

MAINE BANKERS

Association

TESTIMONY OF
John Witherspoon, President and CEO, Skowhegan Savings Bank
FEBRUARY 3, 2015
REPRESENTING THE MAINE BANKERS ASSOCIATION

IN OPPOSITION TO
LD 24 An Act To Create a Public State Bank

Good afternoon Senator Whittemore, Representative Beck and members of the Insurance and Financial Services Committee. My name is John Witherspoon and I am a resident of Kingfield. I stand before you as the CEO of Skowhegan Savings Bank, a Maine state bank, chartered in 1869 that is over \$500 million in assets. I am here today representing the 31 members of the Maine Bankers Association.

Our industry's 9,000 employees in 500 branches across the state are proud to serve the daily banking needs of Maine citizens and businesses. Maine banks have \$28 billion in assets deployed to Maine families, businesses, municipalities and even to the state on a regular basis without jeopardizing any taxpayer money. Maine banks are FDIC insured and are tightly regulated as to the types of loans we can make and the risks we can take with depositors' money.

The bill before you represents the opposite of what Maine's banking industry is today. LD 24 proposes a bank without deposit insurance, with a politically appointed board that sets its own rules and that has as a source of unlimited deposits, the state's General Fund and funds of the Public Employees Retirement System (PERS). It proposes to allow the new state-owned bank to lend taxpayer money and retirement funds for loans that insured financial institutions cannot make because they are considered unsafe and unsound banking practices.

Even more noteworthy, the bill proposes to eliminate the Finance Authority of Maine (FAME) and move their programs into the proposed bank. I previously served as the CEO of FAME, and I understand and support their mission to provide access to innovative financial solutions to help Maine citizens pursue business and higher educational opportunities. FAME is a quasi-public lending entity that partners with the private sector to finance or provide guarantees for certain categories of loans that are unlikely to receive adequate private financing due to the lending risk. Even in North Dakota they do not run these types of programs through their state-owned bank.

Maine Bankers Association members oppose the creation of a state bank for several reasons:

There is no need or demonstrated demand. In 2013, Maine banks made \$3.1 billion in loans to Maine companies and \$2.5 billion in loans for residential real estate. They have access to the Federal Home Loan Bank (FHLB) System when they may want additional funding for lending. I have attached an overview of the FHLB System for your reference. Currently, Maine banks routinely partner with FAME, the Maine State Housing Authority (MSHA), and the Small Business Administration (SBA) to meet the needs of Maine's citizens and businesses who may not receive adequate financing from the private sector due to the lending risk.

There is only one state-owned bank in the United States and that bank was established almost 100 years ago. Other states have studied the possibility of a state-owned bank and have ultimately said no! The 1919 startup of the Bank of North Dakota (BND) was undercapitalized and this led to 18 bank failures in the state because the state-owned bank drained them of state deposits. Today, it would take at least \$325 million (considering inflation and economic growth) to capitalize the BND at its 1919 level, according to a May 2011 Research Report published by the Federal Reserve Bank of Boston's New England Public Policy Center.

This proposal places public funds and retirement system funds at risk. Will Maine citizens or state employees be willing to risk losing principal from the Treasury's cash pool, municipal funds or the state employee retirement fund to capitalize a state-owned bank to make risky loans that regulators prohibit financial institutions from making? This misguided proposal does not consider the fiduciary role of the State Treasurer.

This proposal lacks any rigid, regulatory oversight (the state bank is only to be examined against the rules their board establishes for themselves). The regulatory structure for the state bank outlined in LD 24 is insufficient to protect the bank's (taxpayers') assets. In addition, creation of this under regulated bank would jeopardize the competitiveness of the 31 highly regulated, tax-paying Maine financial institutions currently operating in the state.

This bill is a bad idea for Maine. I want to thank you for the opportunity to testify today.

For additional information,

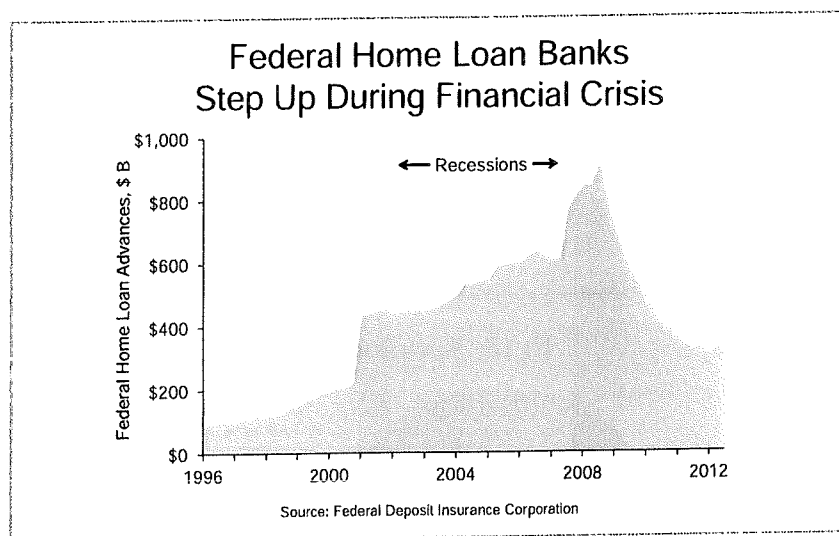
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Federal Home Loan Bank Advances Supplement Funding

