PROPOSALS TO PERMIT PAYMENT OF INTEREST ON BUSINESS CHECKING ACCOUNTS AND STERILE RESERVES MAINTAINED AT FEDERAL RESERVE BANKS

HEARING

BEFORE THE

SUBCOMMITTEE ON
FINANCIAL INSTITUTIONS AND CONSUMER CREDIT

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

MARCH 13, 2001

Printed for the use of the Committee on Financial Services

Serial No. 107–4

U.S. GOVERNMENT PRINTING OFFICE
71–148 PS WASHINGTON : 2001

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: (202) 512–1800 Fax: (202) 512–2550
Mail: Stop SSOP, Washington DC 20402–0001

HOUSE COMMITTEE ON FINANCIAL SERVICES

MICHAEL G. OXLEY, Ohio, *Chairman*

JAMES A. LEACH, Iowa
MARGE ROUKEMA, New Jersey, *Vice Chair*
DOUG BEREUTER, Nebraska
RICHARD H. BAKER, Louisiana
SPENCER BACHUS, Alabama
MICHAEL N. CASTLE, Delaware
PETER T. KING, New York
EDWARD R. ROYCE, California
FRANK D. LUCAS, Oklahoma
ROBERT W. NEY, Ohio
BOB BARR, Georgia
SUE W. KELLY, New York
RON PAUL, Texas
PAUL E. GILLMOR, Ohio
CHRISTOPHER COX, California
DAVE WELDON, Florida
JIM RYUN, Kansas
BOB RILEY, Alabama
STEVEN C. LATOURETTE, Ohio
DONALD A. MANZULLO, Illinois
WALTER B. JONES, North Carolina
DOUG OSE, California
JUDY BIGGERT, Illinois
MARK GREEN, Wisconsin
PATRICK J. TOOMEY, Pennsylvania
CHRISTOPHER SHAYS, Connecticut
JOHN B. SHADEGG, Arizona
VITO FOSSELLA, New York
GARY G. MILLER, California
ERIC CANTOR, Virginia
FELIX J. GRUCCI, JR., New York
MELISSA A. HART, Pennsylvania
SHELLEY MOORE CAPITO, West Virginia
MIKE FERGUSON, New Jersey
MIKE ROGERS, Michigan
PATRICK J. TIBERI, Ohio

JOHN J. LAFALCE, New York
BARNEY FRANK, Massachusetts
PAUL E. KANJORSKI, Pennsylvania
MAXINE WATERS, California
CAROLYN B. MALONEY, New York
LUIS V. GUTIERREZ, Illinois
NYDIA M. VELÁZQUEZ, New York
MELVIN L. WATT, North Carolina
GARY L. ACKERMAN, New York
KEN BENTSEN, Texas
JAMES H. MALONEY, Connecticut
DARLENE HOOLEY, Oregon
JULIA CARSON, Indiana
BRAD SHERMAN, California
MAX SANDLIN, Texas
GREGORY W. MEEKS, New York
BARBARA LEE, California
FRANK MASCARA, Pennsylvania
JAY INSLEE, Washington
JANICE D. SCHAKOWSKY, Illinois
DENNIS MOORE, Kansas
CHARLES A. GONZALEZ, Texas
STEPHANIE TUBBS JONES, Ohio
MICHAEL E. CAPUANO, Massachusetts
HAROLD E. FORD JR., Tennessee
RUBÉN HINOJOSA, Texas
KEN LUCAS, Kentucky
RONNIE SHOWS, Mississippi
JOSEPH CROWLEY, New York
WILLIAM LACY CLAY, Missouri
STEVE ISRAEL, New York
MIKE ROSS, Arizona

BERNARD SANDERS, Vermont

Terry Haines, Chief Counsel and Staff Director

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER CREDIT

SPENCER BACHUS, Alabama, *Chairman*

DAVE WELDON, Florida, *Vice Chairman*
MARGE ROUKEMA, New Jersey
DOUG BEREUTER, Nebraska
RICHARD H. BAKER, Louisiana
MICHAEL N. CASTLE, Delaware
EDWARD R. ROYCE, California
FRANK D. LUCAS, Oklahoma
BOB BARR, Georgia
SUE W. KELLY, New York
PAUL E. GILLMOR, Ohio
JIM RYUN, Kansas
BOB RILEY, Alabama
STEVEN C. LATOURETTE, Ohio
DONALD A. MANZULLO, Illinois
WALTER B. JONES, North Carolina
JUDY BIGGERT, Illinois
PATRICK J. TOOMEY, Pennsylvania
ERIC CANTOR, Virginia
FELIX J. GRUCCI, JR, New York
MELISSA A. HART, Pennsylvania
SHELLEY MOORE CAPITO, West Virginia
MIKE FERGUSON, New Jersey
MIKE ROGERS, Michigan
PATRICK J. TIBERI, Ohio

MAXINE WATERS, California
CAROLYN B. MALONEY, New York
MELVIN L. WATT, North Carolina
GARY L. ACKERMAN, New York
KEN BENTSEN, Texas
BRAD SHERMAN, California
MAX SANDLIN, Texas
GREGORY W. MEEKS, New York
LUIS V. GUTIERREZ, Illinois
FRANK MASCARA, Pennsylvania
DENNIS MOORE, Kansas
CHARLES A. GONZALEZ, Texas
PAUL E. KANJORSKI, Pennsylvania
JAMES H. MALONEY, Connecticut
DARLENE HOOLEY, Oregon
JULIA CARSON, Indiana
BARBARA LEE, California
HAROLD E. FORD, JR., Tennessee
RUBÉN HINOJOSA, Texas
KEN LUCAS, Kentucky
RONNIE SHOWS, Mississippi
JOSEPH CROWLEY, New York

CONTENTS

WITNESSES

TUESDAY, MARCH 13, 2001

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PROPOSALS TO PERMIT PAYMENT OF INTEREST ON BUSINESS CHECKING ACCOUNTS AND STERILE RESERVES MAINTAINED AT FEDERAL RESERVE BANKS

TUESDAY, MARCH 13, 2001

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
AND CONSUMER CREDIT,
COMMITTEE ON FINANCIAL SERVICES,
Washington, DC.

The subcommittee met, pursuant to call, at 2:10 p.m., in room 2128, Rayburn House Office Building, Hon. Spencer Bachus, [chairman of the subcommittee], presiding.

Present: Chairman Bachus; Representatives Weldon, Bereuter, Lucas of Oklahoma, Kelly, Manzullo, Biggert, Toomey, Cantor, Hart, Capito, Ferguson, Rogers, Tiberi, Waters, Watt, Bentsen, Carson and Shows.

Chairman BACHUS. The hearing of the Subcommittee on Financial Institutions and Consumer Credit will come to order. Without objection, all Members' opening statements will be made a part of the record.

I now am going to recognize myself for an opening statement, and then the subcommittee Chairs and Ranking Members will make opening statements, which will be limited to five minutes, and the other Members will be recognized for three minutes for opening statements.

Today the subcommittee convenes to consider two separate but related proposals. One, repealing the current ban on the payment of interest on business checking accounts; and, two, permitting interest to be paid on funds that banks and other depository institutions are required by law to maintain at the Federal Reserve banks. The eyes of most Americans may glaze over at the mention of these two issues, yet both are of critical importance as the subcommittee seeks to continue the work of modernizing our financial system, which we began last year with the enactment of Gramm-Leach-Bliley.

Like many of the provisions repealed by Gramm-Leach-Bliley, the ban on paying interest on business checking accounts is a Depression-era prohibition. Many think it has long since outlived its usefulness, and I myself have that opinion. When originally enacted in 1933, the ban was designed to protect small rural banks from having to compete for deposits with larger institutions based upon what they could offer customers as far as a higher interest rate. That was valid at one time. This policy justification is simply no longer relevant in a competitive environment where banks must compete not merely against each other, but against a host of non-bank financial firms offering a wide range of interest-bearing products.

The prohibition on paying interest to business checking customers is one of the many factors contributing to a liquidity crunch for our Nation's small community banks. Faced in many cases with declining deposits coupled with strong demand for loans in their communities, small banks are caught in a vise, and are increasingly forced to seek funding from the Federal Home Loan Banking System and other alternative sources. Unable to earn interest on their checking account balances, small businesses in areas served by community banks have a powerful bottom-line incentive to take their business elsewhere. Not surprisingly, many choose to do exactly that, opening cash management accounts at brokerage firms or parking their assets in other interest-bearing vehicles outside the banking system.

Repealing the ban on interest on business checking accounts will allow banks to compete for such deposits on a more level playing field and promote the development of bank products and services geared toward a corporate clientele that is ill-served by the current prohibition.

The second issue we will address today is somewhat the flip side of the first issue. Under current law, depository institutions are required to hold deposits at the Federal Reserve banks against transaction accounts maintained by the institution's customers. No interest is paid on these reserves. Banks have argued, persuasively in my view, that if the law is changed to permit interest to be paid on business checking accounts, a corresponding change should be made to authorize payment of interest on reserves that banks are required, by law, to maintain at the Federal Reserve banks.

In addition, as we will hear in a moment from Federal Reserve Governor Meyer, I would anticipate that he will testify that failure to act in this area not only disadvantages banks, but it may at some point begin to have adverse consequences on the Fed's ability to conduct its monetary policy.

Last year, the House passed legislation that would have repealed the prohibition on interest payments on business checking accounts, but the bill died in the Senate. Similarly, this subcommittee favorably reported legislation to authorize the Federal Reserve to pay interest on statutorily required reserves, but the full House never took up the bill. Two respected Members of this subcommittee, Mrs. Kelly and Mr. Toomey, have taken the lead this year in reintroducing these important proposals. I look forward to working with them and with Chairman Oxley to make sure that this Congress succeeds where past efforts have failed.

[The prepared statement of Hon. Spencer Bachus can be found on page 42 in the appendix.]

Before recognizing Ms. Waters for an opening statement, let me welcome all Members to the hearing and extend a special welcome to Bob Gulledge, who is President of the Citizens Bank in my home State of Alabama, who last week was elected President of the Independent Community Bankers of America. I congratulate Bob on the appointment. We know you will serve Alabama well.

Let me recognize Ms. Waters for any opening statement she would like to make.

Ms. WATERS. Thank you very much, Mr. Chairman. I think you framed the issue quite well in your opening comments, and I do believe, because we have heard these issues before in this subcommittee that there probably is a consensus in this subcommittee of support for both issues.

I am interested in two aspects of these issues that have not been discussed in any thorough way. One is how much does it cost? Is this going to be a cost to the Treasury; if so, how much and how is it calculated? And then I think we got into discussion once before on how will the customers benefit from the interest that banks would receive if, in fact, we would repeal existing law. I am going to be looking for comments and raising questions in those two areas and would be very appreciative for explanations that would help me to resolve some of the questions that I have in these two areas. And I would also like to know from the Feds how it helps them with monetary policy to be able to pay interest on what is, I guess, known as the sterile accounts.

So with that, Mr. Chairman, I will yield back the balance of my time.

Chairman BACHUS. Thank you, Ms. Waters.

At this time, Mr. Toomey, do you wish to make an opening statement?

Mr. TOOMEY. Thank you, Mr. Chairman, and I would like to commend you for having this hearing so promptly and moving on this legislation. As you pointed out, last year we had a huge success when we passed the Gramm-Leach-Bliley Act, repealed archaic Depression-era banking laws, and here we are able to address a further step forward in repealing what many of us believe is an out-of-date portion of that Banking Act of 1933, the prohibition on paying interest on business checking accounts.

It is just about time that we allowed regulation to catch up with the marketplace. The reality is that financial institutions with the wherewithal have maneuvered their way around this prohibition quite legally and appropriately, but it is a cumbersome process. They offer repos, implied in the form of services to customers, credits against bank charges. In fact, a quick search on the Internet, and we discovered numerous listings for banks offering, quote, "interest on business checking," unquote.

Unfortunately, of course, some banks cannot afford to purchase the software and the technology and the systems needed to circumvent these rules, and in any case it is very inefficient for banks to have to waste time and resources in inventing ways to get around unnecessary and inappropriate regulation.

So now it is well past time to repeal this ban and allow banks to develop products and services that will serve their customers, not the Government; allow businesses both large and small to have wider array of choices with their cash; allow small banks more tools to help them increase their core deposits, and frankly everyone will benefit from a repeal from unnecessary level of regulation.

Early today I introduced the Business Checking Freedom Act which does repeal the prohibition on paying interest on business checking with a one year phase-in period. I would like to thank the other sponsors of the legislation, Mr. Kanjorski, Mrs. Roukema, Mrs. Hooley, Mr. Ney, Mr. Gonzalez, and Mrs. Capito. I took forward to the testimony of the witness. Thank you, Mr. Chairman.

Chairman BACHUS. Ms. Carson.

Ms. CARSON. Thank you very much, Mr. Chairman, for moving expeditiously on this issue concerning interest of the business demand deposits and permit payments of interest on sterile reserves. I could only replicate what has already been said very eloquently, so let me suggest then that I would use my limited time to say that we are honored today to have Mr. David Bochnowski from Munster, Indiana, the fine State of Indiana. For more than two decades, Congress has considered legislation that could repeal the ban on payment of interest or business demand deposits, and now we are here today to hopefully move forward in addressing an archaic rule. It is my firm belief that with people such as David Bochnowski present here today, that we will be able to take further steps toward resolving the issue.

Most of you, no doubt, know that Mr. Bochnowski currently serves as Chairman of the America's Community Bankers, and has served as its director since 1994. Yet this position represents only one chapter of a life dedicated to public service. This gentleman from my State began his career as a special assistant to my good friend, who was our senator at that time, Senator Birch Bayh. Mr. Bochnowski later served as a law clerk for the U.S. district court in Indiana's southern district. He served as a trustee for Munster Community Hospital, as a commissioner for the Chicago Gary Airport Authority, and also served his country with valor in Vietnam. So it is a pleasure, Mr. Chairman, and Members of this subcommittee, to introduce to you my friend, Mr. Bochnowski here, who is scheduled for the second panel, the discussion. I yield back.

Chairman BACHUS. Thank you, Ms. Carson.

Ms. Kelly, do you wish to make an opening statement?

Mrs. KELLY. Thank you, Mr. Chairman. This afternoon, as I was walking over here, I heard the signs of spring. I heard the birds coming back and I noticed the buds emerging on the trees, and now I see Governor Meyer here before our subcommittee to talk about interest on business checking accounts, and sterile reserves, and that is an additional true signal that spring is here, don't you think?

So Governor Meyer, we welcome you and thank you very much for coming back to talk with us about this. I want to quickly thank Chairman Bachus and Ranking Member Waters for agreeing to hold this hearing today. These issues are very important and they relate to another growing issue that we would hold hearings on in this Congress, and that is the ability of community banks to attract sufficient deposits to ensure safe and sound operation of the banks.

The question I would like to explore with the witnesses today is how will the repeal of the prohibition of paying interest on corporate demand deposits affect the bottom line of the banks? I have introduced H.R. 974, the Small Business Interest Checking Account Act of 2001, and a Senate companion has been introduced today by

Senator Chuck Schumer. This legislation contains three parts: first, it gives banks the authority to increase their sweep activities from the current six times a month to 24; second, it authorizes the Federal Reserve to pay interest on reserves; and third, it gives the Federal Reserve greater flexibility in setting reserve requirements. In crafting this legislation, I have consulted with the Federal Reserve, the Treasury Department, and the groups before us today to ensure that this legislation will be acceptable by all. In addition, Congressmen Toomey and Kanjorski have introduced legislation to repeal the current prohibition on business checking accounts.

As has occurred in the past year, we anticipate these initiatives to be merged when we mark up the legislation, and in the course of the length of the transition period, these are going to be the biggest issues. So I look forward to discussing these issues with the distinguished witnesses that we have today, that have taken their time to join us. And I yield back the balance of my time.

[The prepared statement of Hon. Sue W. Kelly can be found on page 44 in the appendix.]

Chairman BACHUS. Thank you, Mrs. Kelly.

Mr. Cantor. I will be sure to say to all Members, please speak in the mike. That wasn't intended for you, Mr. Cantor.

Mr. CANTOR. I am sure I need no help. Thank you. I have no formal opening statement. I would like to extend my personal welcome to the panel witnesses, especially to Mr. Thomas P. Jennings, the Senior Vice President and General Counsel of First Virginia Bank from my home State, whose bank has a strong presence in the 7th District of Virginia in Richmond. Welcome, Mr. Jennings.

Chairman BACHUS. Thank you. Do we have anybody here from Missouri? Maybe we could recognize him next.

Mrs. Hart from Pennsylvania.

Ms. HART. Thank you, Mr. Chairman. I also don't have any formal opening statement. I am pleased for the opportunity to be here at the hearing today and hear from such a distinguished panel on the issue. As a freshman, I am not as experienced as some of the others on some of the issues nationally when it comes to banking and financial services. However, I was very much involved on a State level as a State Senator, and I will be very much interested to see the private sector panel discuss these issues and answer some of the questions we have.

My main concern is basically how little, and normally how little can Government become involved in the decisions made by financial institutions without causing them harm. Because my angle is basically that if we can regulate less, I would prefer to do it. However some questions have been raised to me from some of those involved on different ends of banking and different types of banking and the communities I represent about whether or not this is a good idea, and if it is a good idea at this time, I will be interested in hearing.

So for any of the—especially panel two that is here, I will be very interested in hearing your response to those questions. And just general questions of interest I think to the Members of the subcommittee. Mr. Chairman I am honored obviously to be a part of this subcommittee and pleased to be here, and also not to discount panel one, but I will also be interesting in hearing really directly the amount of control they believe that they need to have when it comes to banks, especially making decisions about interest. Thanks, Mr. Chairman.

Chairman BACHUS. Mr. Bentsen.

Mr. BENTSEN. Thank you, Mr. Chairman. I would thank you for holding this hearing. I hoped we would have disposed of this issue in the last Congress, but we didn't, and I would hope we can dispose of it in this Congress rather quickly. It seems, at least on this side of the street, we are generally in agreement, so I hope we are able to move quickly on this. I yield back the balance of my time.

Chairman BACHUS. Thank you, Mr. Bentsen.

Chairman Oxley, you are recognized at this time.

Mr. OXLEY. My opening statement is making its way up to the podium as I speak, and so I would defer to other Members with an opening statement until such time as it may arrive, and I think you would rather have that than me making it up on the fly.

Chairman BACHUS. And we earlier said, without objection, we would make those statements part of the record without the spoken word.

Mr. OXLEY. That would be a brilliant idea, and I would agree with that and ask unanimous consent that we do the same.

Chairman BACHUS. So moved. Thank you, Mr. Chairman.

Mr. Watt.

Mr. WATT. Thank you, Mr. Chairman. I will be brief. I have expressed my opinions about this in the last term of Congress, and have been a long supporter of not having money sitting around doing nothing, either in checking accounts or sterile reserves or otherwise. And I hope we are going to do something in addition to having hearings on it this time, and actually move some bill that will accomplish those objectives. Thank you.

Chairman BACHUS. Thank you, Mr. Watt. Are there other Members of the subcommittee who would like to make opening statements? If not, Chairman Oxley.

Mr. OXLEY. Mr. Chairman, I think your initial idea was good that the statement be made part of the record. I just want to commend you on holding this hearing. This is a very important issue. And I appreciate the participation of the Members, particularly the Members who have been through this issue before, the gentleman from North Carolina, Mr. Watt, yourself and others, Mrs. Kelly, and we look forward to the testimony from the witnesses and hopefully a strong bipartisan support for this legislation. I yield back.

Chairman BACHUS. I thank you, Mr. Chairman. We did mention, as you referred to, that Mrs. Kelly and Mr. Toomey had actually sponsored the legislation last year and Mr. Watt, I recognize your role. At this time we will recognize the first panel made up of Governor Laurence Meyer, Federal Reserve Board Governor of the Federal Reserve System, who has been before this subcommittee four years in a row to testify about this subject. So we would expect a pretty smooth statement, I would think. And then, Acting Under Secretary of Domestic Finance for the Department of the Treasury, Donald Hammond. Secretary Hammond, we welcome you and Governor Meyer. And Governor Meyer, if you would like to lead off.

STATEMENT OF HON. LAURENCE H. MEYER, MEMBER, BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM

Mr. MEYER. Thank you. Mr. Chairman, Representative Waters, and Members of the subcommittee. The Federal Reserve Board continues to strongly support legislative proposals to authorize payment of interest on demand deposits and interests on balances held by depository institutions at Reserve Banks. As we have previously testified, unnecessary restrictions on the payment on interest on demand deposits and balances held by Reserve Banks distort market prices and lead to economically wasteful efforts to circumvent these restrictions. Authorization of interest on balances at Reserve Banks would also help to ensure the continued effectiveness of current procedures for implementing monetary policy.

The Board also supports obtaining an increased flexibility in setting reserve requirements, which would allow it to consider reducing the regulatory burden on depositories to the extent consistent with the effective implementation of monetary policy. As you know, the Federal Open Market Committee formulates monetary policy by setting a target for the overnight Federal Funds rate, the interest rate on loans between depository institutions of balances held at their accounts at Reserve Banks.

As we have previously testified, the issue of potential volatility in the Funds rate has arisen in recent years because of substantial declines in required reserve balances owing to the implementation of automated sweep programs from reservable checking accounts to savings accounts that are not subject to reserve requirements. Nevertheless, despite a much lower level of required reserve balances, no trend increase in volatility has been observed to date. In part, this stability reflects the increasingly important role of contractual clearing balances. These clearing balances are the amounts that depositories contract to hold in their accounts at the Federal Reserve in addition to funds that will meet reserve requirements. Contractual clearing balances earn implicit interest in the form of credits that may offset charges for Federal Reserve services, such as check clearing.

To prevent the sum of required reserves and contractual clearing balances from falling even lower, the Federal Reserve has sought authorization to pay interest on required reserve balances and to pay explicit interest on contractual clearing balances. Such interest payments could help maintain the level of these balances and forestall any potential increase in the volatility of interest rates. Authorization of increased flexibility in setting reserve requirements would also be desirable as it would allow the Federal Reserve to consider exploring the possibility of reducing reserve requirements below the minimum levels currently allowed by law. Such reductions would further remove incentives for wasteful reserve avoidance practices.

To ensure the continued effective implementation of monetary policy with lower reserve requirements, however, we would need authority to pay interest on contractual clearing balances. Indeed, while the best outcome would be an authorization to pay interest on any balances held at the Federal Reserve, if the budget costs of interest on required reserve balances continues to inhibit its passage we would support a separate authorization of interest on contractual clearing balances which would have essentially no budgetary cost.

Another legislative proposal that would improve the efficiency of our financial sector is elimination of the prohibition of interest on demand deposits. This prohibition distorts the pricing of transaction deposits and associated bank services. Some small businesses receive no interest on their deposits. In competing for the liquid assets of other businesses, banks set up complicated procedures to pay implicit interest on compensating balance accounts. Banks also spend resources and charge fees for sweeping the excess demand deposits of larger businesses into money market investments on a nightly basis. Such expenses would be unnecessary if interest were allowed to be paid on both demand deposits and reserve balances that must be held against them.

In summary, the Federal Reserve Board strongly supports legislative proposals to authorize the payment of interest on demand deposits and on balances held by depository institutions at Reserve Banks, as well as increased flexibility in the setting of reserve requirements. We believe these steps would improve the efficiency of our financial sector and better ensure the efficient conduct of monetary policy in the future. Thank you.

[The prepared statement of Hon. Laurence H. Meyer can be found on page 45 in the appendix.]

Chairman BACHUS. Thank you.

Mr. Hammond. Let me say to both witnesses that without objection, your written statements will be made a part of the record.

STATEMENT OF DONALD V. HAMMOND, ACTING UNDER SECRETARY FOR DOMESTIC FINANCE, DEPARTMENT OF THE TREASURY

Mr. HAMMOND. Thank you, Mr. Chairman, Chairman Bachus, Representative Waters, Members of the subcommittee. I appreciate this opportunity to appear before you this afternoon. I appreciate this opportunity to present the Treasury Department's views on repealing prohibitions on the payment of interest on business checking accounts, and on permitting the payment of interest on reserve balances that depository institutions maintain at the Federal Reserve. The Treasury Department supports permitting banks and thrifts to pay interest on business deposits. While sympathetic to many of the arguments in favor of permitting the Federal Reserve to pay interest on reserve account balances, we are not prepared to endorse this proposal at this time.

The Treasury Department has consistently supported provisions repealing the prohibition on paying interest on demand deposits. Repeal of this prohibition would eliminate a needless Government control on the price that banks must pay for business deposits consistent with the earlier elimination of Regulation Q rate ceilings on other deposits. The result should be more efficient resource allocation. Most proposals that would have allowed banks and thrifts to pay interest on demand deposits would have delayed repeal of the current prohibition for a number of years and provided for transitional mechanisms. The Treasury Department continues to prefer a relatively quick repeal on the prohibition on paying interest on demand deposits obviating the need for special transitional arrangements.

The Federal Reserve Act requires depository institutions to maintain reserves against certain of their deposit liabilities. Institutions typically meet these reserve requirements through vault cash, and a portion of their reserve balances at a Federal Reserve bank known as required reserve balances. Depository institutions may voluntarily hold reserve balances above the amount necessary to meet the requirements which are called excess reserves. Required reserve balances and excess reserves held at the Federal Reserve do not earn interest, hence they are referred to as stale reserves. Since the beginning of 1990s, required reserve balances at the Federal Reserve banks have declined by 83 percent. Three factors may be primarily responsible for the decline: one, regulatory actions taken by the Federal Reserve in the early 1990s reducing reserve requirements; banks' growing use of new products and technology, such as retail sweep accounts to minimize required reserves; and growth in the use of vault cash to meet reserve requirements as increased ATM usage has increased the need for such cash. The proportion of reserve requirements met by vault cash has risen from 44 percent in December of 1989 to 85 percent in January of this year.

The three principal grounds for paying interest on reserve balances are to: one, promote economic efficiency; two, facilitate monetary policy; and three, lower cost to the banking industry.

Permitting the payment of interest on reserve balances might lead to greater economic efficiency. Banks have expended considerable resources to avoid holding non-interest-bearing required reserve balances. If banks earned interest on these reserve balances, they would be less likely to expand the use of sweeps and might unwind some existing sweep programs.

As you heard from the Federal Reserve, the decline in required reserve balances could lead to greater short-term interest rate volatility, although such volatility is not a serious problem at present. For various reasons, the demand for balances to meet reserve requirements is more stable than the demand for balances to clear transactions through the Federal Reserve Fedwire system. Thus, the smaller the required reserve balances, the greater the role that less predictable daily clearing needs of banks would have in determining the demand for reserves. This may make it more difficult for the Federal Reserve to supply the amount of reserves consistent with its Federal funds rate target.

Banks have long contended that the cost of reserve requirements, forgone earnings, put them at a competitive disadvantage relative to non-bank competitors that are not subject to reserve requirements. Yet the foregone earnings that depository institutions currently incur through reserve requirements must be viewed in their context to the overall relationship to the Federal Government, including benefits derived from Federal deposit insurance and access to the Federal Reserve payment system and discount window.

The Office of Management and Budget, a congressional budget office, have, in the past, estimated that paying interest on required reserve balances would cost approximately $600 million to $700 million over a five-year period. Both the OMB and the CBO estimate take into account the effect on tax revenues from depository institutions that receive interest. Some proposals have provided for an offset to the budget cost by transferring a part of the Federal Reserve surplus to the Treasury. It is true that in some previous years, budget accounting rules have permitted the transfer of Federal Reserve surplus funds to the Treasury to count as receipts that would offset the cost of other programs. Yet over time, transfers of the surplus do not result in budget savings.

In sum, Congress should act to repeal prohibitions on paying interest on business checking accounts at banks and thrifts. This would eliminate unnecessary restrictions on this institution's ability to serve their commercial customers. Proponents of paying interest on reserve balances maintained at the Federal Reserve have put forth a number of reasons in their favor.

As a general matter we are sympathetic to many of the arguments put forth by those proponents, particularly with respect to monetary policy. At the same time, however, we are also mindful of the budgetary costs associated with this proposal which would be significant. The President's budget does not include the use of taxpayer resources for this purpose. At this time, then, the Administration is not prepared to endorse that proposal. I appreciate the opportunity to appear before you and I am happy to respond to any questions you may have.

[The prepared statement of Donald V. Hammond can be found on page 56 in the appendix.]

Chairman BACHUS. Thank you.

I appreciate the testimony, summary of the testimony from the first panel, and at this time we will permit Members five minutes to ask you any questions they may have. And I am going to go ahead and read down the order that we are going to do this in the order that the Members arrived. I am going to go from Majority, we will alternate, but on the Majority side, Mr. Cantor, Mr. Toomey, Mrs. Biggert, Ms. Hart, Mr. Lucas, Ms. Kelly, Mr. Rogers, Mr. Bereuter, Mr. Ferguson, Mr. Tiberi, Mrs. Capito, Mr. Manzullo and Mr. Weldon.

On the Minority side, Ms. Waters, Ms. Carson, Mr. Bentsen, Mr. Watt, Mr. Shows. If I note that a Member is no longer at the hearing, I will just simply go to the next Member down, and at this time I will recognize Mr. Cantor for questioning.

Mr. CANTOR. Thank you, Mr. Chairman.

I would like to direct this question to Mr. Hammond, and really ask you, I think, a question of fairness and the fact that if we are going to lift the ban on the interest on business checking, why is it that banks couldn't receive interest on their sterile reserve deposit? And to me, there is this question of the cost of funds versus getting return on the funds deposited. How do you answer that, leaving aside sort of the budgetary concern of the Administration?

Mr. HAMMOND. I think from a standard of balance and equity, the match of payment of reserves on the liabilities side combined with the payment of interest on business checking gives the opportunity for balance within the system, and I think with that regard, the two proposals make sense looking at them together. As I said in my testimony, we are quite supportive of a lot of arguments related to the cost or to the proposal for paying interest on reference.

I think the final component is that there is a cost to be important by the general taxpayer, related to the fact at that time, Federal Reserve system returns its earnings to the Treasury on an annual basis. As a result, the payment of interest on reserves does, in fact, create a cost to the general funds.

Mr. HAMMOND. Leaving aside that provision, I think that the proposal to pay interest on the reserves is one that we support from the standpoint of the other provisions. But obviously, the cost is a significant issue.

Mr. CANTOR. Thank you, Mr. Chairman. I yield back the balance of my time.

Chairman BACHUS. Ms. Waters.

Ms. WATERS. Thank you, Mr. Chairman.

As I indicated in my opening remarks, I wanted to know more about the cost to the public, and while I don't want to get you all embroiled in the discussion about the $1.6 trillion tax cut that we are discussing here, the fact of the matter is some of us are very concerned about how we pay for it. If you are suggesting that paying interest on the sterile reserves could cost us $600 to $700 million over a five-year period of time, could you calculate that out over a ten-year period of time? We are dealing with a tax cut over a ten-year period of time and we are looking at, well basically, you know, how are we going to do this? So what does this calculate out to? It is double more this amount, or it is more than this amount over a ten-year period of time?

Mr. HAMMOND. I am not aware of any estimates that extend beyond the five year horizon that both OMB and the Congressional Budget Office have independently performed. I suspect that what you would see is a fairly even balance unless you saw things such as growth in, for example, clearing balances which, if allowed to pay interest on those, the Federal Reserve System may very well find that there is a reduced cost from the overall proposal.

Ms. WATERS. Also, I would like to ask you, as I am going to ask Mr. Meyer if I have time, what—if there is additional earnings in the flow of income on the payment of interest from the Feds to the banks, how can consumers benefit from this? Did we discuss this before, what the banks do with this additional revenue and whether or not it would lower interest rates? What can it do for the average consumer?

Mr. HAMMOND. I think any opportunity to improve the profitability of financial institutions certainly has to have indirect benefits for consumers, because obviously, the increased earning capacity of the financial institution should lead to reduced fees in certain areas in their business. How those reductions in fees would flow through on an average basis I think would vary from institution to institution.

Ms. WATERS. Should we support this repeal of law that would allow for the payment of interest on these accounts in the Federal Reserve accounts, the sterile accounts? Should we encourage, in some way in the legislation, the banks to reduce fees or to show how their customers are benefiting from this new revenue?

Mr. Meyer.

Mr. MEYER. I would not particularly encourage that. I would leave it to the competitive financial system we have that would induce banks to pass along the benefits of interest on reserves in a variety of ways, and I wouldn't want to instruct them precisely on how to do that. I think the most likely outcome would be somewhat higher interest rates on the transaction deposits that are no longer backed by the sterile reserves. It could be that banks might charge somewhat lower interest rates on some loans or they might charge somewhat lower fees for some services. There are a whole variety of ways that they could adjust, but I wouldn't want to micromanage that and tell them this is the way you ought to adjust. It is up to bank management, it is up to the competitive forces in the markets, to determine precisely what those adjustments are.

Ms. WATERS. If you had to make the argument to the taxpayer who would be told that it would be a cost to the taxpayer to pay interest on these accounts, how could you tell the taxpayer that they were going to benefit, if we are not going to encourage in some way, some broad way, how could you tell the taxpayers that yes, you got support, the bank is getting a new source of revenue; no, you are not going to mandate in any way that the customers benefit from that; but yes, it is going to cost them money for this to happen, how do you reconcile that way?

Mr. MEYER. Well, three ways. First of all, that it would reduce the necessity of banks engaging in wasteful spending to get around these restrictions. Setting up a sweep account has no social benefits at all. It is just to avoid a restriction. So that is a total benefit to society that that money isn't wasted. Second, I would tell them that they should look forward to, and could reasonably anticipate, that they will get either higher interest rates or face lower loan rates, because that will be an outcome of this—a natural outcome of this due to our competitive system. And third, I would tell them that they can look forward to continued effective monetary policy, because this will also maintain the effectiveness of our current operating procedures.

Ms. WATERS. Thank you. I believe my time is up.

Chairman BACHUS. Thank you.

Mr. Toomey.

Mr. TOOMEY. Thank you, Mr. Chairman.

Actually, perhaps if both of you gentlemen could address this briefly. You know it is true we are working on a, in my view, unfortunately modest tax relief package of $1.6 trillion dollar. Some of us would like to see considerably larger. It is all focused on individual tax relief, as you gentlemen very well know. But when it comes to corporate taxes, it is not the failure to pay interest on stellar reserves in a way, a hidden or implicit tax on a category of assets rather on the profitability of a firm, in other words it is a cost imposed by Government that bears no relationship to the profitability of the firm, like most of our methods of tax incorporations, but rather deals with a category of assets, and isn't that, in many ways, an inefficient way to tax corporations?

Mr. MEYER. Well, it is, it is often referred to as an implicit tax, and I think it is a particularly inefficient tax because it generates these totally wasteful expenditures, and so I quite agree.

Mr. HAMMOND. I would certainly agree that it is a cost that is unrelated to other activities of the business. It is also a cost that, as Governor Meyer pointed out, can be managed through incurring other costs to avoid that type of relationship. That would seem to be, all things being equal, not the most effective way of going about collecting that type of revenue.

Mr. TOOMEY. So if you had to prioritize the kinds of taxes as a general matter, that if we were looking at ways to relieve the tax burden on the corporate sector of our economy, for instance, would this be a kind of tax that might deserve a priority, because it has additional negative consequences that go with it above and beyond those negative consequences that are associated with any kind of tax?

Mr. HAMMOND. I think, speaking from my experience, and keep in mind I am not certainly an expert on taxation by any means. I think any time you try to prioritize various costs against each other, you have to see the complete list. All I could tell you is that it does appear to be a very inefficient way of generating revenue. Where that would rank in a listing of priorities of various other types of business expenses or business taxes, I don't know.

Mr. TOOMEY. Moving on for a moment to interest on business checking accounts, could either of you maybe develop a little bit your thoughts on the nature of and the costs associated with the ways that banks have had to find ways around this decades-old prohibition?

Mr. MEYER. Well, there are several ways. One of them is setting up very complicated procedures to pay implicit interest through compensating balances. These are fairly complex arrangements. You have to keep track of a lot of different services that are being provided to the businesses to compensate them for the failure to pay interest on the demand deposits. That is a very inefficient way relative to simply paying interest on demand deposits.

A second way is setting up sweep accounts where balances are taken out of the demand deposit accounts and swept into either open market instruments or into savings accounts that pay interest. Now, that can be done, but there is a fixed cost of setting up these arrangements. That can be quite large, and there is a maintenance cost every year of implementing those. So these are very costly procedures that would be totally unnecessary if we allowed the payment of interest on demand deposits.

Mr. HAMMOND. I would agree with that analysis.

Mr. TOOMEY. OK. My last question, if time still permits, is your—each of your thoughts on a phase-in period. What is the appropriate period of time the phase-in a repeal of this prohibition? There has been suggestion that it be immediate and some have suggested several years. I am just curious to have the benefit of your thoughts on this.

Mr. HAMMOND. I think following up on your last question, Treasury feels that the shorter the transition period, the better. In fact, even no transition period would be appropriate. From the standpoint that the longer that you have of a transition or special arrangements for transition processing, you create some of the same costs and inefficiencies that the sweep programs and other comparable programs have today.

Mr. MEYER. Well, I would agree. I think our preference would be for either no transition or a very short transition. Otherwise, what we are doing is maintaining the competitive advantage of some players in the market, the larger banks that have sweep programs already relative to the smaller banks that don't, providing differential access to the larger firms that can take advantage of compensating balances on sweep accounts relative to the small businesses that can't. We have said, however, in the interest of achieving a consensus and a compromise, if there was a short transition period, we certainly wouldn't object to that.

Mr. TOOMEY. Thank you both.

Mr. Chairman, I yield the balance of my time.

Chairman BACHUS. Mr. Toomey, again, we want to thank you for your diligence on this legislation that we passed a few years ago.

At this time I will recognize Ms. Carson.

Ms. CARSON. Yes. Thank you, Mr. Chairman.

I want to try to be quick with this. We passed legislation that allows automatic electronic transfers of a lot of Federal checks, like Social Security checks, civil service retirement, and so forth, which obviously arrive at your institutions the last day of the month prior to the time they are due, first day of the month. They don't collect until the third of the month, and so forth. The banks are obviously, at that particular time, drawing a lot of interest on that deposit for those couple of days, and so forth, that they happen. Who do you pay that interest to? The money's sent there by the—pardon me, not you, but how is that interest money paid once it is received by the financial institution? Because it was orchestrated by the Federal Reserve, you know what I am saying? I am glad you do, because I can't figure out what I am saying.

Mr. MEYER. Well, there is a period after which it must be credited to the account of the person who is receiving that deposit, and from then on the interest goes to the deposit owner.

Ms. CARSON. Right. But during those 3 or 4 days that the bank has the money, that the customer can't draw from, the money's there but the customer can't draw from it.

Mr. HAMMOND. Actually, in the normal course with electronic payments, we make the cash available the same day that it is available to the consumer, to the financial institution. What frequently happens is that the financial institution gets advice of the payment in advance of the availability of the funds, but, for example, for a Social Security payment, where it would be available on the third of the month, which would be the date that the check would normally arrive, if they are getting an electronic payment, they immediately have available funds in their account on the third of the month for that type of payment.

Ms. CARSON. I want to ask you, I know this has nothing to do with this legislation on interest being on checking accounts, but I did want to say, and you sort of touched upon it, one of the principal arguments for two- or three-day delay on interest-bearing checking accounts, it is banks who currently offer sweep accounts and other alternatives to interest-bearing checking accounts, will need time to unwind their current arrangements with their business customers?

Now, I know you have been sort of talking about that. But with a long transition period with the 24 transactions per month MMDA, that is the money market deposit account, financial institution also incur cost at establishing 24-hour transaction MMDAs.

Then at the end of the transaction period, those arrangements would have to be unwound. Doesn't a long transition period needlessly increase the cost and burdens for both financial institutions and their business customers?

Mr. MEYER. I would agree. I believe it does.

Mr. HAMMOND. I would say that a transition period doesn't offer any benefits to the customers or to those institutions who today don't have other types of institutional arrangements. So I don't see any justification for an extended transition period.

Ms. CARSON. But is your belief that if this bill becomes law then you don't have to, you won't have the concern about the transition periods and——

Mr. MEYER. No, I think that banks could manage that process very effectively. I don't think it is, by any means, a necessity to have a transition period, but it is one of the balancing forces out there. There certainly are going to be banks that say they have entered into relationships with customers that build in these sweep accounts. These sweep arrangements have a certain period over which they hold. The banks would prefer a transition period that would allow them to get the benefit of these arrangements. But on the other hand, during that period, these will be all the other banks that don't have the opportunity to have sweep accounts and all the small businesses that won't have opportunity to have interest-bearing accounts. So we have to balance those two forces.

Ms. CARSON. Yeah, I favored the legislation, so don't—you know, misread my inquiry.

Mr. Chairman, I would yield back.

Chairman BACHUS. Thank you, Ms. Carson.

Mrs. Biggert.

Mrs. BIGGERT. Thank you, Mr. Chairman.

