

**Presentation of Robert J. Wingert
Rural Economic Summit
Elmwood High School
Tuesday, February 24, 2009**

I want to commend Fred Paige and his associates at Farmers State Bank of Elmwood for organizing this event at such a critical time for our nation's economy. I also want to express appreciation to the other community banks in this area that have co-sponsored this forum. Their efforts to help area residents learn more about what caused our nation's unprecedented economic and financial crisis and what is likely to happen going forward demonstrate the dedication of the community banks to serve their respective local markets.

Your presence here this evening shows that you are concerned about our economy, and I thank you for taking the time and expending effort to be here.

As a spokesman for community banks across Illinois, my primary goal this evening is to make clear the distinctions between community banks and the giant regional and money center banks and what those distinctions mean not only for rural America but for all of America.

First and foremost, as Americans, we must face the reality that our nation is confronted with a major economic crisis. I cannot in good conscience candy-coat the economic predicament our country finds itself in today, a predicament caused mainly by the collapse of the housing market that was undermined by greed and excessive risk-taking. Resolution of

this financial mess will take years, and it will surely require a combination of intelligence, cooperation, hard work, sacrifice by all of us, and just plain good fortune. No matter what our political persuasion may be, we must all hope that the decisions made by Congress and the Obama Administration will restore our nation to economic health.

To understand how this crisis happened, we must go back to the nineties when Congress took two seemingly unrelated actions. First, despite the objections of community banks, it authorized big banks, for the first time since before the Great Depression, to enter the investment banking business and trade in securities. Then Congress, believing that home ownership should be an entitlement for all Americans, relaxed the underwriting rules for Fannie Mae and Freddie Mac, both government-sponsored enterprises and the two largest buyers of residential mortgages in the country. When the Federal Reserve lowered interest rates after 911 to stimulate the economy, Fannie and Freddie experienced mind-boggling growth. Fueling their liquidity, banks of all sizes purchased the government-guaranteed mortgage-backed securities offered by Fannie and Freddie.

Wall Street investment banks like Bear Stearns, Lehman Brothers, and Citigroup also got into the act with the use of a little-known exotic investment instrument called the collateralized debt obligation, or CDO. These unregulated, high-yielding securities were backed by pools of home mortgages and sold to unwitting investors around the world, including

municipalities and college trust funds. But unlike the Fannie and Freddie mortgage-backed securities, the CDOs were not government-guaranteed. As long as investors continued to buy CDOs, the large banks continued to provide funding for new mortgages. The combination of lower interest rates and high credit availability over an extended period of time acted like a super fertilizer that stimulated the rapid growth of the home building business. Unfortunately, the CDOs became the financial equivalent of weapons of mass destruction.

The problem is that many mortgages should never have been made. In high-growth states like California and Florida, for example, mortgage origination firms sprang up over night. Pizza delivery boys became mortgage originators earning \$20,000 a month by churning out mortgages like summer sausage which were then sold to Fannie and Freddie and the large banks. The relaxed underwriting rules that were authorized by Congress did not require verification of a borrowers' income or employment; and many mortgage originators and borrowers falsified that information with disastrous results.

The appraisal industry also cooperated with generous residential valuations. Investment rating agencies like Moody's and Standard & Poors gave Triple-A ratings to the CDOs because they didn't really understand them. Bank regulators also didn't see it coming because CDOs were off their radar. Even Alan Greenspan, who was then chairman of the Federal Reserve, recently admitted he didn't understand

how CDOs worked. It was a recipe for disaster. When the rates and terms on these adjustable rate mortgages changed, foreclosures skyrocketed, the housing market unraveled, the CDOs plummeted in value, and investors around the world lost trillions of dollars.

The events of the past year have been truly astounding -- the collapse of giant investment and commercial banks like Bear Stearns, Lehman Brothers, Washington Mutual, IndyMac, National City, Merrill Lynch, Countrywide, and the insurance giant AIG; and the government-sponsored enterprises Fannie and Freddie. Some have been bailed out by us taxpayers while others have been acquired with taxpayer assistance. Bank of America and Citigroup, the nation's two biggest banks, are now teetering on the brink of failure despite having received billions of taxpayer dollars and may now be nationalized along with Fannie and Freddie.

