

August 18, 2009

The Honorable Timothy F. Geithner
Secretary of the Treasury
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Mr. Secretary:

As community bankers, we strongly support the need to confront the inadequacies in financial supervision, particularly addressing the problems with having financial institutions that are considered too big to fail and the need to strengthen consumer protection. Community banks thrive by building strong financial service relationships with our customers, relationships that endure for the long term. We are hurt, just as financial customers are hurt, by the unethical dealings of non-bank competitors that operate in an environment of low standards. Community banks were not the cause of the financial turmoil, but we have been severely affected by it.

Recently the Treasury Department included in a package of briefing materials to Congress a paper entitled, "Community Banks will Benefit from the Consumer Protection Financial Agency." As community bankers from across the nation, we respectfully and emphatically disagree. We believe that were the Consumer Financial Protection Agency (CFPA) enacted as proposed, community banks would be severely harmed.

First, the proposal would undermine our core business model – individualized products and services. The great strength and advantage of community banking is our ability to tailor our products and services to our customers because we are close to our customers. We live in the same communities and know them and their businesses. It is truly our customers who shape how we run our banks, what products we offer, with which features, and how we communicate with them. Under the proposal, the CFPA, operating from Washington, would design products, name the features, and tell us how we can talk to our customers. Our individualized products would be held to differential and discriminatory regulation. That would disrupt our relationship with our customers and break the community bank business model.

Second, the CFPA would raise our regulatory costs and burdens. In addition to our existing banking regulators, we would now have a new regulator with control over all of our retail products and services. Moreover, the edicts of this new federal regulator would be open to interpretation and enforcement by state and local authorities. That means that as a community bank grows, we would inherit additional cadres of officials and regulators in each new community or state where we might extend our business, regulators who are not required to see eye-to-eye on how they interpret and apply the already vast amount of regulatory burdens that we face.

Third, we will be subject to conflicting regulation. Today, consumer regulation is closely tied to safety and soundness regulation. Indeed, in many regulations the two are intertwined, such as

regulations involving the payments system, anti-money laundering, and loan underwriting. Under the CFPA, these functions would be separated, likely resulting in additional regulations that will frequently conflict as each regulator writes the regulation with its own perspective and emphasis. Which will become more important in making a loan: promoting credit availability or managing the risks to the bank from market changes in interest rates or asset values? When we are asked by regulators to “strengthen asset quality,” will we get the same guidance from a consumer regulator as we will we get from a safety and soundness regulator?

Fourth, community banks would be put at a disadvantage to larger banks. While all banks would be impacted by these changes, economies of scale and the ability to support larger regulatory compliance programs will favor larger banks. Our competitive advantage is the ability to tailor products to individual customers. Commoditization, contrary to the administration’s assertions, will favor large institutions with economies of scale and larger advertising budgets. Community banking would suffer, as would service to our customers. Far too many community banks will be driven out of business or into consolidation with larger banks.

As community bankers from different parts of the United States, we are eager to work with you to fill the gaps in consumer protection. We believe that the CFPA would do little to fill those gaps. We are very worried, however, that the proposal would instead hurt the ability of community banks to provide the high level of customer service that is our hallmark and the key to our success.

Respectfully,

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