



On behalf of the Community Bankers Association of Illinois (“CBAI”), I am writing to urge each member of Illinois’ Congressional delegation to fight for the interests of Illinois’ community banks and their customers as the proposed \$700 billion federal bailout legislation is being formulated and advanced. CBAI is a not-for-profit trade association comprised of 475 member financial institutions. Our members include both state-chartered and federally-chartered commercial banks, savings banks and savings and loan associations (collectively referred to here as “banks”). CBAI member banks can be found in Chicago, in the smallest towns in Illinois, and everywhere in between including manufacturing, agricultural and educational centers throughout our state. CBAI’s membership makes us the third largest state-organized trade association representing the interests of financial institutions in the United States.

At this critical time in the history of our nation’s financial system, it is essential that Congress support community banks in Illinois and throughout America in ways that will allow community banks to continue to serve the consumers, communities and small businesses of Main Street, U.S.A. No legislative solution that caters to the interests and excesses of Wall Street, of the high risk mega-financial entities, or of unregulated or lightly regulated non-banks and mutual funds will be acceptable. Congress would compound and fuel mistakes of the past if it bails out the entities that have exposed our nation’s financial system to incredible risks and to resulting massive losses without providing reasonable and equitable relief for community banks.

Community banks have a remarkable history of success that is based on practicing sound, conventional banking business without engaging in predatory lending, high risk financial transactions, or other activities that jeopardize the banking system. Our community banks are the engines of local economies and serve their customers with such principles as safety, soundness, loyalty and responsibility. Community banks follow the rules and treat people fairly. Now, our member banks expect to be treated fairly as well by Congress and by the Administration.

The current crisis in the nation’s financial system was not created by community banks. The excesses that poisoned Wall Street and the mega-financial entities did not infect community banks, but community banks and their Main Street customers could be harmed if the federal legislation does not address the needs of community banks. In fact, one of the issues that must be addressed in the legislation involves the purchase of securities issued by government sponsored enterprise Freddie Mac and Fannie Mae (collectively referred to here as “GSEs”). The purchase by state and national banks in those GSE securities was not only legal, it was deemed to be so safe and low-risk that Congress and the Illinois General Assembly declared those securities to be exempt from the normal investment limits that banks are obligated to observe for most types of investments. The Illinois Commissioner of Banks & Trust Companies and the federal Office of the Comptroller of the Currency issued Interpretive Letters

advising banks that the purchase of those GSE securities was exempt from any quantitative investment limit. That guidance, from state and federal legislative bodies and from state and federal banking regulators, does not completely absolve banks of the need to exercise prudence with respect to their investment portfolios. However, it was an indication that the purchase of the GSE securities was a safe, sound, and conventional investment for financial institutions as contrasted with the high risk financial transactions and predatory mortgage lending tactics that were being employed not by community banks but by some of the larger financial entities and their subsidiaries.

What the banking regulators were unable to anticipate, however, was the action taken by the U.S. Treasury Department ("Treasury") on September 7, 2008. On that date, when Treasury placed the GSEs into conservatorship and subordinated the securities held by community banks to the new ownership interest of the federal government, banks that had purchased the GSE securities with the understanding that they were legal, safe, and sound investment instruments learned that their holding in the GSEs were virtually worthless. Many community banks in Illinois and throughout America could suffer disastrous losses against their regulatory capital if forced to suddenly recognize this loss that was engineered by Treasury's takeover of the GSEs. Treasury certainly did not intend to cause that devastating effect on community banks, but unless immediate action is taken by Congress that devastating effect will be felt nonetheless.

Time is of the essence, since affected community banks may have to recognize these new and unanticipated losses as early as September 30, 2008 (the end of their quarterly reporting period). A significant writedown of capital accounts will be potentially fatal to some banks, but even those affected banks that survive will be less able to provide credit to their consumers, communities and small businesses because of their reduced capital position. Again, these consequences are not the result of greed or of predatory or high risk banking practices, and it would be unreasonable to allow community banks and their customers to be harmed by the failure of Congress to recognize and to respond to the unintended consequences of Treasury's takeover of the GSEs on September 7, 2008.