Our financial system has become too concentrated with institutions that are too big to fail, too big to regulate, and too big to manage. Community banks have long expressed concern over the dangers of excessive financial concentration in our financial system, but despite our continuing pleas, the large money center banks used their considerable political clout to convince Congress to expand their powers and grow even larger.

Now, it turns out that bigger isn't better in this world. As financial writer David Ignatius wrote recently in the *Washington Post*, "What makes sense is to apply the old trust-busters' ethic to the financial sector... We

need smaller, nimbler banks that are closer to their customers... So as we bail out the behemoths, let's also think about breaking them up into smaller units that can be managed by normal human beings." That's exactly our position.

As a taxpayer I am sick and tired of our government bailing out giant corporations that make stupid decisions and are deemed too big to fail. We need your help to get the message to your Congressman, whether it's Aaron Schock or Phil Hare, and to Senators Dick Durbin and Roland Burris, to tell them the too big to fail banks must be broken up and made smaller so that we don't have to go through this nightmare again.

The good news this evening is that community banks did not engage in these high risk-taking ventures and did not cause this crisis. As a result, the vast majority of community banks today are highly capitalized and financially sound with money to lend to qualified customers.

Here are some key distinctions worth noting: A community bank is generally locally-owned and dedicated to serving the financial needs of local families, farmers and small businesses, whereas the mega banks prefer to engage in high risk-taking ventures; community bankers establish personal relationships with their customers, while the CEOs of mega banks are often inaccessible to most customers; community bankers make lending and investment decisions based on local economies, while large banks often base decisions on what's deemed best for their overall operations, both foreign and domestic.

Community banks make about 20% of all small business loans in the country and about 50% of all small business loans under \$100,000. Small businesses create more new jobs than any other business sector. As primary partners of small businesses, community banks are indispensable for our nation's well-being. Community banks also make about 30% of all agricultural loans in the nation even though they represent about 12% of all bank deposits. In addition, unlike the big banks, community banks still have credit available. Can you imagine what life would be like if your only option for credit was one of the big banks that's on federal life support? There would be no credit.

Community banks have also faithfully paid taxes on their earnings every year since their inception, recognizing their duty to this nation. Talking about taxes, I believe the time has come for large credit unions like CEFCU to pay their fair share of income taxes and support the needs of this nation like the rest of us, especially in this period of massive budget deficits.

Illinois is blessed with more community banks than any other state in the nation. In Peoria, Stark, Fulton, and Knox counties there are more than 20 locally-owned and separately-competing community banks in operation.

As local citizens, you can support the longer-term interests of your respective communities by doing business with your local community banks. I want to take this opportunity now to identify the banks that are

headquartered in Peoria, Stark, Fulton, and Knox counties that are CBAI members. They are, in alphabetical order by town: Farmers State Bank, Astoria; Tompkins State Bank, Avon; Brimfield Bank; MidAmerica National Bank, Canton; Farmers State Bank, Elmwood; Fairview State Banking Company; Bank of Farmington; Ipava State Bank; Glasford State Bank; Farmers State Bank of Fulton County, Lewistown; Anderson State Bank, Oneida; Better Banks, Peoria; South Side Trust & Savings Bank, Peoria; Princeville State Bank; State Bank of Speer; Table Grove State Bank; State Bank of Toulon; Heritage Bank of Central Illinois, Trivoli; Vermont State Bank; Laura State Bank, Williamsfield; and Bank of Yates City.

These institutions have weathered numerous economic and financial crises. Fifteen of these institutions opened for business before the Great Depression, and eight of them are more than 100 years old, including Farmers State Bank of Elmwood which was chartered in 1864 when Abraham Lincoln was still our President. These banks have repeatedly proven their resilience, safety and soundness based on conservative management principles. Our towns, villages, and neighborhoods rely on community banks, and community banks rely on you. I am convinced that, based on the time-tested relationship between community banks and rural America, we will work through our current economic challenges to enjoy better days ahead.