Report on CBAI Staff Visit to Washington

July 10 - 14, 2016

CBAI Vice President of Federal Governmental Relations, David Schroeder, visited the offices of every member of the Illinois Congressional delegation and met several times with senior legislative staff of the Independent Community Bankers of America (ICBA). The purpose of Schroeder's quarterly visits to Washington is to meet with lawmakers, regulators, and their staffs to discuss issues of importance to Illinois community bankers and urge their support for our positions. Here is a synopsis of current priority issues:

<u>Support</u> Community Bank Position on FASB's Current Expected Credit Loss (CECL) Model

<u>Support</u> Community Bank Position on Credit Unions and Farm Credit System and Oppose Their Expanded Powers

<u>Support</u> and Cosponsor Community Bank Legislation Introduced by Illinois Congressmen

> **(Homeowner Information Privacy Protection Act (H.R. 4993 - introduced by Illinois Congressman Randy Hultgren)**
>
> **(Small Financial Institution Advisory Committee Act (H.R. 4950 – introduced by Illinois Congressman Mike Quigley)**

<u>Support</u> and Cosponsor Tiered Regulation and Regulatory Relief for Community Banks

> **(CLEAR Act H.R. 1233 and S. 812)**

Support for CBAI 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 communities.

Support Community Bank Position on FASB's Current Expected Credit Loss (CECL) Model

Earlier this year CBAI alerted the Illinois Congressional Delegation to our serious concerns about the Financial Accounting Standards Board's (FASB) proposed Current Expected Credit Loss (CECL) model. This new accounting model has been described as "the biggest change in bank accounting – ever!" and will significantly impact community banks reserves and capital. On June 16, 2016, FASB formally issued its CECL accounting pronouncement and the following day the banking regulators issued their Joint Statement on the New Standard for credit losses.

CBAI is encouraged that the final version of CECL is more workable for community banks which is a direct result of our consistent advocacy efforts and those of the ICBA, Illinois community bankers, and the urging of the United States House of Representatives.

- CBAI spotlights the effort of CBAI member Greg Ohlendorf, President and CEO of First Community Bank and Trust in Beecher, Illinois. Ohlendorf was one of only three community bankers who were part of the ICBA delegation to a February 4th meeting with FASB to discuss community banks' concerns with CECL. This was a critical outreach meeting before FASB was to finalize the CECL model. We can report that these community bankers were responsible for positive changes to the final model.

- **CBAI thanks Illinois Congressmen Mike Bost (R-12), Rodney Davis (R-13), Bill Foster (D-11), Randy Hultgren (R-14), and Mike Quigley (D-05)** for signing the January 29, 2016 bi-partisan Scott Tipton-Patrick Murphy letter to FASB cautioning of the "potential to irreversibly damage community banks and credit unions" and requesting a prompt response to their thoughtful questions and concerns.

- CBAI also thanks the large number of community bankers who responded to our Action Alert, voicing their concerns and recording their opposition to the misguided CECL model. This grassroots effort supported the ICBA delegation meeting with FASB.

The next step will be the banking regulators' implementation of CECL and their subsequent examination of banks for compliance. CBAI is cautiously optimistic for a more positive implementation based on the numerous statements in the Joint regulator announcement that are either clear concessions or at least accommodations to community banks. They were actually very transparent nods to our aggressive and effective advocacy efforts.

CBAI will be paying close attention to make sure the regulators follow their announcement's concluding statement, "The agencies support an implementation of the FASB's new accounting standard that is both reasonable and practical, taking into consideration the size, complexity, and risk profile of each institution."

CBAI is committed to keeping the Illinois Congressional Delegation apprised of our progress in assuring the regulators follow-through on their implementation promises, will continue to work with the ICBA and FASB in improving the CECL model, and will promptly address any potentially damaging unintended consequences.

<u>Support</u> 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 abuse their competitive advantages, and harm Illinois community banks. They must be reined in.

Most recently the National Credit Union Administration (NCUA) proposed an expansion of credit union membership that would significantly weaken the current common bond requirements established by the Federal Credit Union Act. This proposal, which has been characterized by the NCUA as the most comprehensive, sweeping, and substantive policy change in this area in 45 years, is another example of their attempt to extend credit unions' government-funded competitive advantages over taxpaying community banks.

In the 114th Congress credit unions have introduced a bill to increase their percentage of asset cap on member business lending - H.R. 1188 (Credit Union Small Business Jobs Creation Act. **The only members of the Illinois delegation who are cosponsoring this MBL bill are Cheri Bustos (D-17) and Dan Lipinski (D-3). CBAI urges Illinois members not to cosponsor this bill.**

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 will inform the House and Senate financial services and banking committees 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 our financial system and particularly rural community banks.

