

Comments of

McKinley W. Deaver

On Behalf of the

AMERICAN **BANKERS** ASSOCIATION

Before the

Financial Institutions and Consumer Credit Subcommittee

Of the

Committee on Financial Services

United States House of Representatives

Regarding

Hurricane Katrina Relief and Recovery Efforts



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September 14, 2005

Mr. Chairman and members of the Subcommittee, my name is Mac Deaver. I am the executive director of the Mississippi Bankers Association, whose membership includes 106 commercial banks and savings institutions, representing 99 percent of Mississippi's bank deposits. I am pleased to be here today, on behalf of the American Bankers Association (ABA), to discuss the banking industry's response to Hurricane Katrina. ABA, on behalf of the more than two million men and women who work in the nation's banks, brings together all categories of banking institutions to best represent the interests of this rapidly changing industry. Its membership includes community, regional and money center banks and holding companies, as well as savings associations, trust companies, and savings banks.

In Mississippi, the benchmark for severe storms for many years was Hurricane Camille, which hit our coast in 1969. Hurricane Katrina changed that. Hurricane Katrina caused loss of life, damage to property, and interruption of businesses and services on a scale never seen before in our state and in our neighboring states of Louisiana and Alabama. Bankers, many of whom suffered personal losses themselves, were called upon to quickly reopen their institutions to provide financial

services to the public in this most critical time and to help support a larger recovery. In several places, the first priority remains ensuring that victims of the storm receive the basic necessities of food, shelter, and transportation.

In my testimony, I would like to make the following three points:

- 1. Banks are working cooperatively with one another and all levels of government to quickly reestablish normal customer services.**
- 2. Banks have taken a number of steps to assist customers who have been affected by Hurricane Katrina.**
- 3. While longer-term recovery solutions are important to consider, right now immediate practical concerns exist, such as how to serve displaced customers.**

I. Banks are Working Cooperatively

I am pleased to report that the day after the storm hit some banks were “up and running” in even the hardest hit areas, with more progress being made every day. Institutions resumed operations using generators and limited communications, often in temporary facilities. By the end of the week – only four days after the hurricane – all banks in Mississippi were operating, although not all branches were open. In harder-hit areas, progress is rapidly being made. For example, as of this week, banks are sharing a dozen branches in New Orleans’s adjacent county of Jefferson Parish, which was devastated by the storm. Our industry has not treated the recovery as a competitive matter. Bankers from across the country immediately began providing assistance to banks in the most affected areas. In my state of Mississippi, banks have performed processing for one another, provided temporary facilities, or have assisted with cash needs.

In the states directly affected by Katrina, the state bankers associations, along with ABA and other organizations, quickly began regular telephone briefings with bankers and state and federal regulators. These meetings, which are ongoing, are an effective way to share information about available resources, the status of banking operations, the delivery of emergency financial assistance, and guidance to bankers dealing with complex regulatory requirements in these extraordinary circumstances. Our associations and other industry groups are working to assure the public that their money is safe and that their banks are available to serve them.

The Alabama, Louisiana, and Mississippi Bankers Associations, in a joint statement issued earlier this month, called on the nation’s banks, bank employees, and customers to aid in relief efforts along the Gulf Coast. I would like to share with you this statement to you in its entirety:

The magnitude of the damage caused by Hurricane Katrina on the Mississippi Gulf Coast, and in New Orleans, south Louisiana, and coastal Alabama is hard to comprehend. Although the damage is limited to the Gulf Coast, its impact has national consequences. The images we've seen on television are heart-breaking. The relief effort underway in the storm-affected areas is the largest our nation has ever experienced, and is the largest ever undertaken by the American Red Cross. The Red Cross has mobilized in an historic fashion and is on the front line coordinating the relief effort. The organization needs the support of banks, bankers and bank customers across the country. To contribute to the American Red Cross, please call 1-800-HELP-NOW, visit the Red Cross online, or call your local American Red Cross office. Thank you for your expressions of prayer and support.

The banking industry is accustomed to responding to customer needs during natural disasters. When a disaster strikes, every consumer should know that their bank is prepared, their deposits are safe, and they will have continued access to their funds. Banks are required by law to have extensive disaster recovery plans in place to protect customer accounts, and state and federal regulators routinely examine each bank on their preparations. Banks have an admirable record and a proven history of restoring service as soon as possible after any unexpected event. Post-9/11 procedures and extensive preparations for Y2K strengthened the banking industry's ability to deal with a broad range of disruptions.