Mr. Hammond, one of the witnesses that we will hear from later today in his written testimony has said that implementing interest rates on the business checking accounts could, in fact, hurt small banks disproportionately, because they will be forced to raise additional deposits to offset the costs of moving money from interest-free deposits to interest-bearing accounts, but we are also—that this will help community banks retain commercial checking accounts. Do you believe that small banks could be hurt by allowing interest to be paid on interest checking accounts? It will help them to retain large business accounts and keep those large business accounts from jumping over to other financial service industries?

Mr. HAMMOND. I think the ability for banks to pay interest on business checking accounts gives small financial institutions, in particular, an increased competitive advantage that they don't otherwise have today. They don't have the capability of offering some of the more complicated or more costly sweep relationships, nor do they have the ability to compete effectively against, for example, securities firms.

So I think over the long term, this provision would allow small banks to retain existing checking and deposits and put them on a more equal footing to be able to obtain additional deposits going forward.

Mrs. BIGGERT. But will this still force them to raise, they will have the raise their deposit level?

Mr. HAMMOND. I think obviously there will be an increase in cost as they phase this from however they approach the payment of interest on business checking accounts, but the offset to that is that today, for business customers who want interest on their checking deposits, they have gone somewhere else if they can't find that service at the small bank. So as a reality, they may, in fact, find they are able to lure small businesses back into their fold in that environment.

Mrs. BIGGERT. Mr. Meyer, would you agree with that?

Mr. MEYER. Yes, I also think the main beneficiary would be smaller banks and that, in addition, while they would pay interest on these deposits, deposits are still a relatively low cost source of funds to community banks, and they need the opportunity to compete effectively for them with non-banks.

Mrs. BIGGERT. So you wouldn't see them losing the business accounts to other financial services?

Mr. MEYER. No. To the contrary. Now I think one should understand that there are banks who have customers that are relatively insensitive to interest rates and are now getting zero on their balances. I can understand that some banks would like to have a situation where that could continue. I am not sure that that is in the public interest, so I would support the legislation.

Mrs. BIGGERT. Thank you.

Thank you, Mr. Chairman. I yield back.

Chairman BACHUS. Thank you, Mrs. Biggert.

At this time, Mr. Bentsen.

Mr. BENTSEN. Thank you, Mr. Chairman.

Governor, as I said at the outset, I had thought we had done this already and we had on our side of the Capitol, and so hopefully we can do it now. And I look at the panel that is coming after this and I didn't get through all the testimony, but I am still looking for somebody who is opposed to this, but I guess I also want to say I agree with you on the transition period. I don't see any reason why sweep accounts that have been structured for banks to pay interest to their customers can't be unwound. These are all short term sweep accounts anyway, so they can remain liquid, and I would hope that if there is a problem, that somebody will present that to the subcommittee so we can look at it. But it seems to me that there is sufficient time to make a transition for this. In addition, it would seem to me that there would become a very apparent marketplace in the future for providers of sweep accounts to smaller banks who aren't going to want to do this on their own, that this will be a service that they will buy. So I don't see where anybody's ox gets gored in this process.

Let me ask you about your discussion in your testimony, though, regarding reserve requirements. You talk about maybe this providing you with an opportunity with the Fed, the opportunity if Congress is willing to, I guess, reduce the band between the 8 and 14 percent to a lower percent, but you also say currently, the Fed is, I think, a 10 percent reserve requirement level, so you are not at the low end anyway. Some of my colleagues have proposed a complete repeal of the reserve requirement.

In your testimony, you sort of hint at that, but I am not sure if you go as far. So my first question would be, are you arguing that we ought to repeal the reserve requirement, or are you arguing that we ought to just give you greater flexibility so the Fed can explore other means with which to implement monetary policy?

And secondary to that, given the possibility that we might actually pay down all of the Federal debt, publicly held debt, and of course, it is not a done deal yet, but it is an outside possibility, I realize the Fed has undertaken a study of other types of securities with which to conduct open market activities. In the event that there is not a sufficient replacement for the Fed to conduct open market activities to the tune that you do currently, would it be wise to eliminate reserve requirements altogether as a tool of monetary policy, or is it so antiquated that it really doesn't do any good?

Mr. MEYER. In the past, we have been concerned that the total of required reserves and contractual clearing balances would fall to such a low level that it would impede the effective operation of monetary policy.

Now, in fact, as it has fallen, we haven't seen an increased volatility in the Federal Funds rate. Now we have the prospect that if we pay interest on required reserves and we pay interest on contractual clearing balances, these deposits will grow, although we don't really need them higher. So if they grow, it would provide us with an opportunity to lower the required reserve ratio. So one of the benefits here is we might be able to have the same level of deposits with the same effectiveness of monetary policy, and lower required ratios at the same time.

Whether that would be possible would depend on the experience once we implemented interest on required reserves and interest on contractual clearing balances, seeing how much they would grow, and then we would have to very gradually see to what extent we might be able to lower reserve requirements.

Mr. BENTSEN. If I might interject before my time is up, I think I know where you are heading in saying that instead of having a mandatory reserve requirement you could, in effect, buy the reserves that you need to conduct monetary policy, and I appreciate that, but is there an opportunity where an imbalance in the economy and an imbalance in interest rates might otherwise cause banks to put their funds elsewhere than at the rate that the Fed is paying, or would the Fed be paying market rates so there wouldn't be any spread between the public market and the Fed market?

Mr. MEYER. I think we would be paying the rate where we could control the total level of the required and contractual balances to achieve the stable and predictable level that is necessary for monetary policy.

Mr. BENTSEN. But then puts that in the possibility of an interest rate trap itself?

Mr. MEYER. No, I don't believe that would be a problem at all.

Mr. BENTSEN. Thank you, Mr. Chairman.

Chairman BACHUS. Thank you, Mr. Bentsen.

Ms. Hart.

Ms. HART. Thank you, Mr. Chairman.

I have one question, and actually either of you might be able to shed some light on it. Some concern, a lot of concern has been raised by some of the larger institutions in the communities I represent regarding problems that could be caused to some of the small community banks as a result that if they are permitted to offer interest on their business checking that even though it isn't required, they will all feel a need to do it and may basically lead us into some other kind of banking disaster. I would just like to have either one or both of you shed any light on whether there is any merit to that at all?

Mr. MEYER. I want to make sure I got your question correctly. I believe you said that larger banks are worried that this will cause a problem for smaller banks. Is that what you said?

Ms. HART. Larger banks and those who have other kinds of investment instruments, yes.

Mr. MEYER. It is very kind of the larger banks to worry about the smaller banks. I think we all appreciate that. I think maybe we should hear from smaller bankers who you will hear from on the next panel, and I think they will tell you that they are probably better off looking after their own interest than the larger banks. It may be the case that larger banks want to preserve their competitive advantage from sweeps.

Ms. HART. I certainly understand that, but my question to you was because I, unfortunately, like a lot of us, lived through the Resolution Trust Corporations' activities and saw a lot of strange things happen in the banking industry in what, the late 1980s, I guess, and——

Mr. MEYER. We have had a lot of experience with banks paying interest on transaction balances, NOW accounts, that has proved very successful. It has been a benefit for banks and for consumers. I think the main point here is that giving small banks the opportunity to pay interest on demand deposit is going to make them more competitive in the market for relatively inexpensive funding and strengthen their financial conditions and competitiveness in the financial system.

Ms. HART. So you see it all around as a benefit to the complete market, it is not going to weaken any player in the market necessarily.

Mr. MEYER. No. I think it does level the playing field. That does mean that some banks that had competitive advantages might find the current circumstance better, but you have to weigh that against that the benefits of leveling the playing field.

Ms. HART. Absolutely.

Mr. Hammond.

Mr. HAMMOND. It is really hard to add to that. I think I agree completely with Governor Meyer. Today what you have is a competitive imbalance to some extent between small banks and some of the larger banks with more sophisticated product offerings. This does, in fact, bring things more into an equitable balance situation. Obviously, that means that someone has to give something up in order for someone else to be on a more equal footing.

Ms. HART. Well, the other issue is, I think, there are almost not in the same market at this point, and by doing this, we place all of the financial institutions in the same market. Do you see any danger caused, because really the different tiers of the market really will become one in a lot of ways?

Mr. MEYER. No. Small banks compete with larger banks and they compete with non-banks, and we are just giving them a better opportunity to be a more effective competitor in that marketplace.

Ms. HART. I was just playing devil's advocate, by the way. Thanks very much.

Thank you, Mr. Chairman.

Chairman BACHUS. Thank you, Ms. Hart.

Mr. Watt.

Mr. WATT. Thank you, Mr. Chairman.

I was going to start off by fussing at you all for why we were limiting this to business accounts, and then I realized that you did it for individuals, or we did it for individuals before I came to Congress. I think I had forgotten about that, because I never have enough money in my account to qualify for any interest, but it does raise an interesting question, which is whether either the Fed or the Department of the Treasury or any of the other regulators are keeping any statistical information about how effective NOW accounts have been, and the extent of individual deposits that are actually drawing interest on or having interest paid on them. Do you all have any information about that?

Mr. MEYER. Yes. There are $240 billion of what we call NOW accounts, interest-bearing transaction accounts held by households.

Mr. WATT. What percentage of total deposit is that of individuals?

Mr. MEYER. That is relative to demand deposits, some of which are held by households also, but most of which are held by businesses, that are about $315 billion.

Mr. WATT. So it is working pretty well then is your assessment?

Mr. MEYER. Absolutely.

Mr. WATT. OK.

Mr. Hammond, I am wondering, since this is a new Treasury Department, this turnover, whether there is any likelihood that you all are going to reevaluate your position on the reserve, on the payment of interest, because it seems to me, I guess I am kind of like Mr. Toomey. It seems inconsistent with the philosophy that this is the Government's money rather than the individual banks, or even the depositor's money, and that somehow the Government is entitled to this money in this budget equation. I understand that we could use it and we could spend it, but it just—your argument seems just completely inconsistent with the arguments that I have heard in support of returning tax moneys to people. And the President's question, in his address to the joint session where he asked who the surplus belongs to, my response to that by the way, is, it doesn't belong to anybody until it materializes. But if you follow what he was saying, it doesn't belong to the Government, it belongs to the depositor or the taxpayer, or so the bottom line is, it is likely that you all are going to reevaluate your position that you have testified about today, or you don't see that happening?

Mr. HAMMOND. I think what is likely is that more, as more appointees come into the Treasury Department, people will look at legislation that is going through the process and make independent judgments at that point in time, and I think additionally, what we have to keep in mind with regard to the cost, if you will remember back, what I said is that we are concerned about where it falls into the priorities of the Administration today, vis-a-vis the surplus.

Mr. WATT. If you put somebody else's money in the priorities sometimes.

Mr. HAMMOND. Obviously the decisions and the positions that people have to take depend on, to the extent that this were an expenditure of $700 million over five years, then another expenditure of $700 million over five years would have to be removed from the budget, all things being equal. I think it is that tradeoff and that debate which is likely to continue throughout the budget process. So I think it is very likely that new appointees also come in and look at the issue and look at the pros and cons and go forward from there.

Mr. WATT. So I guess your, the bottom line of what you are saying is if we move this bill, they are more likely to look at it quickly and may reevaluate what you are saying.

Mr. HAMMOND. They will certainly have the opportunity to be focused on that as they come on board, yes.

Mr. WATT. OK. While they are in the process of doing that, would you also deliver them a message that I would like for them to take a look at, our Mr. Lucas' bill, H.R. 557, which seems to me to fit kind of in the same category of things where we could refund some of the BIF and SAIF overcapitalized accounts. So if they are reviewing, can you deliver a message to them that we would like for them to take a look at that one too.

Mr. HAMMOND. I think deposit insurance reform will be certainly a very important issue to be debated going on this year, and I suspect they will be quite focused on that and other components of this.

Mr. WATT. Thank you, Mr. Chairman.

Chairman BACHUS. Thank you, Mr. Watt.

Mrs. Kelly.

Mrs. KELLY. Thank you, Mr. Chairman.

Governor Meyer, I welcome you again. I think you probably are familiar with a conversation that I had with Chairman Greenspan when he was here on February 28th. I just want to reestablish for the record a couple of the points that were made in that conversation. As I understood him to say, the Fed wants these bills to be merged, and he wants them to go forward as one bill; is that correct?

Mr. MEYER. The main objective is to get both parts passed. Whether they pass as one bill or two bills is of no consequence to us, but we would be delighted to have it in one bill.

Mrs. KELLY. Well, for efficiency sake, it is probably a good thing for them to come through together. The second thing is that the Fed supports my language that allows for the payment of interest on the reserves held at the Federal Reserve Bank, and the language that gives the Fed greater flexibility in setting the reserve requirements; is that correct?

Mr. MEYER. That is correct, and just to make it clear, that bill, it is my understanding, is written so that it allows the payment of interest on all three kinds of deposits, that is, required reserves, contractual clearing balances, and excess reserves. So it has that flexibility and it gives us a lot of options.

Mrs. KELLY. Yeah, that is exactly the way we viewed it.

Mr. Hammond, you indicated in your testimony that the Treasury Department is reviewing the policy of paying the interest on reserves held at the Federal Reserve banks. I would kind of like to get a commitment that the Treasury and the Fed will work together with our staffs so that we can do this all properly, efficiently and as cleanly as possible while we can address any concerns that the Treasury may have, and I just wanted to say that for the record, and get your agreement that that is the case.

Mr. HAMMOND. We would be delighted, as we always are, to work closely with you and the Federal Reserve on these provisions. I would include that certainly to the extent that we look at budget costs, however, that we also have to include in those deliberations the Office of Management and Budget, as they are the Administration's chief keeper of the budget priorities.

Mrs. KELLY. I am hopeful we will be able to resolve that issue though.

Mr. Chairman, that is all I am going to say in the interest of speeding this up. I am going to yield back the balance of my time.

Chairman BACHUS. Thank you, Mrs. Kelly.

Mr. Rogers.

Mr. ROGERS. Thank you, Mr. Chairman.

I was just trying to determine here from some CBO estimates, and your calculations of that $600 to $700 million to your budget, that was a static calculation of costs, kind of in a parochial view. Have you looked, or has anyone looked at the increased revenue that would be received by the accumulation of assets by those individual businesses from interest earned, which they previously do not enjoy?

Mr. HAMMOND. I am not sure if I understand your question correctly.

Mr. ROGERS. Well, the Federal Treasury will gain more money on the taxes paid by corporations on the increase of interest of which they don't enjoy now on those accounts; is that correct?

Mr. HAMMOND. Let me just back up and make sure I understand the question correctly. If I understand what you are asking, is the benefit that the business community will obtain from the payment of interest on reserves factored into the calculation of the net costs to the Government, and the answer to that is no, it is not. What the CBO and OMB projections are based on is an assumption on what it will be from a budget standpoint to Federal revenues and expenditures. So obviously, to the extent the overall economy benefits from moving some of that money out of the Federal coffers into the commercial banking system, that is another consideration.

Mr. ROGERS. I am not sure we are on the same sheet of music.

Mr. HAMMOND. OK.

Mr. ROGERS. Just from what Congressman Toomey talked about, the administrative costs are obviously going to be less with the passage of this bill. Higher reserves that may net is going to be some increase to the Fed. But also, the Federal Treasury will gain in corporate taxation from gains in interest that small businesses don't currently pay, because they don't accumulate that asset. Am I correct?

Mr. HAMMOND. You are correct.

Mr. ROGERS. I have not seen anywhere in the calculations that I can find, so $600 to $700 million doesn't seem very real—it is a very static number.

Mr. HAMMOND. My understanding is those effects are actually factored into both the OMB and CBO calculations. We can verify that.

Mr. MEYER. They use a 25 percent assumed tax rate, and that is explicitly in their calculation.

Mr. ROGERS. That is a little different than what I am reading here from CBO. So maybe we can get all on the same sheet of music, and somehow some way maybe afterward, we can get—as a matter of fact, their last line, if I can quote from this, Mr. Chairman, if you will—"It is overall profits in Federal revenue, therefore it would not be affected."

Mr. MEYER. Are you talking about interest on reserves or interest on demand deposits? Interest on demand deposits would be a transfer from banks to businesses with no effect on tax revenue.

Mr. ROGERS. Isn't that a static calculation? I am doing this for my own edification here. I am not trying to be confrontational.

Mr. MEYER. It is very difficult to make an estimate of what the broader impacts of this would be on overall economic activity. What you are looking for is dynamic scoring, asking what other changes might occur in the economy and how that might generate additional income and tax revenue. That is a very difficult task to undertake. CBO did not make that calculation, and is not routinely made when estimating the cost of various programs.

Mr. ROGERS. I understand that. I guess my conclusion, or we will go back and do some of these as well, is if you can calculate the loss based on money for interest held in those accounts, you can also tabulate increased interest that previously was not taxed, and will be taxed just on those very simple calculations. We will play around with the numbers. I will be happy to talk with you.

Mr. HAMMOND. We will be happy to work with you.

Mr. ROGERS. I think that $600 to $700 million is way overstated when you talk about total revenue generated. There is an old saying that money is neither created or destroyed. I have a feeling taxation falls in the same category here and we will find the way to get that money somehow.

Thank you, Mr. Chairman. I would yield back.

Chairman BACHUS. Thank you. I will like to have the record reflect there is only a teddy bear remaining on the Minority side. And if it has no questions, we will go to Mr. Tiberi.

Mr. TIBERI. I have no questions, Mr. Chairman.

Chairman BACHUS. Thank you.

Mrs. Capito, no questions.

Dr. Weldon.

Dr. WELDON. I just have one quick question.

Governor, you mentioned a lot of the machinations banks go through to keep their level of sterile deposits small with the Federal Reserve. You mentioned sweep accounts as one of them. What are some of the other things that they do?

Mr. MEYER. Well, that is the major way that they reduce their required reserves. They take the deposits that are in the accounts that are reservable, and they find ways to transfer them into nonreservable accounts, preserving nevertheless the transactions' capability of the deposit holders, and that is what sweep accounts are all about. This is the major mechanism.

Dr. WELDON. OK. I don't think I have any other questions. Thank you, Mr. Chairman. Thank you for your testimony.

Chairman BACHUS. Thank you.

Governor Meyer and Secretary Hammond, if we were to offer a bill that required interest payments on required reserves and not on clearing balances or excess reserves, what would your reaction to that be?

Mr. MEYER. Disappointment. We understand that there is an issue about paying interest on required reserves. There is budgetary cost, and you have a decision that has to be made about how to finance that or what to offset it with. But in the case of contractual clearing balances, that is really a switch from implicit to explicit interest. There is no budgetary cost, and I can't see any reason why you wouldn't do that. With respect to interest on excess reserves, it is something we don't really contemplate using today, and that would only be in our tool kit. Should we be in a position where we would want to change the way we implement monetary policy, it would be useful to have. But it is something for the future, not something we would plan to implement over any near term.

Chairman BACHUS. Thank you.

Mr. HAMMOND. Yeah, I think what you would be doing is miss ing a large number of the benefits that could be obtained from paying interest on a broader universe of reserves.

Mr. MEYER. Could I make one other point? We have suggested here that if we don't get interest on required reserves, we would be very anxious, nevertheless, to have a bill that gave us the opportunity to have interest on contractual clearing balances. That would help. And if we had both together, it might be possible over time to lower reserve requirements by having more funds flow into contractual clearing balances with explicit interest. It might allow us the opportunity to lower the actual required reserve ratio. So there is a real advantage, it seems to me, in a bill that has both interest on required reserves and interest on contractual clearing balance. And I would certainly hope you would support that.

Chairman BACHUS. I might ask both the first and second panel and the memberships they represent to look at the Kelly legislation, and you might suggest any changes in that as a result of that question.

We have heard questions, and I think Ms. Hart was the one Member who asked some questions about maybe this is not in the best interest of the small banks, and I think maybe she recognized that there are small banks who oppose this, and I think we will probably, from the second panel, hear that some of their membership is divided, and at the same time in the past few years, organizations representing some of these same banks have asked the Congress to allow them to pay interest on business accounts.

Having said that, there is a tangible cost to the banks of having to pay interest which they can pretty easily calculate, I would think. On the other hand, it is rather intangible on how much, how many deposits they are losing from not being able to offer that. Do you know of any estimates as to the costs thereof? We know that the deposit base on the smaller banks which don't offer sweep accounts, that base has been eroding somewhat, but do you have any thoughts on that?

Mr. MEYER. No, I don't have any numbers to share with you, but it is certainly true that when community bankers come in and talk about their issues, funding issues are at the very top, and their ability to compete for what they call core deposits. These transaction accounts are very important to them, and of course, paying interest on demand deposits is one way for permitting them to be more competitive for those deposits.

Mr. HAMMOND. We are not aware of any estimates as well as to how you would, what the effect would be or what the deposit loss would be, or has been, to small financial institutions.

Chairman BACHUS. Thank you.

Do any other Members have a follow-up question? Oh, Mr. Weldon have you, you have been—all right.

At this time, we will dismiss the first panel. I will say that the Chair notes that some Members may have additional questions for this panel which they may wish to submit in writing, and without objection the hearing record will remain open for 30 days for Members to submit written questions to these witnesses and to place those responses in the record.

At this time the first panel is discharged and I would like the members of the second panel to be seated, and thank you for your testimony.

I would like to introduce the second panel at this time. From my left to right, Mr. James E. Smith is Chairman and Chief Executive Officer of Citizens Union State Bank and Trust in Clinton, Missouri, and President-elect of the American Bankers Association. We appreciate your testimony, Mr. Smith.

Mr. David Bochnowski is Chairman and Chief Executive Officer of Peoples Bank of Munster, Indiana; Chairman of America's Community Bankers, and we appreciate your testimony and note, we also thank you for your service in Vietnam.

And Mr. Thomas Jennings is Senior Vice President and General Counsel for First Virginia Banks on behalf of the Financial Services Roundtable based in Falls Church, Virginia.

Mr. JENNINGS. Yes, sir.

Chairman BACHUS. And Mr. Robert Gulledge, President and Chief Executive Officer of Citizens Bank of Robertsdale, Alabama, who is here representing as Chairman of the Independent Community Bankers of America. And if any of you have never been to Baldwin County, Alabama, it is your loss. Mr. Gulledge, a beautiful, beautiful county.

At this time, without objection, your written statements will also be made a part of the record. You will be recognized for five minutes to summarize your testimony, and we will start with you, Mr. Smith, and Mr. Bochnowski, I have allowed you an additional minute because you have extensive submitted testimony.

Mr. BOCHNOWSKI. Thank you, Mr. Chairman.

STATEMENT OF JAMES E. SMITH, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, CITIZENS UNION STATE BANK AND TRUST, CLINTON, MI; PRESIDENT-ELECT OF THE AMERICAN BANKERS ASSOCIATION

Mr. SMITH. Mr. Chairman, I would like to thank you for holding this important hearing. I would also like to acknowledge the continuing leadership of Representative Kelly on these issues, including sponsoring legislation to provide for 24 transaction sweep accounts, Federal Reserve flexibility on setting reserve requirements, and payment of interest on sterile reserves. We applaud her efforts and those of many Members of the subcommittee who helped move similar legislation through the House last year.

We strongly support the legislative initiative underway in Congress that would authorize a new 24-hour transaction deposit account and allow the Federal Reserve to pay interest on bank reserve balances. I will briefly touch on each of these important issues.

The banking industry has wrestled with the issue of paying interest on demand deposits for more than a decade. So far there is no consensus. However, there is broad industry support for creating a new account that will allow 24 transfers per month between a checking account and an interest-bearing account, that is one transfer for each business day. This is the concept contained in Representative Kelly's bill, H.R. 974, which we support. This new account will help banks meet the needs of their large and small business customers and better compete with non-bank firms, such as investment companies, security companies and credit unions that offer interest-bearing business accounts. Some bills introduced over the last few years go beyond ABA's current position in that they will eliminate the prohibition on paying interest on demand deposits. If Congress does decide to take such action, it is critical that an adequate transition period be provided. Banks often provide a bundle of services to compensate for the prohibition on paying interest such as transaction services, lending and lines of credit, and other ancillary services. A transition would allow time to unwind these arrangements and to price explicitly these services or reset any previously agreed-upon terms.

My second point relates to interest on reserves held at the Fed. ABA supports authorizing the Fed to pay interest on sterile reserves. The opportunity cost of holding non-interest-bearing reserves at the Fed has been significant over the years. Conservatively, we estimate the cost at $400 million this year. However, the cost to our communities are many multiples of this due to the additional foregone lending opportunities that would certainly arise. The high cost of sterile reserves naturally creates an incentive for banks to minimize this burden. The introduction of sweep accounts was one avenue to lower these costs. As a consequence, since late 1993, reserve balances at the Federal Reserve bank have dropped from almost $30 billion to $6½ billion today. Simply put, required reserves held at Federal Reserve banks will continue to decline unless market interest rates are paid on these funds.

Paying interest on reserves could help the Federal Reserve conduct monetary policy since it will allow the Fed to maintain reserves at whatever level it thought appropriate to achieve its goals.

In addition, paying interest on reserves will facilitate the development of transaction deposit products and level the playing field between banks and other financial institutions.

Finally, let me address the budget issue that surrounds this bill. Some argue that paying interest would have a negative budget impact, but the ABA believes that without the payment of interest, reserves will vanish and so will the Federal revenues received. However, if interest is paid, the declining reserve will be stemmed and Federal revenues will increase from what they would have been. Simply put, the payment of interest will yield a budgetary gain over time.

And in conclusion, the ABA strongly supports legislation that would authorize a new 24 transaction deposit account, and allow the Federal Reserve to pay interest on bank reserve balances.

Thank you, Mr. Chairman, for this opportunity to appear before your subcommittee today.

[The prepared statement of James E. Smith can be found on page 60 in the appendix.]

Chairman BACHUS. Thank you.

Mr. Bochnowski.

STATEMENT OF DAVID A. BOCHNOWSKI, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, PEOPLES BANK OF MUNSTER, IN; CHAIRMAN, AMERICA'S COMMUNITY BANKERS

Mr. BOCHNOWSKI. Thank you, Mr. Chairman. My name is David Bochnowski, and I am Chairman and Chief Executive Officer of Peoples Bank in Munster, Indiana. I am testifying today in my capacity as Chairman of America's Community Bankers on behalf of ACB. Thank you for this opportunity to testify on this issue of critical importance to community banks in small- and medium-sized businesses across America.

ACB strongly supports allowing banks the option of paying interest on business checking accounts as reflected in the legislation introduced today by Representatives Toomey and Kanjorski. We also strongly support authorizing the Federal Reserve to pay interest on sterile reserves, in fact, these issues were first brought to the attention of Congress by ACB in 1994, and they continue to be a top priority of ours.

The ban on interest-bearing checking accounts is the last statutory vestige of Regulation Q, a Depression-era law that, in the words of Federal bank regulators, no longer serves a public purpose. Instead, this prohibition has resulted in an anti-competitive business environment that has allowed a limited number of financial conglomerates to corner the market for cash management services that continues to block off an entire area of potential deposits for community banks to lend to our neighbors and to our communities, and it prevents many small businesses from earning interest on their checking accounts.

The obvious solution to these problems is for Congress to pass legislation allowing banks the option of paying interest on business checking accounts, and in fact, just last year, the House passed such legislation not once, but twice. Both bills were passed with the support of ACB and the National Federation of Independent Business, the United States Chamber of Commerce, and a host of other organizations. During a speech before ACB last December, Chairman Greenspan singled out the detrimental effects of this prohibition saying, and I quote: “This is of particular concern to community bankers, of course, given that larger banks are offering interest to their customers through sweep accounts. Bending legislation, modernizing the law would potentially help bolster deposit growth and open opportunities for other profitable customer relationships without the unproductive and costly circumvention of the existing statute.”

We are pleased Governor Meyer has echoed those remarks earlier in his testimony today. Given this broad coalition of support for repealing the ban, you may ask why this prohibition still stands. Historically, much of the opposition has been generated by a few large financial firms and banks. Unlike most community banks, these institutions can conduct sweep arrangements efficiently because they have the financial resources to do so.

As the head of a $400 million community bank, I can tell you firsthand that for most of us, sweep arrangements are a costly and cumbersome product. We offer them because we don’t have the option of paying interest on business checking accounts. And for many smaller community banks sweeps are not an option. The minimum investment for these types of arrangements is well beyond the reach of most small- and medium-sized businesses.

Mr. Chairman, we understand that large banks and Wall Street financial firms have invested significant resources in offering sweep account services to their customers. We do not begrudge the benefits they have reaped from their efforts, nor do we oppose their continuing to conduct business in this manner. But we do not believe it is asking too much to ask Congress to allow community banks, many of us who are strapped for deposits, to compete in the marketplace for cash management services.

And what about small business customers that larger financial institutions do not serve? Doesn’t it make sense for Congress to give them the option of earning a market rate of return on their deposits?

We think the time has come to lift this artificial prohibition and keep more money on Main Street and off Wall Street. We are also well aware that some of our community banking brethren do not see eye to eye with us on this issue. Let me say to them that we do not support legislation that will require banks to pay interest on business checking accounts. We simply want the option for them to do so.

Mr. Chairman, I would like to also express ACB’s support for legislation authorizing the Federal Reserve Board to pay interest on sterile reserves held at Federal Reserve Banks. On behalf of ACB I would like to commend Representative Kelly for her ongoing efforts on this issue.

Finally, there is the critical point of timing with respect to this issue. Because a delay would only postpone the benefits of this much needed change, it is our strong preference that legislation giving banks the option to pay interest on business checking accounts do so immediately upon enactment. We do recognize that some institutions are seeking an extensive transition period. While we appreciate the efforts made by Representatives Toomey and

Kanjorski to accommodate these concerns, we strongly believe a phase-in period is unnecessary and undesirable.

ACB strongly endorses the Toomey-Kanjorski bill as an important step in allowing banks to offer interest-bearing checking accounts. We commend House Financial Services Committee Chairman Oxley for putting this issue on the fast track, and we commend you, Chairman Bachus, for holding today's hearing. Thank you again for the opportunity to testify before the subcommittee, and I look forward to any questions you might have.

[The prepared statement of David A. Bochnowski can be found on page 69 in the appendix.]

Chairman BACHUS. That was a 5-minute statement.

Mr. BOCHNOWSKI. Thank you, Mr. Chairman.

Chairman BACHUS. Mr. Jennings.

STATEMENT OF THOMAS P. JENNINGS, SENIOR VICE PRESIDENT AND GENERAL COUNSEL, FIRST VIRGINIA BANKS ON BEHALF OF THE FINANCIAL SERVICES ROUNDTABLE

Mr. JENNINGS. Thank you, Mr. Chairman. I am the General Counsel of First Virginia Banks, Inc., in Falls Church, Virginia. I am pleased to have the opportunity today to speak on behalf of the Financial Services Roundtable. First Virginia is the oldest bank holding company in Virginia, with roots beginning in 1949. The Financial Services Roundtable represents 100 of the largest integrated financial services companies providing banking, insurance and investment products and services to American consumers. Roundtable member companies account directly for $17 trillion in managed assets and $6.6 trillion in assets and provide jobs for 1.6 million employees.

Chairman Bachus, thank you for holding this hearing today and for inviting the Roundtable to participate. The Roundtable also extends thanks to Congresswoman Sue Kelly for introducing H.R. 974, which will be the focus of my testimony.

The Roundtable strongly supports this bill and it would help to remove the hidden tax imposed on banks by allowing the payment of interest on banks' required reserves.

The Roundtable strongly believes that any bill that allows institutions to pay interest on commercial checking accounts, such as the bill introduced by Congressman Pat Toomey, must be coupled with provisions allowing the Federal Reserve Board to pay interest on required reserves. The reason for this is simple. If institutions are to begin paying interest on commercial checking accounts, they will be forced to undertake significant changes in operating systems and, more importantly, they will be pressured to revisit their pricing for numerous account relationships.

Non-interest bearing, or sterile reserves held at the Federal Reserve, amount to a hidden tax on banks. This nonproductive use of deposits runs counter to the interests of all of our key constituencies, including our bank's management, shareholders and, more importantly, our customers and our communities. Reserve requirements make banks less likely to develop new and innovative deposit products since the cost of these products are artificially high.

Let me explain how the bill which will permit the payment of interest on business checking will affect First Virginia. Currently our family of banks meets all of its reserve requirements through vault cash, the money we keep in branches and at other facilities, and through required balances held at the Federal Reserve. First Virginia has a program in place to aggressively manage the cash we hold and where we hold it in order to ensure that our customers receive cash when they need it. Because banks our size must hold 10 cents in reserve for every additional dollar held in checking accounts, allowing the payment of interest on business checking accounts would increase the amounts held in those accounts, thus substantially increasing our reserve requirements. The corresponding increase and required reserves may force us to hold excess cash over and above the amount we need to pay our customers. If First Virginia were to carry this money without receiving interest on it or without being able to put it to productive use, it could increase the hidden cost paid by our institution. If the Federal Reserve were to pay First Virginia and other banks interest on the reserves kept with them, the cost of holding these excess reserves would at least be partially offset.

I would also like to point out a possible unintended consequence if a policy change results in banks holding additional non-interest-bearing reserves. Because an increase in these reserves would make it more expensive to banks to offer checking accounts, many consumers might choose to place their money in accounts outside the banking system. The end result might be that the Federal Reserve would hold even fewer reserves, because banks would be holding fewer deposits.

In the past, Congress has linked the issue of paying interest on required reserves with paying interest on commercial checking. In 1998, the House Banking Committee included both provisions as part of its broader regulatory relief package, as championed by Congresswoman Roukema. That bill, H.R. 4364, passed the House by voice vote.

As the subcommittee has already heard, strong monetary policy arguments exist for allowing the Federal Reserve to pay interest on required reserves.

Mr. Chairman, in conclusion, the Roundtable appreciates the opportunity to provide our comments and supports this important legislation that would remove the hidden tax on banks and urges Congress to follow its historical practice of combining payment of interest on reserves legislation with interest on commercial checking legislation. Thank you again for the opportunity, and I would be pleased to answer any questions.

[The prepared statement of Thomas P. Jennings can be found on page 75 in the appendix.]

Chairman BACHUS. Thank you, Mr. Jennings.

Mr. Gulledge.

STATEMENT OF ROBERT I. GULLEDGE, PRESIDENT AND CHIEF EXECUTIVE OFFICER, CITIZENS BANK OF ROBERTSDALE, AL; CHAIRMAN, INDEPENDENT COMMUNITY BANKERS OF AMERICA

Mr. GULLEDGE. Good afternoon, Chairman Bachus, Ranking Member Waters and Members of the subcommittee. My name is Robert I. Gulledge and I am Chairman, President and CEO of Citizens Bank, a community bank of $82 million in assets located in Robertsdale, Alabama. I also serve as Chairman of the Independent Community Bankers of America, on whose behalf I appear before you today.

I want to thank you for giving me the opportunity to testify and I want to congratulate you, Chairman Bachus, on your elevation to the Chair of this important Financial Institutions Subcommittee of the Financial Services Committee.

I will first address the issue of paying interest on business checking accounts. Mr. Chairman, as you know, repealing the ban on paying interest on business checking accounts has been hotly debated among community banks for many years. Community bankers continue to be sharply divided on this issue. Proponents of lifting the ban argue that it would increase economic efficiency, simplify business practices and help them keep their best business customers. Opponents argue that lifting the ban would squeeze their margins and impose a financial burden on them that could jeopardize their ability to compete for business customers in their markets.

In my written testimony I describe the impact this proposal would have on two different banks, one in favor of lifting the ban and one opposed. The banker who opposes lifting the ban from a $721 million assets bank on the East Coast calculated that he would have to raise more than $21 million in additional deposits just to offset the interest costs if he were forced to pay interest on his business checking accounts. This cost, he said, would be prohibitive.

The banker who supports lifting the ban from a $161 million asset bank in the Midwest feels that the current prohibition has been competitively damaging to his bank and to others. He argues that brokerage firms and other non-bank competitors have moved aggressively to compete with commercial banks for small business relationships, and without the tools to compete, banks and others could lose some of their best commercial accounts.

Mr. Chairman, because bankers are split on this issue and the feelings run strong on both sides, the ICBA has advocated a compromise, that bankers on both sides tell us they can support. Under this compromise the number of allowable transactions from money market deposit accounts would be increased to 24 per month from the current legal limit of 6 while keeping the permanent prohibition in place. This alternative was proposed in legislation introduced by Representative Kelly last year. It would allow banks to sweep funds between non-interest-bearing commercial checking accounts and interest-bearing money market deposit accounts on a daily basis. Thus, banks would not be forced to offer interest on commercial checking accounts but, rather, would have the option of paying interest on their commercial checking accounts by using sweep mechanisms.

Mr. Chairman, this is the only alternative that we are aware of that has not raised objections from one side of the issue or the other side of the issue. We urge you and the subcommittee to give this proposal serious consideration, and we stand ready to work with you on this compromise. If you determine to go forward with removing the ban, may I suggest you allow an appropriate time to dismantle existing contractual arrangements of existing accounts with our customers.

Let me now turn to the issue of allowing the Federal Reserve to pay interest on sterile reserves. We have no objection to this proposal, even though it is not an issue that would affect most small banks directly. Most small banks have transaction deposits in the lower tranche and are either not required to maintain reserves or can meet their reserve requirements with vault cash. In my written testimony I describe in greater detail the effect that this proposal would have on a typical ICBA community bank.

Thank you for the opportunity to testify. I would be happy to answer questions you or the subcommittee may have. Thank you very much.

[The prepared statement of Robert I. Gulledge can be found on page 80 in the appendix.]

Chairman BACHUS. Thank you, Mr. Gulledge.

At this time we will recognize Mr. Cantor for 5 minutes.

Mr. CANTOR. Thank you, Mr. Chairman. And I guess any of panelists could probably answer my question. It is really for my own knowledge in trying to understand sort of the costs associated with the sweep accounts arrangements, and I hear some of you advocating a long transition period so you can unwind and get rid of the costs associated with them. Is there any other reason for these sweep arrangements other than to, if you will, get around the prohibition on interest checking for demand deposits for business?

Mr. BOCHNOWSKI. Congressman, we introduced the sweep accounts this past August. We now have $10 million worth of deposits, if you want to call them that, that have been attracted to these accounts. Of that $10 million, only 6.5 percent comes from inside the bank. We have existing arrangements with some of our customers; therefore, they are not eligible for these accounts. So while we do not have the option of doing what we would like to do with business checking, we have still figured out a way to do it, and it is costly. The requirements that we have to come back to our customers with, which is to, on a daily basis, monitor the level of these repurchase agreements of Government securities and to inform our customers daily of the value of those Government securities. So there is tremendous cost involved. So, from our point of view, we would rather go ahead and let this option run to all banks and let each bank on its own in the free market decide how it wants to offer those products to their customers.

Mr. SMITH. I want to give you an experience in my bank. A little over a year ago, we succumbed to the sweep accounts and started offering the sweep accounts. I would tell you that today we have picked up about 4 percent additional deposits if I was able to keep those deposits in the bank. Those are outside deposits. But I do have the third party provider that takes care of the sweep operation for me and I am under a contractual arrangement to continue with that for a period of time. So at my particular bank, I would need some time to unwind from that contractual relationship.

Also, for a number of my commercial accounts it has been years building up, what we call bundled services, whether it is below market interest rates on loans or purchasing their checks or offering them other incentives because we cannot pay interest on their corporate account. That is going to take some time to go back and work with those accounts and work out those arrangements so we can make it an equitable situation both for the corporate customer and for the bank.

Mr. JENNINGS. Not only are there costs involved in the sweeps, but we found that our business customers sometimes have a hard time keeping up with what is going on and the smaller business customers especially have had problems maintaining enough staff to look at what we are giving them in the way of what we have done for them. So there are not only costs to us, but costs to our customers if they are doing that.

Mr. GULLEDGE. I do not have sweep accounts in my bank, and obviously if this legislation—if this ban is removed, this is a service that I will have to provide to be able to be competitive and to provide the service. I am a practicing banker and I am going to provide the services that are demanded of my customers. But there are also contractual arrangements out there dealing with loan customers, conditional loan approvals, compensating balances, there is a lot of other things that are out there that would have to be dealt with, and it is not something that I think can be made effective immediately without having serious effect on the operations and the performance of banks.

Mr. CANTOR. Mr. Chairman, I yield back the balance of my time. Thank you.

Chairman BACHUS. Thank you, Mr. Cantor.

Mr. Bentsen.

Mr. BENTSEN. Thank you, Mr. Chairman.

There is some disagreement it appears among the panel over the timing of how quickly sweep accounts or how quickly an interest on deposit should be allowed, whether there should be a one-year transition or a two or three-year transition period. And I guess, Mr. Smith, I just heard you—I kept getting paged, so I apologize I had to keep getting up—but I heard you say you have a contractual—in your own instance, you have contractual arrangements with a provider that requires you to work with them for a certain amount of time. I guess my question is do any of you all know what the average length of the sweep arrangement contracts are? It would seem to me that a lot of these are a year or less and would be fairly flexible to get out of. Maybe that is not the case.

Second of all, Mr. Gulledge, I wonder with respect to your members in particular, I understand there are some members who would not, smaller banks where it would be cost prohibitive to establish perhaps your own system of setting up interest payments, whether you were going to hedge or what not. But there is a ready market already there offering money market demand accounts. The banks are using them as it is. Why wouldn't your banks want to use that at a nominal fee for the benefit of their customers?

