



Report on Staff Visit to Washington, D.C. October 9 – 13, 2017

During the week of October 9, 2017, CBAI's Vice President of Federal Governmental Relations, David Schroeder, visited the offices of every member of the Illinois Congressional Delegation, met with the Federal Deposit Insurance Corporation, Office of Comptroller of the Currency, Consumer Financial protection Bureau, Council of Federal Home Loan Banks, and conferred with senior legislative staff at the Independent Community Bankers of America (ICBA).

The primary purpose of Schroeder's quarterly visits is to inform the Illinois Congressional Delegation and urge their support for CBAI positions on issues of importance to Illinois community banks. These positions included: cosponsoring legislation that provides meaningful regulatory relief for community banks, support for tax relief and reform, agricultural and rural America, sound principals for reform of the housing GSEs, and credit union and Farm Credit System taxation and containing their expansion of powers. Schroeder also encouraged all members who have not done so to cosponsor the bi-partisan legislation led by Illinois' Randy Hultgren (R-14th) which would grandfather certain captive insurance companies in membership of the Federal Home Loan Bank System, an issue which particularly impacts the Chicago Federal Home Loan Bank.

As the 115th Congress continues to move forward, Schroeder emphasized again that lawmaker and regulator support for these positions will strengthen community banks which are built on customer trust, promote competition in financial services, give consumers more choices, and support small business development, home and education lending, and long-term financial security. For the health of our Nation's community banks, financial system and economy, meaningful and well-deserving regulatory relief must be enacted for community banks - NOW.

Community Lending Enhancement and Regulatory Relief Act of 2017 / the CLEAR Act of 2017 (H.R. 2133) and the Community Lending Enhancement and Regulatory Relief Act of 2017 / the CLEAR Relief Act of 2017 (S. 1002)

Community banks provide 60 percent of all small business loans under \$1 million, as well as

customized mortgage and consumer loans suited to the unique characteristics of their local customers and communities. They are serving a vital role in ensuring the economy is robust and benefiting communities of all sizes and in every region of the country.

The meaningful regulatory relief provided by H.R. 2133 and S. 1002 will allow community banks to promote and support entrepreneurship, job creation, and economic growth in their communities.

H.R. 2133 contains the following regulatory relief.

- Provides automatic “qualified mortgage” status for mortgages held in portfolio; an exemption from escrow requirements for community bank mortgages held in portfolio; an increase in the small servicer exemption threshold from 5,000 loans to 30,000 loans serviced annually; an exemption from independent appraisal requirements for “high-priced” mortgages of \$250,000 or less held in portfolio; significantly higher exemption thresholds under the Home Mortgage Disclosure Act; and repeal of punitive new capital requirements for mortgage servicing assets under Basel III
- Repeals the onerous Dodd-Frank small business loan application data collection requirements (which are not yet implemented)
- Raises the eligibility threshold for the Federal Reserve’s Small Bank Holding Company Policy Statement from assets of \$1 billion or less to assets of \$10 billion or less
- Amends the Equal Credit Opportunity Act and the Fair Housing Act to bar “disparate impact” causes of action and to require discriminatory intent for fair lending violations
- Exempts all banks with assets of \$50 billion or less from examination and enforcement by the CFPB. These banks would be examined and supervised by their prudential regulators for compliance with consumer protection regulation
- Bars banking regulators from ordering or pressuring a bank to close a customer account based solely on “reputational risk”
- Creates a waiver from the mandatory waiting period prior to mortgage closure under the TRID rule
- Facilitates the use of reciprocal deposits, which allow community banks to serve large local depositors and keep their funds in the community

S. 1002 contains the following regulatory relief.

- Provides that any mortgage held in portfolio by a community bank with assets of less than \$10 billion is a “qualified mortgage” under the CFPB’s ability-to-repay rules
- Exempts any mortgage held in portfolio by an institution with assets of \$10 billion or less from escrow requirements
- Provides relief for community banks with assets of \$1 billion or less from redundant internal control reporting and attestation requirements

- Exempts banks with assets of less than \$10 billion from the Volcker Rule
- Provides a regulatory safe harbor for good-faith compliance with the TILA/RESPA Integrated Disclosure rule

CBAI urges Congress and regulators to continue to expand and refine a tiered regulatory system based on bank size and risk profile to ensure that every law, rule, and regulation clearly distinguishes and appropriately regulate community banks.

