



CBAI's 2019 Federal Legislative and Regulatory Policy Priorities

The Community Bankers Association of Illinois (CBAI) supports fair competition for financial services, tiered regulation, the separation of banking and commerce, the dual banking system/charter choice, and financial innovation; and opposes discrimination favoring certain financial service providers, banking industry consolidation and systemic risk. Based on these principles, CBAI has identified the following 2019 Federal Legislative and Regulatory Policy Priorities to help community banks thrive and better serve their customers and communities.

- **Support the Independent Community Bankers of America's Legislative and Regulatory Agenda Contained in their *Community Focus 2020: The Community Bank Agenda for Expanding Economic Opportunity***
- **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 Bank Position on Credit Unions and the Farm Credit System and Oppose Their Expanded Powers**
- **Support the Federal Reserve's Role in Payments System Improvement**
- **Support Modernizing the Community Reinvestment Act (CRA)**
- **Support Modifying the FDIC's Deposit Rate Caps**
- **Support Safe Harbor for Banking Cannabis-Related Businesses**

- **Support De Novo Community Bank Formation, the Dual Banking System and Charter Choice**
- **Support Sound Principles for GSE Reform**
- **Support the Federal Home Loan Banks**
- **Support Agriculture and Rural America**
- **Support Enhanced Data, Cyber and Payment Card Security (Data Security)**
- **Support Consumer Financial Protection Bureau Reform and Exemptions for Community Banks**
- **Support Community Bank Positions on Emerging Issues**
 - **Special Purpose Fintech National Bank Charters (OCC)**
 - **Current Expected Credit Loss Model (FASB)**
 - **Customer Data Sharing (CFPB)**
 - **Small-Dollar Consumer Lending (CFPB)**
 - **Small Business Data Collection (CFPB)**
 - **Modernize Reg CC (Federal Reserve)**
- **Finally Address the Issue of Too-Big-To-Fail Banks and Financial Firms to Protect Our Financial System, Economy, and American Taxpayers from Future Bailouts**



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Detailed Information

Support the Independent Community Bankers of America's Legislative and Regulatory Agenda Contained in their *Community Focus 2020: The Community Bank Agenda for Expanding Economic Opportunity*

The importance of community banks cannot be overstated, as they serve their customers and communities honestly and with respect, and make 60% of small business and 80% of the nation's agricultural loans. Community banks operate with more than 25,000 locations in 600 counties; and in nearly one in five counties, a community bank is the only physical banking presence. CBAI joins the Independent Community Bankers of America (ICBA) in supporting a more efficient system of regulation, unbiased laws governing the financial sector, a safer and more secure business environment, and more efficient agricultural policies to extend the nation's economic growth to every corner of the country.

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

CBAI thanks the bipartisan majority of Illinois members of the United States House of Representatives for supporting passage of this long-overdue and well-deserved community bank regulatory relief legislation which became law in May of 2018.

The banking regulators are now focused on implementing S. 2155 so community banks will benefit from the new relief measures. 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 remaining provisions in this legislation – consistent with Congressional intent – with particular emphasis on Capital Simplification with a recommended community bank leverage ratio (CBLR) of 8% to be exempt from Basel III (Section 201), and a short-form Call Report (1st and 3rd quarters) requiring only the balance sheet, income statement and changes in equity capital (Section 205).

Support Additional Meaningful Regulatory Relief for Community Banks

Community bankers are seeking additional regulatory relief including modernizing the Bank Secrecy Act (BSA) by raising the Currency Transaction Report (CTR) threshold from \$10,000 to \$30,000, and the Suspicious Activity Report (SAR) threshold from \$5,000 to \$10,000. Also, compliance with the new beneficial ownership reporting requirements has been inappropriately assigned to community banks. This information should be collected and verified by the appropriate federal/state government agencies when a legal entity is formed or when subsequent changes occur.

