RAW FILE

ECONOMIC GROWTH AND REGULATORY PAPERWORK REDUCTION ACT OUTREACH MEETING

Federal Reserve Bank Of Dallas

February 4, 2015

9:00 A.M. CST

CAPTIONING PROVIDED BY:
CAPTION FIRST, INC.
P.O. BOX 3066
MONUMENT, CO 80132
1-877-825-5234
+001-719-481-9835
www.captionfirst.com

*****

*****

>> We have a stellar group of panelists and panels that are coming up, and of course, many of you in the audience I know who are here today are member banks of this institution and also interested parties. I simply want to welcome you into our Federal Reserve building. This building was built, finished in 1992. We are very proud of it. We hope you enjoy it while you are here.

Most importantly, we hope that we make progress on this subject, regulatory paperwork reduction. Good luck in the aftermath of the legislation we have gone through with Dodd-Frank and so on. I want to tell you quickly to open on a light note,s I was with former senator Sam dun the other night, senator from Georgia, he told me a story I keep in mind to differentiate what you need to focus on and what you don't.

It's a story about a fellow in the back woods of Georgia, where Nun came from that had a drinking problem and the preacher was worried about it and upset. He called him in. He took out two glasses of water. One had plain water in it. He put the worm in the glass of water. The worm swam around totally happy. He put the worm in the glass of whiskey and it sank to the bottom dead. He said did you get the message? Yes, I do, I drink whiskey, I won't get worms. There are things that changed in the system. We have a consumer protection bureau which I don't know of us have the ability to effect. Yet we often hear complaints that address regulatory issues, addressed to k Comptroller of the Currency and Federal Deposit Insurance Corporation and Board of Governors and Texas Department of Banking.

I would ask you to concentrate your efforts to listening to our panelists and also concerns that are expressed, things that we can actually effect with these significant regulators and people who are here to listen to your concerns and your complaints and also your suggestions.

That is what I want to say. Welcome to this. I wish we had a prettier day outside but you are stuck inside anyway. So enjoy the day. Thank you very much. Go ahead.

(applause).

>> Thank you, Mr. Fisher. Appreciate your comments. Good morning. I'm Gil Barker, deputy comptroller of the Southern District of the Comptroller of the Currency headquartered in Dallas, Texas. It's my pleasure to welcome you those here here in Dallas and those joining us via the webcast. This is the second outreach program, addressing Economic Growth and Regulatory Paperwork Reduction Act of 1996 which is directs the OCC, FDIC and Federal Reserve and FFIC counsel to conduct a review of our regulations, at least once every ten years and to identify specific regulations that are outdated, unnecessary or unduly burdensome. The agencies are required to categorize regulations by type and solicit public comment on each of the different categories. At the end of the review we will publish a summary of the comments that we received and submit a report to the congress. In addition, it directs the agencies to address the merits of the comments and to the extent that such action is appropriate, to remove unnecessary regulations.

On June 4 of 2014 the agencies published the first request for public comment on three categories of the regulations. These three categories will be the primary focus of our meeting here today. Over the next 18 months, we will seek comments on the remaining categories as well. This forum in Dallas is the second in a series of at least five outreach programs that will provide a opportunity for bankers, consumers, community groups and for other interested parties to present their views directly to the senior management and staff of the regulatory agencies. We expect to have one additional session for rural bankers that will take place later on in the year. The fact that you have got such high ranking senior regulatory officials as the Chairman Martin Gruenberg, Jerome Powell, Toney Bland with the Comptroller of the Currency, and banking commissioner Charles Cooper, all with you here today, gives you a sense of the collective desire that we have in being able to identify regulations that meet the criteria for us to address specifically. I highlight the fact, within the agenda you notice that the Comptroller of the Currency was expected to be here as well. Mr. Curry was in Boston over the weekend. Everyone is aware of the incredible amount of snow they received up there, and yesterday it was followed by some frigid temperatures, so he was unable to get out of Boston to be with us here today. But I can tell you that he's participated in the first session, and certainly he intends to participate in the other sessions going forward.

In terms of today's program, again, we are looking for comments, we are looking for feedback, we are looking for input on specific regulations that we can address, and I can tell you in my experience meeting with bankers, I often hear comments about the regulatory burden that exists right now and so I welcome you to take advantage of this group and this opportunity to express your views on specific regulations that we can address. Before we get started I'm going to ask each of the panelists to make introductory remarks. And then we will begin our panel discussions.

After each panel, we will give the audience members an opportunity to provide additional input, and again I'd like the audience to be aware that this is not a question and answer session with the principals, it's an opportunity to provide your input. I'd ask if folks in the audience wish to make comments and participate, we have a microphone in the center of the room. Please use the microphone, because this is a very large room and it's difficult to hear folks.

I'd appreciate it if you use the microphone there.

With that, I'll begin to introduce our principals and representatives that are joining me here on this panel. The first person that I'd like to introduce to my left is Toney Bland with the Office of the Comptroller of the Currency.

In his 34 year career with the OCC, he held a number of examination, policy and managerial positions in the agency. His present responsibilities include oversight for the OCC's mid-size and community banks, and the examiners and staff that supervise them.

He is a member of the executive committee of the OCC and reports directly to Tom Curry.

>> TONEY BLAND: Good morning. Thank you for being here today to join us in this discussion about how we can reduce unnecessary regulatory burden on community banks. This is the second hearing, as Gil mentioned where we held under the EGRPRA act. The comments we received at the first session were informative. We are looking for a equally vigorous discussion told. We are counting on you to be fully involved in giving us your thoughts and views. As you know we have been working on this project on inter-agency basis as well as through the offices of the federal financial institution examination council or FFIEC, which brings together the federal banking agencies, national credit union administration, and state supervisory agencies.

The FFIEC participation is especially appropriate since we are increasingly using it to provide support to community banks, particularly when you think about areas that are resource intensive such as cyber security. Thrifts don't have the same kinds of resources that large institutions can bring to bear on regulatory compliance. If we can eliminate unnecessary rules and streamline others, we can make it easier for these institutions to serve the economic needs of their communities.

With this in mind, we expect to have a outreach meeting later this year focused solely on rural banks which face their own unique challenges.

Of course, it's true that regulations by the nature carry at least some burden. Most provide public benefits, that outweigh the burden they impose. The way the regulatory road book builds up over time adding layer after layer of requirements that can be onerous for small banks. People are taking steps at the OCC and taking the process seriously. We are interested to hear from our panelists today and members of the audience about specific regulations, that are outdated, unnecessary or needlessly burdensome as well as your ideas for other areas we can improve upon.

If you don't get a chance to speak today, you can comment on the forms that we have available to you or you can respond for upcoming register notices. We will carefully review all comments received and a summary will be published on regulations.gov website and included in our report that we have to make to congress. While this process will unfold over some time, I can assure you that the OCC will not wait until it's over to make changes when a solid case has been made for reform. If it is clear that a regulation is unduly burdensome, and if we have the authority to make changes to eliminate that burden. We will act. However, many regulatory requirements are passed by congress and rooted in laws and changes may require legislative action. In these cases we will work with congress to remove unnecessary burdens.

Meanwhile, at the OCC, we have advanced three specific proposals to congress to eliminate regulatory burden. We have discussed them with lawmakers and we are hopeful that congress will act on them in its current legislative session.

