SMITH

I'm the only California bank up here.

Anyone want to buy a lot?

We did not do a lot of it, thank God, and that is the reason that I think we did not have the struggle that so many banks have had. California real estate will come back. I don't know if the circumstances will come back that created it too. So as much as you can say, we were smart, we stayed out of it. It was pretty compelling. It just was not our cup of tea. But again, we'd like to stay well. I can see why people did it. It will come back at some point. My guess is at least in California we won't see that for a long, long time. I will give you one example of one that we did do. We had a $17 million appraisal on a property for development to a borrower that put up half of that in cash. That we put in $5 million because he bought it at a good price. So we thought that's pretty safe. I mean off the top we have it on our books now. So it's extraordinary. I don't think those facts will replay anytime soon. But people will eventually sell houses again and hopefully it's for good reason because people have jobs. And until people have jobs, they won't.

RUSS TAYLOR

You just heard why I'm not in that kind of lending.

And don't plan on getting in that kind of lending. The question was when we thought it would come back. I don't see it coming back quickly. But I think if I were in the game, I would be one of the last guys to get in. There's just too much out there, inventories and the like that I would not be bold enough to do that.

PAUL NASH

Well, great. I think I've gone through most of the written questions. There were a couple of efforts to get us back into discussing the compliance issues, but I think we have covered that adequately this morning. I will not ignore them but we don't have time to do them. Before I turn it back over to the chairman, I think we may have time for one question from the audience. If anybody has one. And if not, let me thank my panel. I think you all really lived up to the billing I gave you as proud leaders of the industry.

So thank you. And before we break for the day let me turn it back over to Chairman Gruenberg for a few final remarks.

ACTING CHAIRMAN GRUENBERG

First of all, I want to thank you all for sticking around. It has been a long day and this has been a terrific discussion. Really a terrific discussion and I think today's program has been useful and valuable. I guess the point I want to make is this is the beginning of a set of activities, not an end point. I think I've learned a lot today. My guess is a lot of you have learned some things as well. We have a lot of work to do with the roundtables we will hold, with the research we will do, and with the review of our examination and rule-making process as well. I hope we can stick with this over the course of the year and really produce a valuable outcome as we move along. We will be back with you on this. Thank you very much.