Support Community Bank Position on Credit Unions and the Farm Credit System and Oppose Their Expanded Powers

Both credit unions and Farm Credit System lenders have long-since strayed from their founding purposes, blatantly abusing their competitive advantages. Credit unions continue to advocate for their unchecked growth to the detriment of taxpaying community banks. 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 System (FCS) lenders are supported in their expansionist agenda by their own “cheerleader regulator”, the Farm Credit Administration (FCA). The FCS is the only GSE that competes directly with community banks. This blatant and continuing discrimination against community banks must end. Either the credit union and FCS competitive advantages must be reined-in or there must be tax credits or deductions for community banks’ lending to small businesses, farmers and ranchers, homebuyers, and low- and middle-income individuals. These changes in the tax code would help sustain and strengthen community bank lending and would begin to offset the competitive advantage enjoyed by tax-exempt credit unions and FCS lenders.

Support the Federal Reserve’s Role in Payments System Improvement

A fast and secure payments system is the very foundation of our financial services and economy. The United States payments system must be modernized to meet the demands of consumers and to keep pace with the rest of the world. Payments system improvement must not be dominated by the largest banks and financial firms or private-sector non-banks. Community banks, small businesses and consumers must rely on the Federal Reserve to provide access to a safe and secure payments system which requires the Federal Reserve to play a preeminent role in the system’s improvement.

Support Modernizing the Community Reinvestment Act (CRA)

The Community Reinvestment Act (CRA) was enacted in 1977 and needs to be updated to incorporate new financial products and services delivered in modern ways. Community banks have traditionally excelled in the performance of their CRA compliance and examinations. This high level of performance is indicative of their exemplary treatment of customers and communities and not weak requirements or a flawed examination process that needs strengthening. The modernization of the CRA must enhance the ability of community banks to serve their communities and must not impose any additional regulatory burden. All financial service providers must be subject to the CRA to provide a complete picture of every financial institution's performance in serving their communities. A modernization of the CRA that does not encompass credit unions, Farm Credit System lenders and Fintechs (including the OCC's Special Purpose National Banks) will be a sham.

Support Modifying the FDIC's Deposit Rate Caps

The FDIC's Deposit Rate Caps impact community banks' ability to grow and thrive. The flaws in how the Rate Caps are calculated include: they do not reflect competitive funding or investment opportunities; the largest banks' extensive branch networks and their too-big-to-fail subsidies are an outsized influence on the Caps; promotional and negotiated rates are excluded which present an incomplete picture of the deposit-rate landscape; and credit unions are omitted which wrongly ignores thousands of financial institutions that are similar to community banks. During safety and soundness examinations for "well capitalized" banks, FDIC examiners are using the flawed Rate Caps as a benchmark in the analysis of bank liquidity, which inevitably results in faulty conclusions that can impact liquidity in a bank's CAMELS rating.

Support Safe Harbor for Banking Cannabis-Related Businesses

Without taking a position on the legalization of cannabis, it is a matter of public safety to have a safe harbor from federal sanctions for financial institutions that choose to serve legally-compliant cannabis-related business in states where cannabis is legal. CBAI has expressed its support at the federal level for the Secure and Fair Enforcement Banking Act of 2019 (H.R. 1595) which provides this safe harbor. At the state level, CBAI supports SB 2023 and HB 2980 that would provide safe harbor provisions in Illinois law. We are also working to ensure that safe harbor provisions are included in recreational cannabis legalization legislation. CBAI supports HJR 32 in which the Illinois General Assembly calls on Congress to pass the SAFE Act.

Support De Novo Community Bank Formation, the Dual Banking System and Charter Choice

Newly chartered (de novo) community banks are vitally important to maintaining a strong, growing, evolving and vibrant profession in the face of banking industry consolidation. The Federal Deposit Insurance Corporation (FDIC) virtually halted de novo community bank formation after the financial crisis. Only now has the FDIC indicated a change in direction to finally get back on the right course. These encouraging signs must be closely monitored to assure that many new banks are chartered each year to help maintain the vitality of the community banking profession.

Hand in hand with renewed de novo bank formation is the importance of maintaining the dual banking system, which has served our nation well for over 150 years, where chartering and supervision is divided between the federal government and the states. Community banks should be able to choose the banking charter that best fits their unique business model. A banking system with multi-agency (state and federal) regulators and charter choice provides the necessary checks and balances on the immense power of the regulators, as well as improved rulemaking, as the benefit of each agencies expertise and experience is brought to bear on complex and controversial issues.