<u>Support</u> and Cosponsor Community Bank Legislation Introduced by Illinois Congressmen

CBAI thanks Illinois Congressman Randy Hultgren (R-14) for introducing the Homeowner Information Privacy Protection Act (H.R. 4993). This legislation protects mortgage borrowers from exposure of their sensitive personal and financial information as a result of the new HMDA mortgage application data collection and reporting requirements. The publication of these new data fields together with real estate sales records and other publicly available information could be used to identify individual borrowers and connect them with the reported information including their credit scores and loan balances.

This legislation requires the Comptroller General of the United States to conduct a study to determine if the new requirements increase the probability of exposing the identity of the mortgage applicant, identity theft, and the marketing of abusive financial products. There is also a requirement for the Comptroller General to recommend legislation or regulation to enhance consumer privacy in addition to suspending publication of the new data fields.

The Consumer Financial Protection Bureau's new HMDA Rule, issued on October 15, 2015, will increase the number of data fields required to be reported on mortgage loan applications from 23 to 48. Of the 25 new fields, approximately half were added at the CFPB's discretion. Collection of the new data begins on January 1, 2018, with reporting of the data beginning in 2019.

Community bankers take very seriously their role as guardians of their customers' sensitive personal and financial information. CBAI believes it is bad public policy for a government agency to expose that information to computer hackers, data thieves, and inappropriate uses.

CBAI encourages members of the Illinois delegation to cosponsor this important legislation.

CBAI thanks Illinois Congressman Mike Quigley (D-05) for introducing the Small Financial Institution Advisory Committee Act (H.R. 4950). This bi-partisan legislation establishes a Treasury Department Community Bank Advisory Committee which will provide the department with valuable guidance on a broad range of important issues impacting community banks in Illinois and throughout the country as well as the communities they serve.

Community bank input and guidance is vital, particularly during times of crisis, to avoid such past Treasury Department missteps as:

- the ill-conceived implementation of the Troubled Asset Relief Program (TARP), where the Department's actions were tragically skewed towards rescuing the failing too-big-to-fail banks while denying much needed capital funds to community banks which resulted in hundreds of their failures.

- the urgent implementation of the Temporary Liquidity Guarantee Program (TGLP), after deposits were first guaranteed for the too-big-to-fail banks and then money market mutual funds – leaving only community bank deposits unguaranteed which risked the liquidity failures of thousands of small financial institutions;

- and the flawed rollout of the Small Business Lending Fund (SBLF), where a separate program for subchapter "S" institutions was later required because Treasury was apparently unaware of this type of corporate structure.

The Treasury Department has the responsibility to be knowledgeable about community bank issues, problems and opportunities. The Community Bank Advisory Committee, as proposed in Congressman Quigley's legislation, will help Treasury fulfil its important responsibilities. **CBAI encourages members of the Illinois delegation to cosponsor this important legislation.**

<u>Support</u> Tiered Regulation and Regulatory Relief for Community Banks

The financial crisis demonstrated that the risks taken by Wall Street mega banks are very different from those of community banks and regulations should positively reflect those differences. CBAI urges Congress and regulators to expand and refine a tiered regulatory system based on size and risk profile to ensure that every banking law, rule and regulation clearly distinguishes and appropriately regulates community banks.

CBAI is very encouraged by legislators' support for regulatory relief and the progress that has been made in both chambers in the 114th Congress. However, CBAI cannot stress strongly enough the need to finally pass broad-based and meaningful regulatory relief for community banks in this <u>THIS</u> Congress.

CBAI supports the Independent Community Bankers of America's *Plan for Prosperity,* a policy platform for the 114th Congress that promotes a regulatory environment in which community banks can thrive and contribute to their local economies. The *Plan* contains flexible priorities to ease excessive, redundant and costly regulations while supporting greater regulatory accountability to help community banks dedicate more of their resources to promoting economic growth. CBAI and ICBA are encouraged that 50+ bills now in both the House and Senate contain sections of the *Plan for Prosperity*, and several have been signed into law.

<u>H.R. 1233 and S. 812</u> – CLEAR Relief Act of 2015 is bi-partisan legislation with 113 cosponsors in the House and 39 cosponsors in the Senate to provide regulatory relief to community banks specifically with respect to: the annual privacy notification requirement, Call Reports filings in the first and third quarters, increasing the Small Bank Holding Company Policy Statement threshold, SOX internal control attestation requirements, TILA exemptions for escrow requirements, QM exemption for loans held in portfolio, and including balloon mortgages as a qualified mortgage loans. **CBAI thanks Senator Mark Kirk, and Congressmen Mike Bost (R-12), Rodney Davis (R-13), Robert Dold (R-10), Randy Hultgren (R-14), Adam Kinzinger (R-16), and John Shimkus (R-15) for taking a leadership position as cosponsors.** CBAI urges all Illinois congressmen to cosponsor this important legislation.