



3505 Coolidge Road – Suite 200 – East Lansing – Michigan 48823 – 517-336-4430 – fax: 517-336-7833 – www/macb.org

...Community banks...the foundation of strong communities!

Executive Summary on Michigan Community Banking

The state of Michigan has been under enormous economic stress for the past five to six years. Michigan's community banks have not been immune to this economic stress, however, the community banking industry in Michigan has been able to manage through these times remarkably well. The resilience of Michigan's community banks is evidenced by the fact that since October 1, 2000, 117 FDIC insured banks have failed, and of those 117 banks, only 3 were Michigan banks.¹

With the collapse of the real estate market in 2008, many of our member banks have been suffering significant losses on loans made to home builders, developers and commercial real estate concerns. This has been further exacerbated by the collapse of the auto industry in Southeast Michigan, and the ripple effect of unemployment and underemployment in supplier and related industries has been and will continue to be felt deeply throughout the state.

In a release by the Michigan Department of Energy, Labor & Economic Growth, as of June 2009, Michigan's unemployment rate was 15.4%.² As noted in an article published by the Associated Press, "Michigan has had the nation's highest annual unemployment rate since 2006. The state never regained its momentum after the 2001 recession, and the bankruptcies this summer of GM and Chrysler hastened the steady stream of plant closings and layoffs."³

During these times of record high unemployment and plummeting property values⁴, many community banks are finding it difficult, if not impossible – to provide credit in their communities when it is needed the most.

Federal regulatory agencies have long been supportive of community bankers in the past. As recently as May 29, 2009, at the establishment of the FDIC Advisory Committee on Community Banking, FDIC Chairman Sheila C. Bair recognized that "community banks are the lifeblood of our nation's financial system, supplying much-needed credit to countless individuals, small businesses, nonprofit organizations and other entities in large and small towns around the country."⁵

Unfortunately, some federal regulatory agencies have taken an aggressive stance toward community banks, forcing the banks to write down their assets at an unprecedented pace,

thereby destroying capital and severely curtailing our community banks' abilities to fulfill the vital role they can play in revitalizing Michigan's ailing economy. Most federal regulatory agencies have insisted that banks purge their balance sheets at fire sale prices and are requiring community banks to make enormous infusions of capital. Unfortunately the capital markets have not responded positively by infusing capital into Michigan's community banks. The federal government has been similarly unresponsive as many Michigan community banks in need have been locked out of the TARP/PPP program⁶.

It is vitally important that we maintain the community bank structure in Michigan. It is especially critical when the reality is that at least one large regional bank in Michigan pays bounties to its commercial bankers for cutting customers loose and shrinking the portfolio, a practice that is apparently reflective of what is going on with big banks in the Michigan market.⁷

If assistance is not provided to community banks in Michigan, it will have devastating consequences to not only the financial industry but to the state of Michigan in general.

Michigan community banks can be reinvigorated and return to providing affordable credit to consumers and small business if some of the following initiatives are implemented. These initiatives are actually modeled after forbearance programs employed by the FDIC during the farm crisis of the 1980s which can be viewed as a systemic risk analogous to the Michigan auto industry crisis of today.⁸

Recognizing systemic risk, specifically to agricultural banks in the 1980's brought about by economic circumstances beyond their control, the FDIC at the time implemented simple changes that saved over 300 banks that likely would have otherwise failed.⁹

Essentially, these initiatives change the definition of the components of capital, arguably the most critical measure of a bank's health:¹

1. Allow Michigan banks to include in their capital all (or a significantly higher portion than the 1.25% of assets currently allowed) of the amount currently carried in their allowance for loan and lease losses (ALLL).
2. Allow Michigan banks to include as part of their capital the face amount, rather than the market price, of Government Sponsored Enterprises (GSE)¹⁰ securities that are held to maturity in their investment portfolios.
3. Allow Michigan banks to amortize losses over a 7 to 10 year period, instead of the current requirement to realize the loss in the quarter in which it is experienced, thereby preserving capital.

These changes can be implemented by the Federal Financial Institution Examination Council (FFIEC) at the request of Congress. These are simple changes that will increase

capital ratios thereby allowing Michigan's community banks to increase lending to Michigan citizens and businesses critically in need. Their implementation by FFIEC will save many community banks from failure and avoid the unnecessary harm that will most surely follow to the affected communities and added economic stress to Michigan's already distressed economy in general. In addition, these changes come with NO COST TO THE TAXPAYER.

It should be noted that these rule changes will benefit thousands of community banks if implemented nationally. While some, undoubtedly, would challenge the wisdom of such an approach, it is indisputable that Michigan, like the farm states in the 1980s, deserves special consideration because of extraordinary and unique economic circumstances in Michigan, none of which were caused by or are the fault of Michigan's community banks.

Some other suggestions for regulatory forbearance include development of special programs to address unique banking challenges by designating individuals from government and industry who have the authority and responsibility to pursue:

- TARP-like opportunities specific to financial institutions that support the auto industry and its workers.
- Provisions for third party guarantees, including state and public funds, in support of minimum capital levels for banks that are experiencing losses due to declining property values.

Michigan's legislature has already taken a small, albeit important, step in making legislative changes that benefit both consumers and banks. Revisions to Michigan's statutory bad debt law have created capital for banks and in turn allowed banks to provide forbearance to their customers facing foreclosure.¹¹ This last point deserves special attention. As with all the rules changes suggested above, forbearance for Michigan banks will absolutely translate to forbearance for their customers. And, again, it comes at NO COST TO TAXPAYERS.

The crisis facing banks in Michigan must be addressed with a sense of urgency. Without the immediate implementation of some or all of the initiatives and changes we are requesting, over the next 30-90 days, Michigan banks will fail that could otherwise be saved by these suggested initiatives and changes.

