Please Support Community Bank

Priorities

July 2019

On behalf of the 310 community banks represented by the Community Bankers Association of Illinois (CBAI), we urge your support for our positions on the important issues facing Illinois community banks.

**Oppose Credit Union Acquisitions of Community Banks**

**Support** Completing the Implementation of the Economic Growth, Regulatory Relief and Consumer Protection Act (S. 2155)

**Support Additional Meaningful Regulatory Relief for Community Banks**

**Support** Community Banks and the Federal Reserve in Payments System Improvements

**Support** Modernizing the Community Reinvestment Act (CRA)

**Support** Agriculture and Rural America

**Support** the Community Bank Position on the Farm Credit System and **Oppose** its Expansion of Powers

CBAI and Illinois community bankers are hopeful that the 116th Congress will pass additional long-overdue, well-deserved and meaningful regulatory relief for community banks and that regulators will support and encourage community banks in rulemaking. Community banks continue to suffocate under an unprecedented regulatory burden, much of which is designed to
reign-in the bad behavior of the largest banks and financial firms. Complying with this burden is diverting resources away from serving customers and communities and towards compliance review and documentation. For the health of our Nation’s financial system, now is the time for additional meaningful Congressional and regulatory action to benefit community banks.

Oppose Credit Union Acquisitions of Community Banks

Credit union acquisitions of community banks is a disturbing trend that negatively impacts all taxpayers. These acquisitions increase credit unions’ taxpayer-subsidized footprint and harm federal, state and local tax bases. Congress should use its oversight authority to re-examine the credit union industry's tax and regulatory subsidies.

Every credit union purchase of a community bank diminishes tax revenues and further solidifies this publicly subsidized sector of the financial services industry. The congressional Joint Committee on Taxation last year estimated the federal cost of the credit union industry's tax exemption is roughly $10 billion through 2022 – an annual cost to taxpayers of nearly $2 billion and rising. This loss of tax revenue from credit unions harms local schools, hospitals, county roads, and other important infrastructure projects that are necessary to sustain local communities.

The inequity of these acquisitions is compounded by the fact that credit unions are not subject to the full set of regulations that community banks face, including Community Reinvestment Act (CRA) which encourages financial institutions to meet the needs of low- and moderate-income communities. In fact, a recent Federal Financial Analytics report noted that credit unions increasingly serve middle- and upper- income households, have figured prominently in reports of predatory lending, and benefit from less stringent safety-and-soundness regulations. These findings challenge the very reason behind the credit union tax-exemption. Also, credit unions benefit from a “cheerleader regulator”, the National Credit Union Administration (NCUA) that acts as an industry advocate, rather than a conscientious regulator.

The current rash of credit union acquisitions is a threat to local taxpayers and yet another indicator that tax-exempt credit unions have become virtually indistinguishable from taxpaying community banks. Congress has a duty to exercise rigorous oversight authority over credit unions and should oppose their unwarranted expansionist agenda.

Support Completing the Implementation of the Economic Growth, Regulatory Relief and Consumer Protection Act (S. 2155)

The banking regulators are focused on implementing the regulatory relief contained in S. 2155 so that community banks will benefit from the new law. Community bankers, the associations that represent their interests, and Congress – which represent this vital economic constituency – must diligently insist on the swift implementation of the all of the remaining beneficial provisions in
this legislation. One of the most important provisions that have yet to be implemented is Capital Simplification with a CBAI-recommended community bank leverage ratio of 8% to be exempt from Basel III (Section 201).

**Support Additional Regulatory Relief for Community Banks**

While community bankers were greatly relieved by the passage of the regulatory relief bill, more needs to be accomplished to reverse the trend of losing one community bank a day to consolidation, which when combined with an increased concentration of banking assets in the largest banks and non-banks, poses a pernicious threat to our financial system and economy.

CBAI urges Illinois members of Congress to co-sponsor, and encourage leadership to pass, this legislation which will provide additional regulatory relief for community banks.

