

Commentary

Even after a year of financial turmoil, regulatory changes must proceed with caution

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As bad as it has been, the depth of the recession and the distress in financial markets were nowhere near that



Hafer

to the economic and financial crisis stemmed the downturn. Given the fact that the output already is showing signs of recovery, monetary policy - not fiscal - should get credit for jump-starting the economic engine. And although high unemployment rates will persist into next year, increased economic activity portends that it, too, will return to less distressing levels.

The response of the government to this crisis is likely to have a more profound effect on our economic future than the downturn itself. The government has increased its involvement in the workings of this economy to an extent not seen for 80 years. In response to the Great Depression, Washington centralized control over many aspects of our economic life. For example, the financial

system was altered dramatically with the passage of sweeping new regulations aimed at reducing competition in the banking industry. Limits on interstate banking were passed, as was the creation of a wall between commercial and investment banking. Those rules survived until the 1990s, even though the financial system had long ago found ways to circumvent their influence. By creating a holding company, for example, a bank could effectively operate in a number of states.

We are now in that customary post-crisis phase when new, more powerful and more encompassing regulation is being deemed indispensable to our future well-being. I say customary because one is hard-pressed to find a time following a financial crisis when Congress hasn't taken advantage of the situation to increase its regulatory reach. Following the 1987 stock market crash, for example, the 1988 Brady Report, named for chairman of the presidential task force, called for the imposition of trading rules that would halt trading whenever the major indexes increased or decreased by a certain absolute - not percentage - amount. Those then-clever "circuit breakers" became moot once the market reached new highs and the uneventful daily swings exceeded the size of the breaker.

Regulatory changes also often bring unintended consequences. Recall that passage of Sarbanes-Oxley was heralded as bringing an end to the corporate malfeasance that the private sector seemed unable to control. It did nothing of the

kind. It not only failed to control fraud and mismanagement, but it also raised the cost of doing business in the U.S.

Even with such a poor track record, the renewed call from Washington is for increased regulation that leans toward further centralization of control. This summer there was much discussion that the Fed should be designated as the over-regulator of financial markets and institutions. The argument was that housing financial and banking regulation in organization, it would be more efficiently run. What is troublesome about this view is that the Fed *did* know that developments in the housing market were having important (negative) implications for banks' balance sheets. As early as 2003, some Fed officials were warning that banks' increased accumulation of mortgage-related assets in their portfolios raised their exposure to downside risks. They chose to do nothing in response to that unsettling condition.

Even though some will call for speed in establishing new and farther-reaching regulations of our financial markets and institutions, care and, therefore, measured response, must be taken. Some reassessment of our current regulatory system is in order. But while many champion an increase in bureaucracy to accomplish this, an increase in transparency may be more fruitful. Reducing asymmetrical information in financial transactions would accomplish more to prevent future crises than a new cadre of regulators set upon the market. Before larding on another layer of

regulation, it is instructive to see what is working. Although it gets little attention in this push for more oversight, some government regulators actually are successfully meeting their mandates. The Federal Deposit Insurance Corp. has diligently gone about doing its job, which is wrapping up failed banks and protecting depositors' money. Over the past year, about 100 banks across the country have failed. In all but a handful of cases, those banks have not disappeared but have been "assumed" (taken over) by another bank. That is what the FDIC does. Wrapping up a bank does not mean shuttering windows and locking doors; it means finding another bank to assume the deposits - and in many instances, continue to operate the failed bank. Done properly, customers see no change during the process, except maybe the name of the institution.

It is naïveté to think that everything will just work out. It also is the height of arrogance to think that a new set of rules will prevent future problems. Although not as theatrical, increasing transparency and bringing some financial transactions (credit default swaps come to mind) under the light of existing regulations may be the most efficient and least disruptive approach.

Think Congress will buy that? Me neither.

R.W. Hafer is a distinguished research professor and chairman of the Department of Economics and Finance at Southern Illinois University Edwardsville. He is also a scholar of the Show-Me Institute in St. Louis.

