



As Congress responds to the Treasury's massive new financial rescue package, I urge you in the strongest terms to provide equity for community banks in Illinois and across America. Without important changes by Congress and the Administration, the program will help only Wall Street, not Main Street. Community banks such as mine, as well as the consumers and small businesses that look to us every day for conventional banking needs, will suffer if our interests are excluded while the interests of Wall Street are served.

Community bankers did not create this financial crisis, but our banks and communities are clearly feeling the impact. Community banks are defined by our service, by our understanding of our local customer base, by our loyalty to our customers and to our hometowns, and by our belief in following the rules. We are not predatory lenders and we do not engage in the type of high risk tactics that have jeopardized the banking system. We treat people fairly, and now we expect to be treated fairly as well.

The crisis that Congress is now addressing was, in part, the product of huge financial entities that pushed the boundaries of safe and sound banking practices by engaging in high risk transactions in an effort to maximize their growth and profits without observing common sense standards of conventional banking that community bankers understand and employ each day. If it is possible to make the current situation worse, it could become so if Congress and the Administration choose to aid and nourish those financial entities that consistently create the threats to our American banking system while ignoring the interests of community banks. Community banks in Illinois and elsewhere are the fundamental drivers of local economies, and if treated fairly we could be in a strong position to help resolve this crisis. To make this possible, Congress should include the following:

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 to their communities.

The Treasury Should Purchase GSE Preferred Shares

The Treasury's conservatorship of the housing Government Sponsored Enterprises (GSEs) imposed severe losses on community banks that owned preferred stock in the GSEs. The agreement 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 to 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 like mine 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 like mine 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. As a community banker, 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.