Report on CBAI Staff

Visit to Washington

February 27 – March 3, 2017

CBAI's Vice President of Federal Governmental Relations, David Schroeder, visited the office of each member of the Illinois Congressional Delegation, met with officials at the Federal Deposit Insurance Corporation (FDIC), Office of Comptroller of the Currency (OCC), Board of Governors of the Federal Reserve System (Fed Reserve), Consumer Financial Protection Bureau (CFPB), and the Conference of State Bank Supervisors (CSBS), and conferred with senior legislative staff at the Independent Community Bankers of America (ICBA).

The purpose of Schroeder's quarterly visit was to inform and urge support for CBAI positions on issues of importance to Illinois community banks which include: meaningful regulatory relief for community banks in the 115th Congress, tiered regulation and supervision for community banks as contained in the ICBA's *Plan for Prosperity*, and credit union and Farm Credit System taxation and containment of their expanding powers.

As the 115th Congress begins, Schroeder urged members of the Illinois Congressional Delegation and regulators to support legislation and regulation that 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.

Schroeder began his week in D.C. by attending the joint Illinois State Society/Illinois Group's Welcome Reception in honor of Illinois' newest Congressional Members. Attending this Reception reinforced the relationship CBAI has developed with these three members of the Illinois Congressional Delegation.

Senator Tammy Duckworth

Congressman Brad Schneider

Congressman Raja Krishnamoorthi

The following positions will strengthen community banks and support small business development, home and education loans, and long-term financial security.

Support Meaningful Regulatory Relief for Community Banks in the 115th Congress

CBAI is hopeful that both the new Congress and Trump Administration will support the passage of meaningful regulatory relief for community banks. The continuing decline in the number of community banks combined with an increased concentration of banking assets in the largest banks pose a threat to our financial system and economy. Community banks are suffocating under an unprecedented regulatory burden which has driven some small banks to merge out of existence. Dealing with the increased regulatory burden is diverting community bankers' resources from serving their customers and communities to compliance review and documentation.

Support Tiered Regulation and Supervision for Community Banks as Contained in the Independent Community Bankers of America's (ICBA) *Plan for Prosperity*

The financial crisis demonstrated that the risks taken by Wall Street are very different from those taken by community banks, and regulations should reflect those differences. The regulatory burden imposed on community banks by a one-size-fits-all approach ignores the disproportionate burden of banking laws and regulations on community banks. Credit unions, Farm Credit System lenders and other non-bank financial services 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.

CBAI supports the ICBA's *Plan for Prosperity*, a policy platform for the 115th Congress that promotes a regulatory environment in which community banks can thrive and contribute to their local economies. The *Plan* contains flexible priorities to ease excessive, redundant and costly regulations while supporting greater regulatory accountability to help community banks dedicate more of their scarce resources to promoting economic growth. The steady increase in regulations over many decades threatens community banks and their communities.

The ICBA's *Plan for Prosperity* contains the following issue areas and recommendations.

Access to Capital

- Restore the original intent of the Basel III rule
- Create a more accurate identification of "systemic risk"

- Spur additional capital for small bank holding companies by modernizing the Federal Reserve's policy statement
- Relieve community banks from excessive Securities and Exchange Commission rules
- Repeal the Collins Amendment for non-SIFIs
- Address minority bank capital challenges

Regulatory Relief

- Balance consumer regulation through more accountable Consumer Financial Protection Bureau governance
- Eliminate arbitrary "disparate impact" fair lending lawsuits
- Ensure the viability of mutual banks through new charter and capital options
- Support rigorous cost-benefit analyses of all new rules to determine if they are justified and indeed needed
- Modernize the Bank Secrecy Act (BSA)
- Cut the red tape in small business lending by eliminating burdensome data collection
- Target the Volker Rule on a banks' individual risk
- Preserve access to investment advice for middle-class savers

Mortgage Reform

- Create a safe harbor from onerous underwriting standards
- Establish relief from burdensome HMDA, escrow and appraisal requirements
- Preserve the ability for community banks to continue servicing mortgage loans
- Reform the closing process and accompanying paperwork

Bank Oversight and Examination

- Strengthen accountability in bank exams and create a workable appeals process
- Reform bank oversight and examination to better target risk

Tax Relief

- Lower marginal rates needed for individuals, corporations and businesses
- Incentivize credit for low- and middle-income customers and American agriculture
- Modernize Subchapter "S" constraints
- Create limited liability corporation (LLC) option for community banks
- Repeal the estate tax
- Update the bank qualified (BQ) bond issuer limitation
- Support a five-year loss carryback that encourages lending during economic downturns
- Create a tax credit for Bank Secrecy Act (BSA) compliance costs

Agriculture and Rural America

- Address arbitrary agricultural loan concentration limits
- Institute tax relief for rural lending

CBAI urges Congress and regulators 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.

Support Community Bank Position on Credit Union and Farm Credit System and Oppose Their Expanded 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 CBAI anticipates credit unions will once again advocate for an increase in percentage of asset cap on member business lending, access to investor 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 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 the its purview), and inform the agricultural committees about the impact of the FCS (which is approaching being one of the top ten largest financial institutions which is within its purview) on the financial system and particularly rural community banks.

Regulator Meetings

In addition to many Capitol Hill meetings, Schroeder met with the FDIC, Fed Reserve, OCC, CFPB and the CSBS to discuss CBAI's positions on important issues, and particularly several regulatory matters which CBAI has recently commented on. These issues and matters which will significantly impact the community bank professions include: the OCC's proposal to issue special purpose national banking charters to fintech firms, the FDIC's deposit insurance application handbook for de novo charters, and the OCC not yet issuing the 2012 CRA examination rating for Wells Fargo.

CBAI clearly communicated its hope that the 115th Congress will be highly productive with the passage of meaningful regulatory relief, and that banking regulators will carefully draft regulations to reduce the stifling regulatory burden on community banks.