

**Testimony of**

**America's Community Bankers**

**on**

**“Hurricane Katrina: The Financial Institutions’ Response”**

**before the**

**Subcommittee on Financial Institutions and Consumer Credit**

**Of the**

**Committee on Financial Services**

**Of the**

**United States House of Representatives**

**On**

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**Diane Casey-Landry**  
**President and Chief Executive Officer**  
**America’s Community Bankers**  
**Washington, DC**

Chairman Bachus, Ranking member Sanders, and Members of the Subcommittee, I am Diane Casey-Landry, President and CEO of America's Community Bankers.

I want to quickly mention that the members and staff of ACB have sent their thoughts and prayers to the victims of Katrina, as well as much-needed donations to relief organizations through our foundation. And we strongly urge everyone to reach deeply into their pockets to assist those who are suffering in Louisiana, Mississippi, and Alabama. ACB staff has been in constant contact with all of our community bank members in the affected areas where possible. Initially, 13 of our members among the 280 institutions in the potentially affected areas could not be contacted. Gradually the banks are in the process of re-establishing operations, although often from temporary or remote locations. We are continuing to talk with bankers, who, with their employees, have been victims of an unprecedented natural disaster. In addition to our appeal for general relief efforts, community banks are ready to provide resources and lend support to the affected institutions, as well as their employees.

ACB's testimony today will be in three parts. First, I will be giving a brief update on behalf of the people directly on the ground in the hurricane-ravaged areas. I have been in regular contact with Dan Digby, president of the Community Bankers of Louisiana, and Peter Gwaltney, president of the Louisiana Bankers Association. With their permission, I will be summarizing the updates I have received as recently as this morning. The second part of our testimony will cover what community banks in the affected areas are doing to help their customers and fellow citizens, and how they are beginning to work toward recovery. The third and final part will

address what Congress, the Administration, and banking regulators can do to make this recovery faster and safer.

### **Update from Hurricane Katrina Affected Areas**

“The devastation is truly shocking and overwhelming.” That is how Mr. Digby often begins our conversations. Immediately following that statement he always adds with great pride and enthusiasm the many ways in which community banks in the area are helping each other. He said the help ranges from office space, to backroom assistance, to shared-employee arrangements. In fact, Mr. Digby has several banks operating out of the Community Bankers of Louisiana’s boardroom in Baton Rouge.

Both Mr. Digby and Mr. Gwaltney have emphasized that Louisiana Banking Commissioner John Ducrest and his State Financial Institutions staff have done an outstanding job and have been fantastic in providing assistance and guidance where needed. I would add that both Mr. Digby and Mr. Gwaltney have also done an outstanding job on behalf of the banks in Louisiana.

However, Mr. Digby wants it known that there is a perception gap between the reality of what is going on in the hurricane affected areas and what regulators believe is occurring. The fact is community banks are not fully operational in the worst hit areas. Just because a regulator made contact with a president or CEO of a bank electronically, or that banks have a temporary office running, like the banks currently operating out of his boardroom, does not mean that those banks are fully operational. Picking up a “cash letter” does not mean a fully functioning bank. Many of these banks are not fully operational because they cannot offer many services to their customers

or the public. In some instances, the leadership of community banks are still searching for missing employees and loved ones.

Mr. Digby has also informed us that liquidity remains a concern. Because of substantial damage to the infrastructure, including loss of electricity or telephone service, it has become a cash economy in the affected areas. The Federal Reserve must continue to provide appropriate liquidity to banks in the region during a time when we expect deposit withdrawals by customers to address the greater than usual reliance on cash transactions. Similarly, greater liquidity is needed in instances where displaced bank customers, often far from home, may be compelled to withdraw funds from local banks in order to use alternative banking facilities where they are located.

Another point Mr. Digby wanted me to make in his update to the Subcommittee is that community banks throughout the Gulf Coast region are extremely concerned about check-cashing. The community banks that are operational are cashing checks with limited identifications and they fear that bank examiners will come in a year or 18 months from now, and cite them for violating check-cashing procedures and rules. They are concerned even though they know it is the right thing to do under the current circumstances, and they have been encouraged to do so by various regulators without written guidance to rely upon.

A final point Mr. Digby emphasized was that many loans will need to be restructured to accommodate customers. While these debt restructurings are occurring, banks will need the regulators to relax their historical expectations and limits on loan delinquency reports and loan

loss reserves. While the regulators are cooperating with the banks right now, this leniency will be most critical for the banks for many months to come.

## **What Community Banks Are Doing for Their Customers and Victims of Hurricane**

### **Katrina**

ACB members have contributed money to Hurricane Katrina relief efforts through the American Red Cross and numerous other disaster relief organizations. In addition, community banks from across the country are volunteering their assistance in relief efforts—we have seen this directly in our Bankers Helping Bankers program, which ACB created to aid our members.

Community banks have back-up plans and procedures in the event of disasters such as Hurricane Katrina. As catastrophic as this hurricane was, many banks have met the challenge by setting up tables outside their headquarters or branches. Some are even operating out of warehouses and other safe office buildings. In fact, we have been told of community banks making handwritten receipts to complete transactions. They are doing whatever it takes to serve their customers and the victims of this tragedy.

Banks in the surrounding communities of the most affected areas are also stepping up to the plate. They are lending their facilities, including back-office support, computers and even personnel, so customers of damaged community banks can be served.

Community banks are also doing whatever it takes to have cash on hand so their customers have access to their money. We were recently told of a bank president personally driving around to

business customers with excess cash, collecting their cash deposits and providing a handwritten receipt to the business owner. All so his customers would have access to much-needed banking services.

Since community banks know the communities they serve, they also know their customers, often on a first name basis. Because of this, community banks can more easily provide services with little or no identification when necessary. In addition, community banks are cashing checks from non-customers whenever possible.

To take it a step further, community banks are waiving ATM fees, extending grace periods to customers in the affected areas, waiving late fees, suspending mortgage payments for 60 or 90 days and developing alternative payment plans, not reporting delinquencies to credit bureaus, and providing penalty-free CD withdrawals. These are just some of the direct ways community banks are helping their customers in the Gulf Coast region. But with this unprecedented cooperation from banks to help each other, their customers and non-customers alike comes a very real risk, and that is where Congress can help

### **What Congress, Banking Regulators and the Administration Can Do to Further Help**

There are many opportunities for Congress, banking regulators, and the Administration to help community banks in the Hurricane Katrina-affected and surrounding areas.

First and foremost, the White House, Congress and banking regulators must be diligent in communicating and advertising that the U.S. banking system, and the FDIC-insured banks that

make up that system, are safe and sound. This is particularly true for community banks whose footprint is limited to the affected areas. They must all bolster public confidence in community banks in the Gulf Coast region to help avoid liquidity problems, unnecessary withdrawals and account closings. It was wonderful hear on Monday that the first transactions at several community banks that opened branches in Jefferson Parish were account openings!

Second, community banks in the region must be protected by legislation providing indemnification for bad checks. Community banks are being asked to cash government checks, FEMA checks and other forms of assistance – and they are—but they cannot be left to foot the bill for bad checks. It is also essential that written guidance be provided by the bank regulators to provide certainty that bank examiners will not cite institutions for various potential violations of the Bank Secrecy Act or the Patriot Act for providing check cashing services to Hurricane Katrina victims under relaxed standards. We commend the efforts of Chairman Bachus and Representative Hooley for their sense of Congress supporting the U.S. banking system as well as their legislation providing indemnification for bad checks. We also want to commend Chairman Baker for his efforts in providing similar legislation to help community banks in the region.

In the category of more intermediate relief, we recommend a much more streamlined process for the Small Business Administration to approve loans. The SBA is offering low-cost, long-term disaster relief loans, but time is of the essence for businesses that have been damaged and will need prompt assistance to help their recovery. We are pleased that the Federal Home Loan Bank of Dallas, an important source of funding for community banks in the affected areas, has adopted

modified and flexible policies governing advances to member institutions and that their regulator, the Federal Housing Finance Board is providing the necessary flexibility.

We are grateful that the banking regulators and the Federal Home Loan Bank of Dallas have responded with immediate actions appropriate to maintain confidence and stability in a region that experienced a terrible natural disaster. The challenge will be to maintain necessary flexibility in regulatory policies and compliance requirements over the intermediate term. As Mr. Digby said last week, those with the boots on the ground have a different view than those viewing the devastation from afar. We need to ensure that we don't forget and realize that the Gulf Coast's needs will be evolving for many weeks and months to come. After temporary survival needs have been met and transitional housing has been provided, families and businesses will begin the longer process of re-establishing communities. Regulatory policy may be expected to evolve during this period, but policy also must remain flexible over an extended period. Community bankers must remain engaged throughout the recovery process, and actions praised today must not be exposed to criticism tomorrow.

Finally, I recommend that we start the process now to improve our ability to recover from major disasters and rebuild communities. ACB supports development by the federal government of a mechanism for spreading the risk of major natural disasters over a risk pool including all holders of improved real property. The federal program should recognize the critical role that insurance plays in mortgage transactions and the need to preserve insurance availability to assure an orderly real estate market. The federal program also should recognize the continuing need to

educate the public about sound real estate development practices in disaster-prone areas to help prevent losses.

Chairman Bachus, Ranking Member Sarbanes and Members of the Subcommittee, on behalf of Dan Digby and his Community Bankers of Louisiana, and Peter Gwaltney and his Louisiana Bankers Association, and all community banks that are in the Hurricane Katrina affected regions of Alabama, Mississippi and Louisiana, thank you for all your continued help and guidance. Community bankers are ready and eager to join in rebuilding their communities.