



September 2, 2014

Legislative and Regulatory Activity Division
Office of the Comptroller of the Currency
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Washington, D.C. 20219

Robert deV. Frierson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, D.C. 20551

Robert E. Feldman, Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, D.C. 20429

Submitted via Regulations.gov

Re: Regulatory Review under the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA), Docket ID FFIEC-2014-0001, Docket No. OP-1491

Dear Sirs:

The Community Bankers Association of Illinois (CBAI), which proudly represents approximately 380 Illinois community banks, appreciates the opportunity to provide our observations and recommendations regarding your review of regulations as required under section 222 of the Economic Growth and Regulatory Paperwork Reduction Act of 1996

(“EGRPRA”). The identification of outdated, unnecessary, or unduly burdensome regulation of insured depository institutions is important for reducing the stifling regulatory burden particularly on community banks. CBAI urges regulators to act swiftly to identify and implement changes in regulations that will help ease this growing burden which threatens the survival of many community banks.

Initial Observation and Recommendation

At the outset and throughout this two year regulatory review process, CBAI recommends regulators not view regulation as equally applicable to all insured depository institutions; rather the view should be increasingly towards advancing the concept of tiered regulation.

The financial crisis clearly demonstrated that the risks taken by Wall Street mega banks are very different from those assumed by community banks, and they should not be regulated in the same way. The regulatory burden imposed on community banks by a one-size-fits-all approach ignores the disproportionate burden of regulations on community banks. Also credit unions, Farm Credit System (FCS) lenders and other non-bank financial service providers are not subject to the same laws and regulations as community banks. This unlevel playing field places community banks at a significant competitive disadvantage.

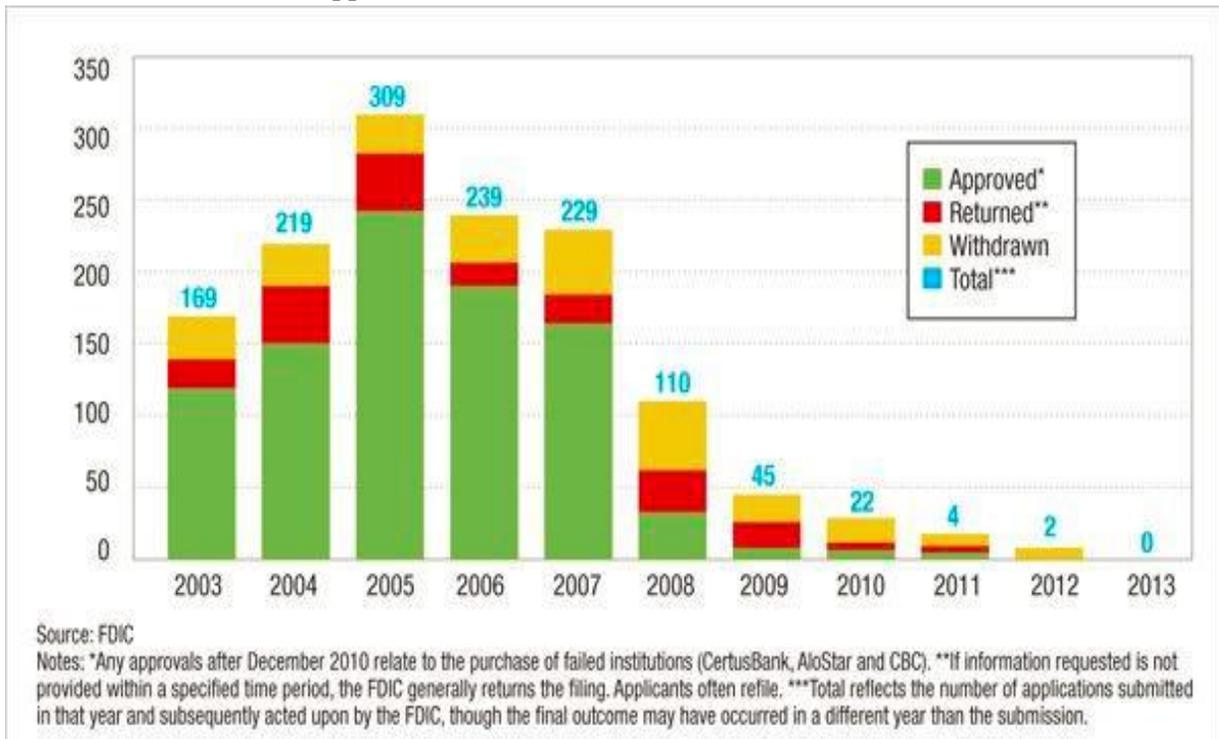
The Dodd-Frank Reform Act laid out a plan for applying separate supervision, capital, and liquidity requirements to the mega banks. In the Act and elsewhere, tiered regulation for community banks has established a welcomed and necessary beachhead. Dodd-Frank exempts community banks from the supervision and enforcement of the Consumer Financial Protection Bureau (CFPB) and shields community banks from increasing the deposit insurance fund reserve ratio from 1.15% to 1.35%. The Basel III regulations allow community banks to use Basel I mortgage risk weights, exclude AOCI from the definition of regulatory capital, grandfather tier one treatment of TruPS for banks under \$15 billion (and allows an additional year for compliance). The Consumer Financial Protection Bureau also made special accommodations for community banks in the Ability-to-Repay/Qualified Mortgage (QM) rules for small creditors (community banks).