Mr. GULLEDGE. Well, in the written testimony I have given you the example, as I alluded to, of the two banks, one that was a $721 million bank that said he would have to develop a $21 million deposit growth to compensate for the cost and yet another at $161 says that he needs it to be more competitive. And I think what we are really saying here is that every community bank is going to have to look at their market, they are going to have to look at their competition, they are going to have to take a look at their customer base. There is a lot of work, and here again this is another reason, in my opinion, for giving a period of time in working out the proper arrangement so that every bank can look at it and make their own decisions as to what can be profitable.

Mr. SMITH. I don't know that there is any specific—I don't know the numbers—if there was any time that it would take, the average time to eliminate the sweep accounts, but please keep in mind it is not just the contractual relationships on the sweep accounts. Maybe I've quoted a loan at a below market rate because of the compensating balances and that might be a five-year loan. So I have already committed to a loan customer on one side of the ledger and then I want to at least try to average it out so I can come out on the other side of this issue. So perhaps I purchase their checks. Some of these checks are expensive, maybe $4-$5,000 for a two-year supply of checks. So what we are trying to do is balance this so we can make this transition period as smooth as possible for the banks to work into this. And it is voluntary, so in some of these arrangements you may want to continue the way you have been for a period of time until you can handle it.

Mr. BENTSEN. I don't completely understand what you are saying. Are you saying that in some of your arrangements that you have with your commercial clients that you have offset some of your cost or you have hedged some of the benefits you are providing with your customer with the rate you are getting through the sweep account? So it is not just a question of getting out of the sweep account, it is other costs that are factored into that as well?

Mr. SMITH. That is correct. It is a whole bundle of services that we have been trying to provide to our corporate customer in lieu of paying them interest on their checking accounts.

Mr. BOCHNOWSKI. We all have these contractual arrangements, yet they don't have to hinder the small business side of this. I don't know that we should ask them to wait, especially since our experience has been that we do bring funds from outside the banking system into the banking system when we offer a product that is akin to this, the sweep accounts that we now have. The time that it would cost any of us to let our existing relationships run off: that is on our side, but there are many bankers who have not chosen to take the steps that we have. And we will ask them to wait until we can solve our problem in order for them to be able to offer this business checking option that we would like to have to their customers. And I think it is fair to say that we shouldn't ask the rest of the banking industry to wait while we catch up.

Mr. BENTSEN. Mr. Chairman, I sort of agree with that viewpoint, but I guess obviously you make an arrangement with your clients and you put together a package that is both beneficial to your client or obviously they would not be there, and beneficial to the bank and stockholders, because you are ultimately in the business of making money, which is a good thing. But I think that Mr. Bochnowski is somewhat correct that—I mean, we can't stop the clock if we are going to try to continue to deregulate the banking industry, which is the next step to do that.

Mr. SMITH. I would only say that this is voluntary so nobody has to wait. If they want to offer the 24 transfer, that is the same thing and so nobody has to wait. They can offer that product. And I may want to continue to offer my sweep products instead of offering the 24 transfer.

Mr. BENTSEN. But overall deregulation would be put off for two or three years on some of the bills that are being considered, and I think that is an issue that we have to think long and hard about.

Thank you all.

Thank you, Mr. Chairman.

Chairman BACHUS. Thank you, Mr. Bentsen.

Mr. Toomey.

Mr. TOOMEY. Thank you, Mr. Chairman.

I would just like to follow up on the issue of the voluntary nature of this, because I spent many years as a small business owner and I have had accounts with banks and I have run into all of these arrangements, or at least a number of arrangements that have been alluded to, whereby I have had a loan where the interest rate charged to me on the loan was contingent on a certain balance that I would not earn interest on. It strikes me if you got such a loan on the books you could leave it exactly as it is, because this bill would not require paying interest on those deposits; it would simply provide the option.

Similarly, I remember going through stacks of my bank statements that were very complicated and very lengthy to total up all of the little credits against service charges that I was being given, again in sort of compensation for the average balance that I have left. And again, it seems to me that is something that could continue. I don't know why anyone would, but you could continue it. So I guess from the point of view of the corporate borrower or your customer in that sense, I am wondering if I am missing anything. Are there other kinds of transactions where, absent a long phase-in, you would really have a contractual problem, or could you not continue with the current arrangement as a practical matter with respect to most of your customers? Maybe not with your correspondent banking relationship whereby you have the sweep accounts, but with relationship to the customers. Am I missing categories of transactions or something?

Mr. SMITH. I can only give you the experience of my bank. It is a rural bank in mid-Missouri and most of my arrangements with compensating balances are implied arrangements. They are not written arrangements. And basically it is discussions and knowing my customers for the past 27 years that I have dealt with them. I just need some time to work with them, educate them that we are unbundling, listing this service. We are going to be paying interest on their account if they so desire, but at the same time we will be doing some other things on the other side of the ledger that may be charges to them. I don't have necessarily very many contractual relationships that say you have to keep a six figure balance in order to get this interest rate on your loan. It is more of an implied number, just from my knowledge and history of what this business has done in the past.

Mr. TOOMEY. In your case, if you had one year for this change to take place, would that give you enough time?

Mr. SMITH. I still have a contractual relationship with a third party vendor out there that is going to go two years, so I've got to take care of him. So obviously we have got to meet my contractual relationship.

Mr. TOOMEY. OK. I had another question for Mr. Bochnowski and I was wondering if you could share for us, I expect a lot of Members are not familiar with what a repo is and the mechanics and costly nature of trying to create this transaction as the way to circumvent this archaic rule. I was wondering if you could share with us how and why it is really a pain in the neck.

Mr. BOCHNOWSKI. I appreciate that opportunity, Congressman. It is transparent to the customer, but on the bank side literally what we have to do is the customer's large deposit, instead of going into a checking account goes into a repurchase agreement; that is to say, they take a security interest in Treasury bills that we already own. And we are required by bank regulation when we do that—and since that is outside the depository relationship funds can sweep between their checking accounts and that account numerous times a day without violating any existing rule. But, because of the nature of the banking rules on this issue, we are required—first of all, we cannot pledge more than we have, so we have to monitor that security on a day-to-day basis, or those securities that are bundled on a day-to-day basis to be sure that we haven't exceeded regulatory requirements there. Second, because it is a repurchase agreement, again under requirement, we must tell the customer every day what the value of that security is. So we are forced to do a lot of bureaucratic transactions at a fairly substantial cost in order to reach a result to get around the law and to provide a transparent result to the customer.

There is also a practical consideration here. At a bank our size, which is $400 million, we might have a securities portfolio on any given day of $40- to $50 million. Some of that is held for sale and some of that is our permanent portfolio. We can only attach this product to the permanent side of the portfolio. And so that we might be limited—there is a finite point at which we can no longer offer this service within our community because we run out of securities. If we have to wait for a year or two or three years, there again, I am going to say to my customers or people who have the potential to bring money back into the banking system, "This is a great product, but could you wait ten or twelve months until I get back to you?" I do not think that is necessarily good for our bank, I do not think it is good for our community, and I do not think it is good for our small business customers.

Mr. JENNINGS. Technically that is a sale of securities by the financial institutions to the customer with an obligation or a commitment to repurchase those securities at a certain interest rate. And as my colleague over here said, there is only a limited number of securities that banks hold in their portfolios. So these are Federal Government securities and there is a limit to how much that is, so you can't offer that to anybody.

Mr. TOOMEY. And they have to be marked to market daily and it strikes me as a rather cumbersome process as opposed to paying 4 or 5 percent interest.

Mr. SMITH. Correct.

Mr. TOOMEY. Thank you. I yield back the balance of my time.

Chairman BACHUS. Thank you.

Ms. Hart, do you have any questions?

Ms. HART. Thank you, Mr. Chairman.

I did ask a question of the earlier panel that I don't think I need to ask again of this panel. Your testimony is all pretty clear. I think the one disagreement that I would like to get a little bit more of a handle on, or I guess some of you have been noncommittal, is the amount of time we ought to take, if any, to phase in the interest on business checking. The first panel clearly doesn't want any time to really be spent on a phase-in. I would just like each of you to comment on what you think would be the ideal amount of time for us to take until that is phased in, if it is phased in, or if we do it instantly.

Mr. SMITH. The bill that passed the House last year had a three-year phase-in and the American Bankers Association supported that bill, and that would be our position today.

Mr. BOCHNOWSKI. America's Community Bankers would like to have it phased in immediately, because this is an option. We think that every bank could, at its own pace, decide when it wanted to phase it in and they could take that approach. I think the problem with the phase-in is you get the result, but you have a cumbersome process, because you have to go from money market accounts to the checking accounts. You have a double set of accounts you have to keep track of. You have a double set of regulations you have to watch. Why not just do it? If we are going to do it, let's do it.

Mr. JENNINGS. Our members have incurred, a lot of them anyway, have incurred substantial costs in putting into place existing systems that they have. On the other hand, our members probably can afford to make the transition a lot easier than some of the other institutions could. So we did not take a position one way or the other on this, but we would not be opposed to whatever the subcommittee does up to a three-year phase-in.

Mr. GULLEDGE. The differences that you are hearing between this panel and the other panel is that we are—for the most part, we are the practicing bankers and we are the ones that will be affected by the transition period, and I would say at that point as a minimum we need a three-year transition period.

Mr. HART. Thank you for that. So there isn't complete agreement, and that is OK.

The other issue is the one that I had asked about earlier, was a question about pressure on the banks, and I think I want to direct this actually to community banks, because you are smaller to begin with, and the question that I had was is there any reservation in the back of your mind about the pressure that might be exerted upon your bank to compete in a market with a lot fewer resources and to offer interest even though it is not mandated by this law and even though your members or you may not feel that it is the wisest thing to do in order to stay even in business? Does that thought enter your mind or is that something you have heard from many of the members of the Association?

Mr. SMITH. I could respond. With my bank, personally, as I said, I started sweep accounts about a year ago and I have about $6.3 million in those sweep accounts and that is money that was going outside the community from local businesses and corporations. It was going outside the community. And I am glad I started it because I found some funding that I would like to get back into the community. If we do the 24 transfer legislation, then that will give me the opportunity to handle some of the liquidity problems in my community, my bank.

Mr. BOCHNOWSKI. Congresswoman, I don't see that as an issue. I think we are under pressure right now to compete in our marketplace for all kinds of deposits and all kinds of products and services. I started in this Roundtable community of banks back in 1976 and I think the Federal Reserve statistics are that, at that point 90 percent of all deposits, all domestic deposits were at passbook or less in the United States of America. Times have changed. Clearly regulators also look at something called interest rate risk. They have to watch us very carefully at the behest of Congress on those kinds of issues. I think that the industry has proven that it can deal with these issues. And I think that we—Jim's company is currently offering this product. We are, too. I think we are doing it prudently. I don't think we are giving away the store at all.

Mr. JENNINGS. The 24 sweep issue is—obviously our preference is to have interest on checking and interest on sterile reserves linked together. That is preferable. I can remember back to 1978 when the interest was allowed first to be paid on consumer checking accounts and it did not start out as interest on checking accounts. It started out as interest on savings accounts, which you could sweep into checking to pay the checks that came in, and only after a period of time did we go to NOW accounts and allowing interest on NOW accounts. In my own view, that is just people realize that is what the market is and that is the way things ought to be. So the 24 sweeps, I think if we went that route it is just temporary and eventually we would go to the market rule, which is paying interest on the funds that you have that belong to somebody else.

Chairman BACHUS. Thank you, Mr. Jennings.

Mrs. Kelly.

Ms. Hart.

Ms. HART. Mr. Chairman, I just realized that my time was up. Thank you.

Chairman BACHUS. Thank you.

Mrs. Kelly.

Mrs. KELLY. Thank you, Mr. Chairman.

Mr. Smith, can you tell me the percent of accounts that are business checking accounts at your bank?

Mr. SMITH. Probably 35 percent business checking accounts, and I have some accounts classifieded as ag loans or ag accounts that would be approximately another 3 or 4 percent, because they are incorporated. So somewhere between 35 and 40 percent.

Mrs. KELLY. Thank you.

Mr. Bochnowski, can you tell me what percent of accounts you have in your business checking accounts in your bank?

Mr. BOCHNOWSKI. It fluctuates, but I would estimate it is 20 to 25 percent.

Mrs. KELLY. That is considerably less than Mr. Smith holds in his bank. So would I be wrong in assuming that you see the repeal of the prohibition of paying interest on business checking as a way that you can attract a greater number of business deposits in your bank?

Mr. BOCHNOWSKI. I think that has something to do with it. I think there is also a little bit of history. While we are currently chartered as a State bank under Indiana law, we started as a thrift. Our company is 90 years old. We haven't been able to have business checking accounts for—except for the last probably decade—ten or fifteen years.

Mrs. KELLY. Mr. Bochnowski, your testimony did not address the issue of giving the Fed greater flexibility in setting the reserve requirements. Do you have a position on my legislation there?

Mr. BOCHNOWSKI. We are in favor of your legislation there.

Mrs. KELLY. Thank you. Also in your testimony you said that sweep activities are a costly and cumbersome product. I find this a little bit confusing, because I have a copy of a report in my hand here, it is Service and Product Solutions for Community Banks, which it says on the masthead, "Brought to you by America's Community Bankers." And on page six of this ACB publication it says—and I can read it or you can see it, and I have done my homework here, and underscored it: "The banks utilizing sweeps are finding that they are strengthening existing customer relationships as well as benefiting from obtaining new bank clients. A bank sweep account in a focused marketing plan represents a serious advantage in expanding and acquiring new business relationships, which can be extended into other banking opportunities."

It just seems very interesting to me that you would give such different testimony from what the ACB writes in its own publication.

Mr. BOCHNOWSKI. I don't disagree with what is said there. When I say they are costly, I mean it in this sense, Congresswoman. The threshold for our sweep accounts is $50,000. We cannot start our business customer until they get to that level. We would like to have it be much lower. We would like to see it at the $10- or $15,000 level, depending on their relationship with the bank in other ways, as has been alluded to in this testimony. But I think when I say they are costly, it is simply because they are, and that we cannot start the process of entering the customers into the sweep accounts until they can reach a certain deposit threshold level.

Mrs. KELLY. Thank you very much. I yield back the balance of my time.

Chairman BACHUS. Thank you.

Mr. Rogers.

Mr. ROGERS. Thank you, Mr. Chairman.

Mr. Smith, you mentioned a point earlier that caught my attention. You said that—and maybe I misunderstood you—if we move the date up it would cause some liquidity problems for the bank. I assume that is because of the contractual relationship you have with your large corporate accounts. Can you help me understand that?

Mr. SMITH. No, I don't believe that is the way I intended that to sound. I think if we moved the date forward I think it will be difficult for the banks that are under contractual relationships to unhook from those relationships and unbundle those services quickly. And I think it will cost them some money on the bottom line in trying to meet that timeframe and move into the other timeframe. I didn't mean it from a liquidity standpoint, from a lending framework. I just meant that it would cost some of those banks some money on the bottom line in order to unbundling this program and starting a new program at the same time.

Mr. ROGERS. Can you give me an example of some kinds of activity you would want to unbundle and leave off the table in lieu of paying interest?

Mr. SMITH. For instance, I will go back, if we have purchased checks for this corporation, if we were going to pay interest on their checking account in the future we would not be interested in purchasing their checks and being out that expense. If we were going to tie it to compensating balancing, their loan rates—if we are going to tie that to compensating balances, then we won't be as interested in giving them such an advantageous program, if we are going to be paying them out on the other side of the ledger, because we have to balance the income and expense accordingly. So that is basically what I was driving at when I indicated we would have to unbundle some of these services and we would need time to get that accomplished as we move into this transition.

Mr. ROGERS. I appreciate that. I relayed a story earlier to Congresswoman Kelly that I was in a very rural, very small town in Michigan yesterday, having a meeting completely separate from this issue, and the local community bank closed its doors and walked down in total to that meeting to tell me to support this particular issue. I want to congratulate Congresswoman Kelly. If this can have that kind of a profound impact on a community that needs all the help it can get, I will be with it.

With that, Mr. Chairman, I yield back the balance of my time.

Chairman BACHUS. Thank you.

In addition to the witnesses that have testified before us today, the subcommittee has received written submissions from the United States Chamber of Commerce, the National Federation of Independent Business, the Association of Financial Professionals and the Community Bank Coalition, and their written submissions will become part of the record without objection.

[The information can be found on page 85 in the appendix.]

Chairman BACHUS. And some Members may wish to submit to the panel, both the first and second panel, written questions, and with unanimous consent I am going to ask that the record be held open for 30 days to permit Members to submit those written questions to you and for you to respond back and allow them to introduce your responses into the record. So if they do make written requests of you, I hope that they will do so promptly and that you all will respond so that they may introduce those within 30 days. Obviously if they get them to you 3 weeks from today it may be tough.

Mr. JENNINGS. I will be glad to answer any questions.

Chairman BACHUS. Thank you.

With that, we thank you for your testimony. The second panel is discharged, and the hearing is adjourned. Thank you.

Mr. JENNINGS. Thank you, Mr. Chairman.

[Whereupon, at 4:28 p.m., the hearing was adjourned.]

A P P E N D I X

March 13, 2001

OPENING STATEMENT OF REP. SPENCER BACHUS
MARCH 13, 2001 HEARING ON BUSINESS CHECKING AND STERILE RESERVES

This hearing of the Subcommittee on Financial Institutions and Consumer Credit will come to order.

Today, the Subcommittee convenes to consider two separate but related proposals: (1) repealing the current ban on the payment of interest on business checking accounts; and (2) permitting interest to be paid on funds that banks and other depository institutions are required by law to maintain at the Federal Reserve Banks.

The eyes of most Americans may glaze over at mention of the two issues we take up this afternoon. Yet as this Committee seeks to continue the work of modernizing our financial system begun by the last Congress with enactment of the historic Gramm-Leach-Bliley Act, both are of critical importance.

Like many of the outdated provisions repealed by Gramm-Leach-Bliley, the ban on paying interest on business checking accounts is a Depression-era relic that has long since outlived its usefulness. When originally enacted in 1933, the ban was designed to protect small rural banks from having to compete for depositors with larger institutions based upon which could offer customers a higher interest rate. Even if once valid, this policy justification is simply no longer relevant in a competitive landscape where banks must compete not merely against each another, but against a host of other non-bank financial firms offering a wide range of interest-bearing products.

The prohibition on paying interest to business checking customers is one of many factors contributing to a "liquidity crunch" for our Nation's small community banks. Faced in many cases with declining deposits coupled with strong demand for loans in their communities, small banks are caught in a vise, and are increasingly forced to seek funding from the Federal Home Loan Bank System and other non-traditional sources.

Unable to earn income on their checking account balances, small businesses in areas served by community banks have a powerful bottom-line incentive to take their business elsewhere. Not surprisingly, many have chosen to do exactly that, by opening cash management accounts at local brokerage firms or parking their assets in other interest-bearing vehicles outside the banking system. Repealing the ban on interest on business checking accounts will free banks to compete for such deposits on a level playing field, and promote the development of bank products and services geared toward a corporate clientele that is ill-served by the current prohibition.

The second issue that we address at today's hearing is in some sense the "flip side" of the first. Under current law, depository institutions are required to hold reserves at the Federal Reserve Banks against transaction accounts maintained by the institutions' customers. No interest is paid on these reserves. Banks have argued –

persuasively, in my view – that if the law is changed to permit interest to be paid on business checking accounts, a corresponding change should be made to authorize payment of interest on the reserves that banks are required by law to maintain at the Federal Reserve Banks. In addition, as we will hear in a moment from Federal Reserve Governor Meyer, failure to act in this area not only disadvantages banks, but it may at some point begin to have adverse consequences for the Fed's ability to conduct our Nation's monetary policy.

Last year, the House passed legislation that would have repealed the prohibition on interest payments on business checking accounts, but the bill died in the Senate. Similarly, this Committee favorably reported legislation to authorize the Federal Reserve to pay interest on statutorily required reserves, but the full House did not act on the bill. Two respected Members of this Subcommittee, Mrs. Kelly and Mr. Toomey, have taken the lead this year in reintroducing these important proposals, and I look forward to working with them and with Chairman Oxley to make sure that this Congress succeeds where past ones have failed.

Before recognizing Mrs. Waters for an opening statement, let me welcome all of our witnesses to today's hearing, and extend a special welcome to Bob Gulledge, President of Citizens Bank of Robertsdale, Alabama, who was just last week elected Chairman of the Independent Community Bankers of America. We congratulate Bob on his appointment, and we know that he will do Alabama proud in carrying out his new responsibilities.

Let me now recognize the Ranking Member, Mrs. Waters, for any opening statement she would like to make.

Statement Of Congresswoman Sue Kelly
House Committee on Financial Services Subcommittee on Financial Institutions and Consumer Credit hearing on proposals to permit the payment of interest on business checking accounts and sterile reserves maintained at Federal Reserve Banks
Tuesday, March 13, 2001; 2:00 p.m. 2128 Rayburn

This afternoon as I was walking over to this hearing I began to notice the signs of spring here in Washington. I could see the buds just emerging on the trees in front of Rayburn, the birds arriving from the south and now I see Governor Meyer here before our subcommittee to discuss interest on business checking accounts and sterile reserves, an additional true signal that spring is here in our nations capital.

I want to quickly thank Chairman Bachus and Ranking Member Waters for agreeing to hold this hearing today. The issues before us are very important and relate to another growing issue that we shall also hold hearings on in this Congress, namely the ability of community banks to attract sufficient deposits to ensure safe and sound operation of our banks. The question I would like to explore with our witnesses today is: How will the repeal of the prohibition of paying interest on corporate demand deposits affect the bottom line of banks?

This afternoon I introduced H.R. 974, the Small Business Interests Checking Act of 2001, a Senate companion has also been introduced today by Senator Charles Schumer. This legislation contains three parts. First, it gives banks the authority to increase their sweep activities from the current six times a month to twenty four; second, it authorizes the Federal Reserve to pay interest on reserves; third, it gives the Federal Reserve greater flexibility in setting reserve requirements. In crafting this legislation I consulted with Federal Reserve, Treasury and the groups before us today to ensure that this legislation could be acceptable by all.

Additionally, Congressmen Toomey and Kanjorski have introduced legislation to repeal the current prohibition on business checking accounts. As has occurred in past years, we anticipate these initiatives to be merged when we mark-up this legislation and of course the length of the transition period will be the biggest issues. I look forward to discussing these issues with our distinguished witnesses that have taken the time to join us here today and working with all of the members of our committee on these issues.

I yield back the balance of my time.

Statement of

Laurence H. Meyer

Member

Board of Governors of the Federal Reserve System

before the

Subcommittee on Financial Institutions and Consumer Credit

of the Committee on Financial Services

United States House of Representatives

March 13, 2001

I welcome the opportunity to testify on behalf of the Federal Reserve Board on issues related to interest on demand deposits and interest on balances held at Reserve Banks. The Board continues to strongly support legislative proposals to authorize the payment of interest on demand deposits and interest on balances held by depository institutions at Reserve Banks. It also supports obtaining increased flexibility in setting reserve requirements--a proposal included in legislation that passed the House last year. As we have previously testified, unnecessary restrictions on the payment of interest on demand deposits and balances held at Reserve Banks distort market prices and lead to economically wasteful efforts to circumvent these restrictions. Authorization of interest on balances at Reserve Banks could also be helpful in ensuring that the Federal Reserve will continue to be able to implement monetary policy with its existing procedures, while increased flexibility in setting reserve requirements would allow the Federal Reserve to reduce a regulatory burden on the financial sector to the extent that is consistent with the effective implementation of monetary policy.

As background, let me begin by discussing the role of balances held at Reserve Banks in the implementation of monetary policy. The Federal Open Market Committee (FOMC) formulates monetary policy by setting a target for the overnight federal funds rate--the interest rate on loans between depository institutions of balances held in their accounts at Reserve Banks. While the federal funds rate is a market interest rate, the Federal Reserve can strongly influence its level by adjusting the aggregate supply of deposit balances held at Reserve Banks through open market operations--the purchase or sale of securities that causes increases or decreases in such balances. However, in deciding on the appropriate level of balances to supply to achieve the targeted funds rate, the Open Market Desk must estimate the aggregate demand for such balances.

In estimating that demand, the Desk must take account of the demand for the three types of balances held by depository institutions at the Federal Reserve--required reserve balances, contractual clearing balances, and excess reserve balances. Required reserve balances are the balances that a depository institution must hold to meet reserve requirements. At present, the Federal Reserve requires depository institutions to maintain reserves equal to 10 percent of their transaction deposits above certain minimum levels. Reserve requirements may be satisfied either with vault cash or with required reserve balances, neither of which earn interest.

Depository institutions may also commit themselves in advance to holding additional balances called required or contractual clearing balances. They are called clearing balances because institutions tend to hold them when they need a higher level of balances than their required reserve balances in order to clear checks or wire transfers without running into overdrafts. These clearing balances are similar to the compensating balances offered by depository institutions to their business customers. The clearing balances earn no explicit interest, but earn implicit interest for depository institutions in the form of credits that may offset the cost of using Federal Reserve services, such as check-clearing. Finally, excess reserve balances are funds held by depository institutions in their accounts at Reserve Banks in excess of their required reserve and contractual clearing balances.

Depository institutions must maintain their specified levels of both required reserve and contractual clearing balances, not day-by-day, but on an average basis over a maintenance period that is typically two weeks long. This averaging feature allows these two types of balances to be helpful for the implementation of monetary policy. The required amounts of both types of balances are known prior to the beginning of the maintenance period, so the Open Market Desk knows the balances it needs to supply on average over the period to satisfy these needs.

Moreover, the two-week averaging creates incentives for depository institutions to arbitrage the funds rate from one day to the next in a manner that helps keep that rate close to the FOMC's target. For instance, if the funds rate were higher than usual on a particular day, some depository institutions could choose to hold lower balances on that day, and their reduced demand would help to damp the upward pressure on the funds rate. Later in the two-week period, when the funds rate might be lower, those institutions could choose to hold extra balances to make up the shortfall in their average holdings of reserve balances. These actions are desirable in that they help smooth out the funds rate over the two-week maintenance period.

The averaging feature is only effective in stabilizing markets, however, if the sum of required reserve and contractual clearing balances is sufficiently high. If their sum dropped to a very low level, depositories would be at increased risk of overdrafting their accounts at Reserve Banks because of unpredictable payments out of the accounts of depository institutions late in the day. Depositories would need to hold higher levels of excess reserves at Federal Reserve Banks as a precaution against such overdrafts, and demand for these excesses would vary from day to day and be difficult to predict. For example, on days when payment flows are particularly heavy and uncertain, or when the distribution of reserves around the banking system is substantially different from normal, depositories need a higher than usual level of precautionary balances to reduce the risk of overdrafts. The uncertainties about how many balances depositories wish to hold in a given day would make it harder for the Federal Reserve to determine the appropriate daily quantity of balances to supply to the market to keep the federal funds rate near the target level set by the FOMC. Moreover, if the marginal demand for balances were for daily precautionary purposes, there would be less arbitrage of the funds rate by depositories across the days of a maintenance period. Thus, if the demand for balances were determined largely by daily precautionary demands for excess reserves, the funds rate could become more volatile and could diverge markedly at times from its targeted level.

Moderate levels of volatility are not a concern for monetary policy, in part because the Federal Reserve now announces the target federal funds rate, eliminating the possibility that fluctuations in the actual funds rate in the market would give misleading signals about monetary policy. A significant increase in volatility in the federal funds rate, however, would be of concern because it would affect other overnight interest rates, raising funding risks for most large banks, securities dealers, and other money market participants. Suppliers of funds to the overnight markets, including many small banks and thrifts, would face greater uncertainty about the returns they would earn and market participants would incur additional costs in managing their funding to limit their exposure to the heightened risks.

As we have previously testified, the issue of potential volatility in the funds rate has arisen in recent years because of substantial declines in required reserve balances owing to the reserve-avoidance activities of depository institutions. Depositories have always attempted to reduce required reserve balances to a minimum, in large part because those balances earn no interest. For more than two decades, some commercial banks have done so by sweeping the reservable transaction deposits of businesses into instruments that are not subject to reserve requirements. These wholesale business sweeps not only have avoided reserve requirements, but also have allowed businesses to earn interest on instruments that are effectively equivalent to demand deposits. In recent years, developments in information systems have allowed depository institutions to sweep transaction deposits of retail customers into nonreservable accounts. These retail sweep programs use computerized systems to transfer consumer and some small business transaction deposits, which are subject to reserve requirements, into savings accounts, which are not. Largely because of such programs, required reserve balances have dropped from about $28 billion in late 1993 to around $5 billion or $6 billion today, and the spread of such programs probably has not yet fully run its course.

Despite the unusually low level of required reserve balances, no trend increase in the volatility of the funds rate has been observed to date. In part, this stability reflects the increasingly important role of contractual clearing balances, which have risen over the last decade to the point where they now exceed the level of required reserve balances. In addition, improvements in information technology have evidently allowed depository institutions to become much more adept at managing their reserve positions, and as a result, their needs for day-to-day precautionary balances have declined considerably. A number of measures taken by the Federal Reserve also have helped to foster stability in the funds market. These include improvements in the timeliness of account information provided to depository institutions; more frequent open market operations geared increasingly to daily payment needs rather than two-week-average requirements; a shift to lagged reserve requirements, which gives depositories and the Federal Reserve advance information on the demand for reserves; and improved procedures for estimating reserve demand.

To prevent the sum of required reserve and contractual clearing balances from falling even lower and to diminish the incentives for depositories to engage in wasteful reserve-avoidance activities, the Federal Reserve has sought authorization to pay interest on required reserve balances and to pay explicit interest on contractual clearing balances. With interest on required reserve balances, some of the retail sweep programs that have been implemented in recent years might be unwound, and new programs would be less likely to be implemented, thereby helping to boost the level of such balances. Eliminating such wasteful reserve-avoidance activities would also tend to improve the efficiency of the financial sector.

Payment of explicit interest on contractual clearing balances could result in an increase in the level of these balances; some depositories are currently constrained in the amount of such credit-earning balances they can hold because of their limited use of Federal Reserve services. Moreover, payment of explicit interest would help to maintain the level of clearing balances at a time of rising interest rates. At present, some depositories pay for all their Federal Reserve services with credits earned on clearing balances; these institutions would not be able to use their additional credits if interest rates were to rise. If enough institutions were in this position, contractual clearing balances might drop below levels needed to be helpful for the implementation of monetary policy. With explicit interest, the level of balances on which interest could be effectively earned would not be limited to the level of charges incurred for the use of Federal Reserve services. Therefore, these depositories would not be impelled to reduce their balances when interest rates rise.

The substantial decline in balances held at Reserve Banks has not produced any trend increase in the volatility of the funds rate in recent years. Thus, the question arises as to the continued need for reserve requirements at current levels. Some other industrialized countries have eliminated reserve requirements altogether, thereby avoiding completely the waste of resources associated with reserve-avoidance activities. These countries do not have contractual clearing balance programs, but have employed alternative procedures for implementing monetary policy, such as central bank lending at an interest rate that acts like a ceiling on overnight market interest rates. Some central banks also establish a floor for overnight rates by paying interest on the non-reserve deposits they hold. The Federal Reserve could establish such a floor for overnight rates if it were authorized to pay interest on excess reserves; a depository would not likely lend balances to another depository at a lower interest rate than it could earn by keeping the excess funds in its account at the Federal Reserve. Hence, the authorization to pay interest on excess reserve balances would be a potentially useful addition to the monetary toolkit of the Federal Reserve, although such interest payments are not needed for monetary policy purposes at the present time.

At present, the Federal Reserve is constrained in its flexibility to adjust reserve requirements. By law, the ratio of required reserves on transaction deposits above a certain level must be set between 8 and 14 percent. Authorization of increased flexibility in setting reserve requirements would allow the Federal Reserve to consider exploring at some point the possibility of reducing reserve requirements below the minimum levels currently allowed by law, provided we are also granted the authority to pay interest on contractual clearing balances to ensure a stable and predictable demand for the remaining deposit balances at the Federal Reserve, an essential pillar for the effective implementation of monetary policy. If the Federal Reserve were granted these additional authorities, before making modifications in our procedures, we would carefully study the new range of possible strategies for implementing monetary policy in the most efficient possible way.

The payment of interest on required reserve balances would reduce the revenues received by the Treasury from the Federal Reserve. The extent of the revenue loss, however, has fallen in recent years as banks have increasingly implemented reserve-avoidance techniques. Paying interest on contractual clearing balances would primarily involve a switch to explicit interest from the implicit interest currently paid in the form of credits, and therefore would have essentially no net cost to the Treasury. In the past, bills approved by the Committee, such as

H.R. 4209 from the last Congress, have provided for a general authorization for the payment of interest on any balances held by depository institutions at Reserve Banks. This would be a desirable outcome. However, if budgetary issues continue to inhibit the passage of legislation to authorize payment of interest on required reserve balances, the Federal Reserve would support a separate authorization of the payment of interest on contractual clearing balances, which would have essentially no budgetary cost. The payment of interest on excess reserves could also be authorized without immediate effect on the budget because the Federal Reserve would use that authority only in circumstances that do not seem likely to arise in the years immediately ahead.

Another legislative proposal that would improve the long-run efficiency of our financial sector is elimination of the prohibition of interest on demand deposits. This prohibition was enacted during the Great Depression, a time when Congress was concerned that large money center banks might have earlier bid deposits away from country banks to make loans to stock market speculators, depriving rural areas of financing. It is unclear whether the rationale for this prohibition was ever valid, and it is certainly no longer applicable today. Funds flow freely around the country, and among banks of all sizes, to find the most profitable lending opportunities, using a wide variety of market mechanisms, including the federal funds market. Moreover, Congress authorized interest payments on household checking accounts with the approval of nationwide NOW accounts in the early 1980s. The absence of interest on demand deposits, which are held predominantly by businesses, is no bar to the movement of funds from depositories with surpluses--whatever their size or location--to the markets where the funding can be profitably employed. In fact, small firms in rural areas are able to bypass their local banks and invest in money market mutual funds with transaction capabilities. Indeed, smaller banks complain that they are unable to compete for the deposits of businesses precisely because of their inability to offer interest on demand deposits.

The prohibition of interest on demand deposits distorts the pricing of transaction deposits and associated bank services. In order to compete for the liquid assets of businesses, banks set up complicated procedures to pay implicit interest on compensating balance accounts. Banks also spend resources--and charge fees--for sweeping the excess demand deposits of businesses into money market investments on a nightly basis. To be sure, the progress of computer technology has reduced the cost of such systems over time. However, the expenses are not trivial, particularly when substantial efforts are needed to upgrade such automation systems or to integrate the diverse systems of merging banks. Such expenses waste the economy's resources, and would be unnecessary if interest were allowed to be paid on both demand deposits and the reserve balances that must be held against them.

The prohibition of interest on demand deposits also distorts the pricing of other bank products. Because banks cannot attract demand deposits through the payment of explicit interest, they often try to attract these deposits, aside from compensating balances, through the provision of services at little or no cost. When services are offered below cost, they tend to be overused to the extent that the benefits of consuming them are less than the costs to society of producing them.

Previous legislative proposals have included a transition period before the direct payment of interest on demand deposits would be effective. During the transition, a reservable 24-transaction money market deposit account (MMDA) would be authorized. Banks would be able to sweep balances from demand deposits into these 24-transaction MMDAs each night, pay interest on them, and then sweep them back into demand deposits the next day. This type of account in effect would permit banks to pay interest on demand deposits, but perhaps more selectively than with direct interest payments. The 24-transaction MMDA, which would be useful only during the transition period before direct interest payments were allowed, could be implemented at lower cost by banks already having sweep programs. Because other banks would face a competitive disadvantage, while some businesses would not benefit from this MMDA, and extra costs would be incurred in operating new sweep programs, a long delay before interest could be paid directly on demand deposits would be very undesirable. A short transition period of a year or so would not be as objectionable, given that many banks may take some time in any case to develop competitive interest-bearing demand deposit products.

Small businesses that currently earn no interest on their checking accounts would see important benefits from interest on demand deposits. For banks, interest on demand deposits would increase costs, at least in the short run. Interest on required reserve balances, or possibly a lower burden associated with reduced reserve requirements, would help to offset the rise in costs, however. And over time, these measures should help the banking sector attract liquid funds in competition with nonbank institutions and direct market investments by businesses. Small banks in particular should be able to bid for business demand deposits on a more level playing field *vis-a-vis* both nonbank competition and large banks using sweep programs for such deposits. Moreover, large and small banks will be strengthened by the elimination of unnecessary costs associated with sweep programs and other reserve-avoidance procedures.

In summary, the Federal Reserve Board strongly supports legislative proposals to authorize the payment of interest on demand deposits and on balances held by depository institutions at Reserve Banks, as well as increased flexibility in the setting of reserve requirements. We believe these steps would improve the efficiency of our financial sector, make a wider variety of interest-bearing accounts available to more bank customers, and better ensure the efficient conduct of monetary policy in the future.

TESTIMONY OF
TREASURY ACTING UNDER SECRETARY DONALD V. HAMMOND
BEFORE THE
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER CREDIT
OF THE
COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

March 13, 2000

Chairman Bachus, Ms. Waters, and Members of the Subcommittee, I appreciate this opportunity to present the Treasury Department's views on repealing prohibitions on the payment of interest on business checking accounts, and on permitting the payment of interest on reserve balances that depository institutions maintain at the Federal Reserve. The Treasury Department supports permitting banks and thrifts to pay interest on business deposits. While sympathetic to many of the arguments in favor of permitting the Federal Reserve to pay interest on reserve account balances, we are not prepared to endorse this proposal at this time.

Paying Interest on Demand Deposits

The Treasury Department has consistently supported provisions repealing the prohibition on paying interest on demand deposits. Such provisions have in the past been included in broader regulatory burden relief legislation or proposed on a stand-alone basis, such as H.R. 4067, which passed the full House of Representatives last year. Repeal of this prohibition would eliminate a needless government control on the price that banks may pay for business deposits, consistent with the earlier elimination of Regulation Q rate ceilings on other deposits. The result should be more efficient resource allocation. By earning a positive return on their transaction balances, small businesses especially should benefit from the repeal of the prohibition. Larger firms have been better able to offset the lack of interest on checking account funds by using sweep accounts to earn interest or by obtaining price concessions on other bank products.

Most proposals that would have allowed banks and thrifts to pay interest on demand deposits would have delayed repeal of the current prohibition for a number of years, and provided for transitional mechanisms. The Treasury Department continues to prefer a relatively quick repeal of the prohibition on paying interest on demand deposits, obviating the need for special transitional arrangements.

Permitting the Federal Reserve to Pay Interest on Reserve Balances

Background

The Federal Reserve Act requires depository institutions to maintain reserves against certain of their deposit liabilities. The first $5.5 million of an institution's transaction accounts are currently exempt from reserve requirements. Transaction balances between that level and \$42.8 million are subject to a 3 percent reserve requirement. The Federal Reserve prescribes a 10 percent requirement on balances above that amount, within a statutorily prescribed range of 8 to 14 percent.[1] Institutions typically meet these reserve requirements through vault cash and a portion of their reserve balances at a Federal Reserve Bank, known as required reserve balances. Depository institutions may voluntarily hold reserve balances above the amount necessary to meet reserve requirements, which are called excess reserves. They may also enter into agreements with the Federal Reserve to hold certain balances that would cover transactions cleared through their accounts, called clearing balances. These clearing balances do not count toward meeting reserve requirements.

Required reserve balances and excess reserves held at the Federal Reserve do not earn interest. They are therefore sometimes referred to as sterile reserves. Clearing balances earn implicit interest through the offset of fees for Federal Reserve services.

As of January 2001, depository institution reserve requirements totaled \$38.5 billion. Depository institutions met these requirements with \$32.6 billion in vault cash and \$5.9 billion in required reserve balances at Federal Reserve Banks. They also held \$1.25 billion in excess reserves.

Since the beginning of the 1990s, required reserve balances at the Federal Reserve Banks have declined by 83 percent (\$5.9 billion currently compared to \$34.4 billion at year-end 1989). Three factors may be primarily responsible for the decline: (1) regulatory actions taken by the Federal Reserve in the early 1990s reducing reserve requirements, (2) banks' growing use of new products and technology, such as retail sweep accounts, to minimize required reserves, and (3) growth in the use of vault cash to meet reserve requirements, as increased ATM usage has increased the need for such cash. The proportion of reserve requirements met by vault cash rose from 44 percent in December 1989 to 85 percent in January 2001.

The three principal grounds for paying interest on reserve balances are to: (1) promote economic efficiency, (2) facilitate monetary policy, and (3) lower costs to the banking industry.

Economic Efficiency

Large banks have long offered "sweep" accounts to their commercial customers – arrangements whereby balances in corporate demand deposits are routinely swept into repurchase agreements, Eurodollar deposits, and money market funds until they are drawn down by the account holders. Although intended to put otherwise "idle" corporate funds to work (since these accounts are prohibited by law from earning interest), as a byproduct these

[1] The Federal Reserve may also set reserve requirements on nonpersonal time and savings deposits within a statutorily set range of zero to 9 percent (currently set at zero), and may prescribe requirements for Eurocurrency liabilities (currently zero).

arrangements also reduce the reserve requirements of banks. More recently, the declining cost of technology has allowed banks to establish new types of sweep arrangements for retail customer accounts (both interest-earning NOW accounts and retail demand deposits) with the express purpose of minimizing reserve requirements. This sweeping is often invisible to the customer as a practical matter.

