Staff Visit to Washington Reinforces Support for Community Bank Positions

January 19 – 23, 2015

David Schroeder, CBAI's vice president of federal governmental relations, visited every office of the Illinois Congressional delegation as well as the Federal Housing Finance Agency (FHFA), Office of the Comptroller of the Currency (OCC), Consumer Financial Protection Bureau (CFPB) and the Independent Community Bankers of America (ICBA) to discuss issues which are vitally important to Illinois' community banks.

Summary Positions

Support CBAI Federal Policy Priorities

Oppose the Growing List of Wall Street Insiders in Senior Administration Positions

Support Taxation of Credit Unions

Support Abolishing or Reigning-in the Farm Credit System

Oppose Proposed New Federal Home Loan Bank Membership Requirements

Support for our positions on these major legislative and regulatory initiatives will allow community banks to encourage additional lending, fuel job creation, help create economic growth, and more fully serve their customers and communities.

Detailed Positions

Support CBAI Federal Policy Priorities

CBAI supports fair competition for financial services, the clear separation of banking and commerce, the dual banking system, and opposes the concentration of economic and financial resources as evidenced by mega banks deemed too-big-to-fail. Based on these principles, CBAI has identified the following Federal Policy Priorities to help community banks operate successfully and better serve their customers and communities.

- Downsize Too-Big-To-Fail Banks and Financial Firms to Protect Our Financial System, Economy, and American Taxpayers from Future Bailouts

- Support Tiered Regulations and Supervision for Community Banks

- Support Enhanced Security for Consumer Data (Data Breaches)

- Support Taxation of Credit Unions

- Support Abolishing or Reigning-in the Farm Credit System

- Support Mortgage Lending Reform

- Support Housing Finance (GSE Secondary Market) Reform

- Support Positive Tax, Accounting, and Auditing Changes and Oppose Harmful Ones

- Positively Influence the Remaining Implementation of the Dodd-Frank Wall Street Reform Act (Dodd Frank or Act) Extending the Gains Made by Community Banks and Mitigating the Negative Effects

- Support De Novo Community Bank Formation

- Maintain the Federal Home Loan Bank System

- Oppose Excessive Intervention in Monetary Policy

<u>Oppose</u> the Growing List of Wall Street Insiders in Senior Administration Positions

Recently the Obama Administration proposed yet another Wall Street insider for a senior Administration position - Antonio Weiss of the global investment banking firm Lazard for Under Secretary of Treasury for Domestic Finance. The preponderance of Wall Street insiders in senior Administration positions ignores the importance of Main Street community banks to the nation's financial services profession, small business job creation, and the inconvenient fact that Wall Street greed and abuse caused the financial crisis and Great Recession. The Administration is ill-advised to exclusively rely on Wall Street insiders who represent a narrow and often times flawed and biased perspective.

CBAI encourages the Administration to include in top positions, highly-qualified community bankers who play an important role (every single day) in their communities, our financial system and the nation's economy. It is time community bankers are recognized for their accomplishments and the valuable role they play in guiding our nation's financial services profession and our economy. Their advice and counsel is desperately needed at the highest levels of this and future administrations.

CBAI was pleased when Weiss withdrew his name for this position in early January. We were also pleased when President Obama nominated a community banker to the Federal Reserve Board. In addition, Congress passed and the President signed into law a requirement that one member of the Federal Reserve Board have community bank or community bank regulatory experience.

<u>Support</u> Taxation of Credit Unions

Credit unions are now indistinguishable from community banks and have grown to control a significant share of the banking services market. Their original business model, approved by Congress in 1934, is outdated as credit unions have long since strayed from their founding purpose of serving individuals of modest means and with a common bond. Credit unions now provide financial services that are identical to the community banks with which they vigorously compete. Their federal tax-exempt status, in exchange for serving their original mission, is clearly no longer justified. Credit union tax subsidies should be eliminated and credit unions should pay their fair share.

The total assets of credit unions now exceed $1 trillion dollars. The number of billion dollar credit unions has grown from 8 in 1991 to more than 208 in 2013. These billion dollar credit unions are larger than 90% of the nation's community banks. It defies logic to believe these enormous credit unions are respecting the requirements that their members have a common bond of occupation or association, or are within a well-defined local community, neighborhood or rural district. In fact, many credit unions now advertise that anyone can join, others construct creative schemes to circumvent membership rules, and some even boast proudly that they are "better than banks".