First as I said in my testimony last fall, we think a great number of healthy well managed community institutions ought to qualify for 18 month cycle, by raising the threshold from 500 million to 750 million in assets, more than a hundred OCC banks and thrifts and several hundred additional institutions will qualify for the extended cycle. That would not only reduce the burden of well managed institutions, it would also allow the federal banking agencies to focus supervisory resources on those banks and thrifts that represent capital, managerial and other issues of significant supervisory concern.

Another idea that is ripe for Congressional action is the community bank exemption from the Boca rule, as Federal Reserve governor Daniel suggested at a Congressional hearing last year, we don't believe it's necessary to include smaller institutions under the Boca rule in order to realize -- [inaudible] less than 10 billion in assets. The final proposal we developed will provide several savings associations with greater flexibility without changing the governance structure.

It is important that associations like other businesses have a flexibility to adapt a changing economic and business environments in order to meet the needs of their communities. They shouldn't have to bear the expense of changing charters in order to do so. We are recommending authorizing a set of powers that both federal savings associations and national banks can exercise, regardless of the charter, so that savings associations can change business strategies without moving to a different charter. We think these are meaningful steps which can help a great number of smaller institutions but we shouldn't stop there.

We should be looking at every approach that help community banks thrive in the modern financial world. One approach involves collaboration, which was the subject of a paper that we issued last month. Comptroller of the Currency has been vocal about the need for regulatory agencies to work together in a collegial an collaborative way, through collaboration we believe we can do a better job for the American economy and a better job in supporting small banks and thrifts.

While the same principles apply to community banks, by pooling resources, smaller institutions can trim cost and serve customers that might otherwise lie beyond their reach. They can purchase materials or services, share back office or other services or jointly develop to provide products and services. At the OCC we have seen examples of successful collaborative efforts. For example, some community banks formed an alliance for loan participation agreement to build larger loan projects in competition with large financial institutions. Elsewhere, banks pooled resources to finance new development activities through multi bank community development corporations, loan pools by loan consortia.

I hope community banks don't stop with those projects. There are opportunities to save money by collaborating on accounting, clerical support, data processing, employee benefit planning, health insurance and the list goes on. Speaking only for the federal banking system federal law and OCC regulations facilitate collaboration arrangements through operating subsidiaries and other structures. I'm sure the regulated institutions can find a number of other ways to share resources safely and soundly, and in a way that reduce the cost of doing business.

I hope the industry will give more thought to this approach, and I'll ask you for your thoughts and guidance. I would encourage you to look at our paper, which is titled an opportunity for community banks working together collaboratively. You can find it on our website at OCC.gov. Let me finish by saying we have much work ahead of us. I can tell you though that all of us here are committed to making this process work, and to do everything possible to eliminate unnecessary regulatory burden. I want to thank you for being with us today. I look forward to hearing from you.

>> Our next speaker is Martin Gruenberg. His biography outlines his broad Congressional experience including serving as senior counsel to senator Sarbanes in his active role in major financial services legislation. In addition, he served as Chairman of the executive council and international association of deposit insurers for many years. Chairman Martin Gruenberg.

>> MARTIN GRUENBERG: Good morning, everybody. Let me start by thanking the Federal Reserve Bank of Dallas for hosting this event and allowing us to use their facilities. Also I want to thank the staffs of the regulatory agencies, the Federal Reserve, OCC as well as

FDIC for working hard to set up today's program as well as the previous event that we had in Los Angeles. Let me say that I think all of the responsible regulatory agencies are taking this EGRPRA process very seriously.

I think we recognize there are significant opportunities to improve the regulatory and supervisory process, and to make it more efficient, effective and less costly for institutions to comply with. In fact, the fact that governor Powell is here, we are pleased that commissioner Cooper could be here. I know Thomas Curry, though he is Comptroller of the Currency but as Chairman of the FFIEC has a particular commitment to this process. I know getting snowed in, in Boston, was not something he planned on.

I confess the thought did cross my mind, to pray for the Patriots but I know that was not the reason but I know the comptroller has a strong commitment to this process, so I wanted to indicate that at the outset, and if I may just tick off a few steps the FDIC has already taken to try to be responsive on this issue.

We are continuously looking for ways to streamline and improve our supervisory processes and rules. And we have made clear previously that we don't need to wait for the EGRPRA review to be completed before we take action. Last July, while the first NPR for this EGRPRA process was still out for comment, the FDIC issued a financial institution letter to the banks we supervise, describing how the FDIC will consider requests from S Corp. banks to pay dividends to shareholders to cover taxes on shares of the bank's earnings when dividends are not otherwise permitted under the new capital rules. We told banks unless there was a significant, there were significant safety and soundness issues, we would generally approve those requests for well rated institutions.

We issued this guide because of feedback we received from the concerned S Corp. banks and their shareholders. Also worth mentioning, the response to comments that the FDIC received on the first EGRPRA request for comment in November, the FDIC issued two additional financial institution letters.

First we issued Qs and As, questions and answers to applicants and develop proposals for federal deposit insurance and to provide transparency to the application process. Some EGRPRA commenters and others indicated that there was some confusion about our existing policies and the clarification would be helpful to those seeking to apply for deposit insurance.

The Q and As addressed four distinct topics, prefiling meetings, processing time lines, initial capitalization and business plans.

Second, the FDIC issued new procedures that eliminate or reduce applications to conduct permissible activities for certain banks subsidiaries, organized as limited liability companies or LLCs, subject to some limited documentation standards. It's our intention to keep looking for ways to reduce or eliminate outdated or unnecessary requirements, as we move forward with this EGRPRA review.

We have a full day today. I'm not going to go on. Let me conclude by thanking you all for coming today, as well as those who are listening in on the live stream webcast of today's meeting.

I would note that we do have additional outreach sessions planned, in other regions of the country. I believe we have sessions coming up including Boston on May 4, Chicago on October 19 and Washington, D.C. on December 2.

We are also planning a session focused on rural bank issues that will be held in Kansas City with the DPLs to follow.

We will include input and suggestions from these outreach sessions in the final EGRPRA report that we present to congress in 2016, as required under the law.

Thank you all for coming, the participants and those sitting in the audience today. We look forward to hearing your thoughts and suggestions.

>> GIL BARKER: Thank you for being here and participating.

I'm pleased to introduce Federal Reserve Board governor Jerome Powell. He became a governor with the Federal Reserve Board in May of 2012 to fill a unexpired term, and he was reappointed and sworn in on June 16, 2014, to fill a 14-year term commitment. Mr. Powell brings to the Board of Governors considerable public and private experience and experience on charitable and educational boards.

Governor Powell?

>> JEROME POWELL: Thank you, Gil. Let me join Toney and Marty and soon enough Charles in thanking you for being here today.

I see a good number of familiar faces, that I may have met at the board or perhaps at the regular conference that we now hold annually at the St. Louis fed which is devoted to research on smaller institutions that community bank business model and with a heavy focus on regulatory burden, also former colleagues I haven't seen in a number of years that I won't mention, used to work with years ago.

So it's great to be here, and I'll also add my thanks to Richard Fisher and the Dallas fed for hosting us. I'll echo that we do take our job under EGRPRA very seriously. We see this as an opportunity to consider whether our regulations are necessary and current and keep up.

I happen to chair the subcommittee of the Board of Governors in Washington, that's the goal of which the job of which is to consider the effect on smaller institutions of all the regulations that we enact, and not enact but adopt. I'm hoping to learn a lot today. You can only learn so much on a committee in Washington. I find that I've learned a lot at the St. Louis conference, I learn a lot when I talk to bankers and frankly other regulators too.

