



Testimony of
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On behalf of the
Independent Community Bankers of America

Before the

Congress of the United States
House of Representatives
Subcommittee on Financial Institutions and Consumer Credit
Committee on Financial Services

Hearing on

“TARP Oversight: Is TARP Working for Main Street?”

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Chairman Gutierrez, Representative Hensarling and members of the Committee, my name is Rusty Cloutier. I am the President and CEO of MidSouth Bancorp, Inc. MidSouth is a bank holding company located in Lafayette, LA, with total assets of \$936.8 million as of December 31, 2008. Through our wholly-owned subsidiary, MidSouth Bank, NA, MidSouth offers complete banking services to commercial and retail customers in south Louisiana and southeast Texas. We have 34 locations in Louisiana and Texas. We are community oriented and focus primarily on offering commercial and consumer loan and deposit services to individuals, and small and middle market businesses. I am member and a former Chairman of the Independent Community Bankers of America. I am pleased to represent community bankers and ICBA's 5,000 members at this important hearing on "TARP Oversight: Is TARP Working for Main Street?"

Community Banks and the Capital Purchase Program

MidSouth, like the vast majority of community banks, did not engage in the irresponsible subprime lending practices that are at the heart of the current economic crisis. Moreover, MidSouth and the majority of community banks do not employ the compensation practices of the mega banks, which led to excessive and careless risk taking in these larger institutions, and that rewarded executives for abject and costly failure.

As a result of prudent lending practices and other prudent business practices, MidSouth, and the majority of community banks, have remained strongly capitalized and ready to do their part to aid economic recovery. When MidSouth

Bank elected to participate in the Treasury's Capital Purchase Program, we were convinced that we could put the funds to good use in our service area in Louisiana and Texas through loans to small and mid-sized businesses and consumers.

It is important to distinguish the Capital Purchase Program available to community banks and the other Troubled Asset Relief Program investments that have been used in connection with some of the largest institutions, particularly the systemically important institutions. CPP funds are only given to healthy community banks like MidSouth. Simply put, so-called systemically important institutions do not have to be healthy to receive TARP money.

MidSouth Participates in the CPP

The CPP is not a bail-out for community banks. MidSouth must pay an annual dividend of five percent on the \$20 million in preferred shares purchased by Treasury, along with the grant of stock warrants. If MidSouth does not repay the principal in 5 years, the dividend increases to nine percent annually. The cost of this CPP capital is not inexpensive for community banks, at some 7.5% tax effective rate in the first five years with additional warrant-related costs on top. Community banks participating in the program have to relend the money in order to cover the costs of the capital.

When MidSouth accepted CPP funds in early January, we viewed the government's investment as a public-private partnership to promote lending to stimulate the economy. The \$20 million infusion of capital would also provide a substantial capital cushion in case credit conditions deteriorated further.

MidSouth Promotes Availability of Funds

We saw the CPP as an opportunity to encourage and support economic expansion in every market we serve during a national recession that could last, at least, another 12 to 18 months. After completing the CPP transaction on January 9, 2009, we began to actively promote the availability of \$250 million in loan opportunities to small businesses and community leaders throughout our service area. MidSouth conducted town hall meetings in 14 communities in south Louisiana and southeast Texas from the end of January through February 19th. We focused on small businesses because small businesses drive the economy and create new jobs in our communities.

In addition to the general business community, we are also reaching out to the minority business community, through town hall meetings with the Black Chambers of Commerce of Baton Rouge and Southwest Louisiana and the Group of 100 Black Men, another African-American business organization. Our efforts to publicize the lending program continue with more meetings scheduled with homebuilders, industrial companies and other business groups.

We have also directed an ad campaign at consumers and the general public. We have placed billboards in every market in our service area advertising the availability of \$250 million in loans.

Public Response to Outreach Efforts

While attendance at these meetings was good, there seemed to be a reluctance among audience members to take on significant amounts of new debt. This is true despite small business loan rates at least two percentage points lower than a year ago. I believe that some of the reluctance in our market is due to the drop in the price of oil, which is an important driver for the economies of southwest Louisiana and southeast Texas. But, I also attribute it to unease about the general economy. Given the state of the economy, it is harder for community banks to find borrowers who are creditworthy. Lending to creditworthy borrowers is a sound banking principle that the federal banking regulators emphasized in their Interagency Statement on Meeting the Needs of Creditworthy Borrowers. Actions of bank examiners in the field are putting further restraints on lending standards through such actions as requiring write downs of performing loans – a subject the Financial Services Committee will take up on March 10, 2009.

Despite the reluctance of some in the business community to take on new debt and the challenging lending environment, we believe that our outreach efforts have paid off. Our level of lending, for consumers and businesses, remains

about the same as this time last year. We believe that this is quite an accomplishment in the midst of the current serious recession.

Since receiving the CPP capital infusion in January, we have made approximately \$13 million in new consumer and commercial loans. The lending include \$1.7 million in new car loans, lending support to not only our local consumers and car dealer community, but also indirectly auto manufacturing. Included in our new loans are \$8.53 million in small business loans and \$3.4 million in real estate loans. Also, within MidSouth Bancorp, we have generated over \$7 million in new mortgages since the first of the year. We are especially proud of two new small business loans made since MidSouth received the CPP funds. These loans to two small oil services businesses will create 50 new jobs in south Louisiana and Texas. As MidSouth Bank has shown, community banks have the know-how and desire to use the CPP to support economic recovery in communities throughout the nation.

Mutual Term Sheet

Allowing all community banks to participate in the TARP CPP will help boost lending to families and small businesses. No CPP term sheet exists yet for mutual institutions. Mutual institutions are important providers of credit, particularly small business and housing credit, in many areas of the country. In New England, mutual institutions are a primary source of loans for small businesses. We urge the Treasury to complete work on the mutual term sheet.

MidSouth Keeping Options Open on CPP

Public anger over \$50 million private jets and multi-million dollar bonuses and golden parachutes for CEOs who led their companies into insolvency, or near insolvency, is understandable. In response to this anger, Congress recently enacted executive compensation and corporate governance limits for TARP recipients. The new statutory restrictions in some cases went beyond restrictions put in place by the Obama Administration and took away Treasury's discretion to focus these remedies where the problems actually occurred – in some large TARP recipient institutions.

As noted above, MidSouth Bank does not engage in the compensation practices that have created the public ire. While we appreciate congressional amendments that diminished the impact of these limits on community banks, we are frustrated by being tarred by the same brush used on the large financial institutions that caused the current economic crisis and that have undermined public confidence in programs to restore the credit markets and shore up the banking system. MidSouth Bank is a solid, healthy community-minded financial institution and should be treated as a responsible partner in the effort to revitalize the economy.

MidSouth entered into an agreement with the government on January 9th, which, as we have described above, carries significant monetary and other obligations.

If the government changes that agreement and adds new burdensome conditions, MidSouth will have to reevaluate its continued participation in the CPP. We are pleased Chairman Frank's idea to allow TARP participants to repay TARP funds early without penalty was included in the economic recovery bill. The provision allows MidSouth and other community banks to keep their options open.

But it would be a shame if new conditions forced us to withdraw from the program. MidSouth has taken the purpose of the CPP seriously by aggressively marketing the credit opportunities afforded by Treasury's investment in the bank. Policymakers should be encouraging the participation of more community banks like MidSouth bank who are willing and ready to be active leaders in our economic recovery.

Conclusion

ICBA appreciates this opportunity to testify on these critical issues. We look forward to working with the Subcommittee and Congress on these and other steps that will help us emerge from this current crisis and improve our financial system for the long run.