CBAI, working closely with the Independent Community Bankers of America ("ICBA"), urges each member of Illinois' Congressional delegation to ensure that the proposed federal bailout legislation does not aid and nourish those financial entities that consistently create the threats to our American banking system while ignoring the competitive interests of community banks. If treated fairly, community banks will be in a strong position to be a part of the solution of today's crisis in the financial sector. If our community banks' needs go unattended or if the federal legislation inequitably caters to the interests of Wall Street, then community banks and the consumers, communities and businesses that they serve will suffer from Congress's misplaced priorities.

CBAI joins with ICBA in advocating that the following measures be included as components of any federal financial relief legislation:

Provide Full Access for Community Banks to the Treasury Asset Relief Program

Congress should direct that the new asset purchase program not discriminate based on the size of the institution or the size or number of assets eligible for purchase. Smaller institutions should have access to this program on a basis equal to that of the nation's largest most troubled lenders, particularly for troubled commercial real estate mortgages which have had a disproportionate impact on community

banks. Unless Congress includes language like this, smaller institutions will be left holding illiquid assets, which will hamper their ability to make new loans in their communities.

The Treasury Should Purchase GSE Preferred Shares

The Treasury's conservatorship of the housing GSEs imposed severe losses on community banks that owned preferred stock in the GSEs. The government takeover immediately eliminated dividends on common and preferred stock and placed the preferred stock in a junior position. Devaluing of this preferred stock has damaged a number of community banks' income and capital positions. This is having a devastating effect on the ability of some banks to meet regulatory capital standards. It will undermine the ability of many other community banks to serve their communities as the loss of capital will constrain their ability to lend and support economic activity and growth.

The financial rescue package should require that the newly created entity purchase these shares from community banks under terms that minimize losses. That entity will be well positioned to realize any long-term gain. In the meantime, community banks will be able to continue to serve their communities with new credit.

Losses on GSE Preferred Shares Should Be Considered Ordinary Losses

The new legislation should also provide that any residual losses community banks must take on GSE preferred stock be treated as ordinary losses, instead of capital losses, for income tax purposes.

Providing for Treasury purchase of these shares and fixing the tax treatment on losses would address the fact that community banks purchased preferred shares in GSEs to help these entities maintain their financial health. GSE preferred stock was designed to be attractive to banks. Dividends received favorable tax treatment and regulators permitted banks to purchase the stock because of its senior position.

Money Market Mutual Funds Insurance Program Must Not Be Superior to FDIC Insurance

By limiting coverage of amounts in money market mutual funds to amounts invested as of September 19, Treasury has already made an important improvement to its plan. Treasury should do more to provide parity between these newly insured funds and FDIC-insured deposits.

*Treasury's MMMF insurance program must be *temporary* so that Congress can fully address the issues.

* The MMMFs must fully pay for their coverage.

* Coverage limits should be comparable to the FDIC's.

Federally insured banks have paid tens of billions to the FDIC for limited coverage. Unless the new MMMF program is made comparable to FDIC insurance, billions of deposits will flow out of our communities. Community banks will be unable to fund local credit needs, undermining national economic growth.

Provide Regulatory and Accounting Relief

Congress should also provide the FDIC more time and flexibility in recapitalizing the Deposit Insurance Fund. As matters now stand, the FDIC must propose a recapitalization plan within a matter of a few days. Imposing drastically higher premiums on banks would reduce credit to local communities.

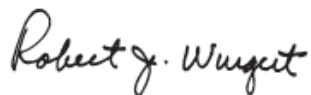
Banks whose capital has been affected by recent events should receive adequate time to return to capital compliance. In addition, mark to market accounting rules should be suspended during the market turmoil, so that asset values do not spiral down and cause additional institutions to become troubled.

These steps – equal access to the new asset purchase program; purchase of GSE preferred stock from community banks; ordinary loss tax treatment for any residual losses; equity and relief on the deposit insurance front; and regulatory and accounting relief – will help community banks continue to provide credit during these difficult times.

Illinois has more financial institution charters than any other state in the United States. Our history of successful community banking is evidence of the safe, sound, conventional banking practices that should be encouraged. On behalf of CBAI, I once again urge you to ensure that any Congressional resolution of the current crisis must not cater to the excesses of Wall Street while the needs of financial institutions, consumers and small businesses of Main Street are left unattended.

Thank you for your attention to these important issues.

Sincerely,



Robert J. Wingert
President



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