CBAI urges regulators to expand this beachhead and continue to refine a tiered regulatory system to ensure that every regulation clearly distinguishes and appropriately regulates community banks.

De Novo Bank Formation

Newly chartered or de novo community banks are needed to maintain a growing, evolving and vibrant banking industry particularly given the decline in the number of banks from recent bank failures and industry consolidation.

CBAI disagrees with the FDIC's apparent position of actively inhibiting de novo community bank formation. The FDIC has approved only a single de novo bank since 2010. This is a dramatic shift from an average of 170 per year for many years. Even in the depths of the Savings & Loan crisis (1984-1992), when 1,800 banks and savings institutions failed, an average of 196 de novos were formed annually. The table below graphically illustrates the rapid decline and recent dearth of de novo applications since 2005.



CBAI understands, to a degree, the reluctance of the FDIC to approve new applications during the recent financial crisis when they were fully occupied with a growing list of troubled institutions and because de novos failed at a greater rate than other banks. To completely shut-down the pipeline of new charters, however, is clearly regulatory overreaction.

Contributing to the minuscule number of applications is the FDIC's policy on de novo banks which was adopted in 2009. This policy extends the business plan requirement from three to seven years and requires the applicant raise capital, prior to opening, which would be sufficient to maintain a leverage ratio of 8% (minimum) for the full seven years based on the pro forma statements. Requiring this excessively high level of capital makes investments in newly chartered institutions unattractive particularly so when attracting outside capital is difficult even for existing community banks.

The FDIC's current discouraging position on de novos and its' one-size-fits-all supervisory policy is inappropriate and too restrictive. There must be more flexibility and a policy tailored to specific applications versus a single standard that applies to all applications and projects forward seven years. De novo bank formation should be encouraged not discouraged.

Call Reports

Call Report preparation has become an increasing and unnecessary regulatory burden particularly on community banks and attention needs be paid to relieving this burden.

Call Reports have grown from 18 pages in 1986, to 29 pages in 2003, and to nearly 80 pages today. Currently there are 670 pages of instruction and another 57 pages of recently proposed instructions to implement the provisions of Basel III. The largest credit union in the country, with \$58 billion in assets, files a 28 page Call Report versus 80 pages of detailed financial reporting for a community bank that is only 1/4 of 1% of its asset size. This disparity is unnecessary and clearly indicates the need for regulatory relief for community banks.

CBAI proposes that that highly rated "well capitalized" community banks file full Call Reports twice per year, for the quarters ending December and June, and file short-form Call Reports (limited to income statement, balance sheet and changes in bank equity capital) for the quarters ending March and September. This change in requirements will still provide regulators with

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sufficient information to properly monitor community banks and detect matters that may require additional investigation and follow-up.

This meaningful regulatory relief will help community banks devote more of their resources to their customers and communities.

Small Bank Holding Company Policy Statement Threshold

It has been almost a decade since the Federal Reserve revisited the qualifying threshold for the Small Bank Holding Company Policy Statement and an increase in the asset threshold is clearly warranted.

CBAI recommends increasing the qualifying threshold from \$500 million to \$5 billion and also allowing small savings and loan holding companies to be covered by the Policy Statement. This action will reduce the regulatory reporting burden, facilitate greater investment, and treat bank holding companies and thrift holding companies consistently, all of which will encourage their formation and expansion. It also further builds a tiered regulatory system that clearly recognizes that community banks and thrifts should be subject to less complex rules than the mega banks.

CBAI thanks you for this opportunity to provide our observations and recommendations regarding the review of regulations required under EGRPRA to identify outdated, unnecessary, or unduly burdensome regulations for insured depository institutions. If you have any questions or need additional information please do not hesitate to contact me at (847) 909-8341 or davids@cbai.com.

Sincerely,

/s/

David G. Schroeder
Vice President Federal Governmental Relations

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