TESTIMONY OF THOMAS W. HOUGH
CHAIRMAN, ILLINOIS BANKERS ASSOCIATION

HEARING BEFORE THE U.S. HOUSE SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS

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Chairman Moore, Ranking Member Biggert, and members of the Subcommittee. My name is Thomas Hough. I am the Chairman and CEO of Carrollton Bank and also Chairman of the Illinois Bankers Association.

The Illinois Bankers Association represents nearly 700 commercial banks and savings institutions of all sizes in Illinois. Collectively, IBA members represent nearly 90% of the assets of the Illinois banking industry, which employs more than 100,000 men and women in more than 5,000 offices across our state.

Illinois bankers are working hard to meet the credit needs of our communities in this challenging economy. Yet we are feeling more pressures from our regulators than ever before, posing unprecedented obstacles to lending at a time when our communities need us to lend more than ever before.

Our members talk nonstop about how the stringent regulatory environment and ill-fitting accounting rules are undermining their ability to extend credit. Obviously, the large number of job losses, struggling businesses and declining real estate values dictate a high level of prudence and caution when lending. But that alone does not explain the increasingly overly aggressive and inexplicable decisions and forced write-downs that our banks are experiencing in their safety and soundness examinations today.

Commercial loans are being downgraded even when they are fully performing. Collateral-dependent loans are being classified based on atypically depressed property values, even when the collateral is producing expected revenues, there is no intent to sell it in this distressed market, and a loan is not only current, but has never been past due. And thanks to accounting rules that were written for another era – (for example, FASB 105 and FASB 114) – we are being told to write down loans based on the performance of completely unrelated loans in our portfolio – and even based on loans in the portfolios of our competitors down the street!

These and other examples of unnecessary write-downs are depleting our banks' capital, forcing many – and I want to emphasize many – banks to look for more capital. When so many banks are competing for new capital at the same time, the chances of success often range from slim to none. This leaves a bank with few options. While the majority of Illinois banks remain well-capitalized, many are doing so by shrinking their business – by selling assets, and by curtailing their lending in the very communities they are trying to serve.

Meanwhile, our industry is being crushed by new regulations, with no end in sight. In the past 16 months, the Federal Reserve Board alone has issued no less than 31 new or revised regulations. Each requires significant time and money and builds upon volumes of existing regulations. This is putting an enormous strain on our staffs, and for community banks it is becoming a nearly insurmountable burden. When you add to this more than two dozen proposals pending in Congress for a whole new class of regulations – mostly to be issued by what essentially will be yet another regulator – it is plain to see how difficult it can be to achieve the right balance between satisfying loan demands and regulatory demands.

We know there are no easy fixes. As with any economic downturn, let alone the worst recession since the 1930s, we need to give the economy time to recover, and when doing so, we need to be adaptable and sometimes even modify longstanding rules to accommodate the present situation. That applies to the economy generally, and it applies with equal force to the community banking industry.

Bank regulators are accustomed to looking at worst case scenarios. As Chairman Frank frequently notes, no examiner has ever been fired for being overly conservative. Meanwhile, the FASB accounting rules being applied to banks were written for a different time, and in some cases, for a different industry, yet current federal law provides little discretion to the FDIC and the prudential regulators when a bank's capital levels drop due to unduly conservative write-downs based on outdated or ill-fitting accounting rules.

So we would ask you, please remember that the banking industry truly is the engine of our economy. If you give it sufficient breathing room during this unique, once-in-a-lifetime period, we can and will better contribute to the nation's recovery. Most community banks will survive if given the time and leeway to work through this recession, and more of them will lend more in their communities if they are not encumbered with needless write-downs, unnecessary capital calls, and the endless prospect of more regulations. We urge you to keep these points in mind as you go forward in meetings with your constituents and your very important and transformational deliberations in Congress.

Thank you for your consideration of our concerns.