

CBAI recently released its *Annual Report* for the fiscal year ending June 30, 2010. With Congress coming back into session this week, I have included my *Commentary* from that report which provides a recap of the year's highlights. The financial reform debate dominated CBAI's attention, and thanks to the cooperation of thousands of community banks across the nation, several beneficial reforms and exemptions were enacted despite a massive Wall Street lobbying campaign against reform. **United We Community Bankers Stand!**



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CBAI Chairman's Commentary

“United We Community Bankers Stand!”

Financial Reform Dominates the Year

When my term as your chairman began last October, the debate on financial reform was already in high gear. Despite the highly-charged political atmosphere in Congress, there was little doubt that a reform bill would become law during this session as most elected officials felt that doing nothing was irresponsible. On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform Act.

When the financial crisis shook the foundations of our nation in 2008, it revealed many flaws in our financial system. It exposed the reality that some banks are too-big-to-fail and should be downsized and their excessive risk-taking curtailed. It revealed a free-wheeling “shadow banking industry” of mortgage companies, investment banks, and insurance companies operating virtually off the regulatory radar that should be reigned-in. It also illuminated the meaningful distinctions between Main Street community banks and Wall Street mega-banks.

Given the complexity and enormity of the issues, CBAI significantly expanded its federal governmental relations presence in cooperation with the Independent Community Bankers of America (ICBA). On January 1, 2010, former CBAI Chairman David Schroeder became our vice president of federal governmental relations, a new position created to expand community banker involvement in federal grassroots lobbying, develop stronger relationships with Illinois members of Congress, and more effectively deliver the positions of community banks to elected officials. That decision proved to be a good one.

The bottom line is that the Wall Street Reform Act contains many provisions advocated by CBAI and ICBA. It differentiates community banks from the mega-banks with precedent-setting exemptions for community banks that only the community-banking lobby supported. It also addresses too-big-to-fail; regulates non-bank competitors such as payday lenders, mortgage brokers, and finance companies; permanently sets the deposit insurance coverage limit at \$250,000; and establishes a fairer deposit-insurance-assessment method for community banks which was opposed by the mega-banks.

Although the new Act creates about 300 new regulations, more than 80 percent of them deal with systemic risk and investment banking practices that do not affect community banks. Furthermore, community banks received 16 separate carve outs or favorable new statutes.

Unquestionably, there are negative provisions contained in the Act such as debit interchange restrictions and consumer protection regulations that CBAI and ICBA will address during the rule-writing phase and through subsequent legislation during the next session of Congress. A more complete analysis of the Act is contained in the Governmental Relations section of this Annual Report.

As expected, the mega-banks and their trade groups opposed the reform measure because Wall Street firms were sternly taken to task. Now they are playing the blame game by chastising community banks for not uniting with them in opposition to the measure. In truth, community banks have little in common with the financial giants and will not do their bidding for them. Instead, community banks were united behind CBAI and ICBA, and it certainly paid off.

CBAI has also invested considerable effort to allow community banks to amortize commercial real estate loan losses over a period of up to 10 years. The provision passed the House in a small business lending fund measure, but its fate remains uncertain. Neither the big banks nor their associations supported this important proposal despite the fact that it would spare hundreds of community banks from having to raise capital or close their doors.

The most gratifying aspect of our federal governmental relations effort was the tremendous and unprecedented participation of CBAI members in grassroots lobbying. My appreciation goes to the record numbers of community bank officers, directors, and employees who responded to our action alerts and communicated with your elected officials. You made the difference, and we will need your continuing participation in the process to change certain reform provisions and enact new ones that serve the interests of community banks and our nation.

Community Banks Affected by Wall Street's Excesses

The combination of Fannie and Freddie low-doc mortgages and Wall Street's use of collateralized debt obligations and credit-default swaps resulted in an overheated residential and commercial real-estate loan environment. Although community banks did not cause the financial and economic crisis, the fallout has been substantial. Since last October alone nearly 150 banks have been closed nationwide, including 17 in Illinois. A disturbing double standard has become readily apparent: the mega-banks that caused the meltdown and would have failed without government support continue in operation while community banks are being summarily closed. CBAI is dedicated to ending that egregious double standard.

While the vast majority of Illinois banks have survived this crisis and remain profitable, others continue to struggle with loan problems and capital issues.

Association Maintains Sound Operation

Thanks to tremendous member support and participation, CBAI concluded its fiscal year on 6/30/10 in the black. In fact, during the most recent semi-annual dues assessment in June, only two banks did not continue their membership, resulting in a fantastic 99.6 percent retention rate. At 430 members, CBAI continues to represent 70 percent of all banks and thrifts in Illinois.

On a consolidated basis, CBAI earned net income of \$383,000 during the fiscal year ending 6/30/10, and total net assets increased by 14.4 percent to \$3,030,000. The association remains debt-free.

CBAI's educational program, one of the most comprehensive and highly regarded in the nation, provided training on a record 267 different topics during the annual period ending 6/30/10. Nearly 6,500 registrants participated in the 97 webinars and 164 on-site programs in 198 locations. The sessions were rated as either "excellent" or "very good" by 94 percent of the attendees.

Regarding the special services offered by association affiliates CBAI SMG, Community BancService Corporation, and Community BancInsurance Services, nearly every member (97 percent) used at least one service. Furthermore, each participating bank used nearly five services on average, and increase of about four percent over last year.

The Journey Has Just Begun

Further financial reforms are needed, certain regulations will need to be mitigated or eliminated, and community bankers will need timely continuing education to keep pace with the changing competitive and regulatory environment. Community bankers should take comfort that CBAI and ICBA are two vibrant associations that work in close cooperation to serve the needs and interests of their member institutions. Our agenda is full, and there's much work to do. ***United We Community Bankers Stand!***