Permitting the payment of interest on reserve balances might lead to greater economic efficiency. Banks have expended resources to avoid holding non-interest bearing required reserve balances. If banks earned interest on these reserve balances, they would be less likely to expand the use of sweeps and might unwind some existing sweep programs. But the extent of efficiency gains for banks, their customers, and the economy is highly uncertain. Advances in technology have lowered the cost of sweep programs. How many sweeps would unwind would also depend on: (1) whether banks would also be permitted to pay interest on business demand deposits; (2) what customers would earn on their transaction accounts compared to sweep instruments; and (3) what banks would earn on reserve balances compared to alternative investments.

Monetary Policy

As you will hear from the Federal Reserve, the decline in required reserve balances could potentially lead to greater short-term interest rate volatility, although such volatility is not a serious problem at present. For various reasons, the demand for balances to meet reserve requirements is more stable than the demand for balances to clear transactions through the Federal Reserve (Fedwire). Thus the smaller the required reserve balances, the greater the role that less predictable daily clearing needs of banks would have in determining the demand for reserves. This may make it more difficult for the Federal Reserve to supply the amount of reserves consistent with its federal funds rate target – the short-term, operational target of monetary policy. As a result, the daily volatility in the federal funds rate could increase. The Federal Reserve believes that such volatility would impair its ability to use federal funds rate targeting as a means of implementing monetary policy. Payment of interest on reserve balances would give banks greater incentives to hold balances at the Federal Reserve. This in turn may make the demand for reserve balances more stable and lessen the potential volatility of the federal funds rate.

Banking Industry Costs and Competitiveness

Banks have long contended that the costs of reserve requirements (i.e., forgone earnings) put them at a competitive disadvantage relative to non-bank competitors that are not subject to reserve requirements. Securities firms and other competitors offer transaction services through money market mutual funds and similar arrangements. Yet the forgone earnings that depository institutions currently incur through reserve requirements must be viewed in the context of their overall relationship to the federal government, including benefits derived from federal deposit insurance and access to the Federal Reserve payments system and discount window.

Budget and Taxpayer Issues

The Office of Management and Budget and Congressional Budget Office have in the past estimated that paying interest on required reserve balances (together with permitting banks to pay interest on business demand deposits) would cost approximately $600 million to $700 million over 5 years. Both the OMB and CBO estimates take into account the effect on tax revenues from depository institutions that receive interest. In addition, both project that the proposal would result in higher required reserve balances, which they estimate would generate some new earnings for the Federal Reserve and thus new Treasury receipts. Neither of these effects is enough to completely offset the revenue loss from the payment of interest.

Some proposals have provided for an "offset" to the budget cost by transferring a part of the Federal Reserve's surplus to the Treasury. It is true that in some previous years budget accounting rules have permitted the transfer of Federal Reserve surplus funds to the Treasury to count as receipts that would offset the cost of other programs. Yet, over time, transfers of the surplus do not result in budget savings. In transferring a portion of its surplus to the Treasury, the Federal Reserve would reduce its portfolio of interest-earning assets. This would in turn decrease the Federal Reserve's future earnings and remittances to the Treasury. Therefore budgetary receipts in the near term would increase only at the expense of longer-term receipts. Thus using the Federal Reserve surplus as a "pay-for" would not reduce the taxpayer cost associated with the proposal to pay interest on depository institution reserve balances maintained at the Federal Reserve.

Conclusion

Congress should act to repeal prohibitions on paying interest on business checking accounts at banks and thrifts. This would eliminate unnecessary restrictions on these institutions' ability to serve their commercial customers and would level the playing field between them and other financial services providers that can compensate businesses for deposits without similar legal restrictions. Repeal would especially benefit the nation's small businesses.

Proponents of paying interest on reserve balances maintained at the Federal Reserve have put forth a number of reasons in its favor. The ability to pay interest on these balances may improve the effectiveness of the tools that the Federal Reserve has to implement monetary policy. Financial system efficiency might improve as fewer resources would likely be devoted to minimizing reserve balances. As a general matter, we are sympathetic to many of the arguments put forth by proponents of paying interest on reserve balances, particularly with respect to monetary policy.

At the same time, however, we are also mindful of the budgetary costs associated with this proposal, which would be significant. The President's Budget does not include the use of taxpayer resources for this purpose. At this time, then, the Administration is not prepared to endorse this proposal.

Thank you for the opportunity to appear before the Subcommittee. I am happy to respond to any questions.

AMERICAN
BANKERS
ASSOCIATION

World-Class Solutions, Leadership & Advocacy Since 1875

Testimony of

James E. Smith

On Behalf of the

American Bankers Association

Before the

Subcommittee on Financial Institutions and Consumer Credit
of the
Financial Services Committee

United States House of Representatives

March 13, 2001

Testimony of James E. Smith
On Behalf of the American Bankers Association
Before the
Subcommittee on Financial Institutions and Consumer Credit
of the
Financial Services Committee
United States House of Representatives

March 13, 2001

Mr. Chairman, I am James E. Smith, Chairman and CEO of Citizens Union State Bank and Trust, in Clinton, Missouri, and President-Elect of the American Bankers Association (ABA). I am pleased to be here today on behalf of the ABA. ABA brings together all elements of the banking community to best represent the interests of this rapidly changing industry. Its membership – which includes community, regional, and money center banks and holding companies, as well as savings institutions, trust companies, and savings banks – makes ABA the largest banking trade association in the country.

Mr. Chairman, I would also like to thank you for holding this hearing to discuss the prohibition of payment of interest on corporate demand deposits and on payment of interest on banks' reserve deposits held at Federal Reserve Banks. ABA applauds the initiative of Representative Sue Kelly for her leadership on these issues, including sponsoring legislation to provide for 24-transaction sweep accounts, Federal Reserve flexibility on setting reserve requirements, and payment of interest on sterile reserves. We appreciate the work of many members of this Committee who helped move this type of legislation through the House last year, and we support the legislative initiative underway this Congress.

In my testimony today, I would like to make several points:

- The ABA strongly supports the approach of authorizing a new non-reservable 24-transactions money market deposit-type account. We believe this account will be a useful and flexible instrument with which to meet the needs of many of banks' corporate customers, especially small businesses. It would also allow banks to better compete with non-bank firms such as investment companies, securities companies and credit unions that offer interest-bearing small business and corporate transaction accounts.

- ABA strongly supports proposals to allow the Federal Reserve to pay interest on bank reserve balances. Without this authority, these balances will eventually disappear. Paying interest on these reserves would enable the Federal Reserve to better control the federal funds rate and will increase bank transactions deposit services.

I will discuss each of these in detail below.

Interest on Transaction Accounts

The banking industry has wrestled with the issue of paying interest on corporate demand deposits for more than a decade. The debate within the industry continues, and no firm consensus on repeal or retention of the prohibition has yet been reached. However, ABA strongly supports the approach of authorizing a new non-reservable 24-transactions money market (MMDA) deposit-type account. This alternative would authorize a new Money Market Deposit-type account that would permit up to 24 transfers per month – that is, one transfer for every business day. Current restrictions on similar accounts allow only 6 transfers per month, thus limiting the value of this option for banks' corporate customers.

We believe the expanded transaction capability of this new MMDA-type account will be a useful and flexible instrument with which to meet the needs of many of banks' corporate customers, especially small businesses. It would also allow banks to better compete with non-bank firms such as investment companies, securities companies and credit unions that offer interest-bearing small business and corporate transaction accounts.

Because banks may not currently pay ***explicit*** interest on corporate transaction accounts, they have developed over the years various systems for paying ***implicit*** interest. Implicit pricing involves bundling together products and services and providing them at lower-than-market prices as compensation for what cannot be provided explicitly. The classic example of implicit interest is the toaster giveaways used to attract new customers during the days of Regulation Q (which imposed interest rate ceilings on consumer time and savings deposits).

The same theory applies today to corporate demand deposits. Implicit interest takes the form of transactions services, lending and line of credit arrangements, and other ancillary services that are bundled and priced to compensate for the inability to pay explicit interest. Banks have devoted considerable resources to develop systems for calculating the value of compensating services. Often the details of the implicit pricing arrangements between banks and their corporate customers are set in contracts.

More recently, some banks have developed "sweep" arrangements for their corporate customers. These arrangements sweep corporate demand deposit balances ***out*** of the bank each evening and put them into interest earning, non-deposit vehicles (such as money market instruments or mutual funds); the next day, the balances are swept back into the customer's deposit account to meet the daily transactions requirements. While this process helps banks compete for corporate customers, a very important point is that it takes money out of the local community since the deposits are moved out of the bank each night and are thus unavailable for funding loans. For many banks, funding is the critical issue today. Banks' deposit growth is very low, due to competition from non-deposit products. In many communities, it is increasingly difficult to meet loan demand because of the difficulty in obtaining deposits. That, of course, undermines local economic growth.

These market factors set the stage for the current debate within the banking industry. On one hand, some bankers have voiced concern that the existing prohibition against paying explicit interest on demand deposits makes it difficult to compete for corporate funds against money market funds and investment firms that offer interest-bearing transaction accounts. Even credit unions offer interest-bearing checking accounts to small businesses, and the potential for growth in this area is enormous. Moreover, many small banks find sweep arrangements and systems for calculating compensating balances too expensive and cumbersome and believe that explicit pricing would enhance their competitiveness.

On the other hand, many banks have invested considerable resources in setting up systems that calculate the appropriate compensation for other services rendered and in implementing sweep systems. Moving to the payment of explicit interest on transaction accounts means that many existing contractual arrangements between banks and their corporate customers would have to be unwound at considerable cost to both parties.

And it is not just demand deposit pricing that would be affected. All the services that have been bundled together to make up implicit pricing arrangements would also have to be unwound, and these services would also have to be explicitly priced or have their terms reset. In many instances, pricing on loans may be affected. Some banks believe that they would have to adjust their overall asset and liability mix to account for changes in the expected maturity of the deposits.

For these reasons, an industry consensus has not been achieved in support of immediate repeal of the prohibition of paying interest on demand deposits. However, we have found broad consensus for an account that would allow up to 24 transactions per month to another account. The 24-transfer feature would enable a bank to transfer balances ***within the bank*** between a non-interest-bearing checking account and an interest-bearing money market account each business day during the month. The 24-transfer account represents a middle ground – it would provide an important option for banks to meet the needs of their business customers, causing fewer market disruptions (such as renegotiating contracts for transaction and banking services). Furthermore, for those banks that currently offer sweep accounts, this approach would give them an alternative that would maintain deposit funds within the bank to meet loan demand at reasonable interest rates. It would keep the money in the local community. The majority of bankers believe that such a system would help them to be more competitive.

Some bills introduced over the last few years go beyond ABA's current position in that they would eliminate the prohibition on payment of interest on demand deposits after several years. As I have already mentioned, there is no current consensus within the banking industry for repealing the prohibition. However, we recognize some Members of Congress and some business groups believe that the prohibition should be repealed. If Congress does decide to take such action, we believe it is critical that ***an adequate transition period be provided.*** This would give banks and their customers time to unwind current contracts and other arrangements. In the interim, it is important to note that small businesses will have gained the opportunity to make their bank transaction balances productive through the 24-transfer provision.

Last year, the Housing Banking Committee reported out, and the full House passed, such a bill – combining the 24 transfers concept with a transition to a sunset of the prohibition on payment of interest. As you know, ABA supported that bill. If this Committee chooses a similar approach, we would be pleased to work with you to develop a bill we can support.

ABA has favored an account that is not subject to reserve requirements by the Federal Reserve. We understand that the Fed has some concerns about a non-reservable account. Reserve balances held at the Federal Reserve have declined significantly over the past few years, due to customers transferring funds out of banks to brokers, money market funds, and to bank sweep arrangements. The Federal Reserve is apparently worried that creating a non-reservable 24-transfer MMDA account would reduce reserves even further, and that this decline could affect its ability to conduct monetary policy.

We believe that the imposition of reserves will ***raise*** the cost to customers of the 24-transfer account, making it less competitive with non-bank products. If reserves are imposed, the account could be so expensive (absent other factors) to provide *vis-a-vis* non-bank competitors that banks would in many cases continue to sweep corporate balances outside the bank, ***thus defeating the purpose of creating the account in the first place. Ironically, the result would be a continued decline in reserve balances.***

We would support two other provisions that would somewhat alleviate the cost of imposing reserves on the 24-transfer account. The first is the proposal to widen the range of required reserves, giving the Fed authority to set reserves for transaction deposits between zero and 14. The current 10 percent reserve requirement represents a significant opportunity cost for banks, and reducing it would obviously lower that cost and lessen the incentive to provide sweeps to customers. ***Importantly, nothing in this provision would impede the Federal Reserve's ability to conduct monetary policy.***

The second provision would allow the Fed to pay interest on reserves maintained at the Fed. As will be discussed more fully below, this would also help offset the opportunity cost of placing required reserves on 24-transaction accounts.

Payment of Interest on Sterile Reserves

The ABA supports authorizing the payment of interest on reserves maintained at the Federal Reserve Banks. The opportunity costs of holding non-interest-bearing (sterile) reserves at the Federal Reserve have been significant over the years. Clearly, the introduction of sweep accounts was prompted in part as a response to the requirement to hold non-interest-bearing reserves.

We believe the most effective way for the Fed to maintain whatever level of reserves it feels is necessary to facilitate monetary policy is to pay market interest rates on reserves held at the Fed. It is important to note that paying interest on reserves mitigates the impact of imposing required reserves on any account – including 24-transaction MMDAs.

While ABA has long supported paying interest on sterile reserves, the value of such interest payments to the industry has declined steadily over the last decade. This is due to past reductions in required reserve ratios, the decline in the level of demand deposits, the ability of most banks to meet reserve requirements by holding vault cash in the bank (rather than at the Fed), and the use of sweep accounts. In fact, a study by the Federal Reserve Bank of St. Louis[1] indicates that very few banks are "economically" constrained by reserve requirements today.

There are four key points that deserve emphasis:

- Required reserves held at Federal Reserve Banks will continue to decline as long as banks do not receive market interest rates on these funds.
- The burden of sterile reserves places banks at a competitive disadvantage and inhibits the development of transactions deposit products.
- Paying interest on reserves could help the Federal Reserve conduct monetary policy and stabilize short-term interest rates.
- Interest on reserves at the Federal Reserve would not have a significant immediate impact on the Federal budget, and, we believe, would yield a net surplus over the longer run.

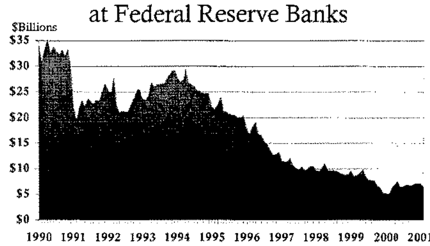
Required Reserves in Federal Reserve Banks Have Declined

As you know, Mr. Chairman, the basic business of every bank is to take deposits and use these funds to make loans. However, when someone deposits $100 in his or her checking account, the bank is only allowed to lend out $90 of this $100. The bank is required to keep ten percent as cash or as deposits at the district Federal Reserve Bank.[i] These balances are called "sterile reserves" because they do not earn interest.

Not being paid interest on sterile reserves imposes an expensive tax on bank deposits. The direct cost is the interest that banks would earn by lending reserved funds back into their local communities. A conservative estimate of the cost is nearly $400 million a year (the current federal funds interest rate applied to the average reserve balances at Federal Reserve Banks). However, the costs to the communities are much greater.

Figure 1

Bank Reserve Deposits at Federal Reserve Banks



Data Source: Board of Governors of the Federal Reserve System

---

[1] R.G. Anderson and R.H. Rasche, Federal Reserve Bank of St. Louis *Review*, November/December 1996.

[i] A bank must hold three percent in reserves on the first $42.8 million of transactions deposits, and ten percent thereafter. Transactions deposits include all those where withdrawals are permitted by transferable instrument, payment order, or telephone or preauthorized transfer for the purpose of making payments to third persons.

One method that banks use to lower the cost of sterile reserves is sweep accounts. As mentioned above, one type of sweep account automatically transfers a customer's deposit balances ***off*** the bank's books and into money market instruments or funds. A second type of sweep transfers money within the bank from a reservable transaction account (*e.g.*, NOW account) to a non-reservable account. Both of these reduce the accounts subject to reserving saving the institution a significant cost and providing customers with higher returns on their deposits.

The proliferation of sweep programs has led to a steady decline of reservable deposits since the middle 1990s – in fact, reserve balances at the Federal Reserve Banks dropped from almost $30 billion in 1994 to $6½ billion as of February. (See Figure 1.) Even this past year with deposit growth at **twice** the rate over the last five-year average, reserve balances were essentially flat.

As required reserves decline, banks are able to satisfy their reserve requirements with cash in vaults and ATM machines. In fact in March, vault cash exceeded required reserves by $11.1 billion. In this case, banks have no reason to keep reserve balances in the Federal Reserve System except for required check-clearing balances. Even check-clearing reserves are disappearing as lower-cost alternatives to the Federal Reserve are becoming more widely used. Some have argued that there is a floor on reserves at the Federal Reserve because of compensating balances that commercial borrowers maintain at banks. However, the experience of my bank and others is that compensating balances are becoming rarer because competition for commercial customers is forcing explicit pricing for deposit services. ***Simply put, unless a market interest rate is paid, we can expect reserve balances in the Federal Reserve to eventually disappear.***

Payment of interest on sterile reserves would reverse the downward trend in reservable balances. According to the May 1998 *Senior Financial Officer Survey* conducted by the Federal Reserve Board, almost half of the banks surveyed said they would economize on vault cash and would be more likely to meet a greater portion of their reserve requirements with interest-bearing accounts at the Federal Reserve. Moreover, several banks reported that they would dismantle their sweep programs, either immediately or eventually, presumably because of the high operational cost associated with these programs. Some banks stated that they would begin to offer new products to attract customers back to the bank from mutual funds. To reiterate, paying market rates would eliminate the inefficiencies and extra expenses that banks incur because of the sterile reserve penalty.

Not Paying Interest on Sterile Reserves Restricts Bank Services

My bank, and I am sure every other one, is forced to control expenses in every way possible to compete. We find that the competition for consumer and business deposits is intense. Moreover, non-bank financial firms are not subject to sterile reserve requirements. Money market funds and "cash management accounts" at securities firms substitute for bank deposits and even allow customers to write checks on their balances in these accounts. American banks also compete for deposits against foreign banks that are not subject to U.S. sterile reserve requirements. Table 1 demonstrates that, ***at ten percent, the U.S. is the only major industrial nation with reserve requirements above two percent.*** Larger firms with overseas operations have the easiest access to these foreign competitors. However, in today's Internet world, American depositors can access these accounts from their desktop computers.

Table 1
Reserve Requirements on Transactions Accounts

Nation	Highest Reserve Requirement	Interest on Reserves
Canada	0.00%	N.A.
European Monetary Union	2.00%	Yes
Japan	1.30%	No
Switzerland	0.00%	N.A.
United Kingdom	0.35%	No
United States	10.00%	No

Sources: Bank of England, Bank of Japan, European Central Bank

Authorizing the payment of interest on sterile reserves would make our banks more competitive, particularly in international markets. The U.S. needs to level the playing field because foreign nations have been lowering the cost of sterile reserves.

The lack of interest on sterile reserves also has other important implications for banks and their customers. First, the penalty on reservable deposits discourages banks from developing new transactions deposit products, aside from sweep programs. And second, a sterile reserve requirement distorts the market for repurchase agreements (RPs). RPs for anything other than Treasury or federal agency debt with a maturity of less than seven days are treated as demand deposits, and are therefore subject to reserve requirements. As a result, banks avoid using shorter-term RPs as liquidity vehicles. This arbitrary differentiation limits banks' liquidity strategies – a limitation of special concern in light of the fact that the stock of Treasury securities is dwindling.

In sum, receiving market interest on reserve balances at the Federal Reserve would make banks more competitive. It would also alleviate the need for banks to make unnecessary, costly adjustments and encourage them to develop new deposit products along with sweep accounts (if they choose to keep them). Bank deposit services to their local communities would benefit as a result.

Interest on Sterile Reserves Would Facilitate Monetary Policy

Most importantly interest on sterile reserves would facilitate monetary policy. As noted above, the prohibition of interest on bank reserve deposits at the Federal Reserve Banks has led to the decline in the level of required reserve balances. Concerns have been raised that the drop in reserves may eventually raise the volatility of the federal funds rate and make it more difficult for the Federal Reserve to conduct monetary policy. By paying a market rate of interest on reserves, the Federal Reserve could maintain any reserve level it deemed appropriate to help manage monetary policy – if it chooses to continue to use bank reserves for this purpose – and control excessive volatility of the federal funds rate.

Interest on Sterile Reserves will Increase Net Federal Revenues in the Long-Run

The most commonly cited barrier to the payment of interest on sterile reserve balances is a projected negative impact on Federal budget receipts. The Federal Reserve earns interest on bank reserve balances from the interest it receives from investing the funds in Treasury securities. In the past, the Federal Reserve has earned enough to more than cover its budget and contribute the excess to the Treasury. The argument has been that interest paid on bank reserve balances would, therefore, reduce the amount transmitted to the Treasury.

If a market rate of interest is not paid on reserves, balances will continue to decline to the point where there will be nothing for the Federal Reserve to invest to earn interest. If, on the other hand, the Federal Reserve is allowed to pay interest on reserve balances then it can bring in net income as the difference between what it earns on and pays for the funds. Any spread on acquired balances would represent a net increase in Federal Reserve earnings and in Treasury receipts in the long run.

It appears that the short-term impact on Federal Reserve earnings would be minimal, and that the initial outlays of the program could be recouped fairly quickly. This expense will be offset as market interest rates bring reservable deposits back into banks, and the Federal Reserve gains net interest earnings on the corresponding bank reserves. ***The net impact on annual Federal Reserve earnings should turn from negative to positive within a few years – sooner if banks attract reservable deposits back more quickly.*** In sum, the early net outflows could easily be paid back within a decade or less.

Conclusion

ABA strongly supports the approach of authorizing a new non-reservable 24-transactions money market deposit-type account. If Congress does decide to eliminate the prohibition on paying interest on business accounts, it is critical that ***an adequate transition period be provided*** to give banks and their customers time to unwind current contracts and other arrangements. In the interim, it is important to note that small businesses will have gained the opportunity to make their bank transaction balances productive through the 24-transfer provision.

ABA strongly supports proposals to allow the Federal Reserve to pay interest on bank reserve balances. Without this authority, these balances will eventually disappear. Paying interest on these reserves would enable the Federal Reserve to better control the federal funds rate and will increase bank transactions deposit services. Since the bill would increase Federal Reserve and Federal budget net receipts over the longer run, it is a "win-win" for all concerned.

Mr. Chairman, we are prepared to work with you and the members of this Committee on this important bill.

Testimony

of

America's Community Bankers

on

Interest on Business Checking Accounts

before the

Subcommittee on Financial Institutions & Consumer Credit
Committee on Financial Services

U. S. House of Representatives

March 13, 2001

David A. Bochnowski

Chairman and Chief Executive Officer

Peoples Bank, SB

Munster, IN

and

Chairman

America's Community Bankers

Mr. Chairman and members of the Subcommittee, my name is David Bochnowski. I am Chairman and Chief Executive Officer of Peoples Bank in Munster, Indiana. I am testifying today in my capacity of Chairman of America's Community Bankers. On behalf of ACB, thank you for this opportunity to testify today on this issue of critical importance to community banks and small- and medium-sized businesses across America.

ACB strongly supports allowing banks the option of paying interest on business checking accounts, as reflected in the legislation being introduced by Representatives Pat Toomey (R-PA) and Paul Kanjorski (D-PA). We also strongly support authorizing the Federal Reserve to pay interest on sterile reserves. In fact, these issues were first brought to the attention of Congress by ACB in 1994, and we have continued to make the passage of legislation a top priority since that time.

The ban on interest-bearing business checking accounts is the last statutory vestige of Regulation Q, an archaic law that dates back to 1933. The original intent of this law was to prevent potential bank insolvencies that might be caused by bidding wars vis a vis interest rates on demand accounts.

Clearly, this is no longer the case. In its 1996 joint report, *Streamlining of Regulatory Regulations*, the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision stated that the statutory prohibition against paying interest on demand accounts "no longer serves a public purpose." This statement lends additional authority to twenty-five years of studies authorized by both the executive and legislative branches of the federal government consistently recommending that prohibitions against paying interest on demand deposits be removed.

This prohibition has resulted in an anti-competitive business environment that has allowed a limited number of financial conglomerates to corner the market for cash management services. It continues to block off an entire area of potential deposits for community banks like mine to lend to our neighbors and communities. And it prevents many small businesses from earning interest on their checking accounts.

The obvious solution to these problems is for Congress to pass legislation allowing banks the option of paying interest on business checking accounts. And in fact, just last year, the House passed such legislation – not once, but twice. H.R. 4067 was passed by voice vote in the House on April 11, 2000. In addition, on October 26, 2000, the House passed the conference report for H.R. 2614 (small business and tax relief legislation) which also repealed the ban on interest-bearing business checking accounts. Both bills were passed with the support of ACB, the National Federation of Independent Business, the U.S. Chamber of Commerce, the American Farm Bureau, and the Association for Financial Professionals (formerly the Treasury Management Association). We believe that in both cases, the House spoke loud and clear in favor of lifting this archaic statutory prohibition.

In addition, during a speech before ACB in December, Federal Reserve Board Chairman Alan Greenspan singled out the detrimental effects of this prohibition, saying "This is of particular concern to community bankers, of course, given that larger banks are offering interest to their customers through sweep accounts. Pending legislation modernizing the law would potentially help bolster deposit growth and open opportunities for other profitable customer relationships without the unproductive and costly circumventions of the existing statute." We are pleased that Governor Meyer today reiterated the Fed's support for repealing this archaic law.

Given this broad coalition of support for repealing the ban, you may ask why this prohibition still stands. To answer this question, it is worthwhile to take a closer look at the opponents of the interest on business checking option.

Historically, much of the opposition has been generated by a few of the large financial firms and big banks. Unlike most community banks, these institutions conduct sweep arrangements efficiently because they have the financial resources to do so. To better understand why this gives these institutions an unfair competitive advantage, it is worth examining what sweep arrangements involve.

There are essentially three sweep options that banks may offer, none of which, practically speaking, are viable for most community banks or the businesses they hope to serve:

Demand/Sweep Arrangements
This arrangement involves sweeping funds from a savings account into a demand account. Because the law limits the number of possible transfers per month, this approach is generally undesirable for most businesses.

Third-Party Arrangements
Larger banks (those with $750 million or more in assets) with ample commercial accounts and sweep transactions may use a third party, such as a mutual fund, for transfers. Because the third party is paying the interest, there is no technical

violation of the law. However, small- or medium-sized banks rarely have sufficient account volume or sweep activity to attract a "name" fund into which the swept dollars could be invested.

Repurchase Agreements

Repurchase agreements, which generally involve the use of U.S. government securities, are generally labor-intensive and involve costly paperwork expenses. For many small- and medium-sized community banks, the benefits of repurchase agreements are simply not worth the costs and burden.

As the head of a $400 million community bank, I can tell you first-hand that for most of us, sweep arrangements are a costly and cumbersome product. Peoples Bank offers them because we do not have the option of paying interest on business checking accounts, which would be much more efficient and beneficial to our business customers. For smaller community banks, sweep arrangements are not even a realistic business option.

In addition, the minimum investment for these types of accounts is well beyond the reach of most small- and medium-sized businesses. A 1998 *Forbes* magazine article describing the sweep account monopoly enjoyed by institutions like First Union concluded: "First Union earned an estimated 1.34 percent in 1997 on total assets, 19 basis points higher than its peers. Wonder how much of that edge comes from shortchanging small-business people? Quite a lot, we suspect."

Mr. Chairman, we understand that First Union and Wall Street financial firms have invested significant resources in offering sweep account services to their customers. We do not begrudge the benefits they have reaped from their efforts, nor do we oppose their continuing to conduct business in this manner. But is it asking too much for Congress to allow community banks, many of whom are strapped for new deposits, to compete in the marketplace for cash management services?

Let me give you an example. From September 30, 1999 to September 30, 2000, Merrill Lynch transferred $33 billion into insured money market accounts through its two banking subsidiaries. Its deposit growth represented 30 percent of all money market growth in the entire banking industry during this period. If you add in the four billion dollars of deposit growth earned by E*Trade Bank and TD Waterhouse, that $37 billion is nearly double all the money market deposits held by all five thousand commercial banks under $100 million in assets. Surely, this little change in the law can be effected to help community banks attract deposits.

And what about the small business customers that the larger financial institutions don't serve? Doesn't it make sense for Congress to give them the option of earning a market rate of return on their deposits? We think the time has come to lift this artificial prohibition and keep more money on Main Street, rather than continue diverting it to Wall Street.

We are also aware that some of our community bank brethren do not see eye-to-eye with us on this issue. A group that calls itself the "Coalition of Community Bankers" has actively opposed the interest on business checking option. In fact, in a letter dated February 28, 2001 to community bankers, this group stated that it "is strongly opposed to lifting the ban either now or in the future."

As a fellow community banker, I cannot understand the opposition of this group to allowing for the option of offering a better product to potential business customers. Today's world of financial services is much different than that of the 1930s. The evolution of capital markets and the expanded availability of mutual funds give both consumers and businesses a number of low-risk alternatives to deposit accounts. As a result, community banks face stiff competition for the business of deposit-taking. Allowing us to offer an efficient demand deposit product like interest-bearing business checking accounts is a forward-looking approach to addressing this problem.

Let me say to my fellow community bankers that we do not support legislation that will require banks to pay interest on business checking accounts; we simply want the option of doing so. If a bank would choose not to offer such a product, that's fine. But please don't stand in the way of those of us who would.

Mr. Chairman, I would also like to express ACB's support for legislation authorizing the Federal Reserve Board to pay interest on sterile reserves held at the Federal Reserve Banks. This implicit tax creates incentives to adopt sweep arrangements on demand deposits that are not subject to reserve requirements. Paying interest on required reserve balances will increase the effectiveness of monetary policy and help make a bank's payment of interest on its business checking accounts more feasible. On behalf of ACB, I would like to commend Representative Sue Kelly, a member of the Subcommittee, for her ongoing efforts on this issue.

Finally, I would like to address the critical point of timing with respect to this issue. Because a delay would only postpone the benefits of this much-needed change in law, it is our strong preference that legislation giving banks the option to pay interest on business checking accounts do so immediately upon enactment. We recognize that some institutions are seeking an extensive transition period. While we appreciate the efforts made by Representatives Toomey and Kanjorski to accommodate these concerns, we strongly believe that a phase-in period is unnecessary and undesirable. It's the twenty-first century. Hasn't the time come to repeal the final relics of the Great Depression? We think so.

ACB strongly endorses the Toomey-Kanjorski bill as an important step in allowing banks to offer interest-bearing business checking accounts. We commend House Financial Services Committee Chairman Mike Oxley for putting this issue on the fast track, and we commend you, Chairman Bachus, for holding today's hearing. Thank you again for the opportunity to testify before the Subcommittee, and I look forward to any questions you may have.

THE FINANCIAL SERVICES ROUNDTABLE

Testimony of

Thomas P. Jennings
Senior Vice President and General Counsel
First Virginia Banks, Inc.

on behalf of

The Financial Services Roundtable

Before the

United States House of Representatives

Financial Services Subcommittee
on Financial Institutions and Consumer Credit

on

Legislation To Allow the Payment of
Interest on Corporate Checking Accounts
and Interest on Sterile Reserves

March 13, 2001

My name is Thomas P. Jennings and I am the General Counsel of First Virginia Banks, Inc. in Falls Church, Virginia. I am pleased to have the opportunity today to speak on behalf of The Financial Services Roundtable. First Virginia is the oldest bank holding company in Virginia, with roots beginning in 1949. Although we are now a multi-state organization with banking companies in Virginia, Maryland, and Tennessee and nonbanking offices throughout the mid-Atlantic and Southeastern states, we are strongly committed to our super community banking organization structure and to maintaining independent local banks. We utilize independent boards of directors and locally based management.

The Financial Services Roundtable represents 100 of the largest integrated financial services companies providing banking, insurance, and investment products and services to American consumers. Member companies participate through their Chief Executive Officer and other senior executives nominated by the CEO. Roundtable member companies provide fuel for the engine of our nation's economy, accounting directly for $17 trillion in managed assets, $6.6 trillion in assets, and $462 billion in revenue, and providing jobs for 1.6 million employees.

Chairman Bachus, thank you for holding this hearing today and for inviting the Roundtable to participate. The Roundtable also extends thanks to Congresswoman Sue Kelly (R-NY) for introducing the "Small Business Interest Checking Act of 2001," which will be the focus of my testimony. This bill would help remove the "hidden tax" imposed on banks by allowing the payment of interest on banks' required reserves.

The Roundtable strongly believes that any bill that allows institutions to pay interest on commercial checking accounts, such as the "Business Checking Freedom Act of 2001" introduced by Congressman Pat Toomey (R-PA), must be coupled with provisions allowing the Federal Reserve Board to pay interest on required reserves. The reason for this is simple. If institutions are to begin paying interest on commercial checking accounts, they will be forced to undertake significant changes to operating systems, and more importantly, they will be pressured to revisit their pricing for numerous account relationships. As explained by Federal Reserve Governor Laurence Meyer in testimony given in 1999 to the Subcommittee on Financial Institutions, "[f]or banks, interest on demand deposits will increase costs...[these costs] will be partially offset by interest on reserve balances."

Non-interest bearing or "sterile" reserves held at the Federal Reserve amount to a hidden tax on banks. This non-productive use of deposits runs counter to the interests of all of our key constituencies, including our bank's management, shareholders, and most importantly, our customers and communities. Reserve requirements make banks less likely to develop new and innovative deposit products since the costs of these products are artificially high. In addition, reserve requirements limit banks' participation in markets, such as for short-term repurchase agreements, since reserve requirements impose artificial costs on such activities.

Let me explain how the bill to permit the payment of interest on business checking will affect First Virginia. Currently, our family of banks meets all of its reserve requirements though "vault cash"– the money we keep in branches and other service facilities – and through required balances held at the Federal Reserve. First Virginia has a program in place to aggressively manage the cash we hold – and where we hold it – in order to ensure that our customers receive cash when they need it. Because banks our size must hold ten cents in reserves for every additional dollar held in checking accounts, allowing the payment of interest on business checking accounts would increase amounts held in these accounts, thus substantially increasing our reserve requirements. The corresponding increase in required reserves may force us to hold excess cash over and above the amount that we need to meet our customer needs. If First Virginia were to carry this money without receiving interest on it or without being able to put it to productive use, it could increase the hidden tax paid by our institution. If the Federal Reserve were to pay First Virginia and other banks interest on the reserves kept with them, the costs of holding these excess reserves would be at least partially offset.

I also would like to point out a possible unintended consequence if a policy change results in banks holding additional non-interest bearing reserves. Because an increase in such reserves would make it more expensive for banks to offer checking accounts, many consumers might choose to place their money in accounts outside of the banking system. The end result might be that the Federal Reserve would hold even fewer reserves, because banks would be holding fewer deposits.

In the past, Congress has linked the issue of paying interest on required reserves with paying interest on commercial checking. In 1998, the House Banking Committee included both provisions as part of a broader regulatory relief package. That bill, H.R. 4364, the "Depository Institution Regulatory Streamlining Act of 1998," passed the House by voice vote.

As the Committee has already heard, strong monetary policy arguments exist for allowing the Federal Reserve to pay interest on required reserves. While I will not go into details on the monetary policy-related issues, I will point out that Federal Reserve officials have frequently supported positive Congressional action in this area. Perhaps most convincingly, Alan Greenspan has argued:

> (I)t would be helpful to prevent a further increase in the volatility of the effective federal funds rate that might result from a further sweep-induced decline in required reserves. And a means is available to the Congress today to accomplish

> that end: **The Federal Reserve should be permitted to pay interest on reserves.** As it stands now, depositories resort to complicated means to evade our reserve requirements -- such as retail sweeps -- because our reserves are sterile and to do less would put them at a competitive disadvantage in a market where profit margins are paper thin. By paying interest on reserves, the incentive to engage in sweeps would be sharply reduced and the practice would likely diminish over time, if not end entirely. As a result, bankers could devote their attention to more productive pursuits, and reserve markets would be easier to read" (emphasis added).

Additionally, in 1997, the Federal Reserve Board published a paper by two staff economists that concluded that "reductions in reserve balances increase the volatility of the federal funds rate..." Further, the model developed by these two economists suggested that "a continued decline in required reserves could increase funds-rate volatility significantly."

Mr. Chairman, in conclusion, the Roundtable appreciates the opportunity to provide our comments on this important legislation that would remove the hidden tax on banks and urges Congress to follow its historical practice of combining payment of interest on reserves legislation with interest on commercial checking legislation. Thank you again for this opportunity and I would be pleased to try to answer any questions that Members of the Subcommittee might have on this issue.

TESTIMONY OF

ROBERT I. GULLEDGE
CHAIRMAN/PRESIDENT/CEO
OF
CITIZENS BANK, INC.
ROBERTSDALE, ALABAMA

ON BEHALF OF THE

INDEPENDENT COMMUNITY BANKERS OF AMERICA

BEFORE THE

FINANCIAL INSTITUTIONS AND CONSUMER CREDIT SUBCOMMITTEE
HOUSE FINANCIAL SERVICES COMMITTEE
U.S. HOUSE OF REPRESENTATIVES

MARCH 13, 2001

Mr. Chairman, Ranking member Waters, members of the Committee, my name is Robert I. Gulledge and I am Chairman/President/CEO of Citizens Bank, located in Robertsdale, Alabama. I am also Chairman of the Independent Community Bankers of America (ICBA)[1], and I am pleased to appear here today on behalf of the more than 5,300 community banks across the nation that are members of the ICBA.

I am pleased to share with you the views of our nation's community bankers on the payment of interest on reserves maintained at Federal Reserves banks and the repeal of the prohibition of payment of interest on business checking accounts.

Chairman Bachus, I would first like to take this opportunity to thank you for your knowledge of and interest in community banking, and congratulate you on your selection to chair this important subcommittee. As the year unfolds, we look forward to working with you and other subcommittee members on issues crucial to our nation's community banks and the communities we serve.

Repeal of the Prohibition of the Payment of Interest on Business Checking Accounts

I will address the issue of interest on business checking accounts first. Mr. Chairman, as you know, this issue has been debated among community bankers for several years.

---

[1] ICBA is the primary voice for the nation's community banks, representing 5,300 institutions at nearly 17,000 locations nationwide. Community banks are independently owned and operated and are characterized by attention to customer service, lower fees and small business, agricultural and consumer lending. ICBA's members hold more than $486 billion in insured deposits, $592 billion in assets and more than $355 billion in loans for consumers, small businesses and farms. They employ nearly 239,000 citizens in the communities they serve. For more information, visit www.icba.org.

Bankers are divided on whether or not the prohibition on paying interest should be repealed. Some bankers argue that lifting the prohibition is a way of increasing economic efficiency, simplifying business practices, remaining competitive and is needed to keep their best business customers. Others argue that lifting the prohibition could be very costly to some community banks because either the interest payments themselves are costly or simply because the transition into lifting the current prohibition would require the demobilizing of current alternative systems, which is a financial burden.

There are wide differences of opinion regarding the anticipated effects of repealing the prohibition. For example, one analysis prepared by a banker who is opposed to repealing the prohibition on paying interest on business checking accounts indicated that if the bank's customers moved $20 million into interest bearing accounts at 5 ½ percent, the interest cost would be the equivalent of 17 cents per share, affecting the price of the institution's stock by $2.38. Under this scenario, the bank would have to raise $21,509,304 in additional deposits to offset the cost of moving the $20 million in interest-free deposits to interest bearing accounts. This banker determined such a cost would be prohibitive.

By contrast, another banker supporting the repeal of the prohibition argued that the current prohibition has been competitively damaging to the banking industry, especially community banking. He said many brokerage firms and other non-bank competitors have and will more aggressively continue to compete directly with commercial banks to develop and expand small business relationships. If the banking industry is not allowed to be competitive in offering interest-bearing commercial checking accounts, community banks may become more vulnerable to losing their most important business deposit and loan customers to non-bank and money center financial services providers that are not constrained by banking prohibitions.

Compromise Proposed

Mr. Chairman, ICBA has neither endorsed nor opposed lifting the prohibition on paying interest on business checking accounts. Rather, we have advocated an alternative that bankers on both sides of the issue tell us they can support. Under our compromise, the number of allowable transactions from money market deposit accounts (MMDA) would be increased to 24 per month, from the current limit of 6 per month, to enable banks to sweep funds between non-interest bearing commercial checking accounts and interest-bearing MMDA accounts on a daily basis. Thus, any bank that chose to pay interest on a commercial checking account would be able to do so using the "sweep" mechanism. But banks that choose not to offer interest would not be forced by competitive pressures to do so.

