Report on Staff Visit to Washington, D.C.

January 15 – 19, 2018

During the week of January 15, CBAI Senior Vice President of Federal Governmental Relations David Schroeder visited the offices of every member of the Illinois Congressional Delegation, met with the Federal Reserve System, the Conference of State Bank Supervisors, 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 about issues of importance to Illinois community banks. The CBAI priorities highlighted during these meetings included: meaningful regulatory relief for community banks as contained in the Economic Growth, Regulatory Relief and Consumer Protection Act (S.2155), community-bank access to the payment systems, sound principals for GSE reform, support for agricultural and rural America, and credit union/Farm Credit System taxation and containing their expansion of powers.

Schroeder also thanked select members of the Illinois Delegation for their support for the recently enacted tax relief and reform legislation; and particularly their responsiveness to our concerns about the treatment Subchapter "S" banks, mortgage-servicing asset, and non-qualified deferred compensation plans. Schroeder also happily acknowledged that all House members of the Illinois Delegation have now cosponsored 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 begins its second session, Schroeder emphasized again that lawmaker and regulator support for these priorities 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.

<u>Support</u> Meaningful Regulatory Relief for Community Banks in the Second Session of the 115th Congress

CBAI is encouraged by the Economic Growth, Regulatory Relief and Consumer Protection Act (S. 2155) which was introduced last November by Senate Banking Committee Chairman Mike Crapo (R-ID). This legislation now has 23 bi-partisan cosponsors, including an equal number of Republicans and Democrats and the one Independent Senator. The bill passed the Senate Banking Committee on December 18 and is headed to the full Senate for consideration.

This legislation contains many provisions from the Independent Community Bankers of America's (ICBA) Plan for Prosperity, including:

- Increasing exemption thresholds for Home Mortgage Disclosure Act (HMDA) reporting;

- Granting "Qualified Mortgage" (QM) status for portfolio mortgage loans at most community banks;
- Exempting certain community-bank loans from escrow requirements;
- Simplifying community-bank capital requirements;
- Increasing eligibility for a short-form Call Report to restore proportionality to quarterly reporting;
- Expanding eligibility for the 18-month regulatory-examination cycle;
- Easing appraisal requirements to facilitate mortgage credit in local communities;
- Exempting most community banks from the Volcker Rule;
- Expanding access to the Federal Reserve's Small Bank Holding Company Policy Statement to help more community banks build capital; and
- Improving regulatory treatment of reciprocal deposits and certain municipal securities.

CBAI strongly supports S. 2155 and urges the Senate to promptly pass this important legislation by a wide bi-partisan majority.

<u>Support</u> Community Bank Access to Payment Systems Improvements

The number of payment options and the speed of development in this area of financial services have increased dramatically and the pace of change is not expected to abate in the future. The Federal Reserve is an active participant in developing strategies for improving the payment systems. CBAI recognizes the Fed's historical role in payment systems and welcomes its continued involvement because it provides critical benefits and safeguards to community banks.

CBAI supports payment systems that are competitive, progressive and secure and that offer fair and open access to all community banks regardless of size and operational capability so they can meet the existing and evolving payment needs of their customers and communities.

CBAI believes desirable attributes for payment systems improvement should include the following:

- Provide for speed, security and efficiency;
- Guarantee that the Federal Reserve System maintains its dual role as the payment-systems regulator and as an operator and service provider — including a ubiquitous, (near) — real-time payment system;
- Ensure equality in competition among financial institutions of all sizes and characteristics including community banks;
- Provide the Federal Reserve with the ability and authority to identify and regulate systemically important payment, clearing and settlement systems and providers;
- Establish privacy and security standards for non-bank payment providers;
- Guarantee that examination and enforcement against non-bank payment providers are equally stringent as they are with community banks;
- Ensure a meaningful and collaborative role for state regulators in the evolution of improvements and operation of payment systems; and,
- Provide community banks with meaningful participation and influence in the development of rules to ensure fair, open and efficient access to payment systems and the ongoing governance and rulemaking of these groups.

CBAI has formed a payments taskforce and looks forward to assisting in the development of new and improved payment systems.

Support Sound Principles for GSE Reform

American homeowners have benefited from the critical roles Fannie Mae and Freddie Mac have played in helping finance homeownership for many 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 — including those lenders in rural areas.

Community banks depend on the GSEs for direct access to the secondary market without having to sell their loans through larger financial institutions that compete with them. The GSEs help support the community-bank business model of outstanding local service by allowing them to retain the servicing of 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 during the most 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;
- GSEs must not be allowed to compete with originators at the retail level, where they would enjoy an unfair advantage;
- The regional structure, special functions and purposes of the Federal Home Loan Banks (FHLB) must be recognized and maintained and the FHLB System must remain a financially sound, stable and reliable source of funding for its members: and,
- 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. Following these principals in the reform of the GSEs will make the housing-finance system safer and sounder, providing access to lenders of all sizes and the communities they serve.

<u>Support</u> 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.

<u>Support</u> Community Bank Position on Credit Unions and Farm Credit System and <u>Oppose</u> 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.

In Congress and with regulators, we anticipate credit unions will continue to advocate for an increase in percentage of asset cap on members' 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 own "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.