This legislation has 46 cosponsors in the House and 30 bi-partisan cosponsors in the Senate.

CBAI thanks Illinois Congressmen Mike Bost (R-12), Rodney Davis (R-13), Randy Hultgren (R-14) and Darin LaHood (R-18) for cosponsoring this legislation.

Housing Opportunity Mortgage Expansion Act (H.R. 2890)

CBAI urges U.S. House members to cosponsor the Housing Opportunity Mortgage Expansion Act (H.R. 2890), which is bi-partisan legislation introduced by Representatives **Randy Hultgren (R-IL-14th)** and Gwen Moore (D-WI-4th). This bill will grandfather the Federal Home Loan Bank (FHLB) memberships of approximately 20 captive insurance companies which are threatened as a result of a regulation implemented by the Federal Housing Finance Agency that prohibits new captive insurers from joining a FHLB and requires existing captive members to terminate their memberships in the coming years.

Two of the Chicago FHLB's largest borrowers are captive insurers, cumulatively accounting for about one-third of its total advances/borrowings. Unless Congress acts, the FHFA's rule will terminate the memberships of these Chicago FHLB members, significantly reducing its size and scale, as well as its overall profitability. Also, the borrowing costs for community bank members will likely increase while the amount of FHLB funding devoted to affordable housing and community investment programs will decrease. A regulation that results in a smaller and less efficient Chicago FHLB, with lower profits and less ability to carry out its mission, is the wrong approach and will hurt efforts to revive and sustain Illinois housing markets and local economies.

CBAI joins with the Chicago FHLB in urging support for this legislation and, as a result of this cooperative effort, Illinois Representatives Mike Bost (R-12th), Cheri Bustos (D-17th), Danny Davis (D-7th), Rodney Davis (D-13th), Bill Foster (D-11th), Luis Gutierrez (D-4th), Robin Kelly (D-2nd), Adam Kinzinger (R-16th), Raja Krishnamoorthi (D-8th), Darin LaHood (R-18th), Dan Lipinski (D-3rd), Mike Quigley (D-5th), Peter Roskam (R-6th), Bobby Rush (D-1st), Brad Schneider (D-

10th), and John Shimkus (R-15th) have now either formally cosponsored or committed to cosponsoring this legislation.

Home Mortgage Disclosure Adjustment Act (H.R. 2954 and S. 1310)

Community banks are seeking relief from the new HMDA regulation which was significantly expanded by the CFPB beyond the Dodd-Frank mandate. This bill amends the Home Mortgage Disclosure Act of 1975 to exempt a depository institution from certain records and disclosure requirements: House version - (1) with respect to closed-end mortgage loans, if the depository institution originated fewer than 1,000 such loans in each of the two preceding years; and (2) with respect to open-end lines of credit, if the depository institution originated fewer than 2,000 such lines of credit in each of the two preceding years; and Senate version - (1) with respect to closed-end mortgage loans, if the depository institution originated fewer than 500 such loans in each of the two preceding years; and (2) with respect to open-end lines of credit, if the depository institution originated fewer than 500 such lines of credit in each of the two preceding years. This legislation will provide critical regulatory relief for low volume residential mortgage lenders. This legislation has 6 cosponsors in the House and 7 bi-partisan cosponsors in the Senate.

Support Community Bank Tax Relief and Tax Reform

The 115th Congress presents a unique opportunity to restructure, modernize and simplify the complex and inefficient tax code. Community bank tax relief and tax reform, if done properly, have the potential to strengthen our economy and spur job creation.

The following should be accomplished in tax relief and reform.

