Statement

JEFF W. DICK
President, CEO and Chairman
MAINSTREET BANK

Joint Agency Hearing on
Community Reinvestment Act

Good Morning. I am Jeff Dick, President, CEO and Chairman of MainStreet Bank in Herndon, Virginia. MainStreet Bank is a state chartered Federal Reserve Member bank with approximately $240 million in assets with four branches. I am also a member of the Independent Community Bankers of America's (ICBA) Payments and Technology Committee and the Federal Reserve Bank of Richmond's Payments and Technology Committee. I appreciate the opportunity to participate in today's forum and am pleased to be a part of the panel discussion on the agencies' review of the regulations implementing the Community Reinvestment Act (CRA) and to represent the Independent Community Bankers of America and its 5,000 community bank members at this important hearing.

MainStreet Bank is classified as a "small bank" under CRA and received a "Satisfactory" rating from the Federal Reserve last Fall. As a $240 million community bank, I have approximately $187 million in loans consisting of consumer loans, Commercial & Industrial loans, loans guaranteed by the Small Business Administration, Acquisition, Development, Construction, and Commercial Real Estate loans. In total, I have 570 loans on my books, including overdraft protection.

Although my delineated community encompasses a fairly broad area of Northern Virginia, I reach out to business customers on both sides of the river in the Washington, D.C. metropolitan area. Through technology, we are able to put our bank in our business customer's office, so they don't have to come into our office to bank with us.

ICBA and I strongly support a tiered CRA regulatory system with a streamlined examination for community banks to minimize regulatory and paperwork burden. To be equitable, banks should be evaluated against their peers, not in the same context as banks hundreds of times their size that stretch from coast to coast. Assessing the CRA performance of a $500 million bank using the same criteria as for a $500 billion bank is inappropriate.

For example, MainStreet Bank has been in operation over six years. Each year, we lend as much as we possibly can to customers who fit within our risk tolerance. If we made the same number of loans each year, that equates to approximately 95 loans per year. If we make 46 loans outside of my delineated community and 44 loans inside, we have failed the “in/out” test. Because we have so few loans per year, whether a loan resides “in” or “out” of our delineated community is a factor in the decision to lend. Large banks that make thousands of loans each year do not have to consider this factor.

Additionally, I use my capital to make loans. I have an investment portfolio, but it is a source of secondary liquidity and income. I do not have access to the types of community reinvestment qualifying investments within my marketplace in order to meet large bank tests.

It is important to ensure that regulatory requirements, guidelines and actions by examiners are flexible and do not create unnecessary burdens. Community banks must be able to support their communities based on market needs, local opportunities and the bank’s strategic strengths. Community banks should not be required to expend resources that do not directly benefit the local community but should be given credit for activities that benefit the entire community. Performance context should always be carefully considered and applied.

Community Banks Invest in Their Communities

The CRA requires that federal bank regulators evaluate how each FDIC-insured institution affirmatively meets “the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of such institution,” and take that record into account when evaluating an application for a deposit facility by the institution.

Community banks, as integral parts of their communities, rely on vibrant communities to thrive. Community banks are locally owned and operated institutions that are integral parts of their communities and engage in community reinvestment and community development on a daily basis. Community banks generally serve only their local communities with deposit, lending and other banking services. In addition, local community bankers frequently play a key role in many civic activities. MainStreet Bank staff and I are board members of three different Chambers of Commerce and are active members in an additional two. I sit on the Herndon Visitor’s Center Board and on the Board of the Fairfax Law Foundation, a nonprofit organization providing legal services to low income citizens. Our Chief Financial Officer has been feeding breakfast to the homeless monthly for over 10 years. We serve on boards of organizations that provide housing to homeless unwed teen mothers; we are Girl Scout leaders; we build houses; we teach financial literacy to over 750 children. We are extremely active in the communities we represent.

Currently, this type of participation only qualifies a bank as a good corporate citizen. This type volunteer work at organizations that help low- and moderate- income residents by community banks and their employees should be given appropriate credit. Yet, none of these activities are. Often, giving money is an easy solution. Giving time, especially a combination of personal and corporate time, is the way to make a change.

Many community banks and their employees spend countless hours working to develop affordable housing, revitalize neighborhoods, and enhance the economies of cities and rural communities through organizations such as Habitat for Humanity, Food Banks, and Meals on Wheels. Community banks support this type of community reinvestment and community development as a means of addressing these needs.

Inasmuch as we are active corporate and individual members of the communities we serve, our level of engagement means we are intimately familiar with the banking needs of our constituents. We are able to assess the risks, and make decisions locally, as local access to credit is an essential ingredient for creating and retaining jobs.

Over the last 20 years, banks have been consolidating into large multi-state operations. One of the collateral effects is that local community groups no longer have access to a local decision-maker in these banks, one who is integrally involved with the community. In contrast, the local community banker understands community needs and can make quick decisions regarding funding for housing, job-creating small businesses and other local economic needs. Such is not the case when a funding request must go through a branch of a multi-state bank and is then forwarded to an office many miles away where the request can become mired in a bureaucracy.

