



## Staff Visit to Washington Reinforces Support for Community Bank Positions

February 10-14, 2014

Despite a severe D.C. snowstorm that closed the Federal Government on Thursday, February 13, David Schroeder, vice president federal governmental relations, visited every office of the Illinois congressional delegation, the Conference of State Bank Supervisors, and the ICBA to discuss issues of importance to Illinois community banks.

### Summary Positions

**Support enhanced security for consumer data (data breaches)**

**Support an expanded CFPB definition of “Rural and Underserved Areas”**

**Support an increase in FHFA conforming loan limits for the Chicago MSA**

**Oppose the expansionist agenda of the Farm Credit Administration’s Farm Credit System lenders (CoBank’s Verizon Communications loan participation)**

**Support preserving the tax exemption for municipal bonds and increasing the Bank Qualified (BQ) small issuer exemption threshold/index for inflation**

**Support reform of the housing GSEs without disadvantaging community banks**

**Support community bank positions on regulatory relief legislation and oppose expanded powers for credit unions**

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 communities.

### Detailed Positions

**Support enhanced security for consumer data (data breaches)**

Consumer data breaches at large retailers such as Target, Neiman Marcus, Michaels and Yahoo have shaken public confidence about the security of their confidential personal information. Community banks, however, effectively safeguard consumer data and have been working hard to protect their customers from the adverse consequences of recent data breaches. CBAI urges

Congress to ensure that when consumer information is compromised (a data breach), whether it is a retailer, data broker, financial institution or other entity, the responsible party should bear the resulting fraud losses and the complete costs of mitigation and restitution.

Community banks unfortunately bear the majority of fraud losses and reissuance costs from these breaches therefore there is insufficient incentive for retailers to act in the most responsible manner. Retailers must step up to the responsibility that comes along with handling confidential personal information. Allocating financial responsibility to the party that is best positioned to secure consumer data will provide a strong incentive to more effectively protect sensitive consumer data.

CBAI also calls for a single national standard to replace the patchwork of state laws on data security that fosters confusion and puts consumers at risk.

### **Support an expanded CFPB definition of “Rural and Underserved Areas”**

The CFPB recently issued an interim final rule implementing the Ability to Repay - Qualified Mortgage (QM) rules. During the rulemaking process the CFPB received significant feedback opposing their narrow definition of “rural and underserved areas” (i.e., areas where small lenders (community banks) can use more flexible loan underwriting guidelines).

CBAI supports an expanded definition of “rural areas” that will more accurately reflect the rural nature of all but a few Illinois counties. CBAI also supports a definition of “underserved areas” which is not solely determined by the number of competitors, but also includes urban areas that are primarily being served by nontraditional financial service providers such as: mortgage brokers, finance companies, currency exchanges, car title lenders, pawn shops or worse. Consumers will benefit from the enhanced lending abilities of community banks in these communities.

### **Support an increase in FHFA conforming loan limits for the Chicago MSA**

The Federal Housing Finance Agency’s (FHFA) one-size-fits-all “high-cost county rule” (HCCR) has resulted in the Chicago-Naperville-Elgin, IL-IN-WI Metropolitan Statistical Area (MSA) having a \$417,000 conforming loan limit, which is an inequity that has negatively impacted the greater Chicagoland-area housing market.

Conforming loan limits are currently calculated based on the median home values of different counties in the MSA. If one county has a high enough median home value then the entire MSA qualifies for the higher loan limit. Many MSAs contain only one or two small homogeneous wealthy counties that increase the loan limit for the entire MSA. The Chicago area has large

heterogeneous counties and therefore does not qualify for a higher loan limit despite having a very large number of high-cost owner-occupied units.

This inequity negatively impacts home sales in the Chicago MSA both above and below the FHFA conforming loan limits. Chicago homebuyers seeking to purchase homes requiring loans above \$417,000 must obtain jumbo mortgages, which are more difficult to obtain and carry higher interest rates and fees.

Given the similarity of the Chicago housing market to many other high-cost metropolitan housing markets that currently benefit from higher conforming loan limits the FHFA should immediately use its discretionary authority to implement higher limits for the Chicago MSA.