Mr. Chairman, as you know, the MMDA is a type of savings account that pays interest, and is available to businesses as well as other account holders. However, the law currently allows a maximum of six pre-authorized third-party withdrawals per month. Sweeps are arrangements between depository institutions and business customers that allow the institutions to transfer the businesses' checking account balances out of those accounts each evening and put them into interest-bearing MMDA accounts. The next morning, the balances are transferred back into the business' checking accounts. Sweeps therefore give customers the advantage of accumulating interest on their balances when the balances are not in use.

The proposal to amend the law governing MMDA accounts to permit 24 transactions per month would enable community banks to remain competitive in providing cash management services to their commercial customers. It also would enable commercial customers to yield a return on the funds they have deposited with the bank, and it would not force community banks to move deposits to interest bearing accounts when their margins could be squeezed by such an action.

We urge the Committee to consider this alternative as a way to resolve a potentially divisive issue with community bankers.

Payment of Interest on Reserves Maintained at Federal Reserves Banks

Let me now move to the proposal to require the Federal Reserve to pay interest on required and excess reserves depository institutions maintain as balances at Federal Reserve Banks, and discuss the impact of this proposal on community banks.

The Federal Reserve supports this proposal arguing that it could induce banks to increase their reserve balances. The Fed has stated that it is concerned that a steady continued decline in reserve balances could impair its ability to execute monetary policy. The reserves at the Fed have dropped significantly in recent years as required reserves have decreased and depository institutions have become more adept at managing their reserve balances. In fact, required reserve balances have dropped from around $28 billion in 1993 to $4 billion today.

One of the reasons for this precipitous decline in the reserve balance is that some financial institutions have been able to reduce the amount in their transaction accounts, against which reserves must be maintained, by sweeping funds into non-reservable, interest-bearing instruments at the end of each day. This is a practice that takes place mostly with larger financial institutions and not by smaller financial institutions such as community banks.

Currently, no reserves are required for reservable liabilities under $5.5 million, while reservable liabilities between $5.5 million and $42.8 million are in the low reserve portion, subject to minimal reserves. When taking these levels into account, many community banks are not required to post substantial reserves. And many community banks can meet their required reserves with vault cash. If a smaller bank has no reserve requirements, or meets them directly through the use of vault cash (including cash at branches and ATM locations), or a combination of vault cash and reserve accounts, they do not stand to benefit directly from this proposal. They would not earn interest on reserves, because either they do not maintain a Fed reserve account or their balance is very small.

Another reason for the decline in reserve levels is the proliferation of deposit options available to bank customers. Customers are diversifying their funds by placing them in IRA's and 401(k)s and purchasing mutual funds, bonds or CDs. The availability of these options, coupled with ready access to these options through the Internet, has contributed to the steady decline in reservable deposits.

This deposit shift has been particularly harmful to community banks that rely on core deposits as their primary source of lendable funds. That is why the ICBA has advocated an increase in deposit insurance coverage levels as a means to keep more funds in local financial institutions for community lending purposes.

Little Benefit for Smaller Banks

So you can see, Mr. Chairman, the interest on reserves proposal would have little, if any, direct monetary benefit for most community banks. Indeed, it is the larger depository institutions that would benefit most from such a proposal. According to a Federal Reserve analysis, almost all of the banks that would receive interest on required reserve balances would be distributed evenly among banks in the top three-fifths, ranked by total deposits, but the dollar payments would be heavily skewed to those banks in the top fifth. These findings were conveyed to our association (then called the Independent Bankers Association of America) in a letter from Donald L. Kohn, director of the Federal Reserve's Division of Monetary Affairs, dated October 21, 1998.[2] We had written the Federal Reserve to inquire whether it had done an analysis to quantify the benefits to large banks versus community banks if legislation that allowed the Fed to pay interest on reserves were enacted.

To illustrate, if a bank has $50 billion in transaction accounts, that bank's reserve requirements would be nearly $5 billion.[3] At an interest rate of 5%, the interest on that $5 billion reserve balance held in a reserve account at a Federal Reserve bank would be $250 million a year. By contrast, if a $120 million bank has $104 million in deposits, but only $32 million of that amount is in reservable transaction accounts, the reserve requirement is $960,000, all of which is satisfied by vault cash. Therefore, the smaller bank does not stand to earn any interest at all and therefore does not benefit from legislation that would require the Federal Reserve to pay interest on reserves maintained at Federal Reserve banks.

In fact, this holds true for most ICBA members since the average asset size of an ICBA member is $108 million, with average domestic deposits of $95 million, and average transaction account deposits of $25 million. The reserve requirement for an average ICBA member, then, is $750,000. Therefore, most ICBA members are clearly able to meet their reserve requirements using vault cash, which means they would most likely not maintain reserves at a Federal Reserve bank.

---

[2] Letter to the Independent Community Bankers of America from Donald L. Kohn, director of the Federal Reserve's Division of Monetary Affairs, October 21, 1998.

[3] The reserve requirement is 3% of net transaction accounts up to $46.5 million, plus 10% of any amount over $46.5 million (12 CFR 204.9).

Role of Reserves in Monetary Control

Central to the required reserves issue is the role of reserves in monetary control. We appreciate Federal Reserve Chairman Greenspan's concern that if the decline in reserves continues, it could have an effect on the Federal Reserve's ability to implement monetary policy and may have the potential to increase the volatility of the federal funds interest rates. We defer to Chairman Greenspan on this important issue.

In conclusion, legislation to require the payment of interest on reserves maintained at Federal Reserve banks would not benefit community banks directly. However, we understand the importance of the Federal Reserve's concern about maintaining monetary control and the role that the Federal Reserve System provides to our nation's community bankers. Therefore, we do not oppose the proposal to require the Fed to pay interest on sterile reserves.

Conclusion

Thank you for the opportunity to testify on both issues regarding the payment of interest on sterile reserves held at Federal Reserve banks and the issue of the payment of interest on business checking accounts.

ICBA stands ready to work with you on these issues. I look forward to answering any questions you or other Subcommittee members may have.

Association for
Financial Professionals

Statement of the

Association for Financial Professionals

before the

U.S. House of Representatives
Financial Services Committee
Subcommittee on Financial Institutions and Consumer Credit
Representative Spencer Bachus (R-AL), Chairman

Tuesday, March 13, 2001
2:00 p.m.

7315 Wisconsin Avenue • Suite 600 West • Bethesda • Maryland 20814
Phone: 301.907.2862 • Fax: 301.907.2864 • www.AFPonline.org

STATEMENT OF THE ASSOCIATION FOR FINANCIAL PROFESSIONALS BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES
FINANCIAL SERVICES COMMITTEE
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER CREDIT
Representative Spencer Bachus (R-AL), Chair

March 13, 2001

Good Afternoon Mr. Chairman and members of the Subcommittee on Financial Institutions and Consumer Credit. The Association of Financial Professionals (AFP) welcomes the opportunity to offer our views on legislation for the payment of interest on business checking accounts.

AFP represents almost 15,000 treasury and finance professionals who, on behalf of over 5,000 corporations and other organizations, are significant participants in the nation's payments systems and capital markets. Many of our members are responsible for their organizations' banking relationships, payments activities, short-term investments, and general cash management functions. Organizations represented by our members are drawn generally from both the Fortune 1000 and middle market companies—with fifty percent of our members employed by organizations with annual sales under 1 billion dollars. They are significant users of financial services, and specifically sweeps accounts offered by banks, and they have an active interest and sizeable stake in any efforts by the 107th Congress to modernize business checking by ending the prohibition against interest payments.

Since business checking relief legislation has not yet been introduced in the House of Representatives during this session, we understand that the assumptions for discussion at these hearings are that a business checking relief bill would allow:

- Depository institutions the option to pay interest on business checking accounts. The effective date for this option however would be at least two years after the bill is passed. In the interim, banks could raise the six Money Market Deposit Accounts (MMDA) transfers per month limit to 24, almost immediately;

- Payment of interest on depository institutions' balances required to be held on reserve at the Federal Reserve.

We strongly support provisions which would both end promptly the prohibition against payment of interest on business checking accounts, and allow the Federal Reserve to pay interest on depository institutions balances required to be held on reserve at the Federal Reserve. Delaying the removal of the prohibition is an unsatisfactory bandaid approach which merely stalls the march toward modernization of our financial services system through the elimination of anti-competitive regulatory devices like Regulation Q.

Congressional legislation passed in 1933 prohibited banks from paying interest on demand deposits and was implemented by the Federal Reserve as Regulation Q. Most of these restrictions were removed early in the 1980s, but a painful vestige remains in the prohibition of interests on demand deposits held by businesses.

For most of AFP's membership, Regulation Q has become an annoying anachronism. Earnings on balances can for the most part be managed through other types of accounts and transfers made possible with current technology and willing competitors to commercial banks. The practical effect of Regulation Q today is that it has spawned a myriad of demand deposit substitutes which obviate the long obsoleted intention of the Banking Act of 1933. Many smaller businesses however still suffer the effects of Regulation Q because of lack of sophistication, access to technology and/or insufficient deposit balances. Even large businesses which use innovative procedures to employ balances profitably would benefit from the flexibility and simplicity in funds management which would follow from payment of interest on demand deposits accounts (DDAs).

Cash management would be simplified for all businesses and banks through abolition of the ban on paying interest on business checking.

Allied with the Regulation Q problem is the rapid decline of required reserves held at the Federal Reserve. Just as commercial customers have incentives to move balances from DDAs to interest-bearing accounts outside the banking structure, so do banks have incentives to move DDAs subject to reserve requirements. As a result, required reserve balances at the Federal Reserve have plummeted in recent years. The Federal Reserve reports that reserve balances are critical to management of monetary policy. The Fed uses the markets for overnight loans of reserve balances to influence other interest rates. The smaller this market, the greater difficulty the Central Bank has in stabilizing or managing rates. Part of the cure for this problem would be to allow interest to be paid on required reserves.

Before the Banking Act of 1933 was passed, banks regularly paid interest on DDAs. Then, in the wake of more than 9,000 bank failures between 1930 and 1933, Congress passed the Banking Act to limit banks' service options and to protect them from competition. Among other measures included in the Act, a provision (implemented as Regulation Q) prohibited payment of interest to corporations on their demand deposit account balances to keep banks, in the heat of competition, from offering interest levels on deposit balances that might be sustained through risky investments.

Today, of course, banking is much different. Interest-bearing checking accounts for individuals have been allowed since 1980. Many of the services traditionally controlled by banks—checking account services among them—are now being provided by non-banks, which are not subject to restrictive banking regulations. Meanwhile, faced with a prohibition against earning interest on DDAs balances, savvy treasury professionals utilize innovative procedures to sweep those funds into money market and other instruments often held outside the banking system.

Regulation Q should be abolished on the basis of its obsolescence alone. But there are other reasons as well. For one thing, reliance on the "work-arounds" that Regulation Q has spawned puts smaller banks and bank customers at a competitive disadvantage because they lack the sophistication, access to technology, or required balances to utilize sweep accounts. And even those businesses that already use these "work-arounds" would benefit from the flexibility and simplicity in funds management that payment of interest on DDAs would afford.

Examples of the "Work-arounds" employed by corporations include:

- Earnings Credits — Banks calculate how much the collected balances in checking accounts would have earned if interest could have been paid. This amount is then subtracted from the fees owed by the company for the services that the bank provides.

- Controlled Disbursements — Banks notify the corporate customer by mid-morning of the dollar amount of checks that will clear against its account that day. The company then invests all available funds each day. Aggressive cash managers move funds out of banks and into interest-bearing vehicles managed by non-bank competitors, which face no restraints on their investment offerings.

- Sweep Accounts — Sweep accounts transfer funds automatically, in excess of a pre-determined balance, from a customer's demand deposit account into an interest earning account or short-term investment. Funds are "swept" into any of several investment options. In effect, a sweep is a service which automatically links a deposit account with an investment or earnings account. The most common investment/earnings accounts are:

  - Depository accounts such as Money Market Deposit Accounts (MMDA);

  - Money market mutual funds—both bank proprietary and third party funds;

  - Offshore instruments such as deposits in affiliates of U.S. banks;

  - Overnight instruments such as repurchase agreements of U.S. Treasuries, commercial paper, and Fed funds.

Sweep account asset growth during 1998-1999 period was 19% for all instruments to $220 billion.[1]

Historically, banks offered commercial sweep investment programs as a defensive tactic against money market mutual funds and other devices which were disintermediating bank deposits. Now, many banks have become aggressive in the marketing of sweeps, even for

[1] 2000 Commercial banking Sweep Account Survey, Treasury Strategies, Chicago Illinois.

individual consumer accounts, since the apparent benefits to banks from offering sweep accounts appear to be compelling:

- Revenue — The average annual total revenue per account ranges from $3,700 to more than $18,000.[2]

- No Interest Expense — In lieu of interest for DDAs, banks earn substantial fees as shown above.

- Reduced bank reserves — Sweeps move customer funds off balance sheets, and reserves on those deposits are eliminated.

- Recapture of lost assets — Most sweeps are now made directly into bank proprietary money market mutual funds. A sweep product provides an opportunity for customers to consolidate investments and accounts at the bank.

The benefits are misleading however, and the advantages to the banks' rising sweeps revenues may be short-lived. Demand deposits are still declining and now constitute only 12% of total deposits, and 8% of total bank liabilities—down from 33% and 30%, respectively, only 20 years ago. This translates into DDAs seeking value outside banks, and the increasing need for banks to fund through borrowing. We find it ironic that the banking industry is currently saying it is having difficulty finding sufficient deposits to support its lending activities yet continues to move deposits out of the banks. In addition, while banks decry the loss of deposits, many seek an increase in deposit insurance coverage from $100,000 to $200,000 per account as a competitive edge to attract deposits.

The bottom line is that federal regulation drawn from depression-era protective legislation creates an artificial market environment that provides benefits which may be short-term to bank participants. Large and middle market companies are generally able to escape sterile balances resulting from the ban on interest for DDAs. Smaller companies often miss opportunities provided by sweeps because "most competitive overnight instruments require minimum denominations that are out of reach for most small companies."[3] Also, many smaller financial institutions lack the scale and resources to provide sweeps products.

Often overlooked as a casualty of the interest ban is the "residue" balance remaining in DDAs which utilize sweep services. These cumulative balances are substantial and fail to earn value. So in fact bank customers of all sizes are disadvantaged by Regulation Q. A free market scenario should present sweep and interest-on-deposit options to all bank customers and banks.

[2] 2000 Commercial Banking Sweep Account Survey Results, Treasury Strategies, Inc., Chicago Illinois.
[3] 1997 Commercial Banking Sweep Account Survey Results, Treasury Strategies, Inc., Chicago, Illinois.

Ending this archaic regulatory device will not terminate aggressive cash management tools like sweeps. But the end of Regulation Q will terminate the artificial environment which created the sweeps market. Products should not owe their existence to government protection through price regulation (i.e., no interest on business checking accounts). Rather, they need to demonstrate their worth in a free market as another option a customer may choose.

Finally, it is because of the interest expense that banks would incur following elimination of Regulation Q that some are supporting a delaying tactic, which keeps Regulation Q intact but creates yet another loophole. This plan would expand to 24 (from six) the number of times a company can withdraw funds from money market deposit accounts each month. Through daily transfers from interest-bearing accounts to cover checks drawn against DDAs, a bank gives its corporate clients, to some degree, checking account interest. The plan does not address a common problem for many corporate customers: they cannot anticipate all funding needs, and frequently would require multiple daily transfers from the money market deposit account—not permitted under this juryrigged approach.

This proposed plan does provide somewhat more flexibility in enabling customers to utilize idle funds. However, it does not simplify the customer's cash management procedures, address the dwindling Fed reserve issue, nor the outflow of funds from banks. And it ties the banks' hands as well. Without Regulation Q, banks have the freedom to develop products, with or without an interest component.

In a letter released February 20, 1998, Federal Reserve Board Chairman Greenspan criticized this plan: "The Board supports the elimination of unnecessary or anti-competitive regulatory requirements. A 24-transaction account might aid banks in meeting competition but the Board believes that a more straightforward and more economically efficient way to address this issue would be simply to repeal the prohibition against the payment of interest on DDAs."

A Senior Financial Officer Survey conducted by the Federal Reserve in May 1998, made a telling point which concerned the impact on banks of paying interest on business checking. That survey reflected the opinions of senior financial officers of 44 large commercial banks:

> "In summary, it seems that banks would incur a short-term increase in costs if they were allowed to pay interest on DDAs. The extent of this increase, however, would probably be muted considerably by a tiered-deposit rate schedule and by the fact that a substantial proportion of DDAs already earn implicit interest. In the long run, the effects of allowing banks to pay interest on DDAs would almost certainly be salutary by removing a significant regulatory distortion and by encouraging increased competition and efficiency in the banking industry."

Some banking groups argue that implementation of systems and procedures to provide for business checking interest would be a difficult and costly process, requiring several years for the transition. Since banks are in the business of calculating interest, and in fact compute earnings credit for business accounts now, we believe that the transition would be relatively easy, and require no more than 90 days.

****

We support the changes discussed in this statement because they solve some fundamental problems for bank customers, banks, and the Federal Reserve. The inability of depository institutions to pay interests on business accounts hurts all sectors of the economy but especially small businesses. Some banks have convoluted arrangements to sweep sterile checking account funds on a daily basis to money market deposit accounts or other earnings instruments. The "sweep" systems in connection with controlled disbursement services are cumbersome and costly for smaller banks and savings institutions to operate. This impedes the ability of smaller depository institutions to compete for business checking accounts and for small businesses to obtain the benefits of productive use of funds often available to larger and more sophisticated businesses. However, even large businesses which have developed means to employ balances profitably would welcome the flexibility and simplicity in funds management which would follow the elimination of Regulation Q.

March 12, 2001

The Honorable Spencer Bachus, Chairman
Subcommittee on Financial Institutions and Consumer Credit
Committee on Financial Services
2128 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Bachus and Members of the Committee:

We are independent community banks who are in strong opposition to repealing the ban on paying interest on corporate demand deposits. We understand that this proposal is under consideration by your Committee. Our coalition of more than 1,500 community banks continues to grow. We are not a trade association but a grass roots coalition of banks from forty-six states and the District of Columbia.

Paying interest on corporate demand deposits will be costly to banks and small businesses. The Federal Reserve, in testimony before the House, has conceded that this proposal would impose additional costs and new regulatory burdens on banks. Total banking costs will increase significantly as a result of the added interest and portfolio restructuring expenses.

Our coalition does support the compromise of increasing to twenty-four the number of transfers to money market accounts per month, as well as requiring the Federal Reserve to pay interest on sterile reserves. This compromise would effectuate interest on corporate checking for small businesses without new and unnecessary costs. While some in the banking industry support the direct payment of interest on business checking accounts, all of the major commercial bank trade associations support the twenty-four-transaction account alternative. The ability to make twenty-four transaction transfers from a money market account is the wise and obvious compromise.

The prohibition of paying interest on corporate checking accounts was enacted during the Great Depression because of the justifiable fear that money would be siphoned from the community banks to the large city banks. The prohibition has been in effect for approximately seventy years. Commercial banks have structured their balance sheets and systems in accordance with this law. For example, substantial portions of loans are made with initial maturities of five to thirty years. The interest rates being paid on those loans relate to the cost of funds at the time the loans were made. It will take a significant amount of time for those loans to work themselves through.

In addition, small businesses will be hurt if interest on corporate checking were to be enacted. Community commercial banks throughout the country are the lifeblood of small business in America, not large city banks, securities brokerages, or savings banks. If interest is to be paid on corporate checking accounts, the cost must be absorbed somewhere. It will be absorbed in much higher fees for small businesses and higher loan interest rates.

The prohibition of interest on corporate checking should not be lifted now or in the future. Instead, twenty-four transfers should be permitted from a money market account. The "sweep" technology necessary to accomplish this is widely available and affordable. The Independent Community Bankers of America supports this compromise as it effectuates interest on excess corporate checking balances where it would be appropriate. Thrift associations support direct interest being paid on corporate checking balances, but legislators should give little credence to that position, as the thrifts have very little or no commercial balances. Likewise, Securities firms who now have their own banks could stand to benefit by offering interest on corporate checking with little or no fees as a loss leader. What a tragedy this would be, as money would be pulled out of community banks across America into the large brokerage house, the same type of concern that prompted the enactment of this legislation in the first place.

We the undersigned banks urge the Financial Services Committee to approve legislation that would permit twenty-four transfers and the Federal Reserve paying interest on sterile reserves, without lifting the prohibition on corporate checking now or in the future. We understand Representative Sue Kelly of New York will introduce such legislation, and we urge the Committee to adopt that compromise as a better alternative.

Thank you for consideration of our views.

Sincerely,

(See Attached List)

listed below oppose lifting the ban on interest on corporate

Name	Bank	City, State	State Count
J.C. Shepherd, President & CEO	**Bank of Berry**	Berry, Alabama	
L.C. Brown, Executive Vice President	**Bank of Carbon Hill**	Carbon Hill, Alabama	
Richard E. Walker, President	**Bank of York**	York, Alabama	
Gary Cooper, Chairman	**Commonwealth National Bank**	Mobile, Alabama	
Billy M. Bolton, President & CEO	**Community Spirit Bank**	Red Bay, Alabama	
Jack L. Ray, Chairman & CEO	**Exchange Bank of Alabama**	Altoona, Alabama	
T.D. Ray, President	**Farmers & Merchants Bank**	Waterloo, Alabama	
W.W. Scott, President & CEO	**First Bank of Linden**	Linden, Alabama	
Benji R. Willmon, EVP	**First Bank of the South**	Rainsville, Alabama	
Charles Kettle, President	**First Commercial Bank**	Huntsville, Alabama	
W. Gaillard Bixler, President	**First National Bank**	Brewton, Alabama	
Ollie Strawbridge, President	**First National Bank of Atmare**	Atmare, Alabama	
Ken Vaughan, President	**First State Bank of Clay County**	Lineville, Alabama	
R.C. Etherton, President	**First State Bank of Dekalb County**	Fort Payne, Alabama	
S.R. Townson, President	**Frontier National Bank**	Lanett, Alabama	
Raymond F. Cox, President & CEO	**Metro Bank**	Pell City, Alabama	
Al Smith, President	**North Alabama Bank**	Hazel Green, Alabama	
Greg B. Faison, CEO	**Southern Bank of Commerce**	Eufaula, Alabama	
G. Gordon Jones, Vice Chairman	**The Citizens Bank of Valley Head**	Valley Head, Alabama	
Archie J. McRimmon, President	**The Peoples Bank of Tallassie**	Tallassie, Alabama	
Gary L. Guthrie, President & CEO	**Troy Bank & Trust Company**	Troy, Alabama	
		Alabama	*21*
Michael Hannley, President	**Bank of Tucson**	Tucson, Arizona	
Julian Fruhling, President	**Founders Bank of Arizona**	Scottsdale, Arizona	
Richard K. Ostrom, President	**Heritage Bank**	Phoenix, Arizona	
R.I. Rasmussen, CEO	**Mohave State Bank**	Lake Havasu City, Arizona	
Greg Kruger, CEO	**Western Security Bank**	Scottsdale, Arizona	
		Arizona	*5*
Frank Oldham, CEO	**American State Bank**	Jonesboro, Arkansas	
Arthur Morris, President	**Arkansas State Bank**	Siloam Springs, Arkansas	
R.K. Herlocker, President	**Bank and Trust Company**	Little Rock, Arkansas	
Edward Taylor, CEO	**Bank of Amity**	Amity, Arkansas	
Rick Green, Chairman, President & CEO	**Bank of Bearden**	Bearden, Arkansas	
Albert H. Rusher, CEO	**Bank of Brinkley**	Brinkley, Arkansas	
Gary R. Canada Sr., Chairman, President & CEO	**Bank of England**	England, Arkansas	
A.L. Hoaney, Chairman, President & CEO	**Bank of Evening Shade**	Evening Shade, Arkansas	
Joseph A. Terry, President	**Bank of Mansfield**	Mansfield, Arkansas	
John Brannan Jr., President, Chairman & CEO	**Bank of Prescott**	Prescott, Arkansas	
Dick McLelland, President	**Bank of Rogers**	Rogers, Arkansas	
Mark Montgomery, President	**Bank of Salem**	Salem, Arkansas	
Bob Lewis, President	**Citizens National Bank of Nashville**	Nashville, Arkansas	
Ken McClanahan, President & CEO	**Cross Country Bank**	Wynne, Arkansas	

John E. Chambers III, CEO	**Danville State Bank**	Danville, Arkansas	
Stanhope Wilkinson, CEO	**Farmers Bank**	Greenwood, Arkansas	
Cole Martin, Chairman & CEO	**Farmers Bank & Trust Company**	Clarksville, Arkansas	
H. Gates Williams, President	**First Community Bank of Eastern Arkansas**	Marion, Arkansas	
J.P. Walt, Chairman & CEO	**First National Bank of Altheimer**	Altheimer, Arkansas	
Larry Mashburn, CEO	**First National Bank of Arkansas**	DeQueen, Arkansas	
Danny Moser, CEO	**First National Bank of Isard County**	Melbourne, Arkansas	
John R. Stipe, President & CEO	**Forest City Bank, NA**	Forest City, Arkansas	
John L. Robbins Jr., President & CEO	**Helena National Bank**	Helena, Arkansas	
C.E. Hendrix Jr., Chairman, President & CEO	**Horatio State Bank**	Horatio, Arkansas	
Joe Fritsche, President	**Logan County Bank**	Scranton, Arkansas	
J. Perry Lee, President	**Merchants & Planters Bank**	Clarendon, Arkansas	
James R. Jordan, CEO	**Merchants & Planters Bank**	Camden, Arkansas	
Paula O. Blackwell, President	**Piggott State Bank**	Piggott, Arkansas	
Dennis H. Ferguson, CEO	**Simmons First Bank of Dumas**	Dumas, Arkansas	
John F. Dews, CEO	**Simmons First Bank of El Dorado**	El Dorado, Arkansas	
James R. Hopson, CEO	**The Bank of Rison**	Rison, Arkansas	
Joseph B. Ford, CEO	**The Capital Bank**	Little Rock, Arkansas	
W.W. Jennings, CEO	**The First National Bank of DeWitt**	DeWitt, Arkansas	
William F. Denton, President & CEO	**The First National Bank of McGehee**	McGehee, Arkansas	
John B. Fazer, Jr., Chairman	**Warren Bank and Trust Company**	Warren, Arkansas	
		Arkansas	*35*
R. Albert Roensch, President	**America California Bank**	San Francisco, California	
Donald P. Johnson, President	**American Business Bank**	Los Angeles, California	
James Quinn, President	**Asian Pacific National Bank**	San Gabriel, California	
William R. Trezza, CEO	**Bank of Agriculture and Commerce**	Stocton, California	
Douglas M. Eberhardt, President	**Bank of Stockton**	Stockton, California	
Ernest L. Go, President	**Bank of the Orient**	San Francisco, California	
Joe Kreutz, President	**Bank of Ventura**	Ventura, California	
Richard Willoughby, President	**Bank of Willits**	Willits, California	
Dong Keon Sohn, President	**California Cho Hung Bank**	Los Angeles, California	
Richard K. Chi, CEO	**California Pacific Bank**	San Francisco, California	
C.G. Kum, President	**Camarillo Community Bank**	Camarillo, California	
Don L. Schempp, President	**Capital Bank of North County**	Carlsbad, California	
Bruce A. Ives, President	**Cuyamaca Bank, NA**	Santee, California	
Chirs Haung, President	**Evertrust Bank**	City of Industry, California	
Kent A. Steinwert, President	**Farmers & Merchants Bank**	Lodi, California	
Kenneth G. Walker, President	**Farmers & Merchants Bank of Long Beach**	Long Beach, California	
Larry Frampton, President	**First American Bank**	Rosemead, California	
R.A. Palmer, President	**First Western Bank**	Simi Valley, California	
Lew Stone, President	**Goleta National Bank**	Goleta, California	
William M. Tandy, President	**Hacienda Bank**	Santa Maria, California	
Lawrence P. Ward, President	**Heritage Oaks Bank**	Paso Robles, California	
Ed Lelandais, President	**Kerman State Bank**	Kerman, California	
William W. Phillips, President	**Los Padres Bank**	Solvang, California	
Robert B. Hamilton, President	**Los Robles Bank**	Thousand Oaks, California	

Daniel Roberts, President	**Merchants Bank of California**	Carson, California	
Charles O. Hall, President	**Metro Commerce Bank**	San Rafael, California	
Y.T. Lin, President	**Metropolitan Bank**	Oakland, California	
David L. Kalkbrenner, CEO	**Mid-Peninsula Bank**	Palo Alto, California	
Anita Robinson, President	**Mission Community Bank**	Mission, California	
Jeffrey P. Burda, President	**Modesto Commerce Bank**	Modesto, California	
Charles T. Chrietzberg, President	**Monterey County Bank**	Monterey, California	
James Templeton, President	**Murphy Bank**	Fresno, California	
Robert McGill, President	**Neighborhood National Bank**	San Diego, California	
Michael J. Cushman, President	**North Valley Bank**	Redding, California	
Randall D. Miller, President	**Palm Desert National Bank**	Palm Desert, California	
John G. Giambi, President	**Ranch Bank**	San Dimas, California	
Alan L. Douglas, President	**Rancho Bernardo Community Bank**	San Diego, California	
Douglas C. Spencer, President	**Redlands Centennial Bank**	Readland, California	
Daryl B. Foreman, President	**Sacramento Commercial Bank**	Sacramento, California	
Joohak Kim, President	**Saehan Bank**	Los Angeles, California	
Frank J. Mercardante, President	**Southwest Community Bank**	Encinitas, California	
Gary Wright, President	**Stockmans Bank**	Elk Grove, California	
Charles E. Smith, President	**Taft National Bank**	Taft, California	
Stephen H. Wacknitz, President	**Temecula Valley Bank**	Temelcula, California	
Eddy S.F. Chan, President	**Trans-Pacific National Bank**	San Francisco, California	
Edward Lo, President	**United National Bank**	Monterey Park, California	
Frinak Chang, President	**Universal Bank**	West Covina, California	
Fred O. Scarsella, President	**Upland Bank**	Upland, California	
		California	***48***
Roger N. Knapp, President	**Alamosa National Bank**	Alamosa, Colorado	
David Scruby, Vice Chairman & CEO	**Alpine Bank**	Glenwood Springs, Colorado	
Leo Van Dittie, CEO	**Bank of Birlington**	Burlington, Colorado	
Russell E. Johnson, CEO	**Bank of Grand Junction**	Grand Junction, Colorado	
Geoffrey B. Postles, President	**Colorado Springs National Bank**	Colorado Springs, Colorado	
Tom Wrenholt, CEO	**First Mountain Bank**	Leadville, Colorado	
Donald G. Haley, President & CEO	**First National Bank of Cortez**	Cortez, Colorado	
Richard Duncan, President & CEO	**First State Bank**	Colorado Springs, Colorado	
David A. Wade, CEO	**Front Range Bank**	Lakewood, Colorado	
James Hamilton, CEO	**Home Loan Industrial Bank**	Grand Junction, Colorado	
Richard W. Peden, President	**North Park State Bank**	Walden, Colorado	
James W. Sower, CEO	**Pine River Valley Bank**	Bayfield, Colorado	
Andrew P. Trainor, President & CEO	**Rocky Ford National Bank**	Rocky Ford, Colorado	
M.E. McMillan, CEO	**The Bank of Durango**	Durango, Colorado	
David G. Wood, President	**The Citizen Bank of Ouray**	Ouray, Colorado	
Kenneth S. Liggett, CEO	**The First National Bank of Limon**	Limon, Colorado	
Richard C. Berg, President	**The National Bank of Ordway**	Ordway, Colorado	
P.G. Kreps, CEO	**The State Bank**	La Junta, Colorado	
P.G. Kreps, CEO	**The State of Rocky Ford**	Rocky Ford, Colorado	
George H. Peaker, CEO	**Wray State Bank**	Wray, Colorado	
		Colorado	***20***

Jasper J. Jaser, President & CEO	**Prime Bank**	Orange, Connecticut	
John F. Perotti, President	**Salisbury Bank & Trust Company**	Lakeville, Connecticut	
Gerard J. Baldwin, President	**The Canaan National Bank**	Canaan, Connecticut	
Robert M. Silva, President & CEO	**The Citizens National Bank**	Putnam, Connecticut	
James R. Wood, President	**The First National Bank Of Suffield**	Suffield, Connecticut	
J. Gilbert Soucie, President & CEO	**The Glastonbury Bank & Trust Co.**	Glastonbury, Connecticut	
Michael H. Flynn, President & CEO	**Westport National Bank**	West Port, Connecticut	
		Connecticut	*7*
Dale W. Morris, President	**1st Community Bank of Palm Beach County**	Pahokee, Florida	
Jerry Neff, President	**American Bank**	Bradenton, Florida	
Barry Brynjolfason, President	**Apalachicola State Bank**	Apalachicola, Florida	
Joseph E. Regner, Jr., President	**BankFirst**	Winter Park, Florida	
Jed Hiers, President	**C&L Bank of Blountstown**	Blountstown, Florida	
Michael W. Sheffey, President	**Century National Bank**	Orlando, Florida	
George W. Harris, CEO	**Citrus & Chemical Bank**	Bartow, Florida	
Robert C. Green, President	**Columbia County Bank**	Lake City, Florida	
William H. Sedgeman, Jr., President	**Community Bank of Manatee**	Bradenton, Florida	
Jerome Johns, President	**Community State Bank of Starke**	Starke, Florida	
Robert L. Brookes, President	**Eagle National Bank**	Miami, Florida	
Hugo Castro, President	**Eastern National Bank**	Miami, Florida	
A. Ferold Davis, President	**Englewood Bank**	Englewood, Florida	
Randall Ezell, President	**Enterprise National Bank of Palm Beach**	North Palm Beach, Florida	
H. William Spute, Jr., President	**Equitable Bank**	Fort Lauderdale, Florida	
Joseph Theriaga, President	**Eurobank**	Boca Raton, Florida	
Robert O. Smedley, President	**First Florida Bank**	Naples, Florida	
Jerry M. Smith, President	**First National Bank of Alachua**	Alachua, Florida	
J. Lamar Roberts, President	**First National Bank of Pasco**	Dade City, Florida	
David W. Skiles, President	**First Peoples Bank**	Port St. Lucie, Florida	
David Malinoff, President	**First Western Bank**	Cooper City, Florida	
Robert L. Kohler, President	**Florida Bank of Commerce**	Palm Harbor, Florida	
Carl Walls, President	**Florida Citizens Bank**	Ocala, Florida	
Stephen L. Price, President	**Florida Community Bank**	Immokalee, Florida	
J. Russell Greene, President	**Grand Bank of Florida**	West Palm Beach, Florida	
Linda Alexienok, President	**Guaranty National Bank of Tallahassee**	Tallahassee, Florida	
Juanita H. Coomer, President	**Gulf Bank**	Miami, Florida	
John Tranter, President	**Gulfstream Business Bank**	Stuart, Florida	
Frederick E. Martin, President	**Independent Community Bank**	Tequesta, Florida	
Robert A. Ellinor, President	**Independent National Bank**	Ocala, Florida	
William A. High, President	**Indian River National Bank**	Vero Beach, Florida	
Richard A. Kuci, Jr., President	**Kislak National Bank**	Miami Lakes, Florida	
Stephen R. Riviere, President	**Liberty National Bank**	Longwood, Florida	
W. Allen Langford, President	**Manatee River Community Bank**	Palmetto, Florida	
Alfred T. Rogers, CEO	**Manufacturers Bank of Florida**	Tampa, Florida	
Tom Mallini, President	**Merchants & Southern Bank**	Gainesville, Florida	
G. Andrew Williams, President	**Millennium Bank**	Gainesville, Florida	
H. Loy Anderson, President	**Palm Beach National Bank & Trust**	North Palm Beach, Florida	

Kevin Cohee, President	**Peoples National Bank of Commerce**	Miami, Florida	
Westley T. Small, President	**Peoples State Bank**	Lake City, Florida	
James F. Kuhlman, President	**Premier Community Bank**	Venice, Florida	
H. Vernon Meyers, President	**Putnam State Bank**	Palatka, Florida	
Willliam R. Klick, President	**Republic Bank**	St. Petersburg, Florida	
Christine L. Jennings, President	**Sarasota Bank**	Sarasota, Florida	
Vincent C. Giordano, President	**Sunniland Bank**	Fort Lauderdale, Florida	
William H. Losner, President	**The First National Bank of Homestead**	Homestead, Florida	
Donald R. Graham, President	**The Peoples Bank of Graceville**	Graceville, Florida	
Raymond H. Jones, President	**The Warrington Bank**	Pensacola, Florida	
Lynne Wines, President	**Union Bank of Florida**	Lauderhill, Florida	
Lynne Wines, President	**Union Bank of Florida**	Lauderhill, Florida	
Robert E. Heanchey, President	**Wauchula State Bank**	Wauchula, Florida	
		Florida	*51*
R.T. Tebeau, President	**Adel Banking Company**	Adel, Georgia	
Ansel P. Clark, President	**Awaycross Bank & Trust**	Waycross, Georgia	
Gary W. Floyd, President & CEO	**Bank of Adairsville**	Adairsville, Georgia	
Ray T. Muggridge III, Chairman & CEO	**Bank of Camilla**	Camilla, Georgia	
Michael S. Wright, President & CEO	**Bank of Chickamauga**	Chickamauga, Georgia	
Williams R. Broyles, President & CEO	**Bank of Dade**	Trenton, Georgia	
L. Bannister Sexton, President & CEO	**Bank of Danielsville**	Danielsville, Georgia	
S.H. Hollis, CEO	**Bank of Hancock**	Sparta, Georgia	
Randall L. Hand, CEO	**Bank of Lumber City**	Lumber City, Georgia	
E. James Burnsed, Chairman & CEO	**Bryan Bank and Trust**	Richmond Hills, Georgia	
George Andrews, President	**Capitol City Bank & Trust Company**	Atlanta, Georgia	
J. Philip Hester, President & CEO	**Chetatee State Bank**	Dawsonville, Georgia	
La Wanna Hill, President	**Citizens Bank of Taylor County**	Reynolds, Georgia	
James E. Young, President	**Citizens Trust Bank**	Atlanta, Georgia	
Ted. A. Murphy, President	**Community Bank of Georgia**	Tucker, Georgia	
George M. Ray, President & CEO	**Community Banking Co.of Fitzgerald**	Fitzgerald, Georgia	
Judy B. Turner	**Decatur First Bank**	Decatur, Georgia	
William T. Thornton, CEO	**Douglass County Bank**	Douglasville, Georgia	
M.W. Milner, President & CEO	**Exchange Bank**	Millengeville, Georgia	
L.O. Benton III, Chairman & CEO	**Farmers and Merchants Bank**	Eatonton, Georgia	
Larry Lee, Chairman & CEO	**Farmers and Merchants Bank**	Lakeland, Georgia	
James W. Adams, President & CEO	**Farmers and Merchants Bank**	Sylvania, Georgia	
Gordon M. Telford, President	**First Bank and Trust**	Carnesville, Georgia	
Patrick G. Blanchard, CEO	**First Bank of Georgia**	Thomson, Georgia	
Lloyd Gunter, President	**First National Bank**	Folkston, Georgia	
Jessie C. Palmer III, Chairman & CEO	**First National Bank**	Waynesboro, Georgia	
Zach Johnson, President	**First National Bank of Alma**	Alma, Georgia	
Randall F. Eaves, President & CEO	**First National Bank of Haralson County**	Buchanan, Georgia	
O. Leonard Dorminey, President	**First National Bank of South Georgia**	Albany, Georgia	
A.D. Ferguson, President	**First National Bank of West**	West Point, Georgia	
W.H. Whitley, CEO	**First Piedmont Bank**	Winder, Georgia	
JH Monk, President	**First Port City Bank**	Bainbridge, Georgia	

