Community banks didn't cause crisis, expert says

They avoided risky loans, chief of bankers group says at meeting

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Community banks did not cause the credit crunch or subprime mortgage meltdown facing large U.S. financial institutions.

Other major points made by the president of the National Association of Independent Banks at a meeting yesterday, were that:

- Bank regulators contributed to the crisis.
- The community banking sector is doing well, despite liquidity problems in the financial system.
- Financial problems are likely to lead to regulatory backlash.

"There is no such thing as a bank too big to fail; that is hooey," said Camden Fine, president of the 500-member bank trade organization, said at the Richmond Association for Business Economics at the Federal Reserve Bank of Richmond.

The recent collapse of Bear Stearns, a major corporate investment bank, is not an isolated incident, he said. "There are more out there."

Community banks were not involved in the risky loans that caused some of the big banks to write off billions of dollars in bad debt, Fine said.

"We don't have off-balance stuff that we pretend doesn't exist; we stick to our knitting," Fine said.

Whether the country is in a recession will be determined. But the financial sector is in one, Fine said.

"When the dot-coms blew up, banks were doing great. This is our dot-com bubble."

Total banking assets in the U.S. amount to $14.2 trillion, which is insured by the Federal Deposit Insurance Corp.

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Ten percent of the banks control 90 percent of the assets, Fine said. Big players include Bank of America Corp., JPMorgan Chase & Co., Wachovia Corp., Wells Fargo & Co., U.S. Bancorp, Washington Mutual Inc.

A majority of their assets are interlinked with subordinate agreements, Fine said. "They are all intertwined."

Take a risky loan, for example. Split that risk into 100 pieces and sell the pieces all over the world, so no one entity takes all the risk. That is essentially how large banks dealt with some loan packages, Fine said.

Regulations that let banks get into the insurance business as well as loose structure policies in the late 1990s created these behemoths, he said.

"The policy that bigger is better helped bring in the concentration of assets at the top."

"The [Independent Community Bankers of America] has been screaming about all this concentration at the top," Fine said.

The general thinking is a bank is not only too big to fail, but also too big to punish, regulate and manage, Fine said.

"When a bank has $2.2 trillion in assets, 600,000 employees and offices worldwide, you can't tell me with a straight face that it can be regulated. There aren't enough examiners in this country."

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In general, community banks are in good shape, Fine said.

"Virginia overall is pretty solid. The bulk of the banks are doing fine. Has there been a slowdown? Yes. But the general economic conditions are good."

That said, some pockets of the country are not doing well, he said. "Florida is not a pretty sight." Property values in some areas there have dropped 30 percent, he said.

Other ailing spots are on the West Coast and the East Coast. But community banks in the middle of the country are fat and happy, especially those in agricultural communities, he said.

Commodities for wheat, soybeans, cotton and rice are all up. "If you're an ag bank, times have never been better."

Fine said he is most afraid of congressional and regulatory overreaction to the problems in the financial system. Community banks will be targets, because they are easier to understand than big banks, Fine said.

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