***REMARKS OF JOHN M. REICH, DIRECTOR***
***OFFICE OF THRIFT SUPERVISION***
***TO THE INDEPENDENT COMMUNITY BANKERS OF AMERICA***
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Aloha and good morning! And thank you, Terry, for those kind words. After receiving the invitation a few months ago to speak to you, I can't tell you how much I've looked forward to this year's ICBA Convention. Who wouldn't be happy to be here in Honolulu, particularly after having a couple of inches of snow and ice in our yards in the metropolitan Washington, DC area for a week or so in mid February.

It is indeed a pleasure to be here today in America's 50th State. The Hawaiian people are among the most engaging and hospitable in the world. They are both gracious and highly skilled at running this State's major industry – tourism. Shortly after I stepped off the plane Sunday evening, I was met by two very gracious local residents with whom ICBA had generously pre-arranged to meet me at the airport, and as we were walking to baggage claim, one of them very gently observed that I seemed to be in a hurry – implying that I am now in Hawaii – get with the program! I have no doubt that many local residents, including numerous small businesses that support tourism in Hawaii, also rely on community banks in conducting their financial affairs.

I want to take a moment to speak about your Chairman, Terry Jorde. I know of no banker more passionate about community banking than Terry. I've had the opportunity to be in her company on a number of occasions in recent years, including when she served on the FDIC's Advisory Board, and more recently on Capitol Hill where we have both testified about the cumulative and negative impact of regulatory burden on the banking industry.

Terry Jorde is an articulate and dynamic voice for our industry, and would be a terrific colleague in the regulatory arena in Washington, DC. She definitely would not be flying solo – a topic she wrote about in the February issue of your monthly magazine – the Independent Banker. Did you read that column? She wrote about her first solo flight in a Cessna 182RG. She already had her pilot's license, but this particular plane was a high performance plane with retractable landing gear, and required some additional training which she had completed and was now in the air - solo. She headed northwest and was enjoying the beautiful North Dakota fields of grain when she heard and felt a thud in the belly of the plane. I'll bet she also felt something in the pit of her stomach. Her landing gear lights were not registering, and she looked out the window of her high-winged plane and there were no wheels below. Suddenly she felt quite alone.

Terry talked about the fact that there have been times in her banking career when she had that alone feeling. I'd venture to say we've all felt it at various important moments in our careers. Terry knew she was going to need some help getting down – just as in our respective banking careers from time to time we need the help and encouragement of mentors and special friends to get us through stressful situations. She radioed her instructor and immediately relaxed when she heard his reassuring voice on the other end. He reminded her of the emergency training she had received and told her to run through the procedures she had practiced so often.

Within minutes the gear popped out and she brought the plane in for a soft landing, still not quite sure if the gear was locked. She found a whole team of people on the ground ready to provide whatever assistance and support she might need. She said that as a community banker she learned a long time ago that she also had a whole team of support on the ground, including the people and resources of the ICBA who have provided her with the education and tools she needs to pilot her organization, helping her to navigate around the storm clouds on the horizon.

What a cool person - is Terry Jorde! What a fantastic leader for her bank, for her community, and for the banking industry of this country. Terry, I congratulate you for your success as a community banker, for an outstanding year as the Chairman of the ICBA, and for representing your constituency so effectively.

I also want to acknowledge and commend ICBA's CEO and former community banker Cam Fine, along with Karen Thomas, Steve Verdier, Ron Ence, Chris Cole, Rob Rowe, Ike Jones and so many other talented folks at ICBA in Washington, DC with whom my colleagues and I have such a good working relationship. My door is always open to them, and I appreciate receiving their views and their input on the burning issues of the day.

There are a number of issues I could speak about during my few minutes with you this morning, including:

- CRE Guidance;
- Nontraditional Mortgage Guidance;
- Competition from Credit Unions;
- Competition from the Farm Credit Administration;
- The ongoing Basel Process;
- Bank Secrecy Act Compliance;
- Status of Talent Amendment Implementation Discussions in DC;
- Status of 2/28 and Subprime Mortgage Guidance;
- The 10% Deposit Cap;

And the list goes on and on.

But I'm not going to talk about any of these.

I'd rather talk about why community banking matters, about the importance of community banking to this country – about what community bankers can do to remain viable – and about what regulators and Congress can do for community banks to remain viable.

