

February 24, 2009

To: Members of the Banks Committee

Fr: Gary Smith
President and CEO, Fairfield County Bank

Re: H.B. No. 6478 AN ACT CONCERNING THE USE OF STATE
GUARANTEES TO ENCOURAGE LENDING TO SMALL AND MEDIUM-
SIZED BUSINESSES

Position: Support with Revisions

Thank you for the opportunity to provide my testimony today before the Banks Committee today and I hope you will consider supporting the key concept contained in House Bill 6478. Before I talk about the bill itself, I wanted to give you a brief overview of Fairfield County Bank. We're a 1.5 billion dollar mutual bank, focused on the savings and lending needs of our customers and community. We serve over 25 thousand households and 5 thousand businesses throughout Fairfield County, and the total volume of all our loans is over 1.3 billion dollars.

This bill seeks to create a State backed guarantee, for Trust Preferred Securities (TPS), issued by Connecticut domiciled banks. This is needed, because your local community banks, especially mutual institutions, have lost an important means of raising equity capital through the issuance of this type of security, due to the problems in the capital markets. Equity capital is important, because banks take every dollar of capital and turn it into five to ten dollars of mortgages or commercial loans. In other words, every one million dollars of capital can result in at least five million dollars or more of lending in the communities we serve.

While Connecticut based banks are strong, and ready to lend, the secondary markets that in the past have purchased bank originated loans (thereby replenishing the monies needed to make additional loans), have become

restricted, as in the standard mortgage market, or non-existent, in the case of “jumbo” loan secondary market. This tightening or lack of a secondary market for different products will likely cause a “loaned up” situation to arise at many banks. This is where a bank has loaned out all its available money and can no longer meet the borrowing needs of its customers.

As I mentioned, banks have lost the ability to sell TPS issuances, and importantly, mutual banks in particular can't access the Federal Troubled Asset Relief Program (TARP). As you may know, one of the principal reasons for the TARP is to recapitalize banks so they can lend. The Federal Reserve has not, and most people believe won't, develop a process by which a mutual bank can access those funds. In addition, the TARP funds are very expensive to access for stock institutions, to the point where depending on a banks marketplace, it may be cost prohibitive.

With regards to the language in House Bill 6478, I feel that it may be more complex than it needs to be and would welcome the opportunity to work with the Committee and proponents of the bill to fine tune the proposal.

In today's economic environment, it is crucial that local banks keep the necessary capital and ability to lend to their customers. The bills concept is straightforward – there is no current market for Trust Preferred Securities, due to the paralysis on Wall Street. Having a State guarantee for local bank issued TPS's would effectively create a limited and healthy market for securities of this type. The obvious benefit of this type of program to Connecticut banks is the ability to increase capital. The benefit for the investor would be a safe and sound investment at favorable returns. The benefit to Connecticut consumers would be their local banks being capable of providing greater lending on the street.

Thank you again for the opportunity to present this testimony today and I'd be happy to answer any questions you may have.