Letters

Dear Editor:

I have been watching with interest the conversation between Kerry Smith's September 2009 editorial ("Outsourcing is further damaging an already-ailing U.S. economy") and Craig Hubbard's October 2009 letter to the editor. It is virtually impossible to find anyone in this country who has not been involved with and frustrated by a distant, non-understandable voice trying to service your account - wherever that may be.

Ms. Smith is completely correct that the move offshore of this type of services is done only to save money; however, more and more savvy businesses are finding that their savings may well be the "most expensive money they ever saved" as their customers leave in droves for others who offer real customer service.

Allow me to offer a better local option for those businesses considering the use of distant service providers. As a past president of the Association of TeleServices International as well as president of Answer Midwest Inc., I tell you that across this great land are telephone answering services able to deliver cost savings to your company and outstanding service to you and your customers. We provide 24/7 customer service at a fraction of the cost of providing your own staff.

While I agree that outsourcing can further damage an already-ailing U.S. economy, I argue that the use of local outsourcers by businesses can be a benefit to the economy and improve customer service.

**Gary Tedrick
Alton**

Dear Editor:

Kerry Smith's editorial regarding Illinois bill SB 1912 ("Would whoever tweaked with this bill and legislative protocol please stand up?") becoming a tax bill instead of an energy bill is a perfect example of dirty and deceptive Chicago and Illinois politics at work.

Please continue investigating and writing about this bill until it is vetoed and rewritten. It's absolutely unbelievable how our state and federal representatives continue to bleed small business and corporations...and they seem to be doing it without even reading the bills prior to voting. Unacceptable!

Thank you for uncovering another example of our state government at work. Getting rid of Blagojevich was just the tip of the iceberg.

Alan Ortvals' October 2009 editorial regarding Illinois and Missouri working together for the growth of the St. Louis metro area was much more in line with your position, as vice president of the IBI, than your September 2009 editorial regarding Obama's health care proposals.

Scott B. Reichmann of Carlinville stated his rebuttal to your editorial very well indeed. No citizen should ever have to "sit down and shut up," as you so distinctly phrased it in September's issue.

You should stick to the kind of editorials you wrote in October about Illinois and Missouri and leave your personal politics at home!

**Dennis Madison
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Corps narrows options for North Dakota, Minnesota flood control

MOORHEAD, Minn. (AP) - The Army Corps of Engineers said Oct. 19 that a diversion channel through Minnesota, a similar channel through North Dakota or levees along the bank of the Red River are among the best flood control options for residents in the Moorhead-Fargo area.

Corps officials said local leaders should choose a plan by Dec. 1 so a proposal can be submitted to Congress by the end of the year. Six Minnesota diversion plans and three North Dakota alternatives that proposed channels or levees were studied. Cost estimates ranged from around \$900 million to more than \$1.3 billion.

"The next 90 days, I think, is going to be a critical period," said Sen. Byron Dorgan, D-N.D., who chaired a committee meeting with the corps on Oct. 19.

The Red River stayed above flood stage in the Fargo area for a record 61 days last spring, causing damage expected to total in the millions of dollars, although a final tally has not yet been reached. Fargo residents fought off two crests, the first at a record 40.82 feet and the second at 34 feet.

"There is a determination here to no longer let things happen, but to make things happen," said Dorgan, who chairs the U.S. Senate's Energy and Water Subcommittee,

which funds the Corps' efforts.

North Dakota Gov. John Hoeven added: "The task is clear. We now have to build a consensus."

Fargo City Commissioner Tim Mahoney, co-chairman of a group evaluating the corps' plans, said his group will meet as often as needed to come up with a recommendation.

Five of Minnesota's six diversion plans met the federal cost-benefit threshold, while North Dakota diversion plans came close, corps officials said.

The North Dakota plans still face challenges because more river tributaries must be considered as well as the potential

effect on fish.

"The North Dakota diversion has a lot more uncertainty because we end up crossing all the tributaries," corps project manager Aaron Snyder said.

Public information meetings are scheduled in the area Tuesday and Wednesday to discuss the options.