Why does community banking matter? Community banking matters because no matter which banking charter you hold – state, national or thrift - you provide what no one else can - the most personal service to your customers - and your communities depend on you to do just that. You know them personally; you know firsthand their families, their challenges and frustrations, their activities, and their organizations. You live with them. You know what is important to them at the most local level – the price of milk, the cost of gasoline, the cost of a lot on which to build a home, who the best builders are in your community, the best doctors, lawyers, CPA's, schools and schoolteachers, the best service clubs.

Let me take a survey. If you are a member of Kiwanis, Lions, Rotary, Civitan, Optimists, or any other service club that I haven't mentioned – please stand up.

Look at the participation represented by just one community service organization in every community represented here today by community bankers. Does this surprise anyone? I know it doesn't surprise you bankers. Regulators and staff from Washington, DC – please take note.

I am old enough to have had the opportunity to have been involved with quite a number of community-based organizations during my banking career, which began over forty years ago in Champaign-Urbana, Illinois. It continued in Fort Myers and Sarasota, Florida for over 20 years, before I moved to Washington, DC.

A bit of personal history …

When I was a boy, my father owned a small neighborhood grocery store. He delivered groceries to the homes of customers and sold to them on credit. He was a member of the Elks Lodge – it was a significant part of our social life in the 1940s and 50s in the small Midwestern town of Mattoon, Illinois. He was also a Kiwanian, proud of his many years of perfect attendance. Later, in Champaign, Illinois I was a member of the Moose Lodge; in Fort Myers, FL, a Kiwanian; and in Sarasota I became a Rotarian. I've been a Mason for 44 years and a 32nd Degree Mason for over 20 years.

I am also a Shriner and a Presbyterian deacon, trustee, and elder. I've been Treasurer of a Boy Scout Council, Chairman of a public hospital board, Chairman of a YMCA Board, active in United Way, served on the Board of a Drug Abuse Program for teenagers, a Symphony Orchestra Board, a Little League Baseball Board, and for 7 years was coach of a Babe Ruth Baseball team for 13 year olds while I was CEO of my bank in Sarasota, FL. Won the state title one year and finished 2nd in the Southeast Regionals. Those years as a coach were among the most enjoyable of my life.

As a bank regulator, I actually have hobbies other than policy-making and regulation creation, and they include piano, snow-skiing, tennis, any novels written by David Baldacci, Daniel Silva, Joel Rosenberg, and Dan Brown, and another hobby that might surprise you – NASCAR! I'll be at the Bristol race in 2 ½ weeks.

I tell you these things not to fan my own resume, but to let you know that I have some understanding of what you do in your lives every day of the week – the community activities you're involved in, and the pressures under which you live and work.

What you do – matters! What your banks do in your communities – matters! The reality for me is - I consider myself one of you. The blood in my veins is the blood of a community banker. The only difference now between you and me is that you get to enjoy a quality of life in your communities that I now dream about. For the past 7 years that I have been with the FDIC and now the OTS, it has been my honor and privilege to drive to work every day from Alexandria, VA to an office building one block from the White House, directly across the street from the Old Executive Office Building. I can sit at my desk and look out at the Washington Monument – a view I never take for granted.

It is a role that I take seriously, and would not want anyone to labor under the false impression because of my background, I am a less rigorous regulator. I insist that my examiners be vigilant in their jobs, but working with you in a collaborative partnership and not with the "gotcha" mentality.

Community banking matters because of the opportunities you have every day of your life to make a personal and significant difference in the lives of your customers, their families, and your entire community. I'm not telling you anything you don't already know. I just want you to know there's a Federal bank regulator in Washington, DC who knows it too, and who wants to do everything possible to preserve the institution of community banking in this country. We cannot and we must not allow this institution to disappear from our landscape.

Do I believe that community banking will disappear? No. Certainly not in the lifetime of anyone in this room. But the consolidation trends are continuing, though at a slower rate in recent years.

Last month, an article appeared in an online publication, BankNet 360, stating that community banks are destined to sell out. The article, referencing another article from The Tennessean newspaper, included a quote from a former community bank CEO stating, "in today's environment … the vast majority of community banks will sell out." A New York Times June 2006 Op-Ed piece referenced on the ICBA's website elaborates on this noting that, "local banks have been bought by out-of-state companies and the people who run the banks have become branch managers." No surprise there.