So I'm hoping to learn a good deal. I did spend most of my career in the private sector overwhelmingly, so I've been a regulatee. And I'm not ashamed of that. I think that is really a positive thing for public service. It helps to understand how businesses do and don't process the things that we do.

So again my goal today is to learn as much as possible. We do understand that the sizes of depository institutions vary and their business models vary and risks vary quite a bit. That is why one particular focus of EGRPRA is considering the burden on community banks and other small insured depository institutions. We have been clear and we have tried hard to tailor our rules where possible to clearly distinguish between different kinds of institutions.

It's hard in some areas, because under the law, particularly in consumer transactions, standards to apply throughout the financial system.

We also recognize that the banking industry itself has undergone major changes. Technology changes, the financial composition changes, business between, moves between depository and nondepository companies, different products and services are offered, and offered through different ways.

So I particularly love to hear your views on how those kinds of changes impact the effectiveness of our regulations.

I'll conclude by saying that we will, and my time at the board is almost three years now and I see how seriously we do take comments on regulation. We really do grind them down and analyze them carefully and consider them in everything we do. We will do that here as well. We will act without waiting if we can. If there are things we can do, we are not going to wait for the end of EGRPRA. We are going to go ahead and act.

As an example of that, last year congress, last December, just a month and a half ago, congress passed legislation which Federal Reserve Board supported and that would increase the consolidated asset limit for small bank holding companies under our small bank holding company policy statements from 500 million to a billion and then give the same treatment to savings and loan holding companies.

You may have noticed that last Thursday, which is quick by government standards, we published for public comment proposed and interim final rules to implement that legislation quickly and aggressively which would reduce regulatory burden on small entities by excluding many bank holding companies and savings and loan holding companies with assets of less than a billion on consolidated level from consolidated capital requirements.

Of course the depository institutions have requirements that remain intact. The rules have also reduced reporting burden as well. As you know, the final results will be contained in a report to congress, and again, I really look forward to learning a lot today. Thanks for taking part.

>> GIL BARKER: Thank you, governor Powell. Our last introductory comments come from Charles Cooper. Charles became Texas banking commissioner in December of 2008. He has a background as a federal bank regulator with the FDIC and extensive work history in financial institutions of all sizes and a varying conditions.

Prior to his appointment as banking commissioner for the State of Texas. I can speak on behalf of my federal counterparts with the FDIC and Federal Reserve, that Charles has helped to create a relationship with the federal regulators that is a model for open dialogue and consistency in the standards that we apply to banks.

Charles?

>> CHARLES COOPER: Thank you, Gil. Welcome, everybody. I would like to be the first to extend a hearty Texas welcome to Chairman Martin Gruenberg and Governor Powell and for you Toney, representing Tom Curry and staff from, regulatory staff from D.C. and regulators that have come from other parts of the country.

Welcome to Texas. We tried to do our best to give you some good weather. And as President Fisher says it's probably good outside, maybe you will see some this afternoon.

My fellow state regulators and I work through this process through the state liaison committee of the FFIEC, and we have also been involved in the preparation for these outreach meetings.

The gentleman before me, I think gave a pretty good synopsis of this very important process. Let me make a couple of comments, and these comments are mine.

You know, as indicated, this is the second round. The first one culminated in 2007. So here we are roughly ten years later, going through round 2. As many of you know, there was criticisms of the first round. Some bankers felt like that their comments were not heeded, and the process didn't go very well.

And I have read and I've heard that there is some pessimism out there, that this round will be no better.

Let me give you my thoughts on that. Number one, there are going to be so many eyes on this process, many more than were on this ten years ago. Our technology has obviously improved. So there will be a lot of people observing this process.

That alone is going to make it better. But possibly more important, this process as mentioned earlier is mandated. It's statutory. The federal agencies did not have a choice in this matter.

But it is not mandated by statute that these outreach meetings are held like we are having here today. And I do not believe that it's mandated by statute that the Chairman Martin Gruenberg and Governor Powell and Toney from the OCC are here today. They are here voluntarily.

I think that is very important. It to me, this is my opinion, it indicates to me that the top federal regulators personally feel like this process is very important, and therefore, their agencies feel like it's very important. So again, gentlemen, thank you very much for being here and participating in this important event.

Now, let me talk briefly about the comments. You know they are going to be published, and they are on the FFIEC website. I've looked on the website, I believe two days ago. There were 44 comments. I read those comments. I thought that they were very interesting.

But let me mention a couple of things that I gathered from reading these comments. The first one, the first part that I'd like to mention is, to me it's very interesting, may be interesting to you, that $150 million community bank has to fill out a call report, that's 83 pages long. I find that very interesting by itself.

But possibly, it would be more worthwhile in counting pages to explain the process, I think we talked about it a little earlier, explain the process that some of the information is not needed possibly, that the process in itself is not intuitive. It's not a push the button and the report comes out from the computer, that it's very manually intensive.

So, possibly comments like that would be more worthwhile. Also, as indicated earlier, we have all heard about the overburden and the regulation that some of you feel has caused you to reduce your consumer products, consumer lending as an example, and not make home mortgage loans, either you are going to, our surveys indicate that community bankers are either going to leave that space, or substantially reduce the space in 2015.

So, those comments are obviously very important. But perhaps it would be more important, excuse me, more worthwhile for you to comment about the specific regulations, the specific processes, the specific statutes that you believe are keeping you from properly serving your community.

Now, when I go to congress and talk to our Texas delegation, and as you know, we have some of our members are in very important committee positions this time, they all tell me, they all tell me, tell the bankers to give me detail, to give them detail.

Generalities are good, but details are important. So, may I suggest this, that the comment period and the comment time is perfect right now. I think the stage is set. This is a fantastic process for you to be able to do that. May I recommend, number one, that if you believe that there are some problems that you do comment.

And then number two, if you do comment, I suggest that you provide the details that would be more influential than just making some generalities. You never know who the reader is going to be. You never know who the reader is going to be.

So this is your time to state your position. So with that, I thank you all for being here. This is going to be a great process to go through, and I look for a very productive day. Thank you.

>> GIL BARKER: Thank you, commissioner and thanks for the opening remarks from all of our principals. At this time we are going to move to our first panel discussion, which will cover the areas of applications and reporting, powers and activities, international activities, and banking operations and regulations.

Toney Bland is going to do double duty and serve as moderator for this particular discussion as well. Toney, I'll turn it over to you.

>> TONEY BLAND: Thank you, Gil. I'm a little out of breath. (chuckles).

Again, good morning, everyone. We have the first panel, and just to set it up for my panelists, I want to give you a sense of what we are covering here. We are looking at four categories, which are applications and reporting, powers and activities, international and banking operations. These are rules that are from the FDIC, Federal Reserve Bank and the OCC. To give a little more detail, I'm going to give you a sense of what is within each one of those categories. This is not all inclusive. It is just to set the stage for the discussions.

Under applications and reporting, there are mergers and acquisitions, holding company formation, change in bank control or directors, call reports, deposit insurance filing procedures and other rules.

Under powers and activities, investment bank premises, sales of insurance, investment security, fiduciary powers, community development investments, to name a few.

Under the third category, of international, there is operations of subsidiaries, foreign banking operations, adjunct corporations. Lastly, under banking operations, it's availability of funds, the collections, recordkeeping requirements, reserve requirements, and assessment of fees, and again, just to name a few.