Compliance and Recordkeeping

Like most community banks, MainStreet Bank is facing compliance and recordkeeping challenges brought about by additional regulations and restrictions placed on banks. The additional requirements and restrictions placed on banks significantly increase the time that compliance officers, managers and bank professionals have to spend ensuring that they provide information to regulators, document bank transactions and provide disclosures to customers. While it is not overwhelming to comply with each regulation in-and-of itself, the requirements imposed cumulatively by the banking regulators are onerous, especially for small banks who already have staff wearing multiple hats.

The records and requirements necessary to document proof of complying with CRA are inconsistent and time-consuming. For example, when providing financial literacy to a school, one community banker noted that to verify whether the financial literacy program was for low- and moderate- income families, it was required to prove how many students participated in the subsidized, free lunch program. Another community banker was not allowed to use participation in the subsidized, free lunch program to determine if the school qualifies as serving low- and moderate- income students. This type of inconsistency, coupled with the amount of documentation required to support the qualification, makes complying with this provision of CRA burdensome and ineffective.

Financial literacy efforts are valuable services that ensure local communities and its residents are economically vibrant and thriving and therefore should be given CRA credit whether or not they are provided to low- and moderate- income individuals. In addition to ensuring the ongoing economic vitality of the local community and its residents, it would reduce the burdensome paperwork required for this provision and would allow community banks to reallocate and redirect both human and financial resources to their communities and customers.

In addition to the inconsistency among different examiners, there is also inconsistency between examinations. After an examination, one community banker, located in a rural area, was asked to shrink its CRA assessment area. After the next examination, he was asked to extend its CRA assessment area. This demonstrates the regulatory burden bankers feel as certain specialized and focused bank examiners struggle to interpret these vast and still expanding regulatory requirements. We are fortunate to be examined by a staff of highly qualified examiners who worked hand in hand with us to produce a fair assessment – and for that I am grateful.

Community Development

The definition of "community development" includes distressed or underserved middle-income rural areas, and disaster areas designated by federal, state, or local governments.

Community bankers appreciate that the current definition of community development gives credit for activities that benefit rural residents and communities even if not targeted solely to low- and moderate-income individuals or areas. Such a definition recognizes the unique challenges of rural areas, where inadequate public infrastructure is a significant roadblock to economic development and where demographic patterns often make it difficult to segregate low- and moderate – income geographies.

However, it is difficult for community banks to further engage in community development loans or investments that revitalize or stabilize a neighborhood because of the mixed message received from regulators. Financing community projects that revitalize or stabilize a neighborhood generally requires the cooperative efforts and financing of several sources. Absent outside cash support or significant cash flow from various sources, loans provided by a community bank will receive critical review by most regulatory agencies, which directly counters the intent of CRA to encourage community development loans. This weakness is a fatal flaw in community development lending within the requirements of CRA.

Credit Unions Should Not Be Exempt from CRA

While I understand this hearing is intended to focus on potential changes to the CRA regulations, I would be remiss if I did not submit community bankers' strong objection to credit unions' statutory exemption from CRA.

The credit union industry has become a full and direct competitor with community banks. Today's credit unions have virtually no limit to their customer base and the "common bond" requirement has become meaningless. For example, NCUA gave the Fairfax County Credit Union approval to serve: "Anyone who lives, worships, works in, or attends school in Fairfax County," which is in my backyard serving the same residents I serve.

Furthermore, studies show that credit unions are not meeting the needs of low- and moderate- income residents. A 2009 study by the National Community Reinvestment Coalition determined that large credit unions do not serve people of modest means as well as mainstream banks, which must comply with the requirements of the CRA. This study highlighted how banks "consistently exceed credit unions' performance in lending to women, minorities, and low and moderate-income borrowers and communities."[1] A 2003 Government Accountability Office study found that credit unions serve a more affluent clientele than banks. This GAO study concluded that "credit unions overall served a lower percentage of households of modest means than banks."[2]

ICBA will continue to strongly recommend to Congress that credit unions be required to comply with CRA requirements in the same manner, and with the same asset size distinctions, as banks and thrifts.

Conclusion

I greatly appreciate the opportunity to participate on this panel and provide information on this important topic. Community bankers are strongly committed to the goals of the Community Reinvestment Act; community investment and development are at the core of each community bank's mission.

We strongly support a tiered CRA regulatory system that evaluates banks against their peers and streamlines examination for community banks. However, many community banks are faced with increased compliance challenges that make it costly and burdensome to comply. Maintaining and updating lengthy records for the minimal benefit received is inefficient.

---

[1] Credit Unions True to their Mission? (Part II) National Community Reinvestment Coalition, September 2009. www.ncrc.org.
[2] General Accounting Office. "Credit Unions: Financial Condition Has Improved, but Opportunities Exist to Enhance Oversight and Share Insurance Management." October 2003.

Community bankers' primary goal is to ensure their local communities are vibrant and thriving and they know that engaging in civic activities, local organizations and providing deposit and lending needs to their community is good business practice. The health of the bank is closely interwoven with the ongoing economic vitality of the local community and its residents.

Thank you for the opportunity to provide information to enhance the regulations implementing the CRA.