Minnesota Gov. Tim Pawlenty said the corps has responded to the challenge of coming up with suggestions.

"They're now putting options on the table and the ball is back in the court of local officials," Pawlenty said.

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FDIC

Continued from page 1

For a community bank such as First Clover Leaf, the FDIC assessments have been formidable, according to Terry. Earlier in 2009, due to an FDIC premium hike, the bank's quarterly assessment increased by approximately \$86,000. Then came the FDIC's special assessment, in mid 2009, that added another \$140,000 quarterly to First Clover Leaf's premium. And now, with the proposed three-year lump sum payment requirement, Terry says the bill due Dec. 30 will total about \$2.5 million.

"Ironically, before this current situation hit, there were some private carriers that provided deposit insurance to banks," said Terry. "Some banks would buy that coverage as an overlay. But those providers rapidly disappeared about 18 months ago."

The rumor circulating within the banking industry, according to Terry, is that the federal government is only

closing down three to five banks per week but that the tally of closures is being enhanced to justify the FDIC premium hikes due to the agency's own budget dilemmas.

The First Clover Leaf exec says other factors at play - such as the federal government's borrowing, dipping into the FDIC's reserves and not repaying the agency - are reasons behind the aggressive hike in premiums, special assessments and lump sum payment requirements this year.

"This will eventually have a negative impact on banking overall," Terry said. "If you're a bank in this country, your FDIC premium is pretty much a fixed cost. You have to have it. For a bank our size, when that fixed cost of doing business goes up by more than half a million dollars, it can't not have an impact on our overall cost of operations."

Investment banks - the bulk of where

the subprime mortgage crisis originated - are not subject to FDIC premiums, Terry says.

Jim Chessen, chief economist for the American Bankers Association, argues that the FDIC's premium increases, special assessments and proposed lump sum prepayment are evidence of a federal agency that is doing its best to stay solvent during uncertain economic times.

"For 75 years, no one has ever lost a penny from an FDIC-insured institution," Chessen said. "The bank failures are happening more and becoming more costly now for the FDIC. Setting aside enough reserves to cover bank failures - which totaled some \$40 billion in 2008 - is a challenging task that hinges on a number of assumptions. Certainly the banking industry is going to have to put a lot of cash up front in order to cover these failures and the ones to come. But with respect to the lump sum prepayment

requirement, the banks won't have to write it off as an expense right away... they will be able to expense the premiums quarterly as those periods occur."

The FDIC won't book the lump sum payments as income until the quarter in which the assessment is actually due, Chessen says. "The monies are still a prepaid asset on the bank's books until the period for which they're due," he added.

Chessen agrees that the lump sum prepayments will put a strain on banks' operating cash. "It will require that banks have that amount of cash or liquidity on hand to be able to make the three years' worth of payments," he said. "There's no question that this will have an impact. It affects the liquid resources that a bank has, and the ability to use those resources for other things such as making loans."

In 2011, the FDIC has plans to increase banks' quarterly premiums again, this time by three basis points.

SBA

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lenders.

A temporary increase in the guaranteed portion of the SBA loan - from a customary 75-85 percent to 90 percent - is one of two factors lenders say is driving the resurgence of new small business loans. Shortly after the federal stimulus package was approved, a total of \$375 million flowed to lenders to cover their cost of the higher loan guarantee.

Regionally, the escalated demand for loans in Illinois has made additional staffing necessary, according to Ross.

"Since March of this year, things have changed for the better for sure," said Ross, noting that just eight months ago it was a markedly different scenario with regard to SBA lending. "We are hearing from lenders who hadn't worked with us in years."

According to the SBA's national headquarters, by October more than 1,500 lenders joined or rejoined the SBA program nationally.

The other major factor at play,

Ross says, is the temporary waiver of origination fees - generally totaling 2 to 3.75 percent of the loan amount - plus the waiver of other application fees.

The fee waivers currently apply to both 7a loans - the smaller (\$2 million and under) and most common form of SBA loan used for business operations - and to 504 loans (of up to \$4 million), the larger SBA loans made to businesses acquiring real estate or capital.