**Oppose the expansionist agenda of the Farm Credit Administration's Farm Credit System lenders (CoBank's Verizon Communications loan participation)**

CBAI opposes the expansionist agenda of the Farm Credit System (FCS) which has allowed FCS lenders to become the equivalent of commercial banks while retaining their Government Sponsored Enterprise (GSE) status. FCS's funding and tax advantages constitute an unfair competitive advantage over rural community banks.

The Farm Credit lender CoBank is abusing its GSE status by approving a \$725 million participation in a \$12 billion loan to Verizon Communications, Inc. Their low-cost tax-advantaged funding is being used to make this non-rural/agricultural, non-farm related, multi-hundred million dollar, multi-national, corporate buy-out loan to a New York City-based, publicly traded, NYSE stock listed, \$225 billion dollar asset corporation (as of year-end 2012), which was ranked #16 on the Fortune 500 list of the largest companies in the United States (as of 2013). CBAI questions, "How is this loan even remotely agricultural related?"

Allowing CoBank to use their tax and funding advantages in such an egregious manner will only encourage them (and other FCS lenders) to grow this abusive pattern and practice in the future and take away more loans from community banks

We encourage you to write the FCA questioning this inappropriate CoBank/Verizon loan.

**Support preserving the tax exemption for municipal bonds and increasing the Bank Qualified (BQ) small issuer exemption threshold/index for inflation**

Municipal bonds have allowed the nation's state and local governments to finance more than \$1.65 trillion in infrastructure improvements and construction over the last decade. The importance of municipal bonds' tax exemption cannot be overstated, particularly for small

municipalities. It keeps financing costs lower and allows these municipalities to maximize their spending power. A threat to the tax exemption would increase borrowing costs and result in decreased government services or increased taxes.

Bank Qualified (BQ) bonds are a subset of the municipal bond market that has special tax treatment. In the 1980's the threshold to qualify for the small issuer exemption was set at a maximum of \$10 million of securities annually. With inflation the purchasing power of those dollars has eroded and the threshold should to be increased to \$30 million and indexed for inflation.

### **Support reform of the housing GSEs without disadvantaging community banks**

Community banks and our economy need an impartial secondary market for residential mortgages that is financially strong and reliable. CBAI supports reducing the government's footprint in the mortgage market and invites private capital to re-enter the market to limit taxpayer exposure to losses. While Fannie Mae and Freddie Mac will apparently not survive in their current form, the financial crisis demonstrated the need for some type of government tie to the secondary market to ensure the continued flow of credit and market liquidity in times of economic stress. However, any catastrophic loss protection must be fully and explicitly priced into the government guarantee fee.

CBAI supports common sense reform of the housing GSEs that does not disrupt the recovering housing market and economic recovery. In restructuring the secondary housing market nothing should limit full participation by community banks.

- There must be open and equal access to all lenders, regardless of size or volume.
- Loan pricing must be on better terms than the largest mortgage originators in recognition of the superior quality of community bank mortgage loans.
- There must be no appropriation of customer data for the purpose of cross-selling financial services.
- Loan originators must have the option to retain servicing and servicing fees must be reasonable.

If the housing GSEs were to disappear and be replaced by the mega banks, consumer choice would be limited, systemic risks would be further concentrated, and community banks would become exposed to predatory pricing and cross selling tactics.

Also, the conflicting requirements of a public mission combined with private ownership were a primary cause of the mortgage meltdown and must be eliminated. The reformed secondary

market entities must have a limited mission and focus solely on supporting residential and multifamily housing.