So that is our four categories. Our objective today is to really get specific comments for our principals here to hear, and possibly things that we can address, and we are focusing on those things that are outdated, unnecessary, or may be unduly burdensome.

To accomplish this objective today, I'm joined by a distinguished panel here. I'd like to briefly introduce them. Please note that their detailed bios, are in your packets. I'll touch briefly on who they are.

From left to right, we have Geoff Greenwade, president and CEO of Green Bank NA, in Houston, Texas. 2.2 billion in as else, OCC supervised institution.

Next to Geoff is Pat Hickman, the Chairman and CEO of one of my, the best bank names I've ever seen, Happy State Bank. In Happy, Texas, 2-point 6 billion in assets, supervised by the Federal Reserve. Next Robert Hulsey, president and CEO of American National Bank of Texas, Terrell, Texas. We have Jeff Wilkinson, president and CEO of Pioneer Bank, Texas, in Dripping Springs, Texas. 1.8 billion in assets, FDIC supervised institution.

To briefly touch on the format, I will ask each panelist to discuss the specific aspects of regs or practices that should be noteworthy to their bank, but also to the industry at large. They will have about ten minutes or so. We will go through each person, at about the 40 to 45 minute mark, we will pause and try to wrap up, and then as Gil mentioned earlier, we will open up the floor for comments from the audience.

Again, there will be microphones set up there. Let's begin. Let's start with you, Geoff.

>> GEOFF GREENWADE: Thank you very much, thank you for having me today. After I got the call from Marie at the OCC, I was very excited to be part of this, until we had our first panel conference call, and we started drilling into the details. And I saw what a overwhelming -- I decided to join the tax reform panel because I thought it might be easier. I didn't realize, running a bank, you are dealing with higher 50,000-foot view type items, safety soundness dealing with your examiners, your auditors, worrying about growing the bank, worrying about risk management, worrying about earnings and capital. When I sat down with our operational and our finance and accounting people to go through this, it really gave me a great sense of what they go through on a daily basis from an administrative time standpoint and where they spend their time.

I'd like to start first at the 50,000-foot view and going to Charles' comments earlier, I have specific items that we talked about at our bank to present today.

It seems to me the challenge that we have with bringing more efficiency to what the banks do on a reporting and process standpoint is, there is two items that continually will be there and continually add to this process versus taking away from it, if we don't use them properly. One is technology.

Technology has been, has really boomed over the last ten or 15 years, and there is so much more information, automated or able to do on-line, that would help us be more efficient. So I think the challenge for us is to look at some of these processes and regulations that have been around for decades, and marry the two. The good example of that would be in the operations handbook, the check processing side, we don't have proof departments anymore. But if you go through all of the different appendix and information in there, it's going to discuss things such as filming of return item cash letters, and courier logs that you are sending your daily work to main locations, and how you are balancing your proof totals.

We don't do that anymore. That's so, you know, ten, 15, 20 years ago. So we have really got to look at that type of stuff and get it formed up with technology.

Then the second item would be information creep. What I mean by that is, over time, as fingers touch certain reporting activities, there is more and more information required to satisfy the receiving end.

That is a piece that we really have got to be careful about, because that ripple effect of needing that extra little bit of information is something that a lot of the banks are, may have to do from a manual process, and it doesn't just add a little bit of incremental time. It adds a tremendous amount. A good example of that would be our, my first item, which is, it's called the FR2900 report.

This is a reserve requirement on the depository institution. It's called the report of transaction accounts, other deposits and bulk cash. Basically, this was to determine fluctuations from week to week on our balances that are in these particular items.

We report this weekly. This is the size of this report. This is going to be a good 40 or 50 pages. The cover of this report, plus there is an attachment, can be done, automated by our processor. Providing that particular piece would be very easy to do.

The problem is, and this falls into the information creep, is over time, over the last number of years, we have had to deal more and more on explaining what is happening from week to week on these particular balances.

We are diving down into the number of transactions by account type, and explaining that.

So a big piece of this is, you know, what happens from week to week on these particular balances. I think that whoever is looking at that, they are diving a little too granular based on where this intended to be, which is watching particular trends from week to week on your reserve requirements.

So there is a good example of how this went from an automated report that we could spit out and take just minutes to do, to this is four hours a week of somebody's time. I don't think that was intended. But I think that is the ripple effect.

We are at $2.2 billion bank, but we have 275 employees. I consider us a small, medium-size business. Most of those employees that we have, have to worry daily about taking care of their customers, their prospects and keeping us safe and sound.

I don't have a wide variety of number of people to drive these reports. We have to be very efficient on what we are asking them to do. That is a great example. If I could have those four hours back, every week, that is some 200 hours a year that could be used to worry about asset quality or cyber security fraud, versus the automation and filling in manual activity to follow that.

Let me go to my next item, which is the call report. We heard the 84 pages a while ago. We have a holding company. Since the size of our bank, we also have to do a consolidated financial statements for the holding company and the parent company only, so that 84 pages for us is turned into 190 pages per quarter.

We are public, so we also have to do SEC filings, so we are basically causing part of the tree shrinkage in the United States alone. Our suggestion would be to look at the call report on a basis of the first, second and third quarters of the year which are interim periods to do more of a summary reporting.

And then on the fourth quarter, the annual fiscal year end, do the full-blown 84 pages, so that information can be captured. I think if you went through the particular sections that we do, we went through them, and basically once you get past your income statement, balance sheet, and some of the detailed items you need to look at like the allowance for loan loss and potentially some of the securities detail, there is information in there that I don't believe really gets looked at on a quarterly basis.

I think it's now turned into this report that's produced, and parts of it are looked at. I mean, we are ourselves, we ourselves do typically acquisitions one a year so we are actively looking at other banks' call reports. But I'd have to say there is about five to ten pages we really look at on a ongoing basis.

The other parts have little to no information, unless you are a very large regional or national bank.

I would say that would be one of our suggestions.

The next would be, since we are an acquirer, we are very concerned with the application under the bank merger act.

This is one of those technology items I was talking about earlier. For all the minor stuff that you complete under that act, you can do it with an e filing. You know, if we were, from a bank, a branch from a bank is a good example. If we are doing a full bank acquisition, we have to turn in a paper application versus e filing it.

That is something I think could very easily be fixed.

Moving on to the BSA, AML quantity of bank summary form, this is something we do on an annual basis, that discuss the summary of the wire activity for the year. That is a 60 hours of preparation time that needs to be looked at, because it has very little information on there from a wire transfer, from a bank our size, that doesn't fall into one particular category. It's trying to break out all of the different, where the wires are sent from a global standpoint. You know, most of it is domestic, and very few are going to foreign countries. So that is a, definitely a report that needs to be examined.

I talked about the operations handbook earlier on the check processing. A sister component of that would be on the retail payment systems, handbook.

We are very active with remote deposit capture. For those of you that don't know what that is, that is basically the scanners that businesses use to scan their checks and send to the bank for capture.

I look at this as, you know, very complementary for a community bank. This allows us to not have to go out and build a bunch of brick and mortar and incur that expense.

We are able to go take care of a business customer that is 15 miles from one of our locations, and that allows us to compete better against some of the larger banks.

As the remote deposit capture came in to be on the technology side, there were quite a few processes and rules that were put in place, that are very constricting from a timewise on an ongoing basis. I relate this very much to some 20 years ago when debit cards came to be.