Another major source of funding for bank lending is to become a member of the Federal Home Loan Bank (FHLB) System. The Federal Home Loan Banks are cooperatives that were created by Congress as a response to the Great Depression of the 1930s. The FHLBs help to ensure that community banks have funds to lend to customers in all market conditions. The FHLBs have been particularly beneficial for portfolio mortgage lenders—those that hold rather than sell loans in the secondary market (e.g., to Fannie Mae and Freddie Mac).

Banks become members of one of the FHLBs by buying stock in it. Banks are then eligible to borrow funds (called advances) from the FHLB, in return for pledging specific assets on each member bank's books. These assets generally consist of home mortgage loans, although some other assets such as farm and small business loans are also allowed. Member banks use these advances to extend new home loans or other consumer loans to customers.

The FHLB system has worked very well over the past 80 years, particularly during the early stages of the recent financial crisis. Interbank funding at that time was challenged, but FHLBs continued to provide lendable funds to their member banks, even as other credit markets around the world froze.



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MEMBER BANKS

Androscoggin Bank
Aroostook County Federal Savings & Loan
Auburn Savings Bank, FSB
Bangor Savings Bank
Bank of America, N.A. Bar
Harbor Bank & Trust Bar
Harbor Savings & Loan
Bath Savings Institution
Biddeford Savings Bank
Camden National Bank
Damariscotta Bank & Trust Company
First Federal Savings & Loan of Bath
Franklin Savings Bank
Gorham Savings Bank
Katahdin Trust Company
Kennebec Federal Savings
Kennebec Savings Bank
Kennebunk Savings
KeyBank, N.A.
Machias Savings Bank
Mechanics Savings Bank
Northeast Bank
Norway Savings Bank
People's United Bank
Rockland Savings Bank, FSB
Saco & Biddeford Savings Institution
SIS Bank
Skowhegan Savings Bank
TD Bank, N.A.
The Bank of Maine
The First, N.A.

NONDEPOSITORY TRUST COMPANIES

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Maine Bankers Association represents the interests of 31 Maine banks and the over 9,000 Mainers that they employ. Our legislative focus centers on issues that impact the ability of Maine's citizens and businesses to grow and prosper because the success of the banking industry hinges on the Maine economy. We participate in all Legislative discussions that consider and contribute to improving the state's economic health and improving opportunities for our citizens.

Our banks provide services to all of Maine's citizens through many channels: 500 banking offices across Maine, numerous ATM locations, 24-hour call centers and internet and mobile banking. Internet banking services allow customers such conveniences as bill paying, reviewing account information and transferring funds online. Banks in Maine are full service financial institutions.

Maine's banks are a critical component in keeping the state's economic engine moving forward. In 2013, banks lent over \$3.1 billion to Maine businesses and more than \$2.5 billion to Maine citizens who were purchasing or refinancing homes. They also donated more than \$9.9 million to Maine charities. Bankers believe that a vibrant state economy helps to ensure continued prosperity for the state's business climate and adds jobs for people in our communities. Maine banks work hard to support legislation that meets these goals.

Maine's banks have assets exceeding \$28 billion, and those assets are evenly split between nationally-chartered and state-chartered banks (bank charter choice is made by the bank). Twelve banks are stockholder owned and nineteen Maine banks have mutual charters without stockholders.

All Maine Banks are FDIC insured and operate in a highly regulated environment. State-chartered institutions are regulated and examined by both the Maine Bureau of Financial Institutions and the FDIC. Federally chartered banks are regulated and examined by the Office of the Comptroller of the Currency and the FDIC. Those structured as a holding company are also supervised by the Federal Reserve Bank. Examination and regulation are key components as much of the behavior precipitating the recent economic downturn was conducted by unregulated non-bank lenders. They participated in the mortgage industry by making loans that banks were not allowed to make. Federal bank regulators estimate that 94% of the predatory mortgage loans were made by non-FDIC insured financial institutions.

Please feel free to reach out to our members or the MBA staff directly if you or a constituent have banking related questions.

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