**The Joint Economic Committee**
**Joseph Haskins' Comments**

Good Morning, Chairman Schumer, Vice Chair Maloney and Members of the Committee. Thank you for the opportunity to address the Committee.

I am the Chairman, President and CEO of Harbor Bankshares Corporation that owns a $300 million dollar bank (The Harbor Bank of Maryland) headquartered in Baltimore, Maryland. My market is Main Street America.

I recognize that the U.S. Government has taken extraordinary steps over the course of the last few months to address the monumental problems we are experiencing in our credit markets and the erosion of public confidence in our financial institutions.

While many, if not all, of these actions were necessary and went a long way to insure that our country did not fall into a deep recession or worse, these actions, by and large, were designed to aid and assist the larger financial institutions in the United States and, thus far, have done little to directly assist smaller financial institutions such as my bank, The Harbor Bank of Maryland (Harbor Bank).

I am pleased to share my experiences and thoughts on the state of the economy from a community banker's perspective. I have five (5) points to make.

First, I am fortunate to have avoided the subprime crisis. Senior Management of Harbor Bank decided four (4) years ago to get out of the market. Our decision was made based on increasing errors, misrepresentations, and in some cases out right fraud that we found on residential mortgage applications. Incomes were inflated, work histories were altered, and credit scores were changed.

Harbor Bank and other small community banks for the most part did not participate in the subprime mortgage loan debacle but because of the misdeeds and bad judgments of many larger institutions have nonetheless suffered tremendously. These smaller financial institutions did not participate in making loans to people who could ill afford them. They did not package them up and sell them to unsuspecting investors all over the globe.

These problems in part help to lead to a FDIC Insurance costs increase for all banks.

Second point, when the major financial organizations continued to stumble and show large losses, a heightened level of concern spread throughout the deposit base of smaller banks. In particular, a major event that panicked the bank customers was watching television and seeing depositors attempting to get their money out of a failing bank.

Shortly thereafter, Harbor Bank lost deposits as customers feared for the safety of their money. Many customers moved their money to larger banks as they believed they would be better protected. Fortunately, the increased FDIC coverage has allowed us to reclaim some of the lost deposits.

Third point, the current negative economic conditions have led to increased delinquencies in our loan portfolio across all sectors. We have record leveled loan charge-offs (the 2008 level is 2.5 times higher than the highest previous years). Earnings have been substantially reduced as additional funds have been allocated to the Allowance for Loan Loss Reserves to protect against anticipated losses associated with residential development. Harbor Bank and other small banks have experienced eroding capital and reduced earnings.

Harbor Bank and many other smaller Banks need the Treasury to make capital available. Smaller financial institutions are much more dedicated to the concept of using these capital infusions as a stimulus for additional lending in their communities. Some of the larger institutions are using the additional capital to purchase other institutions to gain market share or to make themselves more attractive takeover candidates instead of using this capital to support the banking footprint they serve. I am not suggesting that this additional capital should not be used to merge troubled institutions into healthier ones but I do feel that smaller institutions will be more prone to put the additional capital to work in the communities they serve. Even if smaller banks are allowed to participate in the capital assistance program from the Treasury and they use some of these proceeds to acquire troubled institutions in their trade areas, these combined institutions for the most part will remain small by comparison to the regional banks and major financial institutions that have already accessed capital from the Treasury. These combined or merged small banks will still be more prone to put the money out to small businesses and individuals residing in their banking territories.

Fourth point, smaller banks need the opportunity to have the government buy out its problem loans and unmarketable mortgage backed securities and/or preferred shares with Fannie Mae or Freddie Mac. This will create more liquidity and free management from heavy loan monitoring and collection activities.

Fifth point, I would like to address is the plight of small broker-dealer firms that service small municipalities and counties in this country. Our bank also has a small broker-dealer subsidiary. It has struggled mightily under the strain of the locked up public debt markets. Our broker-dealer subsidiary underwrites investment grade public debt primarily for small municipalities comprised mostly of low income individuals and minorities. Most large broker-dealers do not seek or want this business because for them it is not profitable. It is a segment of the market that is often ignored by Wall Street. These small communities are suffering much more than larger cities and counties in the country. The tax base in these areas is much more limited but they are not immune from the foreclosure rates or job losses haunting larger areas. Their problems have become exacerbated with the virtual exit of insurance companies who historically have provided low cost guarantees of their bonded indebtedness. As a result, many public improvement projects such as schools, jails, infrastructure improvements, and the like are going unfunded. Our broker-dealer subsidiary has seen its capital diminish significantly due to the lack of business activity in the small municipal markets it has traditionally served. Also, securities issued by these small municipalities have been disproportionately devalued in the credit markets. Our firm has experienced maintenance calls due to haircuts assigned to the public debt of these small issuers of public debt resulting in the erosion of capital in our broker-dealer subsidiary. Our firm underwrites only investment grade municipal bonds which are being treated by clearing firms as junk bonds. The Treasury capital assistance program should be extended to include small broker-dealers who specialize in serving the under-served communities in our country. They are federally regulated just as banks are and serve a purpose in helping to unlock the credit markets in this country. Bolstering the capital base of the large banks will do nothing to help those municipalities and counties that are not heavily populated and do not have a large industrial base to provide jobs and a larger tax base. The default rate on bonds issued by these small towns and counties is practically non-existent but their access to the credit markets has completely dried up and they do not have investment banks willing to underwrite their debt.

In closing I would like to reiterate one major point which I think deserves immediate attention. Small community banks and small broker-dealer firms should be allowed to access the capital assistance program being sponsored by the Treasury. The preferred stock purchased by the Treasury from these smaller institutions should be less costly than the coupon rate currently being charged to the large institutions who were in large part responsible for the problems we are facing today. This will help to insure that the bailout program, which has thus far been limited and directed at only the large financial institutions, is expanded to assist those under-served borrowers who are customers of community banks and also small municipalities and counties which in the present credit crunch environment have been forgotten and neglected but are just as important to the economic recovery of our nation as the big banks and investment banking houses on Wall Street.

Times are tough on Main Street and the best way to improve the economy is to get stimulus funds in the hands of community based financial services companies.