If you all remember, when a debit card started, so basically giving them an electronic check to get money out of their account, we used to, besides having the checking accounts, we would have that consumer fill out a application like a credit card and approve them.

Well, in a very quick time period, about a year or two, I think the industry found out, you really don't need to do that, because you are able to monitor those debit activities, and we were finding there was no more issues than paper checks being out there. If anything, it was quicker and more timely, so you could avoid some of the issues that paper checks had with the flow.

So that dissolved over time, having to go through an application, credit check, like a credit card because you are not loaning them money. You are giving them access to their accounts.

Well, what we have found on remote deposit capture is, I think, very similar, over the last ten years, which is, you know, we are not just handing this out to anybody. When they come in, we are going through a procedure of opening an account. We are checking on this business, because we are basically putting a branch in their location.

We don't make them buy the scanner. We are basically loaning it to them. This is some four or 500-dollar piece of machinery. We are going to be very protective on our side about whose hands we are putting it in.

We are typically going out and calling on that customer to accept this service. So once we put it in, what we have found, and last year we had over a billion dollars of deposits flow through these remote deposit capture scanners, the returned items on those were no different than when somebody came into our branches and made those deposits.

So we are required by some of the retail payment system procedures to inspect the location of this business, which when we put the terminal in, we do, setting internal deposit limits, well, if a customer came in, we wouldn't do that at a branch location. Annual site visits and keeping up with all the approval documentation on an annual basis, it's almost like we are preapproving this customer every year. I don't think that is necessary at this point. I think we have had enough experience in the industry with this type of service that we need to look at doing away with that.

Last two items I wanted to discuss were regulation D. With the changes that came about from Dodd-Frank act, this allows us to now pay interest on business DD8 checking accounts. Well, we spend a large amount of our time and our operation support area falling under reg D on reviewing transfers on money market accounts and savings accounts.

Well, if you have a limitation on those but now you are able to pay interest on business checking, you know, why wouldn't you just make those accounts an interest checking to a business or consumer and do away with those transactions.

The amount of work that we are having to do to monitor and manage those are very inefficient. Now that, when that was first put into place, electronic banking didn't exist. Why is it different for me personally, if I've got a savings or money market account and I need to move over some money to pay some bills to my checking account, but I'm limited to doing that only through those six transactions a month, versus if I go into a bank branch I can do as many as I want, that makes no sense to me. And that, the efficiency that we gain on the operation side, having to monitor, manage some letters, let people know about that, would go away.

The last would be regulation E. There is a new remittance rule on consumer foreign wires that set basically a bright line of a hundred. If you have over a hundred, you have to do this huge report every year to, that takes us countless hours. Well, a hundred is way too low.

If that needs to be monitored, I would suggest that that be increased to allow us to operate, be more efficient in our banking side.

>> Thank you very much. Pat?

(Switch of captioners.)

>> TONEY BLAND: Geoff, thank you very much. Pat?

>> PAT HICKMAN: Thank you. It is great to be here today. Deputy Comptroller Barker, Deputy Comptroller Curry, Comptroller Bland, Chairman Martin Gruenberg and Governor Powell, it is great to hear that you are taking this serious. That you want to address the issues of community banking and we have been hearing that a lot over my 40-year career. I'm hoping that for once we'll actually see something done, that would do something to reduce. As chairman and CEO of the Happy State Bank and trust cap headquarter in Happy, Texas, the town without a frown, I want to thank y'all for this opportunity. You know, we are talking about applications and reporting, powers and activities, international activities, complex issues, legal I'm not a lawyer. It is great reading when you are really needing something that -- I don't use sleeping pills. So I go and like to read these regs. I watched the testimony of the bankers in LA and as Jeff has already done I know that my cohorts and get down in to specifics that will assist our industry and set on 2 and stay within this ten minutes. First we've already talked about y'all and Geoff, what I put together the group that are bought the bank in Happy 25 years ago our call report was 20 pages. Today it is 80, 80 plus and it takes 700 pages of explanation to tell us how to fill out 80 pages for the call report.

And we have to go to seminar to get people to explain it. And if you go to more than one seminar they will each give you different ways of how to properly fill out the call report. Do you really need that much data? You could so positively impact community banking with that one change. To go in and look is do you need that data, and as an aside, I haven't heard this, is it true, I would like you all to find out as your friends that oversee the credit unions but is it true that the 60 billion dollar Navy credit union their call report is less than 10 pages. Less than 10 pages. That just doesn't seem right from nontax paying credit union. That just doesn't seem right from all sorts of different angles. And whereas the call report specifically impacts every bank. My second and last suggestion has not directed me -- impacted me directly but it has several of my friends in this industry and I have no doubt will affect us in the future as we continue to grow and acquire the banks. As banks are attempting acquisition, merger, change of control, their applications are being delayed right now for extended period of time, for extends periods of time. Sometimes they are -- they are simply not accepted as informationally complete. It can increase our regulatory cost, both time and money. In addition I understand that a lot of these delays are often the result of a single protest letter from a single community activist group. This is in my opinion corporate blackmail. And we need to address this. If a bank passed its most recent CRA exam should that not be the standard by which any application thereafter should be judged. If not we need clearer more objective standards to be applied and there needs to be an appeals process that takes place much earlier in the application process.

Okay. I'm going to go off text. I have got several friends out here, Karen, Dori, Pat I know y'all are out there. Go to your Smartphones and put in eight minutes. When they ring tell me to shut up. Because when I go off -- when I go off text it could get dangerous.

>> TONEY BLAND: I think it is five.

>> PAT HICKMAN: Is it five? Give me six. Six minutes I promise you will shut up.

Because I can go for an hour and a half. In fact, would you please pass on to the comptroller that I want breakfast because I want him to hear me too. I am not a national bank. 25 years ago I headed a group that bought a 10 million bank in Happy, Texas. Today there were 880 based in Texas. Today we are 812. Out of 660 banks in the state we are No. 27 and I like to tell my friends that we did it up in the Panhandle where cows outnumber people 4 to 1. Our bank is the second largest agriculture lender in the state. In the 77 top counties of Texas we have been the No. SBA lender and have been in the top three or four for the last I don't know how many years and that appoints to the same size as New England total. American banking magazine just named us one of the top 40 banks in the nation to work for.

We've got a great relationship with our lenders. I just tell you that -- with our regulators. I tell you that because I want to set up some creditability. I have then in this business for 40 years. I have been to Washington D.C., Austin lobbying and when we lobby regulators and congressmen they tell us you guys wear the white hats. When the big guys are 80 plus percent of the deposits. They know small business is where the jobs are created. Yet every -- y'all are going to make report to Congress. It scares me to death that they are going to come in and then reducing paperwork as it has in the past, okay what new regs are we going to have that are going to make it even more cumbersome because in my history that's what happened. We have hired 7 or 8 more compliance people audit folks in just the last year and a half. Some of that's because we are growing but mostly it is keeping up. Look at what it takes to do a mortgage loan today. CRA, we are in five communities that have less than 1,000 people population. 30 miles from the nearest town. We are the only bank in those towns. We get 0 credit on CRA yet some of this crazy things that you have to jump through hoops. Yet last exam we got an outstanding rating from CRA. Now we are a big bank because we are over a billion and we are going to be judged the same way that the mega banks are. That just doesn't -- give us a specific, you are going to listen to rural banks later. Give some credit when you are helping some of these smaller communities. That's a huge piece that could help the community banks. I'm scared to death of what this -- our first exam is as a Fed member we just converted. Our first exam is coming up and there is it going to be a CRA exam and it is going to be our first time as a big bank and we are nervous because the rules have changed. One of the panelists in Los Angeles talk about economies of scale but they don't tell you when you hit a million your regulations go through the roof because you are considered a big bank. I am judged as the same token as some of the big ones. That's nuts. Last, if you are really going to make a report to Congress, tell them I know that the regulators have some impact but it is really Congress that writes these rules. Our field examiners tell us that. And we hear it all the time. We are talking to them again. They all tell us we wear the white hats, we are the good guys and I sincerely believe that y'all think this. I know the Dallas Fed and Kansas City Fed I know we are seeing some work there. I am glad to hear that the OCC is doing something as well.