**Support community bank positions on regulatory relief legislation and oppose expanded powers for credit unions**

S. 798 – Terminating Bailouts for Taxpayers Fairness Act of 2013 has 6 bipartisan cosponsors. This legislation will help eliminate the threats posed by too-big-to-fail financial institutions with capital guidelines appropriately scaled to the size, scope and risks of the institutions, and offers much-needed regulatory relief to community banks. **CBAI thanks Senator Richard Durbin for taking a leadership position by cosponsoring this important legislation.**

H.R. 1750 – Community Lending Enhancement and Regulatory Relief Act of 2013 (CLEAR Act) has 110 bipartisan House cosponsors. This legislation’s twelve provisions, drawn from the Independent Community Bankers of America’s *Plan for Prosperity*, will provide much needed tiered regulation and regulatory relief for community banks. **CBAI thanks House members Rodney Davis (R-13), Bill Enyart (D-12), Mike Quigley (D-5), Bobby Rush (D-1), and Aaron Schock (R-18) for cosponsoring this legislation.**

S. 1349 – CLEAR Act legislation in the Senate has 23 bipartisan cosponsors. **CBAI thanks Senator Mark Kirk for being an original sponsor in the Senate of this legislation.**

H. R. 749 – Privacy Notice Act eliminates the requirement that financial institutions mail annual privacy notices when there has been no change in policies and practices with respect to disclosing nonpublic personal information. This legislation passed the House by voice vote on March 13, 2013. **CBAI thanks all members of the House for voting in favor of this legislation and we especially thank Cheri Bustos (D-17), Tammy Duckworth (D-8), Bill Enyart (D-12), Bill Foster (D-11), Randy Hultgren (R-14), Dan Lipinski (D-3), and Aaron Schock (R-18) for cosponsoring this legislation.**

S. 635 – Privacy Notice Modernization Act of 2013 in the Senate has 44 bipartisan cosponsors.

H.R. 1553 – Financial Institutions Examination Fairness Act has 135 bipartisan cosponsors in the House. The Exam Fairness Act establishes examination standards including firm deadlines for exit interviews and receipt of examination results, and establishes a FFIEC Ombudsman separate from the prudential regulators. **CBAI thanks Cheri Bustos (D-17), Rodney Davis (R-13), Tammy Duckworth (D-8), Adam Kinzinger (R-16), Dan Lipinski (D-3), Mike Quigley (D-5), Peter Roskam (R-6), and Aaron Schock (R-18) for cosponsoring this legislation.**

S. 727 – Exam Fairness legislation in the Senate has 18 bipartisan cosponsors.

H.R. 801 – Holding Company Registration Threshold Equalization legislation would allow thrift holding companies to take advantage of the new SEC registration and deregistration thresholds. This legislation passed the House by a vote of 417-4 on January 14, 2014. **CBAI thanks all members of the House for voting in favor of this legislation (Bobby Rush was not voting) and we especially thank Mike Quigley (D-5) for cosponsoring this legislation.**

S. 872 – Holding Company Registration Act in the Senate has 2 bipartisan cosponsors.

H.R. 797 – Municipal Advisor Oversight Improvement Act has 26 bipartisan cosponsors in the House. The Municipal Advisor Act would exempt traditional banking activities from triggering costly and unnecessary registration requirements. **CBAI thanks Tammy Duckworth (D-8), Bill Foster (D-11), Mike Quigley (D-5), and Aaron Schock (R-18) for cosponsoring this legislation.**

S. 710 – Municipal Advisor Relief Act in the Senate has 14 bipartisan cosponsors.

Finally, the original credit union model has become outdated as credit unions have long since strayed from their founding purpose of serving individuals of modest means and with a common bond. Their federal tax-exempt status, in exchange for serving their original mission, is clearly no longer justified. Their tax subsidy should be eliminated and all of them should pay their fair share.

Credit unions are seeking to expand their commercial lending powers by increasing the percentage of assets cap on member business lending (MBL) (H.R. 688 and S. 968). In addition, credit unions are seeking to raise capital from outside investors (H.R. 719), discarding their longstanding reliance on retained earnings. CBAI strongly opposes these credit union bills. **The only members of the Illinois delegation who are cosponsoring the MBL legislation are Cheri Bustos (D-17), Dan Lipinski (D-3) and Bobby Rush (D-1). This legislation unfortunately has 117 House cosponsors and 17 Senate cosponsors. No Illinois member of the House is cosponsoring the capital access legislation.**