



Report on Staff Visit to Washington, D.C. July 17 – 21, 2017

During the week of July 17th, CBAI's Vice President of Federal Governmental Relations, David Schroeder, visited the offices of every member of the Illinois Congressional Delegation, attended an Illinois Group breakfast with Congresswoman Cheri Bustos (D-17), and conferred with senior legislative staff at the Independent Community Bankers of America (ICBA).

The major 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 include: meaningful regulatory relief for community banks, tiered regulation and supervision of community banks, tax reform, reform of the housing GSEs, and credit union and Farm Credit System taxation and containing their expansion of powers. Schroeder also asked members to cosponsor bi-partisan legislation led by Illinois' Randy Hultgren (R-14th) to grandfather certain captive insurance companies in membership of the Federal Home Loan Bank System, which particularly impacts the Chicago Federal Home Loan Bank.

As the 115th Congress moves forward, Schroeder emphasized that lawmaker 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.

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

CBAI is hopeful that both a new Congress and Administration will support the passage of meaningful regulatory relief for community banks. Community bank regulation, which has steadily increased for decades, is a cumulative and oppressive burden that limits access to credit in our communities, and drives industry consolidation that directly harms consumers and small businesses. Regulatory relief will promote greater growth in our local communities. For the health of our Nation's financial system and economy, meaningful and well-deserving regulatory relief must be enacted for community banks - NOW!

Cosponsor the Community Lending Enhancement and Regulatory Relief Act of 2017 / the CLEARR 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 economic recovery is robust and broad based, reaching 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 23 cosponsors in the House and 13 bi-partisan cosponsors in the Senate. **CBAI thanks Congressmen Mike Bost (R-12), Rodney Davis (R-13), Randy Hultgren (R-14), and Darin LaHood (R-18), for cosponsoring this legislation.**

Support Community Bank Tax Relief and Tax Reform

The 115th Congress presents a unique opportunity to restructure, modernize and simplify the nation's 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 credit unions will likely 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 that 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.

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

This bi-partisan legislation was recently introduced by Representatives (and fellow House Financial Service Committee members) Randy Hultgren (R-IL14th) and Gwen Moore (D-WI-4th). This bill will grandfather the Federal Home Loan Bank memberships of approximately 20 captive insurance companies, of which several are important members of the Chicago FHLB. Legislation is necessary due to a regulation implemented last year by the Federal Housing Finance Agency (FHFA) that prohibits new captive insurers from joining a FHLB and further requires existing captive members to terminate their memberships in the coming years.

Unfortunately, the Chicago FHLB will be damaged by this rule more than any of the other FHLBs, which means Illinois will be seriously impacted. The Chicago FHLB serves as a critical funding partner for hundreds of community banks throughout Illinois, providing billions of dollars of low-cost housing finance and millions of dollars of affordable housing grants and other forms of community investment. Two of the Chicago FHLB's largest borrowers and important members are captive insurers, cumulatively accounting for about one-third of its total advances/borrowings. Unless Congress acts, the FHFA's rule will terminate the membership of these Chicago FHLB members, significantly reducing its size and scale, as well as its overall profitability of the Chicago FHLB. Also, the borrowing costs for the 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 is pleased to report that as a result of these meetings, and as of July 28th, Illinois Representatives Mike Bost (R-12th), Danny Davis (D-7th), Rodney Davis (13th), Bill Foster (11th), Robin Kelly (D-2nd), Darin LaHood (R-18th), Peter Roskam (R-6th), Bobby Rush (D-1st), and Brad Schneider (D-10th) are cosponsoring this legislation.

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