Give us some relief. We are one of those banks looking at getting out of the mortgage loan business, slowing it down anyway because the paperwork is just so crazy now for the consumers.

What an honor to address folks that are in your position. I won't get to do this ten years from now when you do it again because I hope I'm retired. I'd really like to think that the things we are saying today really would make an impact. I tell my folks in the bank all the time don't just talk about it. Do something. I'm asking the same thing of our regulators. Please let's quit talking about it. I told another group that I spoke to recently I feel like we are just -- the chicken and the pig discussing breakfast. We are the pigs and we have a significantly greater impact on breakfast has a much greater impact on us than its to the chicken. I'd appreciate it if folks would quit talking about us and do something about us. Thank you all very much for this opportunity.

>> TONEY BLAND: Thank you, Pat. Robert.

>> ROBERT HULSEY: I got to follow that? Somebody pour some cold water on him. He will calm down in a minute. I appreciate the opportunity to visit with you. Give you a quick perspective on it, the other day we have a little over 500 people that work at our bank. People that are not related in production, doing reviews, doing regulatory responses is over 50 people in our bank that we have. So over 10% of our workforce is directly involved in some sort of response to work from that. That doesn't count the amount of outside consultants and auditors that we bring in to the bank which I would say from a dollar standpoint is probably about the same number of -- same amount as we have direct people involved in it. That's going to represent something around 30, 40 basis points of our ROA trying to make that piece of it happen. So it is a huge and significant burden for us and even more so I would say when you look at the impact on the people that are involved in production, let me give you an example of it. Five years ago in our mortgage department we would produce about 120 mortgages a month that we would prove and put the process. Today we have double the size of our mortgage department and we can now get 80 mortgages through that same department with it. And we struggle to do that. So the rules have gotten to be really important about that and I think it is behind two principles that I would ask you to consider about that. One of them is called what I worry about the two types of errors, false positive or false negative and there is such a great concern over possibly getting a false positive that we have to run through incredible amounts of false negatives in order to make something happen out of that aspect of it. And I'm going to BSA about that in just a second. If you look at what's going on in the reporting for mortgage lending the HUMDA reporting today requires you to document and manage 26 different fields that you have to manage and make sure. What that means is that we have to make sure that all of those fields are correct. We have to audit those fields. We have to have people that come behind them and take care of them. As I understand it that regulation is changing to go to 60 fields. Do you think that's going to increase the number of people that are going be to involved in HUMDA review and my answer is very much yes. Today in BSA with the concern of being able to have a false positive come out, we produce records that show about 600 potential opportunities that we need to investigate with that. That requires about 7 to 8 people full time every month checking out those 600 to see whether or not they apply for it. How many of that could be reduced if we can get that down to a hundred and would we really have lost any of the real positives which really turn out of those 600 I dare say we get one a month that turns out to be something that we ought to really investigate. The perspective there seems to me that it has gotten totally out of control from that standpoint.

Disclosures on home mortgage is going to increase significantly about that. Disclosures on home mortgage, the customer today signs what 45 times when they open a home mortgage loan. More disclosures is going to help give them better information about that. I really don't think so. I think that is not something that I believe has really been helpful in terms of being able to do that.

The second thing I talk about in a mortgage process has been the appraisal process. This is just absolutely gotten out of control. The appraisal process is burdensome. It's very difficult for our customers to understand how it happens. We have to as you know we have to make an appraisal, we have to review the appraisal, all of that sometimes has to be done outside by "experts" because we as a banker don't know enough to do appraisal. They have sometimes been on the books old and been added to and added to. The burden falls on us to do it. If you look at what a community bank does most of the time really well, it is to handle those customers that have a little bits of problem. Little bit of an issue, not much just a little bit of an issue and I can tell you that our bank like every other community bank that I'm aware of we did no subprime loans. We didn't do any subprime loans. We wouldn't do them. Because of what we believed about that. And yet here we are following these really strong provisions that we have to do relative to that being created. So I think the whole process about that has gotten totally out of sync with what we want to do and serve our customers and what's happened by being so prescriptive in it means that we don't have the ability to adjust and make the kind of mortgage that would be most helpful to those customers in the very first place. I had a friend down there this was talking about the cost. He has to high priced mortgages. He makes mortgages that are $40, to $50,000 apiece.

His point really was do you want me to stop making those loans to $40 and $50,000 customers. Is that what you want? And community banks have a unique role because I think we more than anybody else can understand our customers, deal with them and we can make those adjustments that do make a difference in our customer's lives and I think from that standpoint given the flexibility, given community bank's track record in terms of working with that we deserve the opportunity to show that we know how to make loans to our customers without creating a problems for them that were created by the largest banks in this country.

We have already mentioned call reports. So I am not going to go in to that and we mentioned something about CRA. The CRA rules have been in existence for, I don't know, for eons and I don't think we have really gone back. What do we want to accomplish from CRA. What do we want to have happening from a 50,000 foot level. I think we need to sit around and set a vision of what CRA ought to be about and then develop the rules about that that we could be. So I think I would close by saying be careful about prescription rather than giving an understanding and knowing what's happened about it. And I would be careful also of this word, it is called best practices. What starts out as being required for the largest guy suddenly becomes best practices and suddenly becomes the rules for the smaller banks. And in fact, what happens relative no matter how much we try to push against and no matter how much the regulators push against it still creeps down in to that business and what happens to it. Certainly my 30 or 40 basis points of cost in terms of dollars doesn't measure up to the largest bank but in terms of percentage of their assets it is miniscule relative to what we are spending. It puts at a competitive disadvantage and we need to have the ability to do what we have always done. We have done it well. We approve over 50% of our small business loans, the largest banks approve less than 25%. So we are doing things for our communities and yet what we feel every day is that our hands are tied behind our back.

>> TONEY BLAND: Thank you. Jeff?

>> JEFF WILKINSON: Thank you for having me today. I was thrilled to get the invite to here. Thank you for that. I can honestly tell you I was sitting in my office a couple of weeks and one of my teammates came in and seat the regional director of the Dallas CE was on the phone and I said what did I do. A quick background about our situation because I think some of the experiences that I have over the last seven years are particularly relevant to the topic at hand today. Pioneer Bank is a seven and a half year old de novo bank. Today we are a healthy 365 million dollar bank and since our inception we have raised capital four times and during this time we are also recipients of funds under the small business lending program. Hint hint I think we should really take a -- take that on as a topic coming out of this. It has been a fantastic program.

