

Focus on the United States

The financial crisis and the role of community banks

The financial and economic crisis has probably attracted the most attention within the United States, where problems in the commercial banking sector related to mortgage backed securities on Wall Street led to problems throughout the U.S. economy and then throughout the world. WSBI/ESBG talked to Camden Fine, the President and CEO of ICBA – The Independent Community Bankers of America – to discuss the role of retail/savings/ community banks in the United States.



Can you talk about the role of community banks versus the larger banks which have had significant problems within the context of the financial / economic crisis?

In the United States there are roughly 8000 Community Banks – those with assets of USD 10 billion or less. They are throughout the country and in every state. Our organisation represents 5000 of these banks as members. It is critical to distinguish between these community banks – which operate on “Main Street” throughout the country – and the much larger commercial and investment banks who participated in the very risky lending practices which led to the sub-prime mortgage crisis and the subsequent financial and economic crisis. Community Banks in the U.S. date back to the 1770’s. They have been and continue to be responsible lenders and holders of deposits in communities across the country. In fact, while the economic situation has become more difficult, ICBA members continue to be the backbone of local economies – providing lending to small businesses and families.

What is ICBA’s impression of the actions which have been taken by the U.S. government to address the crisis? What has been/ will be the effect on community banks?

The financial system thrives because of diversity among institutions and products. One of the biggest problems has been that a few companies have become “too big to fail”. Thus, the government has had to support them at whatever cost. Essentially, these “too big to fail” companies are holding the nations economy hostage. At the same time, the smaller community banks and the taxpayers are being forced to pay for the mistakes of those on Wall Street.

For example, new rules are being implemented that increase the premiums for the deposit insurance system as a percentage of the total deposits of a bank. Community banks rely on deposits for 88% of their funding, which means that their rates will go up significantly. Meanwhile, the large commercial banks with over USD 50 billion in assets rely much less on their deposits for funding – some as low as 16%. This means that, in order to pay for the losses of the larger banks, the smaller banks - which were not responsible for the problems - are being forced to pay much more. Meanwhile, the banks that were overextended and suffered huge losses are paying proportionally much less. ICBA argues that the premiums should be paid based on total assets rather than just deposits – which would shift the burden of risk back to the larger banks which have been taking the risky actions.

At the same time, deposits at these larger, “too big to fail” banks are in fact 100% insured by the federal government BECAUSE they are “too big to fail” while individual deposits at community banks are only insured up to USD 250,000.

Has the financial crisis led to a “credit crunch” among community banks in the U.S.?

Community banks have been facing some issues related to the normal flow of credit. It seems that this has been due less to the lack of capital available and more due to the fear of enforcement actions. Bank examiners have now become extremely strict in overseeing the lending activities of community banks. This has led to community bankers not providing loans because they are worried that examiners will come down hard on them. This is a major reason for the so-called “credit crunch” within community

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What role do you see retail / community banks having in the future? Has the financial / economic crisis made retail / community banks more relevant?

We should not forget that community banks are not only important for private banking, but are also the backbone of the commercial banking financial system of the U.S. They account for 40% of all loans to small businesses which are the primary engine for economic growth and job creation in this country.

Throughout this crisis, community banks have made up the only part of the financial services sector that has continued to operate effectively in the U.S. Community banks are also going to be the main driver that pulls us out of the crisis. I am confident that community banks will emerge from these troubled times stronger and with an enhanced reputation.



banks. While in many places in the U.S., credit is flowing relatively smoothly, in other places, community banks are afraid to give loans due to overly strict oversight.

Again, it is important to note that community banks are not the banks that caused the problem so overly strict enforcement by examiners is out of place. However, enforcement actions on community banks have increased by ten times in the last year while there has been no change in the number of enforcement actions taken against institutions with assets over USD 10 billion.

There is consistent talk of new regulations and oversight over the banking industry. What is ICBA's opinion about what needs to be done to insure that similar crises do not occur in the future?

We strongly believe that the federal administration should unwind companies that are “too big to fail” and PREVENT companies from becoming “too big to fail” in the future. Never again should we allow five or six companies to become so big that they hold the entire U.S. economy hostage. It is a good sign that the Chairman of the Federal Deposit Insurance Corporation (FDIC) Sheila Bair agrees with this position.

At the same time, we believe that current actions being taken to secure the financial system should not hinder competition and undermine the strength of community banks which are the backbone to Main Street economic activity throughout the country.