Ralph N. Barber Sr., Chariman & CEO	**First Security National Bank**	Norcross, Georgia	
Diane W. Thomas, President	**First State Bank of Donalsonville**	Donalsonville, Georgia	
Richard A. Hunt, President	**Gainesville Bank & Trust**	Gainesville, Georgia	
James A. Faulkner, CEO	**Georgia First Bank, NA**	Gainesville, Georgia	
Kuo Langjoe Huang, President & CEO	**Global Commerce Bank**	Doraville, Georgia	
Tom Caldwell, President	**Greater Rome Bank**	Rome, Georgia	
John W. Townsend, President & CEO	**Greenville Banking Co.**	GreenviLe, Georgia	
Tim S Jones, President	**Heritage Community Bank**	Quitman, Georgia	
Joseph D. Chipman, President	**Lanier National Bank**	Gainesville, Georgia	
Donald L. Herring, President & CEO	**Liberty Bank and Trust**	Toccoa, Georgia	
JH Terrell, CEO	**Merchants & Farmers Bank**	Corner, Georgia	
Charles O. Maddox, CEO	**Peoples Bank**	Winder, Georgia	
Douglas Nichols, President & CEO	**Peoples Bank and Trust**	Buford, Georgia	
L. Jackson McConnell, CEO	**Pinnacle Bank, NA**	Elberton, Georgia	
David H. Averitt, CEO	**Sea Island Bank**	Statesboro, Georgia	
Jack F. Tuck, CEO	**South Georgia Community Bank**	Reynolds, Georgia	
William DeVane, President & CEO	**Spivey State Bank**	Swainsboro, Georgia	
Thomas L. Arnold, President	**Sun Mark Community Bank**	Hawkinsville, Georgia	
Claud C. Lowe, President	**The Bank of Edison**	Edison, Georgia	
W. Nick Taylor, President & CEO	**The Blackshear Bank**	Blackshear, Georgia	
Marvin Cosgray, President & CEO	**The Buckhead Community Bank**	Atlanta, Georgia	
Freddy C. Greer, President & CEO	**The Citizens Bank**	Fort Valley, Georgia	
William S. Perry, Chairman & CEO	**The Citizens Bank**	Nashville, Georgia	
Milton B. Gray Jr., President & CEO	**The Citizens Bank of Swainsboro**	Swainsboro, Georgia	
Robert A. Summerlin, President	**The Citizens Exchange Bank**	Pearson, Georgia	
John R. Stalvey, President & CEO	**The Citizens National Bank of Quitman**	Quitman, Georgia	
C. Wayne Collins, CEO	**The Claxton Bank**	Claxton, Georgia	
J. Keith Caudell, President & CEO	**The Coastal Bank of Georgia**	Brunswick, Georgia	
William M. Cabaniss, President & CEO	**The Commercial Bank**	Crawford, Georgia	
Don C. Crafton, CEO	**The Morris State Bank**	Dublin, Georgia	
William Cowart, President & CEO	**The Park Avenue Bank**	Valdasta, Georgia	
Harvery L. Wilson, President	**The Peoples Bank**	Eatonton, Georgia	
Kenneth S. Dowling, President & CEO	**The Security State Bank**	McRae, Georgia	
Pin Pin Chau, President & CEO	**The Summit National Bank**	Atlanta, Georgia	
Stephen H. Cheney, President	**Thomasville National Bank**	Thomasville, Georgia	
James A. Robinson Jr., CEO	**West Central Georgia Bank**	Thomaston, Georgia	
		Georgia	*68*
John Hippler, President	**Mountain West Bank**	Coeur d' Alene, Idaho	
Jody Servatius, CEO	**Twin River National Bank**	Lewiston, Idaho	
		Idaho	*2*
Robert D. Gecht, President	**Albany Bank and Trust Company, N.A.**	Chicago, Illinois	
Joseph Koenig, President	**Andalusia Community Bank**	Andalusia, Illinois	
Matthew E. Tilton, President	**Archer Bank**	Chicago, Illinois	
Thomas Walsh, President	**Associated Bank**	Rockford, Illinois	
Sam Scott, President	**Austin Bank**	Chicago, Illinois	
Ed Heck, President	**Ayars State Bank**	Moweaqua, Illinois	

Martin Binder, President	**Bank of Bellwood**	Bellwood, Illinois	
Florian Barbi, President	**Bank of Bourbonnais**	Bourbonnais, Illinois	
Donald Toppmeyer, President	**Bank of Calhoun County**	Hardin, Illinois	
Winn C. Davidson, President	**Bank of Palatine**	Palatine, Illinois	
H. Wayne Taylor, President	**Bank of Pontiac**	Pontiac, Illinois	
James Eccher, President	**Bank of Sugar Grove**	Sugar Grove, Illinois	
Fred Abdula, President	**Bank of Waukegan**	Waukegan, Illinois	
James Metz, President	**Belvidere National Bank**	Belvidere, Illinois	
Alexis Giannoulias, President	**Broadway Bank**	Chicago, Illinois	
Dan Dugan, President	**Brown County State Bank**	Mount Sterling, Illinois	
Jack Lambin, President	**Buckley State Bank**	Buckley, Illinois	
James T. Ashworth, President	**Calinville National Bank**	Calinville, Illinois	
Dennis Hickey, President	**Camp Grove State Bank**	Camp Grove, Illinois	
John Rodda, President	**Capstone Bank**	Watseka, Illinois	
Jim Niksch, President	**Casey National Bank**	Casey, Illinois	
Tony Nichols, President	**Central Federal Savings & Loan**	Chicago, Illinois	
Maralyn F. Heckman, President	**Cerro Gordo Building & Loan, s.b.**	Cerro Gordo, Illinois	
Eugene Onibene, CEO	**Charter National Bank and Trust**	Hoffman Estates, Illinois	
Edward Collins, President	**Chester National Bank**	Chester, Illinois	
Timothy Clary, President	**Chicago Community Bank**	Chicago, Illinois	
Bruce McClaren, President	**Community Bank of Easton**	Easton, Illinois	
Bill Gooch, Jr., President	**Community Bank of Elmhurst**	Elmhurst, Illinois	
Dean Easton, President	**Community Bank of Galesburg**	Galesburg, Illinois	
Richard P. Thorsen, President	**Community Bank of Ravenswood**	Chicago, Illinois	
Greg Miller, President	**Community Banks of Shelby County**	Cowden, Illinois	
Charles Daily, President	**Community First Bank**	Fairview Heights, Illinois	
Clay Belongia, President	**Continental Community Bank**	Maywood, Illinois	
Chuck Collier, President	**Crystal Lake Bank**	Crystal Lake, Illinois	
Jim Aldrich, President	**Delaware Place Bank**	Chicago, Illinois	
William D. McGuire, President	**Edens Bank**	Wilmette, Illinois	
Thomas Overstreet, President	**Egyptian State Bank**	Carrier Mills, Illinois	
Russell G. Maughan, President	**Elizabeth State Bank**	Elizabeth, Illinois	
R.H. Havens, President	**Elville State Bank**	Elkville, Illinois	
Ronald E. Mcconkey, President	**Fairview State Banking Company**	Fairview, Illinois	
W.B. Gray, President	**Farmers & Merchants Bank of Hutsonville**	Hutsonville, Illinois	
Mina Robertson, President	**Farmers National Bank of Griggsville**	Griggsville, Illinois	
R W Lott, CEO	**Farmers State Bank**	Elmwood, Illinois	
Larry Coats, President	**Farmers State Bank Lewistown**	Lewistown, Illinois	
Gerry Lunt, President	**Farmers State Bank of Danforth**	Danforth, Illinois	
Willard Lee, President	**Farmers State Bank of Somonauk**	Somonauk, Illinois	
Dan Childress, President	**Fayette County Bank**	St. Elmo, Illinois	
Richard Marey, President	**Federated Bank**	Onarga, Illinois	
Daniel Daly, President	**First Capital Bank**	Peoria, Illinois	
John Hurwith, President	**First Commerical Bank**	Chicago, Illinois	
Jerry Bailey, President	**First Crawford State Bank**	Robinson, Illinois	
Andy Salk, President	**First Eagle National Bank**	Hanover Park, Illinois	

Brian Schroeder, President	**First Farmers State Bank of Minier**	Minier, Illinois	
Don Isacksen, President	**First National Bank**	Grant Park, Illinois	
John Killian, President	**First National Bank**	Clinton, Illinois	
Carl Corzine, President	**First National Bank**	Assumption, Illinois	
Patricia Clarke, President	**First National Bank**	Raymond, Illinois	
Henry River, President	**First National Bank**	Pickneyville, Illinois	
George Mitchell, President	**First National Bank**	Marshall, Illinois	
Craig L. Campbell, President	**First National Bank of Danville**	Danville, Illinois	
Kevin Readon, President	**First National Bank of Joliet**	Joliet, Illinois	
Bill McCarty, President	**First National Bank of Morton Grove**	Morton Grove, Illinois	
Dan Haider, President	**First National Bank of Newtown**	Newton, Illinois	
Roger Blankenship, President	**First National Bank of Nokomis**	Nokomis, Illinois	
Florian Barbi, President	**First National Bank of Wheaton**	Wheaton, Illinois	
Valdene Snodgrass, President	**First National Bank of Winnebago**	Winnebago, Illinois	
Sam Hovey, President	**First Security Bank**	Mackinaw, Illinois	
W. Rockwell Wirtz, President	**First Security Trust**	Elmwood Park, Illinois	
Marvin Siensa, President	**First State Bank**	Palos Hills, Illinois	
David Besler, President	**First State Bank of Bloomington**	Bloomington, Illinois	
David Davis, President	**First State Bank of Dix**	Dix, Illinois	
R.D. Fowles, President	**First State Bank of round Lake**	Round lake, Illinois	
Kenneth L. Shivers, President	**First State Bank of Winchester**	Winchester, Illinois	
Marvin E. Schatzman, CEO	**First Suburban National Bank**	Maywood, Illinois	
Marvin Schateman, President	**First Suburban National Bank**	Forest Park, Illinois	
Jack Tate, President	**First Trust Bank of Shelbyville**	Shelbyville, Illinois	
Jerome Vainisi, President	**Forest Park National Bank**	Forest Park, Illinois	
Moon Shin, President	**Foster Bank**	Chicago, Illinois	
Edwin Wallace, President	**Gerber State Bank**	Argenta, Illinois	
Philip Carlson, President	**Granville National Bank**	Granville, Illinois	
Martin Binder, President	**Greater Chicago Bank**	Bellwood, Illinois	
Michael Breen, President	**Hamel State Bank**	Hamel, Illinois	
Charles Helleny, President	**Herrin Security Bank**	Herrin, Illinois	
Chester Ward, President	**Illinois State Bank of Lake In The Hills**	Lake In The Hills, Illinois	
Andrew E. Timberg, President	**Interstate Bank**	Oak Forest, Illinois	
John Hutchinson, President	**Iroquois Farmers State Bank**	Iroquois, Illinois	
Edward Wehmer, President	**Lake Forest Bank & Trust**	Lake Forest, Illinois	
Hercules Bolos, President	**Lemont National Bank**	Lemont, Illinois	
David Grace, President	**Longview State Bank**	Longview, Illinois	
Donald Husser, President	**Malden State Bank**	Malden, Illinois	
Jerald Bartell, President	**Marine Trust of Carthage**	Carthage, Illinois	
Paul McCarthy, President	**Marquette National Bank**	Chicago, Illinois	
Ralph Egeland, President	**Marseilles Bank**	Marseilles, Illinois	
Donald Lindstrom, President	**Marshall County State Bank**	Varna, Illinois	
Dan Dugan, President	**Mercantile Trust & Savings**	Quincy, Illinois	
Theresa M. Gomez, President	**Metropolitan Bank & Trust Company**	Chicago, Illinois	
K.A. Skopec, President	**Mid City National Bank**	Chicago, Illinois	
C.W. Ruyle, President	**Midland Community Bank of Kincaid**	Kincaid, Illinois	

Brad Luecke, President	**Midwest Bank**	Chicago, Illinois	
Brad A. Luecke, President	**Midwest Bank and Trust Company**	Elmwood Park, Illinois	
Christopher Gavin, President	**Midwest Bank of Western Illinois**	Monmouth, Illinois	
John Eilering, Jr., President	**Mount Prospect National Bank**	Mount Prospect, Illinois	
Merlin Karlock, President	**Muncipal Trust and Savings Bank**	Bourbannais, Illinois	
Dominic Pantano, President	**National Bank of Commerce**	Berkeley, Illinois	
James Bann, President	**National Bank of Earlville**	Earlville, Illinois	
George Cline, President	**National Bank of St. Anne**	St. Anne, Illinois	
Rick Abell, President	**National State Bank of Metropolis**	Metropolis, Illinois	
Scott M. Yelvington, President	**North Community Bank**	Chicago, Illinois	
James Randall, President	**Northside Community Bank**	Gurnee, Illinois	
Richard Rieser, President	**Oak Brook Bank**	Oak Brook, Illinois	
Robert Sullivan, President	**Oak Trust Bank**	Chicago, Illinois	
Betty Chow, President	**Pacific Global Bank**	Chicago, Illinois	
Eugene Carter	**Park Ridge Community Bank**	Park Ridge, Illinois	
Douglas L. Campbell, President	**Peotone Bank and Trust Company**	Peotone, Illinois	
Robert Wareham, President	**Plaza Bank**	Norridge, Illinois	
Edward Vogelsinger, President	**Pontiac National Bank**	Pontiac, Illinois	
Brian DiBonce, President	**Prarie Stae Bank**	Marengo, Illinois	
Carlos Montoya, President	**Republic Bank**	Darien, Illinois	
Andrew B. Robinson, President	**Rock River Bank**	Oregon, Illinois	
Kelly O'Keeffe, President	**Royal American Bank**	Inverness, Illinois	
Dana Roudebush, President	**Schuyler State Bank**	Rushville, Illinois	
Timothy J. Hoehn, President	**Security National Bank**	Witt, Illinois	
Fred C. Reim, President	**Security National Bank**	Pottstown, Illinois	
Marc Grayson, President	**South Central Bank**	Chicago, Illinois	
Don Ward, President	**South Holland Bank**	South Holland, Illinois	
Alfred J. O'Malley, CEO	**Standard Bank and Trust Company**	Evergreen Park, Illinois	
Billy Blair, President	**State Bank of Ashland**	Ashland, Illinois	
Dave Kraemer, President	**State Bank of Chrisman**	Chrisman, Illinois	
Thomas Boyle, President	**State Bank of Countryside**	Countryside, Illinois	
Charles Riker, President	**State Bank of Hersher**	Hersher, Illinois	
Marlin France, President	**State Bank of Industry**	Industry, Illinois	
John Hefner, President	**State Bank of Jerseyville**	Jerseyville, Illinois	
Gary Vest, President	**State Bank of Lima**	Lima, Illinois	
Steven Kelly, President	**State Bank of Pearl City**	Pearl City, Illinois	
William Lannon, President	**State Bank of Savnemin**	Savnemin, Illinois	
Wilber Meinen, President	**Success National Bank**	Lincolnshire, Illinois	
John Sumner, President	**Sumner National Bank of Sheldon**	Sheldon, Illinois	
Denzil Walker	**The Bank of Herrin**	Herrin, Illinois	
Daile R. Wambir, President	**The First National Bank of Gilman**	Gilman, Illinois	
Fred Shaw, President	**Union National Bank**	Elgin, Illinois	
Ronald Duitsman, President	**University National bank**	Chicago, Illinois	
Robert P. Griffiths, President	**Uptown National Bank of Chicago**	Chicago, Illinois	
Robert Griffiths, President	**Uptown National Bank of Gilman**	Gilman, Illinois	
Dean Carlson, President	**Valley Community Bank**	St. Charles, Illinois	

Ralph Surmeir, President	**Village Bank**	St. Libory, Illinois	
John Reck, President	**Village Bank**	North Barrington, Illinois	
Robert Pfeffer, President	**Warren-Boynton State Bank**	New Berlin, Illinois	
Robert Pfeffer, President	**Warren-Boynton State Bank**	Warren-Boynton, Illinois	
Donald Dempsey, President	**Washington State Bank**	Washington, Illinois	
Donald Dempsey, President	**Washington State Bank**	Chicago, Illinois	
Fred Eitel, President	**Westbank**	Westchester, Illinois	
Ernest H. Benecke, CEO	**Whaples & Farmers State Bank**	Neponset, Illinois	
Thomas L. Bugielski, President	**Worth Bank & Trust**	Worth, Illinois	
		Illinois	*153*
James S. Murphy, President	**Greensfork Township State Bank**	Spartanburg, Indiana	
Steve D. Kendall, Executive Vice President	**Spencer County Bank**	Santa Claus, Indiana	
R. Richard Hoel, President	**The First National Bank of Odon**	Odon, Indiana	
Donald A. W. Patterson, President	**The Merchants Bank & Trust Co.**	West Harrison, Indiana	
Norman Locke, President	**The Union County National Bank of Liberty**	Liberty, Indiana	
		Indiana	*5*
Kevin J. Boyle, President	**American Interstate Bank**	Manning, Iowa	
William K Stout, President	**American Trust & Savings Bank**	Lowden, Iowa	
David R. Horst, President	**Benton County State Bank**	Blairstown, Iowa	
Terrence Geiger, President	**Citizens Bank**	Leon, Iowa	
George H. Perry, President	**City National Bank**	Shenandoah, Iowa	
Thomas H. Huston, President	**Columbus Junction State Bank**	Columbus Junction, Iowa	
Greg J. Currell, President	**Emmet County State Bank**	Estherville, Iowa	
Max W. Cory, CEO	**Fairbank State Bank**	Fairbank, Iowa	
Michael W. Dunn, President	**Farmers & Merchants Savings Bank**	Manchester, Iowa	
James J. White, CEO	**Farmers Savings Bank**	Halbur, Iowa	
Robert E. Chittenden, President	**Farmers Savings Bank**	Altoona, Iowa	
James J. White, President	**Farmers Savings Bank**	Colesburg, Iowa	
Larry E. Kern, President	**Farmers Savings Bank**	Kalona, Iowa	
William C. Talen, President	**Farmers Savings Bank & Trust**	Traer, Iowa	
William C. Talen, President	**Farmers Savings Bank & Trust - Vinton**	Vinton, Iowa	
Todd M. Langenfeld, President	**Farmers Trust & Savings Bank**	Earling, Iowa	
Scott Bargfrede, President	**First American Bank**	Webster City, Iowa	
R.H. VanHorn, CEO	**First Bank & Trust Co.**	Gidden, Iowa	
Myron D. Rozell, President	**First Bank of Mapleton**	Mapleton, Iowa	
O. Jay Thompson, Chairman	**First Citizens National Bank**	Mason City, Iowa	
Mark L. Mosbrucker, President	**First National Bank**	Davenport, Iowa	
Jay R. Rehnstrom, President	**First State Bank**	Sioux Rapids, Iowa	
Thomas E. Finnigan, President	**Fremont County Savings Bank**	Sidney, Iowa	
Craig A Arendt, President	**Gibson Saving Bank**	Gibson, Iowa	
Stephen G. Suiter, President	**Great River Bank & Trust**	Princeton, Iowa	
Kevin Swalley, President & CEO	**Grundy National Bank**	Grundy Center, Iowa	
Martin R. Helgerson, President	**Hedrick Savings Bank**	Hedrick, Iowa	
William Hess, President	**Iowa Savings Bank**	Carroll, Iowa	
James M. Kerndt, President	**Kerndt Bros. Savings Bank**	Lansing, Iowa	
Robert B. Stump, President	**Libertyville Savings Bank**	Libertyville, Iowa	

R. L. Loerch, President	**Manson State Bank**	Manson, Iowa	
C. Keith Hieber, President	**Moorhead State Bank**	Moorehead, Iowa	
Larry Wenzl, CEO	**Panora State Bank**	Panora, Iowa	
R.L. Arendt, President	**Peoples Savings Bank**	Montezuma, Iowa	
Joe Johnson, President	**Peoples Savings Bank**	Elma, Iowa	
Michael D. Garris, President	**Peoples State Bank**	Winfield, Iowa	
Richard L. Aadland, President	**Pioneer Bank**	Sergeant Bluff, Iowa	
Don E. Shields, CEO	**Rowley Savings Bank**	Rowley, Iowa	
Larry Grimstad, President	**Security Bank & Trust Company**	Ecorah, Iowa	
Jerry Adams, President	**Security State Bank**	Sheldon, Iowa	
James K. Burdick, President	**Security State Bank**	Anamosa, Iowa	
E.L. Ballou, CEO	**Security Trust & Savings**	Storm Lake, Iowa	
D. M. Erusha, President	**Solon State Bank**	Solon, Iowa	
Fred W. Hagemann, President	**State Bank of Waverly**	Waverly, Iowa	
Mark C. Hooper, CEO	**State Savings Bank**	Rake, Iowa	
Roger E. Campbell, President & CEO	**The Citizens Bank**	Moulton, Iowa	
James N. Wood, President	**The First National Bank of Logan**	Logan, Iowa	
Terry D. Long, President	**The First State Bank of Thornton**	Thornton, Iowa	
Abram Tubbs, President	**Tri-County Bank & Trust**	Cascade, Iowa	
Robert L. Foust, CEO	**Union Bank & Trust Company**	Strawberry Point, Iowa	
Jeffrey J. Nolan, President	**Union State Bank**	Winterset, Iowa	
Ronald R. Kneip, President	**Union State Bank**	Greenfield, Iowa	
Leroy C. Darby, President	**Union State Bank**	Monona, Iowa	
Rollin R. Harder, President	**Valley State Bank**	Guttenberg, Iowa	
Robert V. Dentel, President	**Victor State Bank**	Victor, Iowa	
Gerrold E. Kuester, President	**Watkins Savings Bank**	Watkins, Iowa	
Robert G. Meyer, President	**Wayland State Bank**	Mount Pleasant, Iowa	
		Iowa	*57*
David T. Chen, President	**American Pacific Bank**	Portland, Kansas	
E.F. Heiman, President	**Baileyville State Bank**	Seneca, Kansas	
Joseph E. Beaudet, President	**Bank of Kansas**	South Hutchinson, Kansas	
R. S. Braksick, President	**Bank of McLouth**	McLouth, Kansas	
Jo A. Galbraith, President	**Bank of Perry**	Perry, Kansas	
M. Hal Taylor, President	**Caney Valley National Bank**	Caney, Kansas	
Steven K. Prickett, President	**Citizens State Bank**	Geneseo, Kansas	
Jack E. Rowden, President	**Citizens State Bank**	Hugoton, Kansas	
J. Murray Downing, President	**Ellis State Bank**	Ellis, Kansas	
John H. White, President	**Farmers & Drovers Bank**	Council Grove, Kansas	
Leon A. Drouhand, President	**Farmers & Merchants State Bank**	Argonia, Kansas	
Jerry G. Patterson, President	**Farmers & Merchants State Bank**	Wakefield, Kansas	
Jerry D. Hanzlick, President	**Farmers and Merchants Bank of Hill City**	Hill City, Kansas	
Buford Van Loenen, President	**Farmers State Bank**	Phillipsburg, Kansas	
M.D. Jeffers, President	**First National Bank in Fredonia**	Fredonia, Kansas	
Robert Lampert, President	**First National Bank of Beloit**	Beloit, Kansas	
J.A. Cordts, President	**First Security Bank**	Overbrook, Kansas	
Norman L. Nelson, President	**First State Bank**	Norton, Kansas	

Patrick F. Weldon, President	**Garden Plain State Bank**	Wichita, Kansas	
Thomas V. Corns, President	**Greensburg State Bank**	Greensburg, Kansas	
Scott W. Cooper, President	**Kansas State Bank**	Garnett, Kansas	
Clyde M. Burns, President	**Lyndon State Bank**	Lydon, Kansas	
John R. Suderman, President	**Midland National Bank**	Newton, Kansas	
Max R. Meuli, President	**Peoples Bank, National Association**	Coldwater, Kansas	
Dale Dieterick, President	**Peoples National Bank & Trust**	Ottowa, Kansas	
Patrick Alexander, President	**Security National Bank**	Manhattan, Kansas	
C. Edward Wray, President	**Sedgwick State Bank**	Sedgwick, Kansas	
Nolen G. Talon, President	**St. John National Bank**	St. John, Kansas	
James L. Mees, President	**St. Mary's State Bank**	St. Mary's, Kansas	
Harry L. Catlin, President	**State Bank of Burdent**	Burden, Kansas	
Gaylord D. Anderson, President	**State Bank of Carbondale**	Carbondale, Kansas	
Thomas V. Homan, President	**State Bank of Leon**	Leon, Kansas	
D. Max Fuller, President	**Stockgrowers State Bank**	Maple Hill, Kansas	
C. Lewis Evins, President	**The Farmers & Merchants Bank of Colby**	Colby, Kansas	
William R. Boese, Jr., President	**The Farmers National Bank**	Osborne, Kansas	
J.D. Porter, Jr., President	**The First National Bank of Southern Kansas**	Mount Hope, Kansas	
Leon A. Drouhard, CEO	**The Freeport State Bank**	Harper Kansas	
Patrick A. Kerschen, President	**The Freeport State Bank**	Freeport, Kansas	
Scott M. Johnson, President	**The Marquette Farmers State Bank**	Marquette, Kansas	
Gary L. Kay, President	**The Nekoma State Bank**	La Crosse, Kansas	
D.E. Evans, President	**The State Bank of Lebo**	Lebo, Kansas	
Patrick M. Ryan, President	**The Yardville Bank**	Yardville, Kansas	
		Kansas	42
Lahoma Y. Majors, CEO	**Bank of Caneyville**	Caneyville, Kentucky	
Lindell R. Sharp, President	**Bank of Clarkson**	Clarkson, Kentucky	
Lindell R. Sharp, President	**Bank of Clarkson**	Clarkson, Kentucky	
Dorothy McClellan, CEO	**Bank of Lowes**	Lowes, Kentucky	
Mark R. Herren, CEO	**Bank of the Bluegrass & Trust Company**	Lexington, Kentucky	
John N. Manning, CEO	**Bedford Leon & Deposit Bank**	Bedford, Kentucky	
Robert D. Neff, CEO	**Citizens Bank**	Morehead, Kentucky	
Mark U. Johnson, President & CEO	**Citizens Bank & Trust Company**	Campbellsville, Kentucky	
Rob Porter, President	**Citizens National Bank**	Russellville, Kentucky	
Clay Parker Davis, President	**Citizens National Bank of Somerset**	Somerst, Kentucky	
Steve Story, President	**Citizens State Bank**	Wickliffe, Kentucky	
Carl M. Thomas, CEO	**Commonwealth Bank & Trust Company**	Louisville, Kentucky	
Gary W. Miller, President	**Commonwealth Community Bank, Inc**	Hartford, Kentucky	
Melvin M. Goody, CEO	**Cumberland Security Bank**	Somerset, Kentucky	
Edgar Purdom, CEO	**Farmers National Bank of Cynthiana**	Cynthiana, Kentucky	
Garland Certain, CEO	**First Kentucky Bank**	Sturges, Kentucky	
Donald E. Smith, President	**First National Bank**	Sandy Hook, Kentucky	
J. Phil Smith, President	**First National Bank**	Jackson, Kentucky	
Randell Brewer, CEO	**First National Bank and Trust**	London, Kentucky	
Jerry W. Johnson, President	**First Security Bank and Trust, McLean**	Island, Kentucky	
Julian E. Beard, President	**First Security Bank of Lexington, Inc.**	Lexington, Kentucky	

Howard Sanders, President	**First Security Bank of Owensboro, Inc.**	Owensboro, Kentucky	
Charles H. Monarch, President	**First State Bank**	Irvington, Kentucky	
James O. Butts, President	**Fulton Bank**	Fulton, Kentucky	
John H. Mays, President	**Heritage Bank of Ashland, Inc.**	Ashland, Kentucky	
Gary F. Clifton, President & CEO	**Kentucky Home Bank, Inc.**	Bardstown, Kentucky	
Ronald J. Pence, President	**Kentucky National Bank**	Elizabethtown, Kentucky	
Bill C. Burchett, President	**Kentucky National Bank of Pikeville**	Pikeville, Kentucky	
Carroll Yates, President	**Lewisburg Banking Company**	Lewisburg, Kentucky	
B. Proctor Caudill, President	**Peoples Bank**	Morehead, Kentucky	
John L. Burton, CEO	**Peoples Security Bank**	Louisa, Kentucky	
James O. King, CEO	**Peoples State Bank**	Chaplin, Kentucky	
Robbie Polin, President	**Springfield State Bank**	Springfield, Kentucky	
David H. Brooks, CEO	**Stock Yards Bank & Trust Company**	Louisville, Kentucky	
R. Edward Parsons, CEO	**The Bank of Harlan**	Harlan, Kentucky	
Larry T. Griffin, CEO	**The Casey County Bank**	Liberty, Kentucky	
Malcolm L. Carraco, President	**The First National Bank**	Carrollton, Kentucky	
G.W. Hardy, President	**The Peoples Bank of Bullitt County**	Shepherdsville, Kentucky	
Darryl T. Traylor, CEO	**United Citizens Bank & Trust Company**	Campbellsburg, Kentucky	
Ronald W. Rousey, President & CEO	**Whitaker Bank, NA**	Lexington, Kentucky	
		Kentucky	40
James Cibadie Jr., CEO	**Bank of Commerce**	White Castle, Louisiana	
Gerald Holland, CEO	**Bank of Coushatta**	Coushatta, Louisiana	
Leonard H. Gayle, Chairman	**Bank of Gueydan**	Gueydan, Louisiana	
Wade H. Jones III, CEO	**Bank of Lecompte**	Lecompte, Louisiana	
James H. Snyder, CEO	**Bank of Montgomery**	Montgomery, Louisiana	
Brent K. Vidrine, CEO	**Bank of Sunset Trust Company**	Sunset, Louisiana	
James T Boone, President	**Business Bank of Baton Rouge**	Baton Rouge, Louisiana	
Roy M. Raftery, CEO	**Cameron State Bank**	Lake Charles, Louisiana	
Jay Lambert, CEO	**Church Point Bank & Trust**	Church Point, Louisiana	
Edward B. Middleton, CEO	**Citizens Bank & Trust**	Plaquemine, Louisiana	
Joe H. Pierson Jr., CEO	**City Bank & Trust Company**	Natchetoches, Louisiana	
William E. Dorroh, CEO	**Community Bank of Louisiana**	Mansfield, Louisiana	
Rodney D. Kendrick Jr., CEO	**Farmers Bank & Trust of Cheneyville**	Cheneyville, Louisiana	
John I. Stewart, CEO	**Felician Bank & Trust**	Clinton, Louisiana	
John R. Welborn, CEO	**First National Bank in DeRidder**	DeRidder, Louisiana	
Brand Dufrene, CEO	**First National Bank of St. Charles Parish**	Boiette, Louisiana	
Jack A. Batson, CEO	**First National of Benton**	Benton, Louisiana	
Albert C. Christman, CEO	**Guaranty Bank & Trust Company of Delhi**	Delhi, Louisiana	
Wilbur C. McDonald, CEO	**Jackson Parish Bank**	Jonesboro, Louisiana	
C.H. Allen, President	**Jonesboro State Bank**	Jonesboro, Louisiana	
Vernon Johnson, President	**Kaplan State Bank**	Kaplan, Louisiana	
Larry J. Callais, CEO	**MC Bank & Trust**	Morgan City, Louisiana	
Roland P. Gaspard, EVP	**Merchants & Farmers Bank**	Melville, Louisiana	
Ron Steed, CEO	**Merchants & Farmers Bank & Trust**	Leesville, Louisiana	
Albert J. Adolph, CEO	**Metro Bank**	Keener, Louisiana	
M.M. Bush, CEO	**Mississippi River Bank**	Belle Chasse, Louisiana	

Peter J. Lepari, CEO	**Patterson State Bank**	Patterson, Louisiana	
H. Alton Spillers, CEO	**Peoples Bank**	Chatham, Louisiana	
Randy Lovitt, CEO	**Peoples Bank of Louisiana**	Amite, Louisiana	
E. Wayne Davis, CEO	**Progressive National Bank of Desoto Parish**	Mansfield, Louisiana	
R. Blake Chatelain, President	**Red River Bank**	Alexandria, Louisiana	
Bruce F. Cucchiara, CEO	**Resource Bank**	Mamou, Louisiana	
Glenn Geddis, CEO	**Schwegmann Bank & Trust**	Hervery, Louisiana	
Larry J. Comeaux, CEO	**St. Martin Bank & Trust Co.**	St. Martinville, Louisiana	
W. E. Hawkins Jr., CEO	**Teusas State Bank**	Newellton, Louisiana	
Joe A. Davenport III, CEO	**The Mer Rouge State Bank**	Mer Rouge, Louisiana	
James E. Benoit, CEO	**Vermillion Bank & Trust**	Kaplan, Louisiana	
D. Creig Brignac, CEO	**Washington State Bank**	Washington, Louisiana	
Gene Keith, President	**West Carroll Community Bank**	Oak Grove, Louisiana	
Michael L. Woods, CEO	**Winnsboro State Bank & Trust**	Winnsboro, Louisiana	
		Louisiana	40
Robert W. Daigle, CEO	**Camden National Bank**	Camden, Maine	
Gregory Caswell, President	**Coastal Bank**	Portland, Maine	
Edwin N. Clift, President & CEO	**Merrill Merchants Bank**	Bangor, Maine	
Hal J. Allen, CEO	**Orem Community Bank**	Biddeford, Maine	
John C. Everett, CEO	**Pepperell Trust Company**	Biddeford, Maine	
Daniel R. Daigneault, CEO	**The First National Bank of Damariscotta**	Damariscotta, Maine	
		Maine	6
Richard M. Lerner, CEO	**Annapolis National Bank**	Annapolis, Maryland	
Sara W. Jarmon, CEO	**Bank of Ocean City**	Ocean City, Maryland	
Earl R. Gieseman III, President & CEO	**County First Bank**	La Plata, Maryland	
Jan W. Clark, CEO	**County National Bank of Maryland**	Glen Burnie, Maryland	
Stephen B. Bennett, President	**Damasaus Community Bank**	Damasaus, Maryland	
H.L. Ward, President	**Eagle Bank**	Bethesda, Maryland	
Charles H. Jacobs, Jr., President	**Hartford National Bank**	Havre De Grace, Maryland	
Jeffrey F. Turner, CEO	**Peninsula Bank**	Princess Anne, Maryland	
Peter M. Martin, CEO	**Provident Bank of Maryland**	Baltimore, Maryland	
Edward M. Thomas, CEO	**The Bank of Delmarva, NA**	Delmar, Maryland	
		Maryland	10
James C. Lively, President	**Bridgewater Savings Bank**	Bridgewater, Massachusets	
Paul W. Brackett, President	**Brookline Co-Operative Bank**	Brookline, Massachusetts	
James F. Dwinell III, CEO	**Cambridge Trust Company**	Cambridge, Massachusetts	
A. Hollbrook, CEO	**Canton Co-Operative Bank**	Canton, Massachusetts	
Joseph M. Vinarde, President	**Chelesa-Provident Co-Operative**	Chelsea, Massachusetts	
James A. Langway, President & CEO	**Community National Bank**	Hudson, Massachusetts	
George L. Duncan, CEO	**Enterprise Bank and Trust**	Lowell, Massachusetts	
Jay Dunham, CEO	**Liberty Bank & Trust**	Boston, Massachusetts	
Jose Gouveia, Jr., CEO	**Luzo Community Bank**	New Bedford, Massachusetts	
Robert J. Stratton, President	**Medway Co-Operative Bank**	Medway, Massachusetts	
Paul H. Gauthier, President	**Pilgrim Co-Operative Bank**	Cohasset, Massachusetts	
Lennart B. Plahn, President	**Roxbury-Highland Co-Operative Bank**	Jamaica Plain, Massachusetts	

Eugene G. Stone, President	**Summit Bank**	Medway, Massachusetts	
Kevin Cohee, CEO	**The Boston Bank of Commerce**	Boston, Massachusetts	
Barry F. Weed, CEO	**The National Grand Bank of Marblehead**	Marblehead, Massachusetts	
Jeffrey M. Liber, President	**Wrentham Co- Operative Bank**	Wrentham, Massachusetts	
		Massachusetts	16
Rob Carter, President	**Bank of Caro and Moberly**	Caro, Michigan	
Donald P. St. Germaine, President	**Baybank**	Gladstone, Michigan	
Ronald L. Meister, President	**Central Savings Bank**	Sault Ste. Marie, Michigan	
Oscar F. Socia, President	**Citizens State Bank**	New Baltimore, Michigan	
Allen G. Quick, President	**Community Bank**	Caro, Michigan	
Michael N. Nardi, President	**First Bank, Upper Michigan**	Gladstone, Michigan	
William Fuller, President	**First Independence National Bank of Detroit**	Decatur, Michigan	
Richard M. Bell, President	**First National Bank of Three Rivers**	Three Rivers, Michigan	
James H. Creagan, President	**First State Bank**	Detroit, Michigan	
Thomas J. Wesholski, President	**Grand Bank**	Grand Rapids, Michigan	
Peter Kubacki, President	**Greenville Community Bank**	Greenville, Michigan	
Robert C. Yeager, President	**Honor State Bank**	Honor, Michigan	
Roger D. Gurant, President	**Horizon State Bank**	Cameron, Michigan	
Michael L. Cahoon, President	**Huron National Bank**	Rogers City, Michigan	
David C. Reglin, President	**Independent Bank - West Michigan**	Rockford, Michigan	
James L. Smith, President	**MFC First National Bank**	Escanaba, Michigan	
Richard Zamojski, CEO	**Michigan Heritage Bank**	Novi, Michigan	
Clarke B. Maxon, President	**Midwest Guaranty Bank**	Troy, Michigan	
Ronald D. LaEeau, President	**Monroe Bank & Trust**	Monroe, Michigan	
John C. Wedling, President	**Montrose State Bank**	Montrose, Michigan	
Sherry Littlejohn, President	**North County Bank and Trust**	Manistique, Michigan	
Dennis O. Boyak, CEO	**Peoples State Bank**	Munising, Michigan	
James Elsensohn, President	**Security Bank**	Rich Hill, Michigan	
Thomas E. Kedorwski, President	**The Farwell State Savings Bank**	Farwell, Michigan	
Anna Mae Gugliotto, President	**The Miners State Bank of Iron River**	Iron River, Michigan	
Paul C. Patterson, President	**The State Savings Bank**	Frankfort, Michigan	
Ric W. Bucklow, President	**Tri-County Bank**	Brown City, Michigan	
Samuel L. Wanner, President	**West Michigan Community Bank**	Hudsonville, Michigan	
		Michigan	28
George O. Erickson, CEO	**Cambridge State Bank**	Cambridge, Minnesota	
Lawrence L. Hubrich, CEO	**Capital Bank**	St. Paul, Minnesota	
John E. Doofing, CEO	**Citizens Bank**	Wabasha, Minnesota	
Brian M. Norris, President	**Citizens State Bank of Shakopee**	Shakopee, Minnesota	
Romane A. Dold, President	**Currie State Bank**	Currie, Minnesota	
Erick A. Gandrud, President	**Eagle Bank**	Glenwood, Minnesota	
Helen S. Meium, President	**Farmers & Merchants State Bank**	Alpha, Minnesota	
Leslie W. Peterson, CEO	**Farmers State Bank of Trimont**	Trimont, Minnesota	
James W. Morton, President	**Fidelity Bank**	Edina, Minnesota	
Mark L. Leighton, CEO	**First American State Bank**	Hancock, Minnesota	
Jeffrey A. Betchwars, President	**First Commercial Bank**	Bloomington, Minnesota	

Loren E. Jilek, CEO	**First Community Bank**	Silver Lake, Minnesota	
Steven D. Prigge, CEO	**First National Bank**	Bovey, Minnesota	
Glenn D. Heitzman, President & CEO	**First National Bank**	Cold Spring, Minnesota	
Curt Newmann, EVP	**First National Bank**	Hawley, Minnesota	
D J Delaney, CEO	**First National Bank of the Lakes**	Navarro, Minnesota	
Richard Rabbe, CEO	**First Security Bank**	Sanborn, Minnesota	
Herb A. Peters, CEO	**First State Bank**	Saukey Centre, Minnesota	
Eugene D. Lindberg, CEO	**First State Bank**	Floodwood, Minnesota	
Michael Netland, CEO	**First State Bank of Audubon**	Audubon, Minnesota	
Gregory L. Benson, CEO	**First State Bank of Bayport**	Bayport, Minnesota	
Bruce Pogatchnik, President	**First State Bank of Finlayson**	Finlayson, Minnesota	
R.D. Peterson, President	**First State Bank of Grove City**	Grove City, Minnesota	
Mark C. Hooper, President	**Frost State Bank**	Frost, Minnesota	
L.J. Rolfs, President	**Hardwick State Bank**	Hardwick, Minnesota	
John S. Stellner, President	**Hometown Community Bank**	Cyrus, Minnesota	
Joyce E. Magner, CEO	**Marshall County State Bank**	Newfolden, Minnesota	
G.K. Cleveland, CEO	**North Carolina National Bank of Minnesota**	Minneapolis, Minnesota	
Lyman Grieve, President	**Olmsted National Bank**	Rochester, Minnesota	
David B. Lee, CEO	**Omega Bank, NA**	State College, Minnesota	
David M. Hyduke, CEO	**Peoples Bank of Commerce**	Cambridge, Minnesota	
Tim I Meininger, President	**Republic Bank, Inc.**	Duluth, Minnesota	
Ted Robertson, President	**Rushford State Bank**	Rushford, Minnesota	
Herbert A. Lund, CEO	**Security Bank of Minnesota**	Albert Lee, Minnesota	
Joel Schmitz, Executive Vice President & CEO	**St. Martin National Bank**	St. Martin, Minnesota	
James M. Loonan, President	**State Bank of Easton**	Easton, Minnesota	
C.R. Duroe, Chairman	**State Bank of Jeffers**	Jeffers, Minnesota	
Mark E. Greenway, CEO	**Steams Bank Canby NA**	Canby, Minnesota	
Kenneth A. Heiser, CEO	**The First National Bank of Hudson**	Woodbury, Minnesota	
Gordon L. Nelson, President	**The Gary State Bank**	Gary, Minnesota	
Mervin A. Zabel, President	**Union State Bank**	Browns Valley, Minnesota	
Richard D. Anderson, Chairman	**Valley State Bank of Oslo**	Oslo, Minnesota	
		Minnesota	**42**
C.D. Case, CEO	**Bank of Commerce**	Greenwood, Mississippi	
Steve Gresham, President	**Bank of Holly Springs**	Holly Springs, Mississippi	
Rodney Cockerham, President	**Bank of Jones County**	Laurel, Mississippi	
John A. Herrod, President	**Bank of Okolona**	Okolona, Mississippi	
Ray Britt, President	**Bank of Walnut Grove**	Walnut Grove, Mississippi	
James O. Rabby, President	**Bank of Wiggins**	Wiggins, Mississippi	
Odean Busby, President	**Citizens State Bank**	Magee, Mississippi	
Bobby Knox, CEO	**Community Bank**	Ellisville, Mississippi	
Freddie J. Bagley, President	**Community Bank of Mississippi**	Forest, Mississippi	
M. Paul Haynes, Jr., President	**Farmers & Merchants Bank**	Baldwin, Mississippi	
Mary Ann Bacon, CEO	**First American Bank**	Jackson, Mississippi	
Kelly Segers, Sr., President	**First American National Bank**	Iuka, Mississippi	
J.B. Yates, Chairman President & CEO	**First National Bank of Hohnes County**	Lexington, Mississippi	
D. Max Huey, CEO	**First National Bank of Picayune**	Picayune, Mississippi	