Our bank has been profitable every month since our 18 month of operation and during our de novo or seven year de novo period we have acquired other banks. I am going to suggest some specific changes relative to our specific situation that would help streamline things and help people a lot that go through the process that we have gone through. First, I would like to say that I am really happy that you reverted back to the three year de novo period from the seven year period that was instituted during the crisis. You know, in our situation we are unfortunately caught in the middle of that just said well, no, you need to remain de novo for seven years. That's what we did. My first suggestion is to address this type of situation so it doesn't happen again.

You know, there is -- if we are going to move it from 3 to 5 or 7 in the next crisis, then I think that the banks that have met their three year requirement provided they are in good standing I think they should be grandfathered. I don't see a reason why they shouldn't be and, you know, there's a certain amount of inflexibility that comes along with implementing your business plan during that de novo period as should. But to operate under those parameters for extended period of time it puts you at a disadvantage. I think that situation should be resolved. I understand why we did what we do given the severity and magnitude of what was happening.

So that's my first suggestion. Secondly I would like to address a topic that was I think we have all heard about it, it was a very particular, very focused in our situation and that is the topic of the business plan issue. You know, and I think while it is understood when you file a charter application you file a financial pro forma which shows you how operations are going to look like for the first three years. I had no idea interest was this thing swimming out there called business plan, and business plan deviation and took on a whole life of itself during the crisis. So I would like to talk a little bit about the ambiguity and the discretion that exists today relative to the business plan process and interpretation of deviations or changes from the business plan. You know, I'm actually a huge proponent of the business plan concept. Some of my other bankers that don't have to go through with it, personally it has made us a better bank which is the intent. We got more discipline on planning and sticking to what you say you are going to do. I personal lie like it and we got a lot of positive benefit out of doing it. I would like to make two specific changes. The first there needs to be very clear direction and guidance on what constitutes a deviation from the business plan. And the second is what are the resulting actions that need to occur by the bank and its board from the direction of the examiner. Instead of it being open-ended and vague. We have a great relationship with our regulatory agency. I'm happy to say that. We've -- FDIC and state we have gone through battle together on this topic. We have been on the same side of the issue. It has not really been adversarial. We want to know. They didn't know either in many cases. So I'd like to see more specific guidance there and secondly there needs to be more guidance about the approval process for these planned or unexpected deviations from the business planning process.

I think it is imperative that that process needs to be out of D.C. and needs to be in the regional office. I don't see -- I don't see the benefit by having somebody in D.C. reviewing that business plan at all. You know, having this added step on top of the regional office is unnecessary and it is overly burdensome. In particular in our particular case our first revised business plan was required because we had deviations from the business plan and they said you have to file your business plan. There really wasn't much debate at that time given the time period we are in about do we really or do we not have deviations. So we just agreed no, the to argue because we weren't going to win anyway. So we said okay fine. We will refile the business plan. In our case it took one year to get approval from D.C. We were looking at each other are you going to examine us under the old plan that's already approved that required the deviations to be filed or are you going to examine us under the new plan which hasn't been acted on yet. I think that that is -- that needs to happen. They need to have the autonomy in the regional office to handle it.

So I mentioned earlier we were fortunate enough to acquire two banks during our seven year period. My next comment is for acquisitions. I know they are not typical but I think there are cases where there's a compelling business opportunity and need or desire of another bank to be merged in to de novo bank and much like the business planning process that I talked about earlier in terms of the approval process, you know, I'd like to see these -- these need to be delegated to the regional office as well. They are more in tune with the local marketplace and I think they can move much quicker and more easily handled by the regional office. So in our particular case just to use another personal example, it was determined that our approval of a bank to buy a bank that had been recommended to us that was a bank that really needed to go away, you know, that was determined that it would go to Washington D.C. And we were three days away from the expiration on the definitive agreement, which that shouldn't happen. The state banking commissioner for the state Texas of mortgage and loan finally called and got ahold someone in Washington D.C. who was on vacation and we finally were able to get it unlodged and have somebody else sign it that same day and we got our approval and were able to close and it took another 120 days and we along with the regional office we -- it was crickets. We were told it is just coming. We have to wait. I would like to see some specific guidance that it is okay for de novo, good ones to buy other banks and that approval needs to stay in the regional office and shouldn't have to go to D.C. On the topic of de novo I would like to get some clarification and documentation of what is required for prior approval. There is in notion de novo bank you file your business plan, and not only file the business plan we are stuck wondering what requires prior approval. We wanted to raise our first round of capital after our initial raise. It was told us to at the time that that required prior approval. Had to go to D.C. It took a long time and we couldn't raise the capital until we got approval which makes zero sense.

The second time that we wanted to raise capital we were told sure go ahead. You don't need to go through that process. We have cleared it with D.C. Go ahead and raise the capital but you can't deploy if it changes your business plan. Which makes no sense. In our case I think that what I'd like to encourage is just remove that judgment and interpretation out of that on what exactly is prior -- required prior approval for things that you want to do. Whether it be a branch. I think it is unique, what we all go through but I think it is really hard for a de novo bank to operate with those things hanging over it with a lack of guidance. I would like to see that removed and some specific guidance about this approval process be done. My last specific example relates to the rules about private equity investments and community banks. Over the last seven years I have seen the demand for and support for community banks blossom. Access to capital is a significant concern for my bank. As you go up the food chain it becomes less of an issue but private community banks there is a stumbling block to access to capital. I would like to see some significant change on that to make it easier to maneuver through for that to happen. I think that careful analysis of the rules will still allow us to make private equity and opportunity for community banks. Private equity is not something to be feared. I think there are many great private equity groups that have proven to be good owners and I think that we -- we should put the resources out there to find the good owners and make that available and that -- make that an avenue that's more of a (inaudible). Our organization has, you know -- we have had -- we currently have three private equity groups that have participated with us. Four total. Three, one just harvested their investment. Sold it to another shareholder and they had other things to do. They loved the bank. It was a great relationship and they were in for six and a half years. So, you know, in closing I would like to thank you to listening to my suggestions. If I'm not careful I would go like you said you would. We have got to understand it is a competitive industry. We have -- we are doing everything we can in our shops to be as competitive as we can be. I mean you are not -- you are going to get nothing but fight out of us. So we'd like a little bit of fight from y'all to help us figure out how to get some of this stuff changed. We are talking about it earlier, talking about cost and scale and size and you got to be a billion dollar bank now, we are not saving money being 365 million and 500 million and billion because it is just getting more and more complex. There is more transactions and regulations. I don't know that that holds water in my mind. The only way that we are allowed to spend more of our time focusing on being competitive in the marketplace and taking care of our shareholders and customers, the only way we can do that is if we cut out the oversight, the reporting and the regulation as much as possible. That's the only -- that's the only hope we have. Otherwise if we don't then we are going to put more and more resources internally. So you mentioned call report. I'm not going to suggest too much on that. That's got to get fixed what I think is maddening to me is I don't really feel as if we do anything with the information that we are getting in.

Let's just take de novo banks because I don't want to make these guys to my right mad --

>> TONEY BLAND: One minute, okay?

>> JEFF WILKINSON: I can finish up. But if you had my business plan and you had my call report every quarter, and you hit a button, you know, you would very quickly be able to assess and gauge whether there is risk that's going on in that institution that we require enhanced oversight. And we were on an annual exam schedule every year. Could you imagine only having to go in to de novo every 18 months with the information we have. As much as I want to see the volume go down I think there is a lot more we can do with the information that we have. I am not suggesting it for the big banks but for our community banks I think we can do a lot with the information that we have. So thank you for having me.