Support Sound Principles for GSE Reform

GSE reform remains critically important to the future of the housing market and the U.S. economy. American homeowners have benefited from the critical role 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. 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 allow community banks to retain the servicing of the loans they sell, which helps to keep delinquencies and foreclosures low. And, unlike other private investors or aggregators, the GSEs have a mandate to serve all markets at all times which is critical to maintaining liquidity when the markets are experiencing financial stress.

Support the Federal Home Loan Banks

Most community banks are members and shareholders of their regional Federal Home Loan Bank (FHLB). The FHLB's provide short-term liquidity, long-term funding, mortgage-related products, and other financial services in order to help their members provide affordable credit to

the local communities they serve. The regional structure, special functions and unique purpose of the FHLBs must be recognized and maintained by the Federal Housing Finance Agency (FHFA). As the Administration and Congress consider reforming the housing finance system, care must be taken not to harm the FHLBs. They must remain healthy, stable and reliable sources of funding for their members. However, given their unique relationship with thousands of community lenders, it may be appropriate for the FHLBs to support their members' secondary market activities as aggregators or guarantors for residential mortgage loans, provided their current ability to serve their members is not impeded or threatened. Additionally, the FHFA should not impose an ongoing housing mission asset test on FHLB membership, which would undermine the reliability of FHLB funding.

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. The multi-year Farm Bill provided a strong safety net for farmers and ranchers including adequate price-protection programs and enhanced USDA-guaranteed farm and business loan programs. These programs must be protected from further cuts or adverse changes that would discourage farmer and rancher participation or undermine private-sector delivery.

Support Enhanced Data, Cyber and Payment Card Security (Data Security)

Community banks are strong guardians of the security and confidentiality of their customers' information and are on the frontline of defending against cyber security threats. Core data security principals in legislation and regulations must include the complete cost of data breaches being borne by that party that caused the breach; all participants in the payment system should be subject to verifiable Gramm-Leach-Bliley Act-like data security standards; a national data security breach and notification standard should replace the current patchwork of state laws; and any new data security standard proposals should ensure that community banks are not burdened with having to reassess existing critical systems, and implement and comply with new regulations, only to achieve the same superior results they currently attain.

Support Consumer Financial Protection Bureau Reform and Exemptions for Community Banks

Regulations promulgated by the CFPB must provide community banks with the flexibility to meet the needs of its customers and they must not be burdened with additional and unnecessary

regulatory requirements that would prevent them from serving their customers and communities. A one-size-fits-all approach to CFPB regulations harms the successful community bank business model. The CFPB should not be unduly influencing marketplace behavior by targeting financial institutions, products, services, and practices which it deems to be undesirable or inappropriate regardless of what consumers want.

In reforming the CFPB , the single Director governance should be replaced by a five-member board or commission; a broader definition of firms that grant credit should be subject to the CFPB rules, they should be robustly supervised and examined; and the focus of any enhanced regulation of financial products should be on the mega banks and financial firms, the unregulated “shadow” financial industry and emerging Fintech companies.

The CFPB has the statutory authority under the Dodd-Frank Act to exempt any class of providers [community banks] or any products or services from the rules it writes, but to-date the Bureau has been far too reticent to do so. The effective use of this authority will ensure community banks continue to be a healthy alternative to large banks and non-banks for consumers seeking to use responsible financial service providers.

Support Community Bank Positions on Emerging Issues

OCC - Special Purpose Fintech National Bank (SPNBs) Fintech Charters

The Office of Comptroller of the Currency (OCC) intends to issue special purpose national banking charters to Fintech companies. The OCC’s intentions, however, raise many concerns. The very legal authority permitting the OCC to charter Fintechs has been challenged by the Conference of State Bank Supervisors as being “fatally flawed”. A single regulator acting unilaterally in the chartering, examining, supervising and regulating Fintechs is not in the best interests of the profession, consumers and the economy. Congress must provide the explicit statutory authority to charter Fintechs. If the OCC moves forward, it must guarantee that Fintechs will comply with all banking laws, rules and regulations, and that they be held to the same rigorous safety and soundness standards (e.g., supervision and regulation) that are currently being required of community banks and bank holding companies. Fintechs cannot have the advantages of a national bank charter with limited requirements, regulations and liability.