Troubling to me is the psychology that feeds the merger and acquisition mania that bigger is both necessary and better.

Many companies have learned after mergers have been completed and digested, that though some economies of scale may occur, they rarely materialize to the degree originally anticipated. And cultural differences often sabotage the expected synergies of the resulting organization. The merger and acquisition psychology, however, is fed by some very real market pressures – including regulatory burden and unfair competition –

both of which continue to squeeze small and medium-sized community banks. I fully understand that you compete in your local markets for the same deposits and loans with organizations that have been given artificial, government-sponsored economic advantages – such as credit unions and the Farm Credit Administration. I believe this is unfair public policy, and ought to be changed. Let me elaborate a bit on this, because I know that I will hear from the credit union lobbyists about what I've just said. I receive unkind letters every time I make a public comment about disparity. I have no problem with credit unions that have adhered to their original common bond purpose. However, I do have a problem with those who have expanded their membership and activities far beyond the original purpose of the Credit Union Act.

So what can we do about this environment? In particular, what can <u>you</u> yourself do to remain viable? I am going to suggest 3 areas:

First, strengthen your organization. You can do that by taking the steps necessary internally to avoid issues and problems before they arise. How can you do that? It's easier said than done, but there are a number of factors that will improve, if not assure, your long term viability and continuity as a high performing successful community banking institution. These include having:

- A capable, diverse, and contributing Board of Directors – not all cronies of the CEO - but people who will both challenge and encourage you;
- A strong management team;
- Strong internal controls and operating policies;
- A strong reporting system to the Board;
- Strong lending officers;
- A strong Compliance and Consumer Protection Program; and
- A good working relationship with your Regulator.

Second, maintain your customer focus. Serve your customer base and explore new customer opportunities if possible, including new geographic and product markets, including new population growth which may have occurred in your community, some of which may be unbanked and in need of financial literacy education. Stay true to your business model, but adjust your business plan when the opportunity arises. And continue to find ways to execute and deliver products more efficiently. The bottom line - is to continue to stay connected to your customers and your community.

Third, devote more time to planning for the future of your organization. Plan ahead – look out five years, not just five months. Know where you want to go and what you want to be, and take the necessary steps to get there. This means regularly reviewing your business plan to make sure it will get you where you want to be. Don't be afraid to change your plan when you see an opportunity to go in a different and better direction if it is consistent with good safety and soundness principles, and for which you either possess, or you acquire the appropriate technical expertise. Very importantly, as a part of planning for the future, have an exit plan for yourself that provides for management succession. I believe this may be the most critical issue in community banks today. I have visited with a number of state delegations that frankly look like AARP Conventions. I know there is a generation of community bank CEOs who are approaching retirement and whose Boards and shareholders have concerns about the next step.

I encourage you to plan for that next step if you want to maintain your institution in your community as a community bank, rather than have it become a branch of a remote institution.

What can regulators and Congress do for community banking to remain viable?

Your gut response is simply “stop!” – stop doing what we are doing. Stop the avalanche of new laws and the imposition of additional regulatory burdens that make it more difficult for us to serve our communities. I have great sympathy for that reaction. I’m going to mention 3 areas where we in Washington can do a better job: do more listening; place a higher priority on competitive equity; and continue to focus on regulatory burden relief.

First, I think we regulators need to do more listening. While regulations are intended to do good things, such as bolstering safety and soundness and ensuring adequate consumer protections, more often than not I believe we regulators run astray of the notion of balance.

We talk free markets, but we seem to prefer government controls. And when we do regulate, sometimes we lack consistency in our efforts. This is troublesome not only from a regulatory burden perspective, but it also tends to undermine the effectiveness of our aggregate efforts.

The problem is – legislators naturally legislate and regulators regulate, and these facts of life equate to more headaches for you. And I do not mean to suggest that these additional requirements are not necessarily beneficial laws and regulations. All usually have an underlying, well-intentioned purpose. But they frequently result from situations involving a comparatively small number of people, and wind up having an impact that is not always positive – on a large number of people. Again, the difficulty is striking the right balance.

We need to be better listeners and be more circumspect in calculating the appropriateness of our response to each new and emerging issue. We also need to pay better attention to public comment.