Larry J. Pratt, CEO	**First Security Bank**	Batesville, Mississippi	
Edward Rather, CEO	**First State Bank**	Holly Springs, Mississippi	
John G. Giles, Jr., CEO	**First State Bank**	Waynesboro, Mississippi	
Thomas E. Brown, President	**Magnolia State Bank**	Bay Springs, Mississippi	
L. Royce Cumbest, President & CEO	**Merchants Marine Bank**	Pascagoula, Mississippi	
James A. Hart, CEO	**Newton County Bank**	Newton, Mississippi	
George J. Shackelford, President	**Peoples Bank & Trust Co.**	North Carrollton, Mississippi	
Billy M. Bolton, President	**Spirit Bank**	Belmont, Mississippi	
J.H. Sasser Jr., CEO	**The Carthage Bank**	Carthage, Mississippi	
Steve Webb, Chairman, President & CEO	**The Citizens Bank**	Philadelphia, Mississippi	
Chevis C. Swetman, CEO	**The Peoples Bank**	Biloxi, Mississippi	
Mary Jenkinson, President	**Walthall Citizens Bank**	Tylertown, Mississippi	
		Mississippi	**26**
Jack Wagner, President	**Adrian Bank**	Adrian, Missouri	
Larry Roderman, President	**Bank of Bloomsdale**	Bloomsdale, Missouri	
Bradley Gregory, President	**Bank of Bolivar**	Bolivar, Missouri	
Daryl B. Sloan, President	**Bank of Creighton**	Creighton, Missouri	
Allen L. Lefko, CEO	**Bank of Grain Valley**	Grain Valley, Missouri	
Robert L. Minnick, President	**Bank of Iberia**	Iberia, Missouri	
Jerry W. McAllister, President	**Bank of Leeton**	Leeton, Missouri	
Barry Draper, President	**Bank of Minden**	Mindenmines, Missouri	
Virgil Welker, CEO	**Bank of Monticello**	Monticello, Missouri	
R.E. Oliphant, President	**Bank of Odessa**	Odessa, Missouri	
Dale Griessel, President	**Bank of Rothville**	Rothville, Missouri	
Robert J. Luecken	**Bank Star**	Pacific, Missouri	
Harold E. Turner, CEO	**Belgrade State Bank**	Belgrade, Missouri	
G.L. Thomas, CEO	**Blue Ridge Bank & Trust**	Kansas City, Missouri	
Wesley Condron, President	**Bunceton State**	Bank, Missouri	
Larry G. Freeman, President	**Carroll County Trust Co.**	Carrollton, Missouri	
Lawrence A. Collett, CEO	**Cass Commercial Bank**	Bridgeton, Missouri	
William M. Dana, President	**Central Bank of Kansas City**	Kansas City, Missouri	
Edward Douglas, CEO	**Citizens Bank And Trust Company**	Chillicothe, Missouri	
Reginald E. Young, President	**Citizens Bank of Charleston**	Charleston, Missouri	
Scott Childress, President	**Citizens Bank of Edina**	Edina, Missouri	
Jack Tucker, President	**Citizens Bank of Princeton**	Princeton, Missouri	
Mark Harbison, CEO	**Commercial Trust Company**	Fayette, Missouri	
David L. Cramer, President	**Community Bank of Marshall**	Marshall, Missouri	
Dennis Geoghegan, President	**Concord Bank**	St. Louis, Missouri	
Gregory D. Hall, President	**Concordia Bank**	Concordia, Missouri	
James B. Thomas, President	**Exchange Bank**	Mound City, Missouri	
Don Thompson, CEO	**Exchange Bank of Missouri**	Fayette, Missouri	
David Whan, President	**Exchange Bank of Northeast Missouri**	Kahoka, Missouri	
J.W. Farley, President	**Farley State Bank**	Parkville, Missouri	
Robert E. Mickey, Jr., President	**Farmers & Commercial Bank**	Holden, Missouri	
Karl W. Frederick, President	**Farmers State Bank Stanberry**	Stanberry, Missouri	
Don Winston, President	**First Commercial Bank**	Gideon, Missouri	

David S. Eblen, President	**First Community Bank of Taney County**	Branson, Missouri	
Joseph T. McLane, President	**First Midwest Bank of Dexter**	Dexter, Missouri	
Elaine Paxton, President	**First National Bank of Clinton**	Clinton, Missouri	
Maurice R. Sandford, President	**First National Bank of West Plains**	West Plains, Missouri	
Craig W. Conway, CEO	**Founders Bank**	Chesterfield, Missouri	
James L. Anderson, President	**Hamilton**	Hamilton, Missouri	
Terry G. Spillman, CEO	**Home Exchange Bank of Jamesport**	Jamesport, Missouri	
Lonnie W. Heckmaster, President	**Hometown Bank, NA**	Hometown, Missouri	
Roger D. Durant, President	**Horizon State Bank**	Cameron, Missouri	
Michael J. Ross, CEO	**Jefferson Bank & Trust Company**	St. Louis, Missouri	
Larry E. Richards, President	**Jonesburg State Bank**	Jonesburg, Missouri	
George P. Harris, President	**Kennett National Bank**	Kennett, Missouri	
Larry Greg, President	**Montrose Savings Bank**	Montrose, Missouri	
D.L. Jeffries, President	**Napoleon Bank**	Napoleon, Missouri	
Donald E. Thompson, CEO	**Peoples Bank &Trust Company of Lincoln**	Troy, Missouri	
Gaines S. Dittrich, CEO	**Pioneer Bank and Trust Company**	Maplewood, Missouri	
Jerry Hagg, President	**Platte Valley Bank of Missouri**	Platte City, Missouri	
Joseph G. Lunt, President	**Rockwood Bank**	Eureka, Missouri	
Kirk Sibley, President	**St. Clair County State Bank**	Osceola, Missouri	
W. Thomas Fowler, President	**State Bank of Southwest Missouri**	Springfield, Missouri	
R. David Crader, President	**The Bank of Missouri**	Perryville, Missouri	
Vincent Foust, President	**The Citizens Bank of Pilot Grove**	Pilot Grove, Missouri	
Darrell Spillers, President	**The Corner Stone Bank**	South West City, Missouri	
James R. Grimm, President	**The Mercantile Bank of Louisiana**	Louisiana, Missouri	
Edward W. Buscher, President	**The Missouri Bank**	Warrenton, Missouri	
Richard J. Bagy, President	**The National Bank of St. Louis**	Clayton, Missouri	
Richard J. Miller, CEO	**Truman Bank**	St. Louis, Missouri	
Robert Wakefield, President	**United State Bank**	Lewistown, Missouri	
Steve Walker, President	**Webb City Bank**	Webb City, Missouri	
John W. Coots, Jr., President	**Wells Bank of Platte City**	Platte City, Missouri	
		Missouri	**63**
Sheridan M. Erickson, President	**Blackfeet National Bank**	Browning, Montana	
John R. Ronneberg, President	**Citizens Bank of Trust Co.**	Big Timber, Montana	
Jim E. Johnson, Chairman	**Citizens State Bank of Choteau**	Choteau, Montana	
Roger W. Komder, President	**First Bank of Lincoln**	Lincoln, Montana	
Casey Riley, Chairman & CEO	**First Citizens Bank**	Butte, Montana	
John A. Dowdall, President	**First Citizens Bank of Pelson**	Pelson, Montana	
Jim E. Johnson, President	**First National Bank of Fairfield**	Fairfield, Montana	
Mike Polkowske, President	**First Security Bank**	West Yellowstone, Montana	
L.D. Jacobson, President	**First Security Bank of Deer Lodge**	Deer Lodge, Montana	
Gilbert J. Majerus, CEO	**First Security Bank of Roundup**	Roundup, Montana	
Gary L. Miller, President	**First Valley Bank**	Seeley Lake, Montana	
Stephen J. VanHelden, President	**Glacier Bank**	Kelispell, Montana	
Martin Gilman, President	**Glacier Bank of Whitefish**	Whitefish, Montana	
Fred Gariepy, President	**Lake County Bank**	St. Ignatius, Montana	
Donald Olson Sr., Chairman	**Ronan State Bank**	Ronan, Montana	

Murray S. Moore, President	**Stockmens Bank**	Cascade, Montana	
Michael J. Lurde, President	**The First National Bank of Ekalaka**	Ekalaka, Montana	
John R. King, President	**Three River Bank of Montana**	Kalispell, Montana	
Donald M. Vondra, President	**United Bank**	Absarokee, Montana	
J.L. Hensley, President	**Valley Bank of Kalispell**	Kalispell, Montana	
R.H. Sizemore, President	**Western Bank of Chinook, N.A.**	Chinook, Montana	
R.J. Doornek, President	**Western Bank of Wolf Point**	Wolfpoint, Montana	
		Montana	**22**
Mel Adams, CEO	**Adams Bank & Trust**	Ogallala, Nebraska	
Richard L. Clements, President	**American Exchange Bank**	Elmwood, Nebraska	
John F. Kotouo, CEO	**American National Bank**	Omaha, Nebraska	
Chris S. Caley, President	**Bank of Clarks**	Clarks, Nebraska	
James C. Arlt, President	**Bank of Lindsay**	Lindsay, Nebraska	
Stan Clifton, President	**Bank of Orchard**	Orchard, Nebraska	
Donald J. Janda, President	**Bank of St. Edward**	St. Edward, Nebraska	
Suzanne Brocher, President	**Bank of Steinauer**	Steinauer, Nebraska	
Paul Chatelain, President	**Bank of the Valley**	Bellwood, Nebraska	
Gary Hall, President	**Banner President County Bank**	Harrisburg, Nebraska	
Michael Sullivan, President	**Cedar Rapids State Bank**	Cedar Rapids, Nebraska	
Joe Hesselgesser, President	**Central Bank**	Central City, Nebraska	
Gordon J. Larson, President	**Coleridge National Bank**	Coleridge, Nebraska	
Robert Labenz, President	**Columbus Bank**	Columbus, Nebraska	
Bill D. Zahl, CEO	**Commercial Bank**	Stratton, Nebraska	
Lee Clabaugh, CEO	**Commercial Bank**	Nelson, Nebraska	
Jerry Waldo, President	**Commercial State Bank**	Republican, Nebraska	
John Wilkenson, President	**Curtis State Bank**	Curtis, Nebraska	
Curtis Masbergen, President	**Dakota County State Bank**	Sioux City, Nebraska	
F.P. Giltner, Chairman	**Famers State Bank of Nebraska**	Bennet, Nebraska	
J. Jeff England, President	**Farmers & Merchants bank**	Axtell, Nebraska	
Timothy E. Keller, President	**Farmers & Merchants State Bank of Wayne**	Wayne, Nebraska	
Merle J. Artz, CEO	**Farmers State Bank**	Wallace, Nebraska	
G.A. Ferris, President	**Farmers State Bank**	Silver Creek, Nebraska	
L.V. Hassenstab, President	**Farmers State Bank**	Humphrey, Nebraska	
Karl J. Randecker, President	**Farnam Bank**	Farnam, Nebraska	
Edward Boos, President & CEO	**First Bank & Trust Company**	Cozad, Nebraska	
Gary W. Thompson, LO	**First Central Bank**	Cambridge, Nebraska	
Richard E. Sinkule, President	**First National Bank**	Bancroft, Nebraska	
Richard E. Qualsett, President	**First National Bank**	Schuyler, Nebraska	
Robert Brandt, President	**First National Bank**	Unadilla, Nebraska	
Steve Stallenbach, President	**First National Bank**	Wahoo, NE	
Timothy L. Riewer, President	**First National Bank & Trust of Fullerton**	Fullerton, Nebraska	
Bob Burkley, Chairman	**First National Bank of Fairbury**	Fairbury, Nebraska	
Thomas F. Riedmiller, President	**First State Bank**	Randolph, Nebraska	
Brad Gangwish, CEO	**First State Bank**	Shelton, Nebraska	
Terrance R. Sullivan, President	**Great Basin Bank of Nevada**	Elko, Nebraska	
Steven L. Voorhees, President	**Harvard State Bank**	Harvard, Nebraska	

Lloyd R. Kitrell, President & CEO	**Hastings State Bank**	Hastings, Nebraska	
N.W. Wackel, President	**Kimball County Bank**	Bushnell, Nebraska	
Douglas Christensen, CEO	**Midwest Bank, NA**	Pierce, Nebraska	
John Koreslman, President	**Pender State Bank**	Pender, Nebraska	
Dennis W. Freeburg, CEO	**Petersburg State Bank**	Petersburg, Nebraska	
Mark A. Hesser, CEO	**Pinnacle Bank**	Lincoln, Nebraska	
Korlin Lutt, CEO	**Platte Center Bank**	Platte Center, Nebraska	
Thomas E. Wolf, President	**Platte Valley Bank**	North Bend, Nebraska	
James E. Landon, President & CEO	**Security National Bank of Omaha**	Omaha, Nebraska	
William B. Watson, President	**Security State Bank**	Ansley, Nebraska	
Gerald E. Wortman, President	**Sherman County Bank**	Loup City, Nebraska	
Jon D. Shaffer, President	**Spalding City Bank**	Spalding, Nebraska	
Laverne T. Pratt, President	**State Bank of Riverdale**	Riverdale, Nebraska	
Ricky L. Kunze, President	**State Bank of Table Rock**	Table Rock, Nebraska	
Gregory A. Hunter, President & CEO	**Stockmans National Bank**	Rushville, Nebraska	
J.D. Ferguson, President	**The First National Bank of Marquette**	Marquette, Nebraska	
Karl J. Randecker Jr., CEO	**The Security Bank**	Sidney, Nebraska	
Barry V. Marsh, President	**The Tilden Bank**	Tilden, Nebraska	
Sandra K. Peterson, Chairman	**Western State Bank**	Waterloo, Nebraska	
David Wamemunde, President	**Winside State Bank**	Winside, Nebraska	
		Nebraska	**58**
Larry L. Woodrum, President	**Bankwest of Nevada**	Las Vegas, Nevada	
James W. Howard	**Desert Community Bank**	Las Vegas, Nevada	
John C. Gianoli, President	**First National Bank of Ely**	Ely, Nevada	
Wayne N. Condon, President	**Heritage Bank of Nevada**	Reno, Nevada	
Jackie Delaney, President	**Sun West Bank**	Las Vegas, Nevada	
		Nevada	**5**
James A. Seppala, President	**Lancaster National Bank**	Lancaster, New Hampshire	
Gregory M. Dickinson, President	**Village Bank & Trust Company**	Gilford, New Hampshire	
		New Hampshire	**2**
George E Scharpf, President & CEO	**Amboy National Bank**	Old Bridge, New Jersey	
Paul VanOstenbridge, President	**Atlantic Stewardship Bank**	Midland Park, New Jersey	
Robert O'Donnell, President & CEO	**Community Bank of New Jersey**	Freehold, New Jersey	
Michael M. Quick	**Equity Bank, NA**	Atco, New Jersey	
John E. Pellizzari, President	**First Bank of Central New Jersey**	North Brunswick, New Jersey	
Mark A. Walters, President & CEO	**Grand Bank, NA**	Kingston, New Jersey	
George E. Irwin, President & CEO	**Great Falls Bank**	Totowa, New Jersey	
Anthony S. Abbate, President & CEO	**Interchange Bank**	Saddle Brook, New Jersey	
Arthurr L. Zande, President & CEO	**Lakeland Bank**	New Foundland, New Jersey	
Dennis W. DiLazzero, President	**Minotola National Bank**	Vineland, New Jersey	
Mayo Sisler, CEO	**New Millennium Bank**	New Brunswick, New Jersey	
Eugene W. Rogers, CEO	**Newfield National Bank**	Newfield, New Jersey	
David L. Hensley, President & CEO	**Phillipsburg National Bank & Trust Co.**	Phillipsburg, New Jersey	
Theodore Bessler, President & CEO	**Shore Community Bank**	Tom's River, New Jersey	
James W. Harkness Jr., President & CEO	**Shrewsbury State Bank**	Shrewsbury, New Jersey	

Donald L. Kovach, Chairman, President & CEO	**Sussex County State Bank**	Franklin, New Jersey	
Dennis C. Longwell, President & CEO	**The Bank of Somerset Hills**	Bernardsville, New Jersey	
Harry Ewell, President	**The First National Bank of Absecon**	Absecon, New Jersey	
Robert A. Vandenberg, President	**The National Bankof Sussex County**	Branchville, New Jersey	
Brian Fitzpatrick, President	**The Newton Trust Company**	Newton, New Jersey	
Robert W. Dowens, Sr., President & CEO	**The Town Bank of Westfield**	Westfield, New Jersey	
Antonio Lim, President & CEO	**United Heritage Bank**	Edison, New Jersey	
		New Jersey	**22**
Joseph P. Casey, President	**Ambank**	Silver City, New Mexico	
Ronald L. Schmelts, President	**International Bank**	Raton, New Mexico	
R. Greg Leyendecker, President	**New Mexico Bank & Trust**	Albaquerque, New Mexico	
Henry Jaramillo, President	**Ranchers Bank**	Belen, New Mexico	
Kent Carruthers, President	**The Citizens Bank of Clovis**	Clovis, New Mexico	
John H. Burson, President	**Valley Bank of Commerce**	Roswell, New Mexico	
		New Mexico	**6**
Gary W. Kavney, CEO	**Adirondack Bank, National Association**	Utica, New York	
David R. Alvord, President	**Alliance Bank**	Cortland, New York	
William Bennison, Chairman, President & CEO	**Ballston Spa National Bank**	Ballston, New York	
E. Peter Forrestel II, President	**Bank of Akron**	Akron, New York	
Karl V. Anderson, Chairman & President	**Bank of Avoca**	Avoca, New York	
Patrick J. Cullen, Chairman & CEO	**Bank of Cattaraugus**	Cattaraugus, New York	
Mark Lunderman, President & CEO	**Bank of Holland**	Holland, New York	
Ron Mosca, Executive Vice President	**Bank of Millbrook**	Millbrook, New York	
Bradley E. Rock, Chairman & CEO	**Bank of Smithtown**	Smith, New York	
Thomas Tobin, President & CEO	**Bridgehampton National Bank**	Bridgehampton, New York	
Salvatore Marranca, President & CEO	**Cattaraugus County Bank**	Little Valley, New York	
G. William Ryan, President & CEO	**Cayuga Lake National Bank**	Union Springs, New York	
Patricia W. Gilmore, President	**Citizens Bank of Cape Vincent**	Cape Vincent, New York	
William N. Smith, Chairman & CEO	**City National Bank & Trust Co**	Gloversville, New York	
Francis Brinkley, President & CEO	**Community Bank of Sullivan County**	Monticello, New York	
Sanford A. Belden, President & CEO	**Community Bank, N.A.**	DeWitt, New York	
William Burke, President	**Country Bank**	Carmel, New York	
J. William Lempka, President & CEO	**Ellenville National Bank**	Ellenville, New York	
Richard M. Craig, Chairman, President & CEO	**Evans National Bank**	Angola, New York	
Daniel Burke, President	**Evergreen Bank**	Glens Falls, New York	
Donald M. Frain, President	**Excel Bank, N.A.**	New York, New York	
Peter G. Humphrey, President & CEO	**Financial Institutions, Inc.**	Warsaw, New York	
Ronald C. Denniston, President & CEO	**First National Bank of Dryden**	Dryden, New York	
Raymond L. Walter, President	**First National Bank of Jeffersonville**	Jeffersonville, New York	
Patrick F. Donnelly, President	**First State Bank**	Canisteo, New York	
Thomas L. Hoy, President & CEO	**Glens Falls National Bank**	Glens Falls, New York	
John N. Finnerty, President & CEO	**Hudson Valley Bank**	Yonkers, New York	
John L. Pritchard, Executive Director	**Independent Bankers Association of NYS**	Albany, New York	
Lowell S. Dansker, CEO	**Intervest National Bank**	New York, New York	
Douglas Manditch, President & CEO	**Long Island Commercial Bank**	Islandia, New York	

Richard Malarski, President	**National Bank of Florida**	Florida, New York	
Robert Sherwood, President	**National Union Bank of Kinderhook**	Kinderhook, New York	
Daryl R. Forsythe, President & CEO	**NBT Bank, NA**	Norwich, New York	
Serafin U. Mariel, President	**New York National Bank**	New York, New York	
John W. Borland, President	**Orange County Trust Company**	Middletown, New York	
Robert J. Sharlow, President & CEO	**Redwood National Bank**	Alexandria Bay, New York	
Michael F. Manzulli	**Richmond County Savings Bank**	West New Brighton, New York	
Paul H. Engels, President	**Riverside Bank**	Poughkeepsie, New York	
Raymond F. O'Connor, President & CEO	**Saratoga National Bank & Trust Co.**	Saratoga Springs, New York	
Burt Taber, CEO	**Savannah Bank, NA**	Savannah, New York	
Thomas S. Bielicki, President & CEO	**State Bank of Chittenango**	Chittenango, New York	
Richard W. Merzbacher, President & CEO	**State Bank of Long Island**	Jericho, New York	
Kenneth D. Philbrick, President	**Steuben Trust Company**	Hornell, New York	
Thomas S. Kohlmann, President & CEO	**Suffolk County National Bank**	Riverhead, New York	
J. Bruce Whittaker, President	**The Bank of Greene County**	Catskill, New York	
Stephen F. Gobel, President & CEO	**The First National Bank of Gorton**	Gorton, New York	
J. William Johnson, Chairman & CEO	**The First National Bank of Long Island**	Glen Head, New York	
Laura Marcantonio, President	**The Herkimer County Trust Company**	Little Falls, New York	
Robert Schick, President & CEO	**The Lyons National Bank**	Lyons, New York	
Dale A. Carlson, President	**The National Bank of Delaware County**	Walton, New York	
Martin M. Bier, President	**The Tupper Lake National Bank**	Tupper Lake, New York	
Thomas E. Hales, Chairman & CEO	**Union State Bank**	Nanuet, New York	
		New York	52
Martha Guy, President	**Avery Country Bank**	Newland, North Carolina	
Steven Talbert, President	**Bank of the Carolinas**	Landis, North Carolina	
Dale Cable, President	**Carolina Community Bank**	Murphy, North Carolina	
Walter Hoffman, President	**Central Carolina Community Bank**	Lexington, North Carolina	
John Hamilton, President	**High Point Bank and Trust Company**	High Point, North Carolina	
Reid Pollard, President	**Randolph Bank & Trust Company**	Asheboro, North Carolina	
Charles Done, President	**Stone Street Bank and Trust**	Mocksville, North Carolina	
Lee Johnson, Jr., EVP/CEO	**Mechanics and Farmers Bank**	Durham, North Carolina	
James T. Bolt, President	**First Trust Bank**	Charlotte, North Carolina	
Kenneth E. Flynt, President	**Independence Bank**	Kernersville, North Carolina	
W. Alex Hall, President	**First Gaston Bank of North Carolina**	Gastonia, North Carolina	
Mancirc E. Joyner, CEO	**Roanoke Rapids Savings Bank, SSB**	Roanoke Rapids, North Carolina	
		North Carolina	12
Randy Newman, President & CEO	**Alrrus Financial**	Grand Forks, North Dakota	
Howard Torgerson, President	**Bank of Beulah**	Beulah, North Dakota	
John J. Richter, President	**Bank of Glen Ullin**	Glen Ullin, North Dakota	
Kurt F. Zerr, President	**Bank of Hazelton**	Hazelton, North Dakota	
Neil T. Fedje, President	**Citizens State Bank- Midwest**	Cavalier, North Dakota	
Roger N. Berglund, President	**Dakota Western Bank**	Bowman, North Dakota	
Gary Hanisckс, President	**Farmer State Bank of Crosby**	Crosby, North Dakota	
Howard F. Schosn, President	**First State Bank of Harvey**	Harvey, North Dakota	
John R. Schmid, President	**Grant County State Bank**	Carson, North Dakota	

Gerald P. Willer, President	**Kirkwood Bank and Trust Company**	Bismarck, North Dakota	
Gary J. Peterson, President	**Lakeside State Bank**	New Town, North Dakota	
Scott J. Swenson, President	**McKenzie County Bank**	Watford City, North Dakota	
Earl Scheruveller, President	**Peoples State Bank**	Fairmont, North Dakota	
Peter Anderson, President	**Slayton State Bank**	Slayton, North Dakota	
R. F. Braseth, President	**The Goose River Bank**	Mayville, North Dakota	
Gordon Hoffner, President	**The Union Bank**	Beulah, North Dakota	
Leon F. Bubourt, CEO	**Walhalla State Bank**	Walhalla, North Dakota	
		North Dakota	17
John Rice, President & CEO	**Baltic State Bank**	Baltic, Ohio	
David C. Greer, President	**Bank of Magnolia Co.**	Magnolia, Ohio	
Kenneth Williams, President	**Bartlett Farmers Bank**	Bartlett, Ohio	
W. Daniel Waloron, President	**Buckeye Community Bank**	Lorain, Ohio	
Stephen M. Wasserman, President	**Clyde Savings Bank**	Clyde, Ohio	
Rodger W. Platt, President	**Cortland Bank**	Cortland, Ohio	
Lisa K. Merry, President	**Farmers & Merchants Bank**	Caldwell, Ohio	
Joseve Crossgrove, CEO	**Farmers & Merchants State Bank**	Archbold, Ohio	
James R. Burroughs, President	**First Central National Bank**	St. Paris, Ohio	
Douglas Simson, President & CEO	**First City Bank**	Columbus, Ohio	
Richard Brown, President	**First National Bank of Germantown**	Germantown, Ohio	
Howard Hopkins, President	**First National Bank of Powhatan Point**	Powhatan Point, Ohio	
Betty L. Kimbrew	**Geauga Savings Bank**	Newbury, Ohio	
John T. Wolfe, President	**Home National Bank**	Racine, Ohio	
Gary C. Smith, President	**Lorain National Bank**	Lorain, Ohio	
Gary Roberts, President	**Metropolitan National Bank**	Youngstown, Ohio	
Gary Robert, President	**Metropolitan National Bank**	Youngstown, Ohio	
Robert L. Temple, President	**Mt. Victory State Bank**	Mount Victory, Ohio	
Philip A. Mead, President	**Pataskala Banking Company**	Pataskala, Ohio	
Jack A. Hartlings, President	**Peoples Bank Co.**	Coldwater, Ohio	
Garry W. Priest, President	**Sabina Bank**	Sabina, Ohio	
Eric A. Gillett, CEO	**Sutton Bank**	Attica, Ohio	
John Calhoun, President	**Sycamore National Bank**	Cincinnati, Ohio	
Danelda H. Drewes, President	**The Corn City State Bank**	Deshler, Ohio	
Estal Wyrick, President & CEO	**The Edon State Bank Company**	Edon, Ohio	
Alan M. Hooker, President	**The Glouster Community Bank**	Lancaster, Ohio	
Anthony Primack, President	**The Hicksville Bank**	Hicksville, Ohio	
Joseph Wachtel, President & CEO	**The Monitor Bank**	Big Prairie, Ohio	
Mark J. Grone, CEO	**The Ottoville Bank Company**	Ottoville, Ohio	
William M. Hubbard, EVP	**The Rockhold, Brown & Company Bank**	Bainbridge, Ohio	
Stephen A. Gary, President	**The Savings Bank**	Cincinnati, Ohio	
J.F. Romer, President	**The St. Henry Bank**	St. Henry, Ohio	
George Summers, CEO	**Waterford Commercial & Savings Bank**	Waterford, Ohio	
		Ohio	33
J.K. Griffith, President	**American Exchange Bank**	Lindsay, Oklahoma	
Guy Berry, III, President	**American National Bank & Trust Company of Sapulpa**	Sapulpa, Oklahoma	

Wendell Proctor, President & CEO	**American State Bank**	Broken Bow, Oklahoma	
R. Carl Hudgins, President	**Bank South, National Association**	Tulsa, Oklahoma	
William M. Gentry, CEO	**Citizens Bank of Ada**	Ada, Oklahoma	
Allison A. Kelly, President	**Citizens State Bank**	Okemah, Oklahoma	
John Ross, President	**Custer County State Bank**	Arapaho, Oklahoma	
Terry Anderson, President	**Farmers & Merchant Bank**	Yukon City, Oklahoma	
Harry Adkins, President	**Farmers & Merchants Bank**	Duke, Oklahoma	
Ronald Davis, Executive Vice President	**Farmers & Merchants Bank**	Arnett, Oklahoma	
Roy Rowlett, President	**Farmers & Merchants Bank**	Maysville, Oklahoma	
Jack Blair, President	**First American Bank**	Stonewall, Oklahoma	
Richard J. Schwarz, CEO	**First Bank of Okarche**	Okarche, Oklahoma	
Nelson R. Pickrell, President	**First Bethany Bank and Trust**	Bethany, Oklahoma	
Stephen W. Spleth, President	**First National Bank**	Medford, Oklahoma	
R.B. Hall, President & CEO	**First National Bank & Trust Company of Mcalester**	Mcalester, Oklahoma	
Richard D. Thompson, CEO	**First National Bank of Calumet**	Calumet, Oklahoma	
Gary D. Clark, President	**First National Bank of Chelsea**	Chelsea, Oklahoma	
Larry Miller, President	**First State Bank**	Boise City, Oklahoma	
John P. Simon, Jr., President	**First State Bank**	Grandfield, Oklahoma	
David Maysay, President	**First State Bank**	Canute, Oklahoma	
Randy Johnson, Senior Vice President	**First State Bank**	Anadarko, Oklahoma	
Terry Hessong, President	**First State Bank**	Porter, Oklahoma	
Gary D. Shamel, President	**Lakeside Bank of Salina**	Salina, Oklahoma	
J.K. Parker, President	**Meno Guaranty Bank**	Meno, Oklahoma	
George Lowry, Jr., President	**Oklahoma Bank & Trust Company**	Clinton, Oklahoma	
James H. Burnside, President	**Oklahoma State Bank**	Buffalo, Oklahoma	
Jack L. Grimmett, President	**Pauls Valley National Bank**	Pauls Valley, Oklahoma	
Lynn Kinder, CEO	**Payne County Bank**	Perkins, Oklahoma	
Carolyn Tooley, President	**Pontotoc County Bank**	Roff, Oklahoma	
W. F. Schmidt, President	**Spiro State Bank**	Spiro, Oklahoma	
Glenn Shipley, President	**Southwestern Bank and Trust Co.**	Oklahoma City, Oklahoma	
James E. Durham, President	**State Guaranty Bank**	Okeene, Oklahoma	
R.L. Simpson, CEO	**State National Bank**	Eufaula, Oklahoma	
Rick Holder, President	**Stockmans Bank**	Altus, Oklahoma	
B.P. Sudberry, President	**Territory National Bank**	Muskogee, Oklahoma	
Betty F. Wolfe, President	**The Carney State Bank**	Carney, Oklahoma	
Mark Lisle, President	**The Citizens Bank of Edmond**	Edmond, Oklahoma	
Gary D. Clark, President	**The First National Bank of Chelsea**	Chelsea, Oklahoma	
Bert H. Makie, President	**The Security National Bank of Enid**	Enid, Oklahoma	
Virginia Meadows, President	**Washita State Bank**	Burns Flat, Oklahoma	
Randall Stockton, President	**Washita Valley Bank**	Fort Cobb, Oklahoma	
		Oklahoma	**42**
Venerable F. Booker, President	**American State Bank**	Portland, Oregon	
Ted Winnowski, President	**Centennial Bank**	Eugene, Oregon	
John A. Moretti, President	**McKenzie State Bank**	Springfield, Oregon	
James A. Willis, President	**Northern Bank of Commerce**	Portland, Oregon	

		Oregon	4
C. Cook, President	**Allegiance Bank of North America**	Bala Cynwyd, Pennsylvania	
Leon R. Zook, President	**Altoona First Savings Bank**	Altoona, Pennsylvania	
Paul E. Reichart, President	**Columbia County Farmers National Bank**	Bloomsburg, Pennsylvania	
James F. Milovich, Chairman, President & CEO	**Commercial National Bank of Northwestern P**	Pennsylvania	
David L. Baker, President	**Community Bank & Trust Company**	Clarks Summit, Pennsylvania	
William F. Folger, Chairman & CEO	**County National Bank**	Clearfield, Pennsylvania	
Henry F. Thorne, President & CEO	**Downingtown National Bank**	Downingtown, Pennsylvania	
Roger A. Nickol, President & CEO	**East Prospect State Bank**	East Prospect, Pennsylvania	
W.L. Windisch, President	**Fidelity Savings Bank**	Pittsburg, Pennsylvania	
R. Robert McCoy, President & CEO	**First Columbia Bank & Trust**	Bloomsburg, Pennsylvania	
J. Gerald Bazewicz, President	**First National Bank**	Berwick, Pennsylvania	
R. Keith Fortner, President	**First National Bank**	Port Alleghany, Pennsylvania	
Marelin K. Site, CFO	**First National Bank**	Mercersburg, Pennsylvania	
J. David Lombardi, President & CEO	**First National Community Bank**	Dunmore, Pennsylvania	
Joseph Svetik, President	**First Star Savings Bank**	Bethlehem, Pennsylvania	
Edward C. Dunkerley, CEO	**First United National Bank**	Fryburg, Pennsylvania	
Richard J. Green, President	**Firstrust Savings Bank**	Philadelphia, Pennsylvania	
Thomas A. McCullough, President	**Grange National Bank**	Laceyville, Pennsylvania	
Ronald L. Walko, CEO	**Jersey Shore State Bank**	Pittsburg, Pennsylvania	
James L. Love, Executive Vice President & CEO	**Merchants National Bank**	Bangor, Pennsylvania	
James A. Carr, President & CEO	**National Bank of North East**	North East, Pennsylvania	
William V. Freeman, President & CEO	**Penn State Bank**	Camp Hill, Pennsylvania	
Fred C. Reim, President	**Security National Bank**	Pottstown, Pennsylvania	
Christopher J. Annas, President	**Stonebridge Bank**	West Chester, Pennsylvania	
H. Paul Lewis, President & CEO	**Suburban Community Bank**	Chalfont, Pennsylvania	
Sam P. McClure, President	**The Citizens National Bank**	Meyerdale, Pennsylvania	
James P. Leahey, President	**The First National Bank of Lilly**	Lilly, Pennsylvania	
Walter E. Daller, Jr., President	**The Harleysville National Bank & Trust Com**	Harleysville, Pennsylvania	
David C. Matthews, President	**The Holizell National Bank**	Hyndman, Pennsylvania	
Peter A. Raoberts, CEO	**The Jim Thorpe National Bank**	Jim Thorpe, Pennsylvania	
George C. Mason, President	**The Peoples Bank of Oxford**	Oxford, Pennsylvania	
Donald F. Kiefer, President	**The Scottsdale Bank &Trust Company**	Scottsdale, Pennsylvania	
Albert Schulze, President	**Union Bank & Trust**	Pottsville, Pennsylvania	
Robert K. Marburger, CEO	**Union Building & Loan Savings Bank**	West Bridgewater, Pennsylvania	
Keith L. Dalrymple, President & CEO	**Vartan National Bank**	Dauphin, Pennsylvania	
Neal Hickle, President	**West Milton State Bank**	West Milton, Pennsylvania	
David J. Bursic, President	**West View Savings Bank**	Pittsburg, Pennsylvania	
		Pennsylvania	37
D.H. Douglass, Jr., Chairman & CEO	**Bank of Jefferson**	Jeffersonville, South Carolina	
Marshall T. Abbott, Sr., President & CEO	**Bank of Westminster**	Westminster, South Carolina	
Walt Standish, CEO	**Beach First National Bank**	Myrtle Beach, South Carolina	
Tim O. Hall Jr., Chairman	**Blue Ridge Bank of Walhalla**	Walhalla, South Carolina	
R. Walton Brown, President	**Carolina Community Bank, NA**	Latta, South Carolina	
J. Carlise Oxner, President	**Carolina State Bank**	Chesnee, South Carolina	

Donna Robinson, President	**Clemson Bank & Trust**	Clemson, South Carolina	
James C. Harris, Jr., CEO	**Clover Community Bank**	Clover, South Carolina	
John M. Settle, Chairman	**Community First Bank of Charleston**	Charleston, South Carolina	
W.H. Vam Jr., Chairman	**Enterprise Bank of South Carolina**	Ehrhardt, South Carolina	
Billy L. Painter, CEO	**First Federal Bank**	Spartanbury, South Carolina	
Robert R. Horger, Chairman	**First National Bank**	Orangeburg, South Carolina	
George A. Singletary, President	**First National Bank of South Carolina**	Holly Hill, South Carolina	
Barry Slider, President	**First South Bank**	Sportanburg, South Carolina	
Jess Nance, CEO	**Florence National Bank**	Florence, South Carolina	
James R. Clarkson, CEO	**Horry County State Bank**	Loris, South Carolina	
Michael Wolfe, CEO	**Orangeburg National Bank**	Orangeburg, South Carolina	
A.A. Munn III, Chairman	**Pamplico Bank and Trust Company**	Pamplico, South Carolina	
Darra W. Cothran, Chairman	**Sandhills Bank**	Bethune, South Carolina	
Thomas D. Sherard, President	**The Bank of Abbeville**	Abbeville, South Carolina	
Sterling J. Laffitte, President	**The Exchange Bank**	Estill, South Carolina	
		South Carolina	21
Bruce J. Brandner, President	**Campbell County Bank, Inc.**	Herreid, South Dakota	
Richard D. Pier, President	**Community Bank**	Avon, South Dakota	
Boyd D. Hopkins, President	**CorTrust Bank National Association**	Mitchell, South Dakota	
Bruce Anderson, President	**Farmers State Bank**	Canton, South Dakota	
Dan A. Culey, CEO	**First American Bank & Trust Company**	Madison, South Dakota	
Jeffery M. Stohr, Chairman	**First State Bank of Claremont**	Claremont, South Dakota	
H.J. Peterka, President	**First State Bank of Miller**	Miller, South Dakota	
Thomas L. Holdhusen, President	**Ipswich State Bank**	Ipswich, South Dakota	
Kenneth D. Roeder, President	**Peoples State Bank**	De Smet, South Dakota	
Kevin M. Arend, President	**Security State Bank**	Alexandria, South Dakota	
Steven S. Payne, President	**State Bank of Eagle Butte**	Eagle Butte, South Dakota	
Blaine Hoff, President	**The First National Bank of Volga**	Volga, South Dakota	
Roger Haugo, President	**Valley Exchange Bank**	Lennox, South Dakota	
		South Dakota	13
Bruce B. Smith	**Bank of Bartlett**	Bartlett, Tennessee	
Lloyd F. Cash, President	**Bank of Bolivar**	Bolivar, Tennessee	
M.C. Hopkins, President	**Bank of Frankewing**	Frankewing, Tennessee	
John W. Bates, President	**Bank of Perry County**	Lobelville, Tennessee	
Joel Porter, Chairman	**Bank of Tennessee**	Collierville, Tennessee	
Jack Jones, CEO	**Bank of Waynesboro**	Waynesboro, Tennessee	
William C. Lewis, CEO	**Citizens Bank**	New Tazewell, Tennessee	
Charles E. Darnell, CEO	**Citizens Bank of Lafayette**	Lafayette, Tennessee	
Billy M. Rice, President & CEO	**Citizens First Bank**	Wartburg, Tennessee	
E. Oscar Robertson, CEO	**Commercial Bank**	Harrogate, Tennessee	
R. Mellier Ford, Chairman & CEO	**Commercial Bank & Trust Company**	Paris, Tennessee	
Debbie C. Thrash, President	**Community Bank & Trust Co. of Cheatham**	Ashland City, Tennessee	
Tom Paschal, CEO	**Cumberland Bank**	Carthage, Tennessee	
W. Ashley Whitehurst, Chairman, President & C	**Erwin National Bank**	Erwin, Tennessee	
William D. London, CEO	**Farmers Bank**	Cornersville, Tennessee	

