

CHRISTINE O. GREGOIRE
Governor



STATE OF WASHINGTON
OFFICE OF THE GOVERNOR

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October 9, 2009

Dear Members of the Washington State Congressional Delegation:

We can all agree that for more than a year our economy has experienced virtually unprecedented upheaval. We have seen and appreciate how the extraordinary actions of the Administration, Federal Reserve, Treasury, Congress, and others, prevented further harm during the deepest recession we have experienced since the Great Depression.

However, certain recent measures and policies and practices at the federal level have resulted in negative consequences for a vital segment of our financial infrastructure – our community banks – and the communities they serve across our state and nation.

Our country's approximately 8,000 community banks played no role in triggering the financial crisis, but they, like so many others, have been adversely impacted by the recession. Unfortunately, little assistance has been available to community banks, and they have watched as taxpayer dollars have been used to stabilize Wall Street investment firms and our nation's largest banks, which have been considered "too big to fail."

Exacerbating this issue, federal regulators have applied inflexible "one size fits all" regulatory standards on community banks and potential investors that hinder the ability of these community banks to weather the financial storm and actually inhibit opportunities to raise critically needed capital at the local level. Without such capital, these community banks cannot continue their key role of lending to small businesses and individuals. Ultimately, it is our communities that suffer, and general recovery from our deep recession is forestalled.

Almost 100 community banks have failed this year (including three in Washington), but the nation's largest and most interconnected banks have been spared the same fate. Whether by design or not, this disparate result is due largely to federal government intervention and policies that support an unnecessarily dramatic reduction in the number of community banks. There is mounting concern that this outcome will further concentrate financial power in the hands of large banks, reduce competition, and likely reduce borrowing opportunities for small businesses and individuals in our communities.

With legislation being developed in the Senate Banking Committee and the House Financial Institutions Committee, my gubernatorial colleagues and I have a deep concern about an express interest by some – supported by the largest financial institutions – to create a single, federal bank regulator. Given recent events, we would have to assume that such a regulator would naturally focus its attention on the needs, wants and interests of the largest financial institutions and, even if unintentionally, administer policies and practices that would disfavor community banks. In the long-run, this approach might restrict consumer and small business access to credit and might weaken local economies.



Washington Congressional Delegation
October 9, 2009
Page 2

The Administration's goals of making the overall financial system more resilient and less vulnerable to risks associated with the behaviors of large financial institutions, while preserving the independence of an innovative, responsive and community-focused dual-banking system, deserve your serious consideration. Together, we must ensure a regulatory environment that encourages and supports community banking and the communities it serves across our state and our nation.

I would welcome an opportunity to further discuss my concerns with you, and Scott Jarvis, our Director of the state Department of Financial Institutions, is available to speak with you and your staffs at any time. Scott may be reached directly at sjarvis@dfi.wa.gov and (360) 902-0513.

Sincerely,



Christine O. Gregoire
Governor