- Simplify the tax code
- Reduce corporate and individual tax rates
- Protect full interest deductibility for business borrowers
- Create new incentives for community bank lending to low- and middle-income individuals, businesses, farmers, and ranchers
- Protect and expand the S corporation model
- Oppose bank-specific taxes
- Repeal the estate tax
- Promote savings and investment

- Create parity in the taxation of different forms of financial services providers, including credit unions and Farm Credit System lenders, which provide similar products and serve the same customers as community banks

Support Agriculture and Rural America

A vibrant rural economy is vital to America's prosperity. Community banks which fund nearly 80% of all agricultural loans, serves a crucial role in creating and sustaining rural economic prosperity.

CBAI encourages Congress to support the adoption of a robust farm bill to provide a strong safety net for farmers and ranchers. The farm bill must include adequate price-protection programs and enhanced USDA-guaranteed farm and business loan programs. In the reauthorization of crop insurance, programs must be protected from further cuts or adverse changes that would discourage farmer and rancher participation, or undermine the private sector delivery.

Support Sound Principles for GSE Reform

American homeowners have benefited from the critical role Fannie Mae and Freddie Mac have played in helping finance homeownership for decades. The GSEs have provided a steady, reliable source of funding for home mortgage lending through all economic cycles and in all markets. The GSEs operate as friendly aggregators and a source of capital for mortgage lending institutions of all sizes and charters.

Community banks depend on the GSEs for direct access to the secondary market without having to sell their loans through a larger financial institution that competes with them. The GSEs help support the community bank business model of good local service by allowing them to retain the servicing on the loans they sell, which helps keep delinquencies and foreclosures low. And, unlike other private investors or aggregators, the GSEs have a mandate to serve all markets at all times.

The following should be accomplished in GSE reform

- The GSEs must be allowed to rebuild their capital buffers
- Lenders should have competitive, equal, direct access on a single loan basis

- The GSEs must be adequately capitalized, liquid, and reliable enough to effectively serve the entire mortgage industry in all markets, at all times, including challenging economic circumstances
- Credit risk transfers must meet targeted economic returns
- An explicit government guarantee on GSE MBS is needed
- The TBA market for GSE MBS must be preserved
- Strong oversight from a single regulator will promote sound operation
- Originators must have the option to retain servicing, and servicing fees must be reasonable
- Complexity of structure and operations should not force consolidation
- GSE assets [automated underwriting technology, loan delivery portals, Common Securitization Platform, and multi-family housing businesses] must not be sold or transferred to the private market.
- The purpose and activities of the GSEs should be appropriately limited and must be focused on supporting residential and multifamily housing. They must not be allowed to compete with originators at the retail level, where they would enjoy an unfair advantage.
- GSE shareholder rights must be upheld

GSE reform remains critically important to the future of the housing market and the U.S. economy. A strong plan to improve their capital position, grow earnings, manage expenses and restore high-quality service and increased liquidity to the mortgage market will drive a more robust primary and secondary mortgage market. It will make the housing finance system safer and sounder, providing access to lenders of all sizes and the communities they serve.

Support Community Bank Position on Credit Unions and Farm Credit System and Oppose Their Expansion of Powers

Both credit unions and Farm Credit lenders have long-since strayed from their founding purposes, blatantly abusing their competitive advantages, and harming Illinois community banks.

During the 115th Congress we anticipate credit unions will again advocate for an increase in percentage of asset cap on member business lending, greater access to capital to fund growth, and an expansion of credit union membership. The National Credit Union Administration (NCUA), the “cheerleader regulator” of credit unions fully supports an expansionist agenda,

much of which is a blatant end-around Congressional intent for credit unions to serve individuals of modest means and with a common bond.

Farm Credit lenders are supported in their expansionist agenda by their “cheerleader regulator”, the Farm Credit Administration (FCA). CBAI recommends Congress convene joint committee hearings to investigate the operations, supervision, risks and financial soundness of the Farm Credit System (FCS), and its increasingly harmful impact on rural community banks. An investigative hearing would inform the House and Senate financial services and banking committees respectively about the systemic importance and bailout risks of the FCS (which is operating outside of its purview), and inform the agricultural committee about the impact of the FCS (which is the 13th largest financial institution within its purview) on the financial system and particularly rural community banks.

CBAI encourages you to oppose the expansionist agenda of both credit unions and the FCS lenders.

Thank you very much for considering our positions on these important issues.

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