Second, we regulators and the Congress need to place a higher priority on competitive equity. While a major challenge for you is maintaining your viability, the regulators and Congress also share a significant responsibility for maintaining competitive equity in the industry.

Fundamental to our role as regulators and legislators is also ensuring that laws and rules are enacted, implemented and administered equitably.

We must be intolerant of laws, rules and regulations that provide an unfair competitive advantage to one group of financial institutions over another.

Institutions delivering the same or similar financial products and services should be taxed similarly and subject to comparable regulations with respect to the conduct of their operations.

As Federal Reserve Chairman Ben Bernanke said in a speech to the ABA last October, "our extensive experience (as regulators) in implementing legislation makes us particularly well placed to advise the Congress when legislation is not achieving its intent, or is imposing costs on banks or on society that exceed its benefits."

Third, and perhaps the most important thing we can do in Washington to preserve community banking is to do more work on reducing regulatory burden on the industry. With the enactment of the Financial Services Regulatory Relief Act of 2006 last fall, Congress took a significant first step toward meaningful regulatory burden reform; but it should be viewed as a beginning, not an end. That law effectively overcame years of inertia and, in my view, provided momentum and an opportunity to discuss a wide range of broader policy issues affecting the banking industry.

The EGRPRA Report to Congress is the product of three years of outreach meetings across the country – from New York to Seattle, and from Orlando to San Francisco, and twelve cities in-between. Here is the product of hundreds if not thousands of hours of effort – on the part of regulators, regulatory staff, bankers, and consumer groups - to determine what existing regulations are outdated, unduly burdensome on the industry, and no longer necessary. When Congress passed the Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA) in 1996, it recognized the need to periodically eliminate unnecessary regulatory burden.

As regulators and lawmakers, those of us in Washington need to revisit a number of the regulatory relief recommendations which were considered but not included in last year's legislation, such as the CTR "seasoned customer" rule, and the recommendation to eliminate annual privacy notices when customer information is not shared with third parties. In fact, a few regulatory relief items not included in last year's legislation have already been reintroduced this year. For instance, the seasoned customer exception to the CTR filing rules was introduced by Ranking Member Spencer Bachus and co-sponsored by numerous other Members, including Chairman Barney Frank, and was passed overwhelmingly by the House of Representatives in January.

The House also just considered and passed, H.R.1066, the "Depository Institution Community Development Investment Enhancements Act," another provision that did not make it into last year's legislation. That bill, introduced and co-sponsored by Chairman Frank and Ranking Member Bachus, will enhance the ability of institutions to support important public welfare initiatives.

And so I am announcing today – my intention to go back to Congress again this year – to pursue additional regulatory relief, to develop support for eliminating as many additional items of regulation as is possible. I intend to call on as many members of the Senate Banking Committee and the House Financial Services Committee as I can get to this year.

I can't do it alone. I need your help, and I know the ICBA will be there. But the ICBA and I will also need your individual help – with your legislative delegation from your state – your local District Congressman or Congresswoman, and your two United States Senators. We can do this. But we all need to be engaged.

Regulatory burden reduction will continue to be a personal priority for me as long as I am in the regulatory arena in Washington, DC. It is also an important priority for ICBA. And it needs to continue to be an important priority for you. I urge you and your board members to be proactive and actively encourage your local Congressman and your state's Senators to pay attention to the challenges faced by community banks within your Congressional District, and within your state.

Don't assume they are aware of these challenges. In most instances, they are not. They need to hear personal anecdotes from you, and the more bankers they hear from, the more likely this will become a priority for them.

**Conclusion**

When independent community banks are absorbed by larger non-local competitors, I've seen firsthand what usually results. The absorbed banks frequently lose their personal touch, impacting local banking relationships with your small business owners and individuals. Your communities lose the leadership of your community service organizations previously provided by you, your senior bank officers, and your directors who are usually business owners with vested interests in your communities. The loss of community banks is a growing problem across the country, with implications largely ignored by policymakers – all the more reason for your personal involvement in helping to turn the tide.

I mentioned earlier that we regulators need to do more listening. I want you to know that my door is always open to you. My staff and I are always willing to listen, especially if the subject has anything to do with issues that will preserve and promote community banking in America.

Thank you for the opportunity to speak to you, today. It is an honor to be here and I look forward to a continued, strong relationship with the ICBA.

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