FASB - Current Expected Credit Loss Model

The Financial Accounting Standards Board (FASB) has approved significant revisions to the way community banks reserve for their loan losses (i.e., the Current Expected Credit Loss

(CECL) Model). After significant community banker input, FASB agreed to address community banker concerns and revised their Model proposal. The revised CECL is more flexible and scalable for community banks by allowing them to evaluate and adjust loan loss amounts using qualitative factors, historic losses, and their current operating systems such as spreadsheets, narratives and other noncomplex estimation methods. Community bankers and Congress must continue to be vigilant to assure the Model implementation provides a clear, practical and easy-to-use methodologies for calculating expected losses which can be seamlessly incorporated into existing processes for community banks.

CFPB - Customer Data Sharing

There is an emerging threat to the security of consumer data from the proliferation of companies seeking to access bank customer account information. The CFPB is responsible under the Dodd-Frank Act to promulgate this rule. While community banks support responsible innovation in financial products and services, the integrity of consumer data and privacy is only as strong as the weakest link. Community banks are financially sound and take great care in protecting consumer privacy, but non-bank entities are typically not well capitalized, have no significant assets and are financially unable to make restitution in the event of a loss. They must nonetheless be held responsible for ensuring the safety of the customer information they are accessing and be able to satisfy the liability for any financial harm which they cause community banks and their consumers.

CFPB – Small-Dollar Consumer Lending

The Consumer Financial Protection Bureau’s (CFPB) small-dollar lending rule was intended to address its concerns about consumer abuse caused by payday and vehicle title lenders. The proposed rule was too broadly drafted and would have ensnared sensible community bank small-dollar consumer lending. Some exemptions were granted for community banks after a burdensome rulemaking process. Subsequently, the new CFPB Director proposed eliminating the “underwriting” provision, and the delay in the “payment” provision was continued by a U.S. District Judge. A carefully monitoring and appropriate action will be required, as the implementation of the rule unfolds, to minimize any negative impact on community banks’ small-dollar consumer lending.

CFPB – Small Business Data Collection

While community banks represent less than 20% of banking industry assets, they make 60% of the small business loans and 80% of agricultural loans. The requirement for reporting small business data stems from Section 1071 of the Dodd-Frank Act and is meant to facilitate the enforcement of fair lending laws in small business lending. The data, however, clearly suggests fair lending is not a problem at community banks as they treat their customers honestly and

fairly. The regulatory burden of the collection and reporting requirements fall disproportionately hard on community banks that lack scale and compliance resources, and Section 1071 should either be repealed or community banks should be provided with a meaningful exception.

Federal Reserve - Modernize Reg CC

Fraud losses are increasing at community banks and Reg CC needs to keep pace with the technology that banks and their customers are using, both now and particularly as the payments system transitions to real-time. All banks, credit unions, and others who utilize the payments system should be operating on the same level playing field when it comes to return reasons for fraud and acknowledging and communicating about fraud.

Finally Address the Issue of Too-Big-To-Fail Banks and Financial Firms to Protect Our Financial System, Economy, and American Taxpayers from Future Bailouts

The recent financial crisis, taxpayer bail-outs and subsequent recession was caused by the misconduct of the nation's largest banks and financial firms. The Dodd-Frank Act was intended to reign-in their destructive behavior. Unfortunately, this was an inadequate legislative and regulatory response which has allowed these financial behemoths to grow in size, complexity and influence; they will continue to abuse their consumers; and they remain a significant threat to our financial system and economy. These megabanks have proven, at great cost to American taxpayers, that they cannot be effectively managed, supervised or disciplined. They are clearly too-big-to-change, too-big-to-fail and must be downsized.

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