It is imperative that the members of Michigan's legislature and our congressional team demand swift and decisive action from the federal banking regulators to avert bank closures in our state and to stabilize Michigan's community banks. No one will be harmed or disadvantaged by taking this measured approach, which has proven successful in the past.¹² In fact, just the opposite is true.

¹ Data from the Federal Deposit Insurance Corporation's website as of July 28, 2009 (<http://www.fdic.gov/bank/individual/failed/banklist.html>).

² Source of Date: "June Unemployment Rates Increase in All of Michigan's Regional Labor Markets" released July 23, 2009 and available at the Michigan DELEG website (http://www.michigan.gov/dleg/0,1607,7-154-10573_11472-218720--,00.html).

³ As published in the Detroit Free Press, July 27, 2009, "Michigan 2nd-worst state on economic stress index".

⁴ For the period January 2009 - June 2009, Michigan ranked the 7th highest rate of foreclosure activity by RealtyTrac®. Founded in 1996, RealtyTrac publishes the largest and most comprehensive national database of pre-foreclosure, foreclosure, For Sale By Owner, resale and new homes, with more than 1 million properties across the country, property reports, productivity tools and extensive professional resources. RealtyTrac hosts nearly 3 million unique visitors monthly and has been chosen to supply foreclosure data to MSN Real Estate, Yahoo! Real Estate and *The Wall Street Journal's* Real Estate Journal.

⁵ Press Release dated May 29, 2009 "FDIC Board Approves Creation of Advisory Committee on Community Banking."

⁶ See "Michigan banks get short end of TARP; some say Treasury avoiding the state" Crain's Detroit Business, January 5, 2009

⁷ See *Id.*, quoting Terry McEvoy, an equity analyst who covers Midwest banks for Oppenheimer & Co., Inc. of New York.

⁸ See History of the 80's, Volume I "An Examination of the Banking Crises of the 1980s and Early 1990s", available at the FDIC's website: (www.fdic.gov/bank/historical/history/vol1.html), page 89, and Chapter 8.

⁹ *Id.*, Chapter 2, page 117.

¹⁰ GSEs include: Federal Home Loan Banks, Fannie Mae, Freddie Mac, Federal Agricultural Mortgage Corporation, Farm Credit System, the Financing Corporation and the Resolution Funding Corporation (*see Federal Reserve Statistical Release Z.1 Flow of Funds of Accounts of the United States, Schedule F.124 Government Sponsored Enterprises.*)

¹¹ Michigan Public Acts 58 and 59 of 2009.

¹² *Id.*, endnote 7.



Michigan Association of
Community Bankers

3505 Coolidge Road – Suite 200 – East Lansing – Michigan 48823 – 517-336-4430 – fax: 517-336-7833 – www/macb.org

...Community banks...the foundation of strong communities!

August 17, 2009

The Honorable Jennifer Granholm
Governor
111 S. Capitol Avenue
Lansing, MI 48909

The Honorable Michael D. Bishop
Michigan Senate
P.O. Box 30036
Lansing, MI 48909-7536

Mr. Ken Ross, Commissioner
Office of Financial and Insurance
Regulation
611 W. Ottawa St., 3rd Floor
Lansing, MI 48933

The Honorable Randy Richardville
Michigan Senate
P.O. Box 3036
Lansing, MI 48909-7536

The Honorable Andy Dillon
Michigan House of
Representatives
P.O. Box 30014
Lansing, MI 48909-7514

The Honorable Andy Coulouris
Michigan House of
Representatives
P.O. Box 30014
Lansing, MI 48909-7514

Dear Governor and Gentlemen:

Enclosed is an Executive Summary of the most pressing issues and critical concerns being experienced by Michigan's community banking industry. The Executive Summary also presents proposed initiatives our organization is hopeful of seeing implemented at the federal level to address these pressing issues and concerns.

Because of the immediacy and severity of the issues, we are requesting your collective support in our efforts to raise these concerns with the appropriate members of the Michigan federal delegation and obtain their support and combined work to encourage the federal regulators to adopt our proposed initiatives to address these issues in a most timely manner!

Your support and assistance in taking the issues and concerns of Michigan's community bankers to Michigan's federal legislators is vital to the continuation of community banking in Michigan. It is imperative that the initiatives presented in the Executive Summary be presented by our federal representatives to the federal banking regulators for their positive consideration, and immediate implementation.

August 17, 2009

Page 2

The concerns are most pressing and we would respectfully request that you give this your urgent attention and serious consideration.

Sincerely,



Judith D. Sullivan
President and Chief Executive Officer
and

On behalf of the Michigan Association of Community Bankers Legislative Committee:

James Wheeler, President/CEO Firstbank, Alma
Peter Kubacki, President/CEO Dart Bank, Mason
James MacPhee, CEO Kalamazoo County State Bank, Schoolcraft
Jay Dubey, President/CEO Thumb National Bank & Trust, Pigeon
David Firack, President/CEO Old Mission Bank, Sault Ste. Marie
Bruce Cady, President/CEO Lapeer County Bank & Trust Co., Lapeer
Mark Kolanowski, President/CEO Hastings City Bank, Hastings
Michael Kus, MACB General Counsel

cc: Honorable Carl Levin, United States Senate
Honorable Debbie Stabenow, United States Senate
Honorable Gary Peters, United States House of Representatives
Mr. Steve Liedel, Office of the Governor
Ms. Pam Yager, Office of the Governor
Mr. Fred Hoffman, Office of the Governor
Ms. Nell Kuhnmuensch, Governmental Consultant Services, Inc.
Mr. Bill Zaagman, Governmental Consultant Services, Inc.