>> TONEY BLAND: Thank you very much. Y'all know where we are on time. Okay.

(Laughter).

>> TONEY BLAND: Well, we don't have time for this panel to go for audience comments but I think over the course of the day I think there will be opportunities to provide comments on this -- these subjects but also the other subjects. So hold on to those comments that you interested in making. We will get to you. Lastly please join me in thanking our panel. We really appreciate your candid and forthright comments.

(Applause.)

>> GIL BARKER: We are going to transition to the next panel right now and it take about five minutes to get that done. So --

(Break).

>> GIL BARKER: Several issues that have surfaced were helpful and commentary was colorful and yet significant content there as well. Thank you very much for the bankers that started us off. The next panel presentation focuses on consumer and community group discussion. In our second panel we've got the folks to share lessons with respect to federal banking agency regulations that you have to deal with as well and we are very pleased to have as moderate for this particular panel Barry Wides who is the deputy comptroller for community affairs. So Barry I would like you to get us started.

>> BARRY WIDES: Thank you very much and I like to thank my panel for joining us here today. We will here from a distinguished group and legal assistants organizations. So my left we will first hear from Ann Baddour who is the state director of Texas Appleseed projects.

Texas Appleseed's mission is to promote social and economic justice by leveraging the skills and resources of volunteer lawyers and other professionals to identify practical solutions to difficult systemic problems. Ann will be followed by Janie Barrera who is the president and chief executive officer for LiftFund. Non-profit agency provides small loans and management training to micro enterprises and operates in Texas and seven other states. Third speaker will be Bill Bynum who is the founding CEO of Delta and community credit union. These organizations have generated more than 2 billion dollars of financing that has benefitted over 650,000 residents throughout Arkansas, Louisiana, Mississippi and Tennessee. Bill will be followed by Victor Elmore president and chief executive officer of Texas mezzanine. (Recording)

Also finance singular multi family affordable housing developers and community facilities. Our fifth speaker, Frances Espinoza is the founding executive director of the north Texas for housing center an organization she founded in 2010. The North Texas Fair Housing Center is a non-profit organization, they provide counseling and complaint education and educational programs free of charge to the local community. The final speaker is Suzanne Martindale who is a staff attorney for consumer's union. She is part of the financial services campaign team where she engages in policy and legislative advocacy on a range of consumer issues. Public and advocacy division and information organization serving consumers since 1936. Ann can you please get us started?

>> ANN BADDOUR: Thank you so much. It is an honor to be here. I really appreciate the invitation and the opportunity to share some thoughts related to our organization and what we are seeing on the ground in our work here in Texas as well as some of our other centers. As Barry mentioned my name is Ann Baddour and I am the director of fair financial program at Texas Appleseed which is a non-profit public law center. We are one of the network of seven Appleseed centers in Texas and Mexico City and we have played an active role in promoting fair market practices. Financial inclusion for new immigrant communities and small dollar lending market among other priorities. My comments today will mow focus on two primary issues relate to the Community Reinvestment Act and the first is suggestions to better leverage CRA lending investment and service obligations and support of the financial services needs of low and moderate income families in the wake of the great recession. And second some thoughts on re-examining assessment areas in the light of trends and providing financial, services outside of the traditional bank contest. So a great recession I think a lot of us know and we have seen in loot of recent study was very hard on low and moderate Americans and particularly hard on African Americans and Latinos. But many continue to lag behind financially. The wealth gap between non-Hispanic white household and African American and Latino has expanded in the host era. In 2013 the media net worth was $11,000, (cutting out). And for white house approximately (cutting out)

Point to family struggling to rebuild. The first recent CIPD assets found that 50% of Texas households and 40% of U.S. households are asset poor. And same study fund over 64% and 56% of nationwide consumers nationwide have subprimes in credit scores and another study found 55% of U.S. households have less than one month of income in liquid savings. Lowest income Americans and those in the lowest percentile of households have less than nine days of savings. Consist went these finding the Federal Reserve on economic well being found that 34% of households reported being somewhat worse off or worse off compared to 2008 and these national statistics reflect the reality that we see on the ground that we work through and work with social agencies. Weak credit scores and new immigrant families who often live on the periphery of the financial mainstream has supported the proliferation of high post subprime credit. Grow subprime car loan market is an issue of concern and another example based here in Texas collected 1.5 billion dollars of fees for 1.8 billion dollars of loans. So the result of organizations working on the ground is that it is challenging to help families get back on their feet. It is hard to make progress with financial coaching if a client is stuck in a pay to (inaudible) title loan costing 30% or more of the family budget every month. 2012 Texas non-profit study were in trouble with payday or auto title loan. Organizations offering housing loans have found that number of potential clients cannot be served because of the financial impacts of high cost debt. Instead of more subprime and high cost loans families need access to low cost consumer credit. Loans of 500 to 5,000 dollars with emphasis on 500 to 1500 dollar range is affordable and allows them to dig out hole of damaged credit. CRA rules as they currently stand put a lower emphasis on consumer credit and credit building products and we recommend where possible to permit greater emphasis on these products through lending and investment and service tests. The intent of this recommendation is not to overshadow housing or small business credit but rather to acknowledge the current economic environment and credit building opportunities are a necessary step in the process for many low and moderate income families to qualify to borrow and purchase a home or expand their businesses.

As a second area I wanted to look at the assessment areas in the context of new market trends. Financial services are ever evolving and trends providing financial services outside of the traditional bank branch context create an opportunity to re-examine how assessment areas are established. Prepaid debit cards are an important and growing piece of this trend and are not meant to focus on this particular product but used as an example of the trend and offer important data -- in recently released 2013 FDIC national survey of unbanked and underbanked household we found that unbanked individuals experience the highest growth rate in use of prepaid debit cards. And 12.2 in 2009. Based on the survey unbanked individuals are more likely to be low income, African American and Latino households have some of the highest unbanked. Prepaid debit card users are -- their deposits are held in financial institutions. Under the current definitions assessment areas financial institutions holding goes sits do not have CRA accountability to the prepaid debit card customers and given the market trends documents in the survey amending assessment areas to include deposits from could be beneficial by ensuring financial institutions that hold deposits from unbanked communities are accountable to those communities. Thank you for the opportunity to offer some comments and look forward to any questions you have.

>> BARRY WIDES: Janie.

>> JANIE BARRERA: Thanks. I would like to thank the FDIC and the Federal Reserve Bank and the resource guide. This guide is an excellent tool that helps banks better understand CDFIs and identified ten specific ways that banks can both invest and collaborate with CDFIs and this guide encourages banks and CDFIs to explore new ways to work together for the benefit of low income communities. I also would like to thank the banking industry for their support of CDFIs. Banks have been instrumental to the growth of LiftFund over the course of its history and in fact, banks provided the seed capital that launched LiftFund 21 years ago. Dick Evan was one of those that helped in the beginning. And both have been shaped in part by the resources and collaborations provided by banks and by the federal regulatory entities that have worked to motivate and incentivize strong bounds between the banks and CDFI community and also recognize that Citibank is out there. Mention those four banks, Broadway, frost and Citi and Wells Fargo that help us get started. Federal Government continue to explore workable and mutually benefit ways -- give banks more flexibility on how they invest in CDFIs and other

public welfare investment vehicles. Increase the amount that banks can invest in public welfare