TESTIMONY OF

Jim Goldston

before the

**SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER CREDIT
COMMITTEE ON FINANCIAL SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES**

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Mr. Chairman and members of the committee, I am honored to appear before you today to discuss the importance of community banks to our nation and to ask for your help in reducing unnecessary and burdensome regulations. My name is Jim Goldston and I live and work in Forney, Texas, a small town just east of Dallas. Congressman Jeb Hensarling will soon represent our community and I am here today at his invitation.

I have worked in banking for over 20 years, and for the last five years, I have been a branch president for City Bank (and that is C I T Y, not C I T I), first in the West Texas town of Morton and now in Forney. But for three of those years I was a bank examiner for the Texas Department of Banking. During that time, I observed many banks, both good and bad, and gained some understanding of how state and federal regulations can and should improve the safety and performance of our banking system to benefit and protect both our customers and our FDIC deposit insurance structure. I am not here today to ask you to significantly alter our dual banking system or its regulatory structure in which the Federal Reserve System, the OCC, the FDIC and the state banking departments all have important roles to play. I am also not asking that major legislation such as the Community Reinvestment Act or the Patriot Act be repealed. I only want to

point out some consequences, probably unintended consequences, of certain regulations that affect community banks like us.

We are a small but growing bank with just over $800 million in assets spread across twelve communities in west and north central Texas. We offer a full range of financial services to our customers, including insurance products and a wide range of investment opportunities. However, we do not underwrite any of those insurance policies or investments. We focus on doing all that we can do to meet the financial needs of our customers and growing the economies of our local communities while earning an acceptable return for our shareholders. One hundred percent of our stock is owned by residents of the communities we serve and over 63 percent is owned by my fellow bank employees and their families.

We are very proud of our bank, but please understand that we are but one of several thousand community banks across this country that face the same challenges every day. We have many competitors, from the multinational banks to the local credit union, from the Wall Street investment firms to the insurance agent down the block. We are not complaining about the competition. In fact, we welcome it. It is through competition that businesses grow stronger and our customers get the best products and services at the best price. We only ask that the competition be fair and that regulations make sense. Regulations should either improve the safety and soundness of our financial system or improve the service we give our customers. Those that only add to our paperwork burden should be abolished.

Each year, our bank adopts 73 different policies covering all facets of our operations and addressing the hundreds of regulations now in place. Last year we paid

over $565,000 to our internal compliance and audit staff and over $160,000 to outside firms just to be sure that we were complying with those regulations and policies. These figures do not include the expense for our other employees' time spent actually complying with those regulations; it is only what we spent just training them and checking to be sure that they did. It also does not include the cost of the time spent by our state and federal regulators checking up on our "checking up."

Let me give you a few examples of the sort of regulations that frustrate and burden community banks. Recent changes in Regulation C are more burdensome than helpful. We are now required to report home mortgage and home improvement loans on which we charge an interest rate greater than 300 points above the rate for a Treasury bond of comparable maturity. The current interest rate environment makes that target unrealistically low. If we make a $5,000.00, five-year maturity home improvement loan, we cannot expend the time and paperwork to put that loan on our books, service it for five years and only earn about $175.00 per year in interest. The intent is to disclose if we are engaging in predatory lending, but the result is to discourage us from making the loans at all. Bankers never, ever waive red flags at our regulators if we can help it.

Everyone is being encouraged to shop for the best deal when seeking a home mortgage loan, but this shopping may be distorting the data flowing from our Home Mortgage Disclosure Act (HMDA) logs. We are required to record all significant aspects such as loan amount, income of borrower, ethnicity, rate spread, purpose of loan, and other data on each loan application we receive, whether or not we make the loan. Every bank that the customer shops must spend the time to do this, but only one will report the originated loan. Everyone else's log will look like they turned the loan down.

Regulation D is another that does not relate well to the real world. Almost all large corporations, partnerships and other supposedly ineligible entities have found ways around the rules that prevent banks from paying them interest on their checking accounts. Only the accounts of the small local businesses get monitored to be sure they play by the rules. It is our opinion that the cost of this monitoring and the related employee training probably exceeds the cost of paying a reasonable rate of interest.

The FDIC Improvements Act made FASB a co-equal regulator with regard to accounting matters. Slavishly applying generally accepted accounting principles to all banking situations has and will continue to result in absurd results for community banks. The recent proposal on revising loan loss reserve accounting is an example of this. The federal banking regulators weighed in to assure that changes in GAAP would not adversely affect the safety and soundness of banking portfolios. However, without their strong efforts and the comments of numerous bankers and banking trade associations, bankers could have been faced with three different calculations for loan loss reserves: tax calculation, GAAP calculation, and regulatory calculation.

The Real Estate Settlement Procedures Act (RESPA) was intended as a benefit to consumers to help them understand all of their costs in buying a home. As it exists today, the rules are complex and difficult to apply and the more a bank tries to disclose to a customer, the more it risks creating unintended violations of the law. Perhaps we should rethink RESPA and structure Truth in Lending requirements to give customers the information they want in a form that a lender can accurately complete. At a typical real estate closing today, a consumer is given a stack of disclosures about an inch thick. Our mortgage customers frequently complain about the number of disclosures and documents

they must sign in order to close the loan. Candidly, they don't take the time to read the items they are signing. The volume is just too intimidating, and the disclosures don't always provide the data that the customer wants. Yet, virtually every disclosure we provide is statutorily prescribed. Rather than help customers make good choices, the absurd proliferation of disclosures simply frustrates every one involved in the mortgage lending process.

The current rigid guidance makes banks that are serving low and moderate income neighborhoods into "sub prime banks" with increased capital requirements. While banks that buy risky, sub prime portfolios need additional scrutiny and capital, strict application of these rules is making it difficult for community banks to serve their real communities.

Finally, the expansion of the "small bank" classification for CRA rules has greatly helped many community banks, but many of us are still caught in a web of trying to comply with rules for advanced testing designed for massive, complex, nationwide organizations that bear little resemblance to even the biggest community banks.

The current review of banking regulations taking place under the Economic Growth, Recovery, and Paperwork Reduction Act (EGRPRA) is a good start on seriously reviewing regulatory burden, but it must be coupled with statutory change as well. Many of the burdensome requirements described above are not a matter of regulation but rather are mandated by statute. We community bankers implore you to seriously take up reduction of regulatory burden.

As a community banker, I, like my peers, want to serve my community with reasonably priced products—home loans, small business loans, agriculture loans and

deposit products and investment services—but the cost of unnecessary and burdensome regulations increases my costs while not truly benefiting the public. Please make real regulatory burden relief a reality.