How long this renewed demand for SBA loans will last - and whether it will continue beyond the exhaustion of stimulus funding and the end of these temporary incentives - is the question lenders are asking.

Both Ross and Diane Wagner, senior vice president of media relations for Bank of America, think SBA new loan activity - both in Illinois and across the U.S. - will likely level off once the \$375 million in stimulus money is depleted, most likely by December.

Bank of America, ranked nationally in June as the largest SBA lender (in terms

of loan volume), extended more than \$4 billion of credit to small business customers during the third quarter of 2009, according to Wagner. She says year to date in 2009 the institution has lent more than \$12 billion in SBA dollars.

"Bank of America continues to rank number one when it comes to volume in the SBA's 504 lending program," said Wagner. "We have, however, seen a decrease in demand for small business loans (7a loans) over the past year. The main reason for this trend is that small business owners have decided to control spending for their business until the economy begins to improve." Thus far in 2009, B of A has assisted 49,000 small business credit customers by modifying their payment schedules to help improve their cash flow as they manage through the recession, Wagner says.

Tom Burke, senior vice president at Wells Fargo's SBA lending division, says as of the close of the bank's fiscal year on Sept. 30, Wells Fargo had issued \$300 million in 504 loans and \$828

million in 7a loans.

"We'd like to do more, but part of the problem in the current environment is loan qualification," Burke said.

"With credit still tight, fewer small business borrowers are able to meet the requirements to get an SBA loan, period. Now, more than ever - especially with SBA loans since they involve taxpayer-funded (bailout) money - you have to be squeaky clean to qualify for one of these."

Burke adds that personal credit scores, a solid business plan and equally solid cash flow projections are as vital as ever in order to qualify.

The diversity of SBA loans and borrowers aided by AARA funding is apparent, according to Ross, in her district's 2009 statistics. Some 27 percent of Illinois-based SBA loans this year have been made to rural areas. A total of 20 percent of all loans so far in 2009 have been made to minority-owned businesses, and 9 percent to veteran-owned businesses.

APPEALS

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down, so everybody was going to appeal their assessment based on the current market conditions. Your assessment is supposed to be based on the current market value, so if the market goes up the assessments go up. When the market goes down, the assessments are in theory supposed to go down, assuming you're assessed right based on the five-year-ago assessments."

But according to Miller, a lot of the problem is that the multiplier applied to each township each year is based on old data - the average differential between

assessed market values and actual sales over the previous three years. Another problem is that the multiplier is a pretty blunt tool, applying a factor to all of the property in a township when there can be great variation in the actual market.

"The problem is location, location, location, location," Miller said. "Property in Highland sells for a different amount than it does in Edwardsville, and different in Granite City from what it does in Alton. In Alton, for example, there are areas in town where there are beautiful 125 to 130-year-old Victorian homes that have been

renovated and they're selling for \$300,000 to \$500,000. Two blocks over, you've got the ghetto where you're lucky to get \$20,000 out of it. It's just really hard to come in and say that all property in Alton gets a 4 percent multiplier. If I'm in a good area where the values are going up, that's okay, but if I'm in a bad area where the values are stagnant or going down - and I get slapped with a 4 percent increase - it's like, 'Wait a minute. Something's a little wacky here!'"

Miller says many of the disputes over value are resolved without going to the

state. He says it's typically a three-step process. A property owner starts with the local assessor. If he is still unhappy he can file an appeal with the County Board of Review. If the property owner's unhappy with the Board of Review's determination, he has the option of either filing with the State Appeal Board in Springfield or filing a complaint with the Circuit Court. Neither of the last two are very good options, according to Miller. The state's Property Tax Appeal Board is years behind, he says, and taking it to court could cost thousands of dollars.

Southwestern Illinois Commercial Real Estate Transactions

The Illinois Business Journal is proud to publish commercial real estate transactions recently completed by commercial brokers across Southwestern Illinois.

Belleville

◆ T&B Land Trust leased 2,900 sq. ft. of retail space at 5308 North Belt West to BJJ Lifestyle Academy LLC. Johnson Properties Inc. represented both parties.