**H.R. 2513 – Corporate Transparency Act of 2019 –**

This legislation provides a more effective means of collecting and coordinating the use of information to prevent criminal activity by requiring corporations and limited liability companies to provide “beneficial ownership” information to the Financial Crimes Enforcement Network (FinCEN) – not community banks for which it would represent an unreasonable regulatory burden.

**H.R. 1595/S. 1200 – SAFE Banking Act of 2019 –**

This legislation provides a public safety benefit by granting a safe harbor from federal sanctions and would apply to financial institutions and ancillary companies that serve cannabis-related businesses in states where cannabis is legal. The bill would apply solely to states that have legalized cannabis for medical or recreational use.

**S. 1233 – Community Bank Access to Capital –**

This legislation helps banks raise much-needed capital by exempting publicly held community banks with less than $5 billion in assets from the Sarbanes-Oxley Act’s internal control attestation requirements, exempt community banks with less than $5 billion in assets from the FDIC’s annual report on financial condition and management, and revise the SEC definitions of “accredited” and “non-accredited” investors to attract new investors.

**H.R. 1872/S. 1641 – Enhancing Credit Opportunities in Rural America Act of 2019 (ECORA) –**

This legislation provides that interest earned on loans secured by agricultural real estate would not be taxable and also provides similar relief on loans secured by rural single-family homes that are the principal residence of the borrower in towns with a population
of less than 2,500. This legislation gives lenders more flexibility to work with farmers, ranchers and rural homeowners, as well as helping to level the competitive playing field for community banks by providing similar tax benefits which are already enjoyed by other lenders in rural communities.

Additional legislative and regulatory relief includes the following:

➢ Modernize the Bank Secrecy Act (BSA) by raising the Currency Transaction Report (CTRs) threshold from $10,000 to $30,000, and the Suspicious Activity Report (SARs) thresholds from $5,000 to $10,000 – and indexing future increases to inflation on an annual basis. The current thresholds were established in 1970 and 1992 respectively, are significantly outdated and requires capturing many more transactions than were ever originally intended. Higher thresholds would produce more targeted and useful information for law enforcement and reduce the regulatory burden on community banks.

➢ Create a tax credit to offset the cost of BSA compliance. Community banks have long been enlisted in the fight against identity theft, financial fraud, money laundering, and terrorist financing. In recent years monitoring and reporting this activity has become increasingly important both nationally and globally. As good citizens, community banks are proud to fulfill their responsibility to assist in identifying illicit actors, but doing so comes with a very real regulatory burden including significant costs of compliance which fall particularly hard on community banks. A tax credit to offset the cost of BSA compliance will help compensate community banks for this additional burden.

➢ Provide a meaningful exception to the statutory authority (Dodd-Frank Section 1071) for small business data collection. While community banks represent less than 20% of banking industry assets, they make 50% of the small business loans and 80% of agricultural loans. This obviously suggests that community banks treat their customers fairly and respectfully. The additional reporting is meant to facilitate the enforcement of fair lending laws in small business lending, which the data clearly suggests is not an issue at community banks. The regulatory burden of the additional analysis and reporting requirement fall disproportionately hard on community banks that lack scale and compliance resources, and they should be provided with a meaningful exemption.

Support Community Banks and the Federal Reserve in Payments System Improvements

A fast and secure payments system is the very foundation of our financial services and economy. The number of payment options and the pace of change is not expected to abate in the future. Unfortunately, community banks do not account for a majority of payment transactions and therefore must rely on the Federal Reserve to provide access, speed and security for all members
of the payments system. Community banks, however, provide half of the loans to small businesses and 80% of agricultural loans, so a payments system that does not serve all, or disadvantages community banks, will have a devastating impact on the Nation’s consumers, agriculture and small businesses.

CBAI is concerned about payments system improvements that are dominated by the largest banks and financial firms as well as private-sector non-bank solutions. The largest banks endangered our financial system and economy during the financial crisis while non-banks present significantly different risks and are not subject to the same safety and soundness regulations as community banks. Therefore, non-large-bank controlled alternatives should be incorporated into an improved payments system, and non-banks must be subject to the same robust safety and soundness regulations (including examination and enforcement) as community banks. Implementing these safeguards will increase competition, reduce concentration and other risks, and be less likely to disadvantage community banks.

