

Bring back true community banks

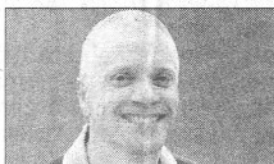
I had to take care of some business in Freeport not long ago and became engaged in a friendly discussion with a local attorney about our country's economic upheaval. Upon discovering I was familiar with the banking industry, he asked me whatever happened to banking "the way it used to be." I asked what he meant by that and he told me a familiar story that went something like this:

Once upon a time, farmers used to come to the Valley National Bank based in Freeport for their seasonal loans. Valley National Bank was much like many community banks in its time. It was an efficient engine for distributing funds invested by local shareholders and depositors.

Customers would come in to borrow money at a fair rate to help grow their farms or businesses which, in turn, helped build the local community. For decades, the bank would make these loans to the local farmers without any hesitation. They knew the character of their customers and there was never a question that they would be paid back.

Then one day in 1986, a larger bank took over Valley National. The kindly local manager was retained to run the bank to show customers nothing really had changed — that they could still do business as usual with their local bank.

But in reality, everything had changed. The farmers returned to the bank and were greeted with an array of new stipulations that included financial statement requirements. Many of the farmers didn't qualify under these new rules and were rejected. "But we've been doing business here for decades. You know us," they would say incredulously. But the manager's hands were tied and the farmers eventually



RAY MUTH

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went elsewhere. It didn't take long for the kindly manager, who cared deeply for the bank's customers, to see the futility of the situation and move elsewhere. "And that's where things began to go wrong," the attorney concluded.

Ordinary Americans have been bombarded with a variety of complicated reasons for the financial crisis in which we're mired. Was it the repeal of the Glass-Steagall Act, which originally established the FDIC and placed limitations on bank speculation? Was it the Community Reinvestment Act that required banks to make riskier loans in economically challenged areas? Was it the action of greedy Wall Street investment bankers who manipulated the system for their own gain?

Against this tiring noise of blame and gloom, I would like to submit a solution in which we can all participate. You might even say it has the full backing of FDIC Chairman Sheila Bair, who recently declared that banks can no

longer be too big to fail.

The re-emergence of independent banks rooted within our communities — where local people are making decisions for local people — is without a doubt the most efficient and effective way to get new, small businesses started which, in turn, hire people and jump-starts our economy. Community banks are usually well run and don't get involved in dubious investments no one understands.

While community banks have predominantly been pushed out to rural areas due to intense competition, you can still find a few good ones if you look around. Allegheny Valley Bank has a branch in Blawnox. Mars National Bank has a branch in Russellton, Butler-based NexTier has a branch in Saxenburg and the Apollo Trust Co. has branches throughout the Kiski Valley.

Could there be a Freeport National Bank or a Tarentum National Bank in the future? I think the case to be made is going to become more compelling. Sheila Bair comes from Independence, Kan., with a population of 9,846 people. If ever there was an FDIC chairman who understood the value of community banks, she's the one.

Don't be surprised to see her propose the break-up of some of our nation's largest banks. Those that aren't broken up will be mandated to have higher capital requirements. Most significantly, I think we'll see a signal that starting new community banks is an important component of revitalizing our economy.

My advice is to find a good community bank. Be part of the solution to rebuild our country.

Ray Muth of Jefferson Township is a Valley News Dispatch community columnist.

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