Credit unions were originally tax-exempt because of their similarity to other types of mutually-owned financial institutions, notably savings banks and savings and loans. Yet the tax exemption for SBs and S&Ls was repealed by Congress in 1951 because they were in "active competition" with taxable institutions [community banks]. The most recent Office of Management and Budget tax expenditure analysis estimated that the tax-exemption for credit unions will reduce federal tax revenues by $9.46 billion over fiscal years 2014-2018 thereby contributing to the Nation's budget deficit and the ever-growing federal debt.

Now is the time for Congress to end credit unions' unfair tax subsidy and level the playing field between credit unions and taxpaying community banks. Credit unions must pay their fair share.

<u>Support</u> Abolishing or Reigning-in the Farm Credit System

CBAI opposes the expansionist agenda of the Farm Credit System (FCS) which has allowed FCS lenders to become the near equivalent of commercial banks while retaining the benefits of their Government Sponsored Enterprise (GSE) status. The funding and tax advantages of the FCS constitute an unfair competitive advantage over Illinois' rural community banks. If the System chooses not to follow its narrow historic mission, it should be abolished or subject to taxation and rigorous oversight and regulation.

The FCS was established when Congress enacted the Federal Farm Credit Loan Act of 1916, and its current authority is granted by the Farm Credit Act of 1971. The historic mission of the System was to serve *bona fide* farmers, ranchers, young-beginning farmers, small farmers, and their farmer-owned cooperatives.

With the support and cooperation of its "cheerleader" regulator, the Farm Credit Administration (FCA), the FCS has increasingly engaged in inappropriate and unprecedented lending activities, well beyond its original mission and scope. Today the FCS is a $271 billion financial institution, roughly equivalent to the country's 13th largest bank with significant systemic and taxpayer bail-out risks.

The System's funding and tax benefits harm Illinois' community banks. CBAI calls on the FCS to follow its historical mission of serving the agriculture industry. If it chooses not to follow this mission, the System should be abolished. In the unfortunate event the System is not abolished, CBAI believes FCS institutions should pay taxes when exceeding a given asset threshold, lending to large borrowers, or engaging in non-farm lending activity. FCS institutions should also be required to engage in joint rulemaking with federal banking agencies when proposing regulations that could involve non-farm lending for FCA lenders. It should also include a member of a federal banking agency on its three person board. Furthermore, FCS institutions should be required to register a class of stock with the Securities and Exchange Commission ("SEC") and provide full disclosure as required by the SEC Act of 1934. Finally, FCS should publish instances of illegal FCS lending and any exemptions granted for such lending, and should be subjected to regulatory safeguards, disclosures and controls equal to community banks and housing GSEs, including CFPB oversight.

CBAI also calls on Congress to hold joint committee hearings to investigate the operations, supervision, risks and financial soundness of the FCS, and its increasingly harmful impact on rural community banks. An investigative hearing will inform the financial services/banking committee about the systemic importance and bailout risks of the FCS (which is operating outside of its purview), and the agricultural committee about the impact of the FCS (which is operating within their purview) on our financial system and rural community banks.

<u>Oppose</u> Proposed New Federal Home Loan Bank (FHLB) Membership Requirements

CBAI has concerns about the Federal Housing Finance Agency (FHFA) proposed revisions to FHLB membership eligibility requirements (Proposed Rule), particularly regarding the "one percent" and "10 percent" on-going versus one-time basis requirements for membership.

It is clear that if the Proposed Rule is adopted it would have a profound impact on the FHLB System (System), FHLBanks and Members including but not limited to: increased regulatory burden and difficulties in Member balance sheet management; the stability of the System and its continued reliability as a funding partner particularly in times of economic stress; uncertainty about continuing Member access to liquidity; the future value of FHLBank membership and the implications for membership decisions; and the impact on housing and community development throughout the System.

CBAI raised many of these concerns regarding the FHFA's Advanced Notice of Proposed Rulemaking (ANPR) on this subject in 2010. The Agency wisely did not move forward at that time but is now intending to proceed. CBAI wonders what the FHFA did not understand about the overwhelmingly negative comments in response to the ANPR, and why the FHFA did not appreciate the concerns expressed about it by both Congressmen Barney Frank (D-MA the then-Chairman of the House Financial Services Committee) and Spencer Bachus (R-AL the then-Ranking Member of the Committee.)

CBAI recommends that the FHFA not "shelve" but formally withdraw the Proposed Rule.

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