CBAI has met with senior officers of the Federal Reserve Banks of Chicago and St. Louis who are responsible for this initiative and submitted a detailed comment letter to the Board of Governors regarding the Fed’s involvement in payments system improvements. CBAI’s detailed analysis and recommendations are progressive, competitive and secure, and offer fair and open access to all community banks regardless of size, charter type or location so that they can meet the existing and evolving payment needs of their customers and communities. The specific recommendations to the Fed include:

> Using its connectivity to operate a real-time (24x7x365) gross settlement service (RTGS);
> Operating a Liquidity Management Tool to facilitate real-time settlement; and
> Operating a payments directory switch or hub linking financial institutions to other payment directories.

Following these recommendations are consistent with the Federal Reserve’s statement of functions and its Payment System Policy Statement, and satisfies its required criteria before introducing a new service or major enhancement.

**Support Modernizing the Community Reinvestment Act (CRA)**

CBAI and its member community bankers support the Community Reinvestment Act which was enacted by Congress in 1977 and intended to encourage depository institutions to meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods, consistent with safe and sound banking operations.

The CRA requires that each insured depository institution’s record in helping meet the needs of its entire community is evaluated periodically. That record is taken into account in considering
an institution’s application for deposit facilities, including mergers and acquisitions. CRA examinations are conducted by the banking regulators that are responsible for supervising depository institutions: the Board of Governors of the Federal Reserve System ("FRB"), the Federal Deposit Insurance Corporation ("FDIC"), and the Office of the Comptroller of the Currency ("OCC").

CBAI believes that the CRA makes good business sense and benefits both banks and their communities. However, there is a need for this modernization effort to highlight and retain parts of the Act, identify missed opportunities for additional credit, reduce the regulatory burden on community banks, and include for compliance many other financial service providers.

Community banks have traditionally excelled in the performance of their CRA compliance and examinations. This high level of performance is indicative of the exemplary treatment of their customers and communities and not weak requirements or a flawed examination process that needs strengthening.

The OCC has begun the regulators’ effort for the modernization of the CRA with the publication of an Advanced Notice of Proposed Rulemaking (ANPR). CBAI responded to the ANPR and included numerous observations and recommendations for improvement related to:

- Increasing lending and services to people and in areas that need it most, including in LMI areas;
- Clarifying and expanding the types of activities eligible for CRA consideration;
- Revisiting how assessment areas are defined and used;
- Establishing metric-based thresholds for CRA ratings;
- Making bank CRA performance more transparent;
- Improving the timeliness of regulatory decisions related to CRA; and,
- Reducing the cost and burden related to evaluating performance under the CRA.

CBAI looks forward to working with the OCC and the other regulators in their joint rulemaking to modernize the CRA.

CBAI urges Congress to support the meaningful modernization of the CRA that does not impose an additional regulatory burden on community banks. CBAI also urges that all financial service providers be subject to the CRA to provide a complete picture of their performance in serving their communities. A modernization of the CRA that does not encompass credit unions and fintechs will be a sham.

**Support Agriculture and Rural America**

A vibrant rural economy is vital to America’s prosperity. Community banks fund 80% of all agricultural loans and serve a crucial role in creating and sustaining rural economic prosperity.
CBAI applauds the bi-partisan passage of the Farm Bill conference report in the U.S. House and Senate which provided a strong safety net for farmers and ranchers including adequate price-protection programs and enhanced USDA-guaranteed farm and business loan programs. CBAI is committed to protecting the programs from further cuts or adverse changes that would discourage farmer and rancher participation or undermine private sector delivery.

**Support Community Bank Position on the Farm Credit System and Oppose its Expansion of Powers**

Farm Credit lenders have long-since strayed from their founding purposes, blatantly abusing their competitive advantages, and harming Illinois community banks. Farm Credit lenders are supported in their expansionist agenda by their own “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. A bicameral 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 committees 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 continues to urge a highly productive 116th Congress with the passage of additional meaningful regulatory relief legislation to strengthen community banks and their communities.

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

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