Ed F. Bell, President	**First Central Bank**	Lenoir City, Tennessee	
Thomas C. Mottern, President	**First Claiborne Bank**	Tazewell, Tennessee	
Sydney C. McGrew, CEO	**First Community Bank of Bedford County**	Shelbyville, Tennessee	
James L. Curtis, President	**First National Bank**	Lenoir City, Tennessee	
John Perdue, President	**First National Bank & Trust Co.**	Athens, Tennessee	
J. Michael Smithers, President	**First National Bank of La Follette**	LaFollette, Tennessee	
W.H. Swain, Chairman	**First National Bank of Oneida**	Oneida, Tennessee	
Jack R. Bulliner, CEO	**First State Bank**	Henderson, Tennessee	
David K. Craig, President	**First Volunteer Bank of East Tennessee**	Jacksboro, Tennessee	
B.C. Brookshire, President	**Johnson County Bank**	Mountain City, Tennessee	
John Muse, CEO	**Merchants and Planters Bank**	Mountain City, Tennessee	
Art Browder, Chairman	**Merchants and Planters Bank**	Toone, Tennessee	
Jim E. Mullins, Chairman	**People's Bank and Trust Co.**	Byrdstown, Tennessee	
A. Bernice Sale, Chairman	**Peoples Bank of Polk County**	Benton, Tennessee	
M. Dale Bruner, President	**Peoples Bank of Polk County**	Benton, Tennessee	
John E. Fowler, President	**Reelfoot Bank**	Union City, Tennessee	
Robert J. Bennett, President	**Rhea County National Bank**	Dayton, Tennessee	
Billy M. Stover, CEO	**The Farmers & Merchants Bank**	Dyer, Tennessee	
Jerome P. Crihfield, President	**The Lauderdale County Bank**	Halls, Tennessee	
Samuel F. Grigsby Jr., Chairman, President & CE	**Union Planters Bank of the Lakeway Area**	Morristown, Tennessee	
		Tennessee	**35**
Forrest Jones, President	**Alamo Bank of Texas**	Alamo, Texas	
Wes Shelton, President	**American Bank of Texas**	Sherman, Texas	
Jimmie G. James, President & CEO	**American Bank, NA**	Dallas, Texas	
Sherry Miles, President	**American First Bank**	Houston, Texas	
Joyce Buck, President	**American National Bank of Mt. Pleasant**	Mount Pleasant, Texas	
W.R. Collier, President	**American State Bank**	Lubbock, Texas	
Kenneth Moore, President	**Anahuac National Bank**	Anahuac, Texas	
F.M. Reager, President	**Arrowhead Bank**	Llano, Texas	
Ning Weng, President & CEO	**Asain American National Bank**	Houston, Texas	
Rodney W. Benad, President	**Atascoosa National Bank**	Pleasanton, Texas	
Leslie L. Hudler, President	**Bandera Bank**	Bandera, Texas	
Winn Davidson, President	**Bank of Paltine**	Palatine, Texas	
Richard W. Jochetz, President	**Bank of Tanglewood, National Association**	Houston, Texas	
Harold R. Wilson, President	**Bank of the Hills**	Kerrville, Texas	
Jonathan W. Rogers, President	**Bank of the West**	El Paso, Texas	
H. Gary Blankenship, CEO	**Bank of the West**	Irving, Texas	
Dale Holloway, President	**Bank of West**	Odessa, Texas	
Michael A. Barnett, President	**Benchmark Bank**	Quinlan, Texas	
Ron Alfred, President & CEO	**Brenham National Bank**	Brenham, Texas	
Jerry Davidson, President	**Bridge City State Bank**	Bridge City, Texas	
James D. Goudge, President	**Broadway National Bank**	San Antonio, Texas	
Gerald L. Hooker, President	**Brookhollow National Bank**	Dallas, Texas	
Frank G. Deviney, Chairman, President & CEO	**Brush Country Bank**	Freer, Texas	
Michael G. Sweeney, President	**Caminoreal Bank, National Association**	San Antonio, Texas	
Milton R. Smith, President	**Capitla Bank**	Jacinto City, Texas	

Calvin E. Coufal, President	**Carmine State Bank**	Carmine, Texas	
Edward A. Smith, President	**Chappell Hill Bank**	Chappell Hill, Texas	
Darwin Boscamp, President &CEO	**Citizen National Bank**	Brownwood, Texas	
Jeff D. Wilson, President	**Citizens Bank**	Slaton, Texas	
Conrad Magouirk, President	**Citizens Bank and Trust Company**	Baytown, Texas	
Roger D. Lawrence, President	**Citizens Bank of Texas**	New Waverly, Texas	
George H. Singleton, President	**Citizens National Bank**	Waxahachie, Texas	
Joe Cargile, President	**Citizens National Bank**	Creshyton, Texas	
Scott Harris, President	**Citizens National Bank**	Beckenridge, Texas	
A.L. Smith, CEO	**Citizens National Bank**	Hillsboro, Texas	
Raymond G. Dickerson, President	**Citizens National Bank**	Fort Worth, Texas	
Burl D. Hobinson, President	**Citizen's National Bank**	Crockett, Texas	
Ronald K. Umphress, President	**Citizens State Bank**	Princeton, Texas	
Ervin B. Flencher, President	**Citizens State Bank**	Sommerville, Texas	
Leroy Zapalac, President	**Citizens State Bank**	Sealy, Texas	
Richard Howard, President	**Citizens State Bank**	Anton, Texas	
Martin A. Canales, Jr., President	**Citizens State Bank**	Roma, Texas	
Gary F. Cox, President	**Citizens State Bank**	Ganado, Texas	
L.A. Page, President	**Citizens State Bank**	Corrigan, Texas	
Robert J. Dyer, President	**City National Bank**	Weslaco, Texas	
B. Ralph Wiliams, President	**Citzens National Bank of Texas**	Bellaire, Texas	
Ben J. Scot, President	**Coleman County State Bank**	Coleman County, Texas	
Ronney D. Frank, President	**Columbus State Bank**	Columbus, Texas	
Bobbie McMillan, President	**Commercial Bank**	Mason, Texas	
John W. Jones, President	**Commercial National Bank**	Brady, Texas	
Keith McKeever, President	**Commercial State Bank**	Andrews, Texas	
J. Robert Melanson, Chairman, President & CEO	**Commercial State Bank**	El Campo, Texas	
Phillip G. Newsom, President	**Commercial State Bank**	Palmer, Texas	
Vidal Ramirez, President	**Community Bank**	Katy, Texas	
Steve Reese, President	**Community Bank**	Longview, Texas	
Robert D. Southerland, President	**Community National Bank**	Midland, Texas	
Hugh L. Jeffue, Jr., President	**Community National Bank**	Detroit, Texas	
Thomas C. Wooten, President	**Community National Bank**	Hondo, Texas	
Gary C. Green, Executive Vice President	**Community State Bank**	Austin, Texas	
Abe Stroud, Chief Executive officer	**Corsicanna National Bank & Trust**	Corsicanna, Texas	
Leonard R. Buchharn, President	**Coupland State Bank**	Coupland, Texas	
Kenneth Shaw, President	**Crosby State Bank**	Crosby, Texas	
John Lee Black, President	**Crowell State Bank**	Crowell, Texas	
Michaux Nash Jr., Chairman & CEO	**Dallas National Bank**	Dallas, Texas	
J.R. Avant, Chairman, President & CEO	**Dilley State Bank**	Diley, Texas	
Joe M. Crutcher, President	**East Texas National Bank**	Palestine, Texas	
Conley Bell, President	**Elsa State Bank & Trust**	Texas	
M. Dale McGill, President	**Enterprise Bank**	Houston, Texas	
B.L. Corley, Jr., President	**Express Bank**	Alvin, Texas	
Rolando Carrasco, Jr., President	**Falfurrias State Bank**	Falfurrias, Texas	
Thomas P. Lyssy, President	**Falls City National Bank**	Falls City, Texas	

James Bruton, President	**Farmers & Merchants Bank**	Deleon, Texas	
Vaughn Andrus, President	**Farmers & Merchants State Bank**	Krum, Texas	
Alvin L. Fields, President	**Farmers & Merchants State Bank**	Ladonia, Texas	
Don Harris, Chairman, President & CEO	**Farmers National Bank**	Forney, Texas	
Luke Motley III, President and CEO	**Farmers State Bank**	Center, Texas	
David Hughes, President	**Farmers State Bank**	Groesbeck, Texas	
James C. Baker, President	**Fayetteville Bank**	Fayetteville, Texas	
Bud A. Price, CEO	**Fidelity Bank of Texas**	Waco, Texas	
L.A. Page, President	**First Bank**	Groveton, Texas	
Gary Karter, President	**First Bank**	Houston, Texas	
Tom Smith, President	**First Bank**	Howe, Texas	
Craig Overstreet, Chairman, President & CEO	**First Bank - Farmersville**	Farmersville, Texas	
Bob Lemens, President	**First Bank & Trust**	Bartlett, Texas	
Dan B. Dominey, President	**First Bank of Conroe, National Association**	Conroe, Texas	
Don Vickery, Chairman & CEO	**First Citizens National Bank**	Dallas, Texas	
Greg Tieken, President	**First Commercial Bank, National Association**	Seguin, Texas	
Nigel J. Harrison, President	**First Community Bank**	Houston, Texas	
Tommy Sloan, President	**First Corman National Bank**	Corman, Texas	
W. Ralph Kerr, President	**First International Bank**	Plano, Texas	
Roy Salley, President	**First Mercantile Bank, National Association**	Dallas, Texas	
Monte R. Hulse, CEO	**First Naqtional Bank of Central Texas**	Waco, Texas	
George W. Minear, President & CEO	**First National Bank**	Shiner, Texas	
J.V. Martin, CEO	**First National Bank**	Sweetwater, Texas	
Bill Landis, President	**First National Bank**	Giddings, Texas	
Ronnie Hardin, President	**First National Bank**	Lockney, Texas	
Don Powell, President	**First National Bank**	Amarillo, Texas	
L.J. Richardson, Jr., President	**First National Bank**	Brownfield, Texas	
James T. Lee, President	**First National Bank**	Littlefield, Texas	
Tommy J. Michaels, President	**First National Bank**	Graford, Texas	
Gene D. Adams, President	**First National Bank**	Seymour, Texas	
Anita Collin, President	**First National Bank**	Sachse, Texas	
Michael R. Collest, President	**First National Bank**	Hamilton, Texas	
Keith Kidwell, President	**First National Bank**	Bellville, Texas	
Jeral V. Miller, President	**First National Bank**	Hale Center, Texas	
David L. Baldwin, President & CEO	**First National Bank**	Burleson, Texas	
Jim Stovall, President	**First National Bank**	Bullard, Texas	
Frank Sanders, President	**First National Bank**	Bonte, Texas	
Ben M. Shirey, III, President	**First National Bank**	Carton, Texas	
George Briant, President	**First National Bank**	Canadian, Texas	
Terry Miller, President	**First National Bank**	Dublin, Texas	
E. Delbert Horton, President	**First National Bank**	Cooper, Texas	
Jack I. Conner, President	**First National Bank**	Bay City, Texas	
Shirley Mullinix, President	**First National Bank**	Bells, Texas	
Billie P. Griffin, President	**First National Bank**	Jasper, Texas	
Travis B. Bryan, President	**First National Bank**	Bryan, Texas	
Jack C. Vanderburg, President	**First National Bank**	Dalhart, Texas	

Kenneth L. Horton, President	**First National Bank**	Quanah, Texas	
Stephens T. Harper, President	**First National Bank**	Midland, Texas	
Bob McWharten, President	**First National Bank**	Munday, Texas	
Tommy Jones, President	**First National Bank**	Mineola, Texas	
Wayne L. Beck, President	**First National Bank**	Refugio, Texas	
Stan M. Field, President	**First National Bank**	Saint Jo, Texas	
Robert C. Hobgood, President	**First National Bank**	Haskell, Texas	
Lindy Jordan, President	**First National Bank**	Paducah, Texas	
J. Kent Creecy, President	**First National Bank**	Kemp, Texas	
S.H. Hart, President	**First National Bank**	Aspermont, Texas	
C. Alan Renfroe, President	**First National Bank**	Shamrock, Texas	
Greg W. Schwertre, President	**First National Bank**	Ballinger, Texas	
Troy M. Robinson, President	**First National Bank**	Quitman, Texas	
Roger D. Williams, President	**First National Bank**	Sterling, Texas	
H.L. Baker Jr., President	**First National Bank**	Lake Jackson, Texas	
Guy Wayne Young, President	**First National Bank**	Quitague, Texas	
Gordon Wilkinson, President	**First National Bank**	Winnsboro, Texas	
Gary L. Overby, President	**First National Bank**	Sachse, Texas	
Dwayne Herman, President	**First National Bank**	Seminole, Texas	
Robert B. Dunkin, President	**First National Bank**	San Benito, Texas	
Craig S. Wooten, President & CEO	**First National Bank of Bellaire**	Bellaire, Texas	
William Harrison Jr., Chairman President & CEO	**First National Bank of Eagle Lake**	Eagle Lake, Texas	
Phil Lane, Chief Executive Officer	**First National Bank of Fabens**	Fabens, Texas	
W.H. Bauer, President	**First National Bank of Port Lavaca**	Port Lavaca, Texas	
Roger D. Williams, President	**First National Bank of Sterling City**	Sterling City, Texas	
James S. Fox, President	**First Nichols National Bank**	Kenedy, Texas	
Jose D. Leyva, President	**First Presideio Bank**	Presideio, Texas	
W. H. Ellis, President	**First Security Bank**	Flower Mound, Texas	
Randal Claydon, President	**First State Bank**	Ben Wheeler, Texas	
Rogers Pope, CEO	**First State Bank**	Overton, Texas	
Embry Hines, Chairman, President & CEO	**First State Bank**	Chico, Texas	
Jeff Austin III, President	**First State Bank**	Frankston, Texas	
Peter G. Bennis, President	**First State Bank**	Keene, Texas	
Jerry Givens, President	**First State Bank**	Abernathy, Texas	
Tony M. Street, President	**First State Bank**	Mineral Wells, Texas	
Bob Barnard, President	**First State Bank**	Celeste, Texas	
Roy L. Clint, President	**First State Bank**	Bishop, Texas	
Clarence Meiske, President	**First State Bank**	Hawkins, Texas	
Michael L. Schrell, President	**First State Bank**	Spearman, Texas	
Allan A. Hill, President	**First State Bank**	Columbus, Texas	
Clarence Meiske, President	**First State Bank**	Hawkins, Texas	
Sam Baker, President	**First State Bank**	Jasper, Texas	
Walker A. Lea, III, President	**First State Bank**	Mount Calm, Texas	
T. Bob McKnight, President	**First State Bank**	Celina, Texas	
David Kapovle, President	**First State Bank**	Moulton, Texas	
Dennis O. Kutach, President	**First State Bank**	Yoakum, Texas	

J. Robert Howard, CEO	**First State Bank**	Hemphill, Texas	
W.H. Terry, President	**First State Bank in Tuscola**	Tuscola, Texas	
Robert Upchurch, President	**First State Bank of Bedias**	Bedias, Texas	
Alfi Scherer, President	**First State Bank of North Texas**	Ceder Hill, Texas	
Melvin H. Johnson, President & CEO	**First-Lockhart National Bank**	Lockhart, Texas	
Bruce M. Davis, President	**Fort Worth National Bank**	Fort Worth, Texas	
Don Holland, President	**Founders National Bank- Skillman**	Dallas, Texas	
Joe Don Cee, President	**Franklin National Bank**	Mount Vernon, Texas	
Robert Neelley, Chairman & President	**Friona State Bank**	Friona, Texas	
Gary Patterson, President	**Gilmer National Bank**	Gilmer, Texas	
Marshall Sutton, President	**Grand Prairie State Bank**	Grand Prairie, Texas	
Don Johnson, President	**Granger National Bank**	Granger, Texas	
Kenneth Irwin, President	**Gruver State Bank**	Gruver, Texas	
J. David Williams, President	**Hale County State Bank**	Plainview, Texas	
Curtis D. Johnson, President	**Herring National Bank**	Vernon, Texas	
Woody McCasland, President	**Highland Lakes Bank**	Kingsland, Texas	
J.T. McDonald, President	**Homebank**	Seageville, Texas	
James W. Danner, President	**Hondo National Bank**	Hondo, Texas	
Stephen Bertram, President	**Independence Bank, NA**	Houston, Texas	
Fred Rusteburg, President	**International Bank of Commerce**	Brownsville, Texas	
Gary L. Tiptor, President & CEO	**Inwood National Bank**	Dallas, Texas	
Cubby Hudler, President	**Johnson City Bank**	Johnson City, Texas	
Rob Roy Spiller, President	**Junction National Bank**	Junction, Texas	
Howard Young, President	**Justin State Bank**	Justin, Texas	
Greg Murray, President	**Katy Bank, NA**	Katy, Texas	
Beryle Murdoch, Jr., President	**Kent County State Bank**	Jayton, Texas	
MichaelW. Bummerhop, President	**Klien Bank**	Klien, Texas	
John V. Parma, President	**La Coste National Bank**	La Coste, Texas	
Gerald McCoy, President	**Lake Area National Bank**	Trinity, Texas	
M. Lyn McCreary, President	**Lakeside National Bank**	Rockwall, Texas	
Elwood Freman, President	**Lamesa National Bank**	Lamesa, Texas	
Michael Duckworth, President	**League City Bank & Trust**	League City, Texas	
John F. Norton, President	**Lone Oak State Bank**	Lone Oak, Texas	
Steve Reese, President	**Lone Star State Bank**	Lone Star, Texas	
Rogers Pope, CEO	**Longview Bank and Trust Company**	Longview, Texas	
David Seim, President	**Lubbock National Bank**	Lubbock, Texas	
George Brannies, President	**Mason National Bank**	Mason, Texas	
William T. Bain, President	**Medina Valley State Bank**	Devine, Texas	
J.H. Terrell, CEO	**Merchants & Farmers Bank**	Comer, Texas	
Henry G. Weinzapfel, President	**Muenster State Bank**	Muenster, Texas	
Russell Shannon, President	**National Bank of Andrews**	Andrews, Texas	
William R. Glass, President	**National Bank of Daingerfield**	Daingerfield, Texas	
Don F. Dean, President	**National Bank of Madisonville**	Madisonville, Texas	
James B. Cox, President	**National Security Bank of San Antonio**	San Antonio, Texas	
Frank Barrow, President	**NBC Bank**	Rockdale, Texas	
Frank H. Cox, President	**North Dallas Bank & Trust Company**	Dallas, Texas	

James E. Murnane, President	**North Houston Bank**	Houston, Texas	
W. Galen McCune, President	**Northwest Bank**	Roanoke, Texas	
Tom Cravens, President	**Northwest Bank of Arlington**	Arlington, Texas	
Dan S. Pullen, President	**Ozona National Bank**	Ozona, Texas	
Warren T. Biggs, President	**Panola National Bank**	Cathage, Texas	
Stephen K. Story, President	**Pavilion Bank**	Dallas, Texas	
Lloyd R. Ferguson, President	**Pearland State Bank**	Pearland, Texas	
Harlan J. Lambert, Chairman, President & CEO	**Pecos County State Bank**	Fort Stockton, Texas	
Douglas Ford, President	**Peoples State Bank**	Clyde, Texas	
Clifford W. Miller, President	**Peoples State Bank**	Shepherd, Texas	
Terry L. Christian, President	**Peoples State Bank**	Paris, Texas	
Richard E. Lane, CEO	**Plaza bank, NA**	San Antonio, Texas	
J. Raymond David, President	**Pointbank N.A.**	Pilot Point, Texas	
Ronald Goodman, President	**Port Byron State Bank**	Port Byron, Texas	
Ford Sasser, President	**Rio National Bank**	McAllen, Texas	
David C. Kenny, Chairman & CEO	**Riverbend Bank, NA**	Fort Worth, Texas	
Ronny Sacks, President	**Round Top State Bank**	Round Top, Texas	
Charles Fengolio, President	**Sanger Bank**	Senger, Texas	
Charles W. Day, President	**Security Bank**	Garland, Texas	
A.R. Galloway, President	**Security State Bank**	Pearsall, Texas	
Douglas Cameron, Chairman President & CEO	**Security State Bank**	Anahuac, Texas	
R.W. Anderson, President	**Security State Bank**	Farwell, Texas	
Jim Smitherman, President	**Security State Bank**	McCarney, Texas	
Don L Morgan, President	**Security State Bank & Trust**	Fredericksburg, Texas	
Russell A. Ybarbo, President	**Somerset National Bank**	San Antonio, Texas	
Joe H. Bruns, President	**State Bank & Trust of Sequin, Texas**	Sequin, Texas	
Leonard Lidiak, President	**State National Bank, El Paso**	El Paso, Texas	
David Moore, President	**Summit Community Bank**	Fort Worth, Texas	
Mike Broussard, President	**Sundown State Bank**	Sundown, Texas	
C. Norman Tinkler, President	**Texas Bank**	Brownwood, Texas	
Edward D. Phillips, President	**Texas Community Bank**	Dallas, Texas	
William G. Whitsitt, President & CEO	**Texas Community Bank & Trust**	Dallas, Texas	
Rodney G. Krol, President	**Texas First State Bank**	Riesel, Texas	
John E. Davis, President	**Texas Guaranty Bank, NA**	Houston, Texas	
B. Windol Cook, President	**Texas National Bank**	Jacksonville, Texas	
Gary D. Cox, President	**Texas State Bank**	San Angelo, Texas	
James L. Bohls, President	**Texline State Bank**	Texline, Texas	
D.H. Semilinger, President & CEO	**The Bank of Texas**	Devine, Texas	
Mark E. Tidwell, President	**The Blanco National Bank**	Blanco, Texas	
H.B Ruckman, President	**The Karnes County National Bank**	Karnes City, Texas	
Philip R. Cecil, President	**The Liberty National Bank in Paris**	Pampa, Texas	
Mike Gamble, President	**The Security National Bank**	Quanah, Texas	
Bobby Airhart, CEO	**The Security State Bank**	Wingate, Texas	
Michael Kowalski, President	**Townbank**	Mesquite, Texas	
Mary Joe Kinson, President	**Tylertown Branch of Citizens Bank**	Tylertown, Texas	
Michael L. Allen, President	**Union State Bank**	Carrizo Springs, Texas	

B.M. Peck, President	**Union State Bank**	Florence, Texas	
James D. Yoo, President	**United Central Bank**	Garland, Texas	
Mark Hall, President	**Western Bank & Trust**	Duncanville, Texas	
Joe D. May, President	**Whisperwood National Bank**	Lubbock, Texas	
George W. Moody, President	**White Oak State Bank**	White Oak, Texas	
Robert E. Marling, CEO	**Woodforest National Bank**	Houston, Texas	
Louis F. Boening, President	**Yoakum National Bank**	Yoakum, Texas	
		Texas	**262**
Leonel E. Castillo, CEO	**American Bank of Commerce D/B/A**	Provo, Utah	
Keith Church, President	**Bank of Ephraim**	Ephraim, Utah	
J. Douglas Christensen, CEO	**Bonneville Bank**	Provo, Utah	
James R. Fraser, President	**Brighton Bank**	Salt Lake City, Utah	
Michael R. Garrett, President	**Centennial Bank**	Ogden, Utah	
H. Don Norton, CEO	**Far West Bank**	Provo, Utah	
Hal J. Allen, CEO	**Orem Community Bank**	Orem, Utah	
Douglas G. Bringhurst, President	**The Village Bank**	St. George, Utah	
Craig A. White, President	**Utah Independent bank**	Salina, Utah	
Craig W. Forsyth, President	**Western Community Bank**	Orem, Utah	
		Utah	**10**
Christopher W. Bergstrom, CEO	**Cardinal Bank - Manassas Prince**	Manassas, Vermont	
Scott A. Cooper, President & CEO	**First Brandon National Bank**	Brandon, Vermont	
		Vermont	**2**
Jack W. Gibson, CEO	**Bank of Hampton Roads**	Chesapeake, Virginia	
Richard M. Liles, CEO	**Bank of McKenney**	McKenney, Virginia	
EJ Woodard, President	**Bank of the Commonwealth**	Norfolk, Virginia	
J.A. Wilson Jr., CEO	**Citizens Bank & Trust Company**	Blackstone, Virginia	
Bruce W. Thompson, President	**Community Bankers Bank**	Richmond, Virginia	
Philip Baker, CEO	**Community National Bank**	Pulaski, Virginia	
T. Earl Rogers, CEO	**F&M Bank**	Fairfax, Virginia	
Delbert Rexrode, President	**First and Citizens Bank**	Monterey, Virginia	
Sue Ellen Fleming, EVP	**First Commonwealth Bank**	Wise, Virginia	
Sylvesta C. Jennings, CEO	**First State Bank**	Danville, Virginia	
John R. Maxwell, CEO	**James Monroe Bank**	Arlington, Virginia	
William F. Roundtree, President	**Monarch Bank**	Chesapeake, Virginia	
William F. Roundtree, President	**Monarch Bank**	Chesapeake, Virginia	
Kenneth Hart, CEO	**New Peoples Bank, Inc.**	Honaker, Virginia	
William L. Johns, CEO	**Peoples Community Bank**	Montross, Virginia	
Robert J. McDonough, President	**Prosperity Bank & Trust Company**	Springfield, Virginia	
John F. Kilby	**The Bank of Fincastle**	Fincastle, Virginia	
R. Leon Moore, President	**The Bank of Floyd**	Floyd, Virginia	
Brad E. Schwartz, CEO	**The Bank of Richmond, NA**	Richmond, Virginia	
Anthony E. Crane, CEO	**The Blue Grass Valley Bank**	Blue Grass, Virginia	
Harold C. Rauner, President	**The Business Bank**	Vienna, Virginia	
William H. Hayter, CEO	**The First Bank & Trust company**	Lebanon, Virginia	
Ellis L. Gutshall, President	**Valley Bank**	Roanoke, Virginia	

Peter A. Converse, CEO	**Virginia Commerce Bank**	Arlington, Virginia	
		Virginia	**24**
Rex R. Townsend, President	**American Marine Bank**	Bainbridge Island, Washington	
Per-Odd Keul, President	**Asia-Europe- Americas Bank**	Seattle, Washington	
Don Zimmerman, President	**Bank Northwest**	Bellingham, Washington	
Keith Jackson, President	**Charter Bank**	Bellevue, Washington	
Rick Peenstra, President	**Community First Bank**	Kennewick, Washington	
Edward L. Adams, President	**Farmers State Bank**	Winthrop, Washington	
C. Wayne Wexlex, President	**Farmington State Bank**	Farmington, Washington	
Robert Bryce, CEO	**First Heritage Bank**	Snohomish, Washington	
Mark Southwick, President	**Harbor Community Bank**	Raymond, Washington	
Frederick M. Schunter, President	**Inland Northwest Bank**	Spokane, Washington	
Donald E. Laufenberg, President	**North County Bank**	Arlington, Washington	
Don A. Ross, President	**State Bank of Concrete**	Concrete, Washington	
L. Anthony Tebeau, President	**Washington State Bank, NA**	Federal Way, Washington	
Donald D. Dalton, President	**Westside Community Bank**	University Place, Washington	
		Washington	**14**
Kathleen Walsh Carr, President	**The Adams National Bank**	Washington, DC	
		Washington, DC	**1**
Charles W. Lemaster, President & CEO	**Bank of Charlestown**	Charlestown, West Virginia	
Brian Thomas	**Bruceton Bank**	Bruceton Mills, West Virginia	
Jack C. Pendergast, Chairman, President & CEO	**First Exchange Bank**	Mannington, West Virginia	
Phillip J. Vallandingham, President	**First State Bank**	Barboursville, West Virginia	
Ralph Mann, President	**The Bank of Monroe**	Union, West Virginia	
Philip B. Robertson, CEO	**The Poca Valley Bank**	Walton, West Virginia	
Howard M. Metheny, President	**The Terra Alta Bank**	Terra Alta, West Virginia	
		West Virginia	**7**
Edward M. Jacobs, CEO	**American National Bank**	Beaver Dam, Wisconsin	
Louise M. Policello, CEO	**Bank North**	Crivitz, Wisconsin	
David Grewe, CEO	**Bank of Buffalo**	Cochrane, Wisconsin	
Scott A. Kopp, CEO	**Bank of Galesville**	Galesville, Wisconsin	
Robert W. Hoffmann, CEO	**Bank of Helenville**	Helenville, Wisconsin	
Daniel M. Honold, Chairman	**Bank of Milton**	Milton, Wisconsin	
Steven C. Ploetz, President & CEO	**Bank of Praire du Sac**	Praire du Sac, Wisconsin	
James S. Dolister, President	**Capitol Bank**	Madison, Wisconsin	
Dean M. Olson, CEO	**Charter Bank Eau Claire**	Eau Clair, Wisconsin	
Gary Gerber, President	**Chippewa Valley Bank**	Winter, Wisconsin	
R.E. Hedberg, Chairman	**Citizens State Bank and Trust**	Fort Atkinson, Wisconsin	
Charles F. Kolb, CEO	**Cleveland State Bank**	Cleveland, Wisconsin	
Debra R. Lins, President & CEO	**Community Business Bank**	Sauk City, Wisconsin	
Gerry R. Luebke, CEO	**Community National Bank**	Oregon, Wisconsin	
Robert A. Chiples, CEO	**Dairy State Bank**	Plymouth, Wisconsin	
Robert W. Hegeholz, President	**Dairyland State Bank**	Bruce, Wisconsin	
Lauri A. Barry, CEO	**F&M Bank-Superior**	Superior, Wisconsin	
Craig P. O' Leary, CEO	**Farmers & Merchants Bank**	Oxfordville, Wisconsin	

James R. Judd, CEO	**Farmers & Merchants Bank**	Randolph, Wisconsin	
R.A. Nortman, CEO	**Farmers Savings Bank**	Numeral Point, Wisconsin	
Rick Bjelland, CEO	**Farmers State Bank**	Ridgeland, Wisconsin	
Richard G. Bedessem, CEO	**Farmers State Bank**	Bangor, Wisconsin	
Malcolm Dorn, CEO	**First Bank Financial Centre**	Oconomowoc, Wisconsin	
Thomas S. Ellis, CEO	**First National Bank**	Eagle River, Wisconsin	
Michael Morrison, CEO	**First National Bank**	Barron, Wisconsin	
John D. Soderberg, CEO	**First National Bank**	New Richmond, Wisconsin	
Tim Rose, President	**First National Bank**	Park Falls, Wisconsin	
Timothy G. Purman, CEO	**First National Bank of Hartford**	Hartford, Wisconsin	
Thomas J. Sheehan, Chairman & CEO	**Grafton State Bank**	Grafton, Wisconsin	
Terrence L. Williamson, CEO	**Green Lake State Bank**	Green Lake, Wisconsin	
Thomas Reed, CEO	**Headwaters State Bank**	Land O'Lakes, Wisconsin	
David R. Kvalsten, CEO	**Hiawatha National Bank**	Khager City, Wisconsin	
Marvin L. Simplot, President	**Highland State Bank**	Highland, Wisconsin	
Robert Fisher, President & CEO	**Independence State Bank**	Independence, Wisconsin	
H.B. Pomeroy, CEO	**International Bank of Amherst**	Amherst, Wisconsin	
Jerry Banie, CEO	**Laona State Bank**	Laona, Wisconsin	
Mary Jo A. Krawczyk, CEO	**Lincoln Community Bank**	Milwaukee, Wisconsin	
Robert A. Schmidt, CEO	**M&I Mid-State Bank**	Stevens Point, Wisconsin	
Thomas T. Stuhley, CEO	**Mid America Bank**	Footville, Wisconsin	
Chuck Thieme, President	**Middleton Community Bank**	Middleton, Wisconsin	
LeRoy W. Sigler, CEO	**Nekoosa Port Edwards State Bank**	Nekoosa, Wisconsin	
Randolph T. Myrichs, CEO	**North Milwaukee State Bank**	Milwaukee, Wisconsin	
Timothy P. McGettigan, President	**P&M Banl**	Darlington, Wisconsin	
T.F. Farrell, CEO	**Peoples State Bank**	Prairie du Chien, Wisconsin	
Edward J. Scherrer, Chairman	**Peoples State Bank**	Augusta, Wisconsin	
Steven R. Schowalter, CEO	**Port Washington State Bank**	Port Washington, Wisconsin	
J.S. Schafer, CEO	**Premier Bank**	Fort Atkinson, Wisconsin	
J.L. Davis, CEO	**Richland County Bank**	Richland Center, Wisconsin	
Sid Bateman, CEO	**River Bank**	Studdaa, Wisconsin	
Patrick M. Stittleburg, Vice President	**State Bank of Cazenovia**	Cazenovia, Wisconsin	
Jeffrey Mueller, CEO	**State Bank of Random Lake**	Random Lake, Wisconsin	
G.W. Yerges, CEO	**State Bank of Reeseville**	Reeseville, Wisconsin	
Robert F. Eastman, CEO	**Sunset Bank & Savings**	Waukesha, Wisconsin	
C.A. Gray Jr., CEO	**Superior National Bank**	Superior, Wisconsin	
James K. Caldwell, CEO	**The First Citizens State Bank of Whitewater**	Whitewater, Wisconsin	
Peter J. Bildsten, CEO	**The First National Bank & Trust Co. of Barab**	Baraboo, Wisconsin	
James M. Farrell, CEO	**The First National Bank of Stoughton**	Stoughton, Wisconsin	
Bradford E. Vail, CEO	**The Greenwood's State Bank**	Lake Milles, Wisconsin	
Steven Malone, CEO	**The Nbenton State Bank**	Benton, Wisconsin	
James H. Hegenbarth, President	**The Park Bank**	Madison, Wisconsin	
Paul C. Adamski, CEO	**The Pineries Bank**	Stevens Point, Wisconsin	
Craig C. Danielson, President	**The River Bank**	Osceola, Wisconsin	
Michael D. Bonnett, CEO	**TSB Bank**	Lomira, Wisconsin	
Jeffrey W. Kleinman, President	**Union State Bank**	Kewaunee, Wisconsin	

Keith Baker, President	**Union State Bank**	West Salem, Wisconsin	
Greg Legare, President	**United Bank**	Osseo, Wisconsin	
David R. Krumrei, CEO	**West Pointe Bank**	Oshkosh, Wisconsin	
		Wisconsin	67
Leon Langemeier, President	**Bank of Lovell, National Association**	Lovell, Wyoming	
Robert Jorgensen, CEO	**Community National Bank**	Cheyenne, Wyoming	
Charles C. Gross, Jr., Chairman	**Farmers State Bank**	Pine Bluffs, Wyoming	
Vernon T. Delgado, Chairman	**First National Bank of Pinedale**	Pinedale, Wyoming	
Donald J. Jarding, President	**First State Bank of Newcastle**	Newcastle, Wyoming	
Todd Peterson, President	**Pinnacle Bank of Wyoming**	Torrington, Wyoming	
C.J. Dykes, President	**Vinta County State Bank**	Mountain View, Wyoming	
		Wyoming	7
	Grand Total as of	*3/13/2001:*	*1560*

Submitted Statement of

The National Federation of Independent Business

Subject:	**Interest Bearing Checking Accounts**
Before:	**House Financial Services: Financial Institutions and Consumer Credit Subcommittee**
Date:	**March 13, 2001**

The National Federation of Independent Business (NFIB) is pleased to have the opportunity to submit this statement for the record on the issue of interest bearing checking accounts.

Passed in 1933, the law prohibiting interest bearing checking accounts was initially an effort to keep banks solvent during the Great Depression. Yet, almost 70 years later, it is still in effect, in spite of widespread agreement that it is no longer valid or necessary. In a Joint Report issued in 1996 titled, "Streamlining of Regulatory Requirements," the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision all stated that the statutory provision against paying interest on business checking accounts "**no longer serves a public purpose.**"

In a recent NFIB survey, 86 percent of small-business owners said they should be able to earn interest on their checking accounts. Rex Hammock, an NFIB member who has testified on this issue in the past, put it most succinctly: when told by his banker that he couldn't earn interest on a checking account, he responded "why not?" It often comes as a shock to many small employers that earning interest on a checking account is possible at all; even more surprising to them is the fact that the law actually *prevents* them from doing so.

To address the problem of how to earn interest on money that will eventually be used to pay debts, small employers like Hammock are advised by their banks to do one of two things: establish multiple accounts or create a sweep account. If a small employer chooses to set up multiple accounts, he must have a checking account from which the business pays creditors, a money-market account (or "liquid investment account") where it can earn interest on money not immediately needed in the checking account, and a line-of-credit for its purchasing needs. For a small-business owner with only three or four employees, keeping track of all those accounts can become a bookkeeping nightmare. The owner often ends up doing double-duty as accountant: constantly shifting money from one account to another to be sure debts are being paid, while interest is not lost. For small employers, serving as an account watchdog often means directing valuable time and resources away from running their businesses. To address this, banks have suggested to owners like Hammock that they set up sweep accounts. While a sweep account is an adequate solution for a large business with many employees and the technological ability to bank solely online, it is merely another headache for the small-business owner whose limited "accounting" staff should spend their time concentrating on the immediate needs of the business: processing receipts and managing payables and receivables. In addition, a sweep account often requires a minimum deposit amount as high as $25,000, a sum too great for many small-businesses to bear.

Small businesses cannot afford the luxury of leaving extra money in a non-interest earning account. Yet, the other options available to them only create more work for their limited staff. The easiest and most sensible way to unburden these small-business owners is to lift the law preventing the earning of interest on checking accounts. It is an outdated and unnecessary restriction. We thank the Committee and Representative Toomey for advancing legislation to finally allow small-business owners to earn interest on their checking accounts. We therefore strongly support legislation to be introduced by Representative Pat Toomey today that will allow business owners to earn interest on their checking accounts.

STATEMENT

ON

PROPOSAL TO PERMIT INTEREST ON BUSINESS CHECKING ACCOUNTS

SUBMITTED TO

FINANCIAL INSTITUTIONS AND CONSUMER CREDIT SUBCOMMITTEE

BY THE

U.S. CHAMBER OF COMMERCE

March 13, 2001

The U.S. Chamber of Commerce, the world's largest business federation, representing more than three million businesses and organizations of every size, sector, and region, strongly supports efforts to repeal the ban on banks paying interest on business checking accounts. This goal is of particular importance to America's smaller businesses, which is more than 96 percent of our members. We strongly urge passage of such legislation.

Last year, the U.S. Chamber worked with Congress to pass H.R. 4067, the Business Checking Modernization Act. This legislation would have lifted the sixty-five year prohibition against banks paying interest on business checking accounts. Although the bill was passed by the House of Representatives by a voice vote, the U.S. Senate failed to act on companion legislation prior to the adjournment of the 106^{th} Congress. H.R. 4067 would have corrected the anomaly of present law by allowing banks to competitively price their products and services in an open market to business customers. Additionally, the legislation would have offered an important opportunity for small business owners to establish a more complete relationship with financial service providers.

The prohibition against paying interest on demand deposits for business is out-dated for today's marketplace and must be addressed. Since the prohibition was enacted in 1933, legislative and regulatory opportunities have come and gone without action being taken on business checking accounts. In 1980, The Depository Institutions Deregulation and Monetary Control Act was enacted, where many provisions of the antiquated interest rate control system were abolished. Individual account holders were finally able to earn interest on their checking accounts.

Consumers are well aware of the financial benefits of interest bearing checking accounts. Unfortunately, the provision dealing with business checking accounts was left unchanged. In 1996, a joint report was issued by all federal banking regulators, including the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision. Titled Streamlining of Regulatory Requirements, this report concluded that the statutory prohibition against paying interest on demand deposits no longer served a public purpose. Unfortunately, notwithstanding the conclusion of the report, nothing was done to rectify this problem and the prohibit remains in place.

Maintaining the current ban would continue to place small businesses at an unfair disadvantage without any rationale. This relegates small businesses to a competitive disadvantage with their inability to earn money in these idle accounts. Frankly, a basic sense of fairness would allow banks to pay interest on a business checking accounts as they do with personal checking accounts.

The U.S. Chamber believes strongly that small businesses must be provided with the financial management tool of interest bearing accounts. Adopting this provision will ensure entrepreneurs of all sizes the ability to compete more effectively in today's financial marketplace. By fostering open competition and allowing interest on business checking accounts, this provision offers an important opportunity to small business owners to establish a more complete relationship with their financial service provider.

Current alternatives to paying interest on business checking accounts are cumbersome and costly, both to the bank and its small business customer. Therefore, sophisticated and costly cash management techniques leave small businesses unable to earn market rates of interest on their transaction balances. Hence, this provides an environment that would allow banks a less costly approach of offering the option of interest bearing accounts. Additionally, authorizing Federal Reserve to pay interest on reserve balances at the Federal Reserve Banks will make it easier for banks to compete with other institutions that offer similar deposit instruments that are not subject to reserve requirements.

The U.S. Chamber of Commerce strongly supports the repeal of the prohibition on interest on demand accounts for businesses. This repeal is long overdue and it is time to provide a positive financial mechanism to thousands of hard working small business owners across America. The U.S. Chamber commends Chairman Bachus for his leadership, and stands ready to work with you and your colleagues to pass legislation in a timely manner that will allow banks to offer interest bearing checking accounts to their business customers.

Thank you.