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Simsbury Bank and thousands of community banks across the country are now threatened by a tsunami of regulations flowing from 2010's Dodd-Frank Act. The following is an opinion piece I wrote that appeared in the March 6, 2011 edition of The Hartford Courant. It sets forth community banking's challenges and offers suggestions to our legislators and regulators that would result in better targeting the root causes of 2008's financial meltdown. I welcome your comments about this opinion piece and encourage you to contact your Congressman and Senator to ask them to take action to spare community banks from actions intended to impact Wall Street mega banks and unregulated mortgage companies.

Before Community Banks Drown: Stop the Washington Tsunami

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For years, community banks have kept up with a rising tide of regulatory requirements. Now, they see a tsunami of regulations preparing to hit the banking industry. Flowing from the 2,500-page Dodd Frank Act, most of these regulations will apply to all banks. They are designed to rein in the biggest banks in the country—the banks that engaged in risky activities and contributed to the 2008 financial crisis—but they could drown community banks that had nothing to do with the crisis. This storm of regulation would be bad for consumers, small businesses, free enterprise, and America.

Simply put, Connecticut needs community banks. During the financial crisis, Connecticut's community banks demonstrated their intimate knowledge of local market conditions. From Sept. 2008 to Dec. 2009, 70% of Connecticut's community banks increased their lending while only 2 of 10 major regional and nationwide banks serving Connecticut increased their lending. In addition, many of these same large banks unilaterally reduced home equity and business lines of credit.

Community banks are the preferred source of loans for Connecticut's small businesses. According to a leading banking industry trade association, 50% of all business loans under \$100,000 and 30% of all Small Business Administration (SBA) loans under \$1 million are made by community banks across the country.

Community banks are critical to Connecticut's local, not-for-profit organizations, which are often too small to gain support from larger banks. Connecticut's quality of life depends on the activities of the thousands of local not-for-profits. A 2009 survey by the CT Bankers Association found that Connecticut's

community banks made \$9.5 million in charitable grants and \$2.8 million in sponsorships to more than 4,400 local organizations. Additionally, more than 2,300 bank employees volunteered more than 100,000 hours of time.

Washington policymakers need to shift their thinking away from a big bank mentality to one that embraces the value of a banking system comprised of banks of all sizes. Since the early 1980's, presidents, congresses and regulators focused primarily on America's ability to compete with large, international banks. In stark contrast to America's open and diverse banking system, most countries have just a few large banks that dominate their market. Washington policymakers believed that the US had to promote creation of its own megabanks in order for America to compete on the world stage. They were successful. From 1984 to 2010, banks with assets of \$10 billion or more almost tripled their market dominance, increasing from controlling 28% of total banking assets to controlling 79% of banking assets. Meanwhile, banks with less than \$1 billion in assets declined in market share from 40% to 11%.

To embrace the virtues of community, regional and nationwide banks, Washington policymakers should:

1. Stop writing rules based on the risks of the largest banks and forcing smaller banks to comply with them. Locally focused community banks with simple business models built around local lending and deposit taking should have a regulatory framework appropriate for their risk.
2. The nation's regional and community banks should continue to be regulated by their primary federal and state regulators only. The new Consumer Financial Protection Bureau ("CFPB") should have oversight and examination responsibility only for the nation's 25 largest banks and formerly unregulated or lightly regulated financial companies.
3. Capital requirements should be proportionate to risk. The nation's largest banks should be required to maintain high levels of capital appropriate to their complexity and consequences that their failure would pose to the entire financial system. Regional and community banks should be required to maintain capital appropriate to their generally lower risk profiles.
4. States must continue to have the right to charter and regulate banks as they are much closer to local needs than federal regulators.
5. Congress should delay implementation of the Durbin Interchange Fee amendment to Dodd Frank. More time is required to analyze the interchange fee issue and come up with a solution that works for consumers, banks and retailers.