◆ Thomas and Carol Zweigart sold a 3,390-sq.-ft. office building located at 7526 West Main St. to QHC LLC. Johnson Properties Inc. represented both parties.

IBJ Business News

Korte Co. finishes Great Neck facility

The Korte Co. has completed a \$13 million facility for the United States Postal Service, representing a savings of approximately \$3.4 million for the 26,388-square-foot facility. To date, Korte has delivered a total of 39 projects for the USPS throughout the country.

The Great Neck project consists of a 14,000-square-foot annex and a two-story parking structure with parking available for 85 vehicles.

Madison, St. Clair counties win labor grant to cover flood damage recovery

U.S. Rep. Jerry Costello (D-Illinois) announces that the Illinois Department of Commerce and Economic Opportunity has received a \$774,925 National Emergency Grant from the U.S. Department of Labor. The funds will be used to reimburse Madison and St. Clair counties for hiring dislocated workers to aid with the cleanup and recovery effort after severe storms and flooding in 2008.

Korte awarded Tinker AFB project

The Korte Co. has begun construction on a \$40.1 million multi-aircraft hanger for the 76th Aircraft Maintenance Group at Tinker Air Force Base near Oklahoma City, Okla. The 164,443-square-foot facility, when completed, will perform programmed depot maintenance for a variety of aircraft. The hangar includes open and private offices, administration areas, break room, latrine/shower areas, open bay work area, technical order library and building utility rooms.

Leadership Council welcomes Long

The Leadership Council Southwestern Illinois today announced that the organization has hired Kathy L. Long to serve as its new office manager. Long is filling the position vacated by Karen Wilson, who recently retired from the Leadership Council after 25 years.

Prior to joining the Leadership Council, Long, a resident of Edwardsville, served more than 18 years as an office manager and supervisor at Southern Illinois University Edwardsville. As office support specialist to SIUE's Curriculum and Instruction Department chair, she was responsible for maintaining multiple budgets, acting as a fiscal officer delegate and preparing contracts. Long was also in charge of hiring, scheduling and supervising student workers, and assisting faculty members with grant-related projects.

◆ Heap Greenhouses, A Partnership sold a 44,000-sq.-ft. greenhouse operation located at 610 S. Douglas Ave. to Plants-N-More Corp. Johnson Properties Inc. represented both parties.

◆ Shekinah Temple of Glory Family Life Center leased 7,800 sq. ft. at 215 South Jackson St. in Belleville from Deliverance Mission Christian Church Inc. Kunkel Commercial Group Inc. represented the landlord and tenant.

East St. Louis

◆ The Catholic Diocese of Belleville sold the St. Patrick Church and School at 771 Vogel Pl. to New Horizon Community Church, Ranodore and

Eva Foggs. Johnson Properties Inc. represented both parties.

Fairview Heights

◆ Roth Family Limited Partnership leased 1,695 sq. ft. of retail space at 314-E Fountains Pkwy. to Image Excellence. Johnson Properties Inc. represented both parties.

◆ Castle Law Office leased 1,087 sq. ft. at 5007 N. Illinois St. from Four S LLC. Kunkel Commercial Group Inc. represented the landlord and tenant.

O'Fallon

◆ Main Stage Video Inc., dba Edwards

Video Productions, leased 552 sq. ft. at 220 East State St. in O'Fallon from JAG Inc. Kunkel Commercial Group Inc. represented the landlord and tenant.

Swansea

◆ Triple J Properties sold a 3,150-sq.-ft. office building located at 9 Park Pl. to Nine Park Place Property LLC, dba CardioThoracic Surgery Associates. Johnson Properties Inc. represented both parties.

◆ Dr. David M. Conner leased 1,990 sq. ft. at 9 Executive Woods from Utility Safety and Design Inc. Kunkel Commercial Group Inc. represented the landlord and tenant.

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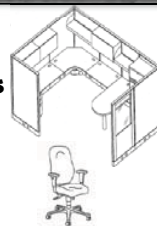
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