I would also like to share with you a story told to us by Peter Gwaltney, the chief executive of the Louisiana Bankers Association:

The bankers in the affected area are working heroically to get their banks back up and running. It's hard to describe the size, scope, and variety of the issues they're managing, along with the loss of family, friends, and personal property. For three days after the storm, Guy Williams of Gulf Coast Bank & Trust, New Orleans, rescued people in his boat. A week later he still crosses Lake Pontchartrain at night in his boat, from Covington to the Lakefront in Kenner/New Orleans, to rescue people trapped by floodwater...he goes door to door, pulls people out and takes them to a shelter. Look at a map of Louisiana...it's a long trip by motorboat. He shows up back in Baton Rouge each morning, at the Louisiana Bankers Association office, to work with his management team to establish new offices in Baton Rouge, secure housing for staff and execute their disaster plan. His bank will open a new office in Baton Rouge... That's just one of many stories.

II. Banks Are Assisting Affected Customers

As with any disaster, but particularly given the scope of Katrina, the industry is aggressively working to not only deal with the immediate needs of individuals, but also trying to anticipate future customer needs to help the recovery gather greater steam.

Typically, the first banking-related concern in the aftermath has been how to access cash. As an industry we have worked closely with the Federal Reserve to ensure that cash deliveries get to where they are most needed. Institutions in areas receiving displaced people conducted business on Saturday, and, on the encouragement of state banking officials, remained open throughout the Labor Day weekend, for example. In some places, on-site banking services remain available through

the weekend. State banking agencies are acting to minimize regulatory impediments for financial institutions seeking to open temporary facilities to service displaced citizens.

Efforts are underway to bring ATM machines back online and to deploy mobile ATMs, both in the areas where damage is the heaviest as well as at locations where there are large numbers of evacuees. Banks and card associations have waived ATM fees and, in addition to their normal telephone support, banks throughout the affected areas established toll-free disaster information services. We are working to get those numbers and other information into the FEMA information pipeline so that it will be more readily available on the ground. Banks have also streamlined their ATM and credit card-replacement procedures, authorizing expedited service to temporary addresses where the cards can be received.

The national systems for the processing of payment and securities settlement transactions have been unaffected by the hurricane and continue to operate normally. Electronic payment networks are for the most part operational to the extent there is power. Several employers have inquired as to their employee's ability to access their accounts at affected banks. To the extent there was a temporary outage we have been able to link the employer with the appropriate person at the bank.

The banking industry is also working with the Social Security Administration and other agencies to ensure that customers and non-customers have access to the proceeds of Social Security and other government checks. Banks are assisting the development and distribution of a flyer which institutions can use to spot fraudulent government checks, giving institutions a greater level of comfort to cash non-customer checks.

Another pressing concern among affected consumers is whether they will be penalized for late or missing bill and mortgage payments. Although specific protocol for dealing with affected customers is up to individual institutions, the industry has joined with banking regulators to encourage the most reasonable accommodation possible for customers whose lives have been disrupted by Hurricane Katrina. Typical actions include the waiver of late fees, the suspension of interest accrual on credit accounts, extension of grace periods, and expedited increases of credit lines. In many cases, institutions have declared a minimum automatic 30-day grace period, usually targeted by zip code, with plans to reevaluate response measures monthly. Lower-cost loans with streamlined qualification standards are also available. We strongly encourage all affected customers to contact their financial services providers to inquire about what assistance is available for them and to provide their contact information.

As individual customers reorder their lives in the aftermath of Hurricane Katrina, the needs of businesses in the affected regions, both large and small, will require increasing attention. Commerce depends upon the efficient and dependable services banks and their electronic networks provide, and we will meet that challenge.

Because Hurricane Katrina is first and foremost a human disaster, which calls for humanitarian aid on a massive scale, the financial services industry is encouraging generosity among its institutions and its employees. Many institutions are matching the contributions of their employees. More aid is promised each week. Thus far, banks and card companies have pledged hundreds of millions of dollars in direct aid and matching funds.

III. Immediate Practical Concerns Exist

In the wake of Hurricane Katrina, banks are seeking to do the right thing by serving all members of the public at a critical time, including the thousands displaced by the hurricane. Nevertheless, banks are facing challenges in providing services to unknown persons while at the same time meeting all of the regulatory requirements and protecting their institutions from losses.

Non-customer identification remains difficult. Thousands of evacuated persons are seeking cash to provide themselves with basic provisions. Banks are doing their part by accepting checks and opening accounts to the extent possible. Bankers want to do the right thing to help the victims of Hurricane Katrina, but must balance regulatory and institutional concerns.

Finally, the situation on the ground continues to change. Banks are continually reassessing the appropriateness of their response measures. Banks and the customers they serve will benefit from a regulatory environment that takes this fact into account. Banks will continue to do everything possible to help the victims of Hurricane Katrina and to support a regional economic recovery. Many of our member banks have been part of their communities for more than a hundred years. They plan to stay. ABA looks forward to working with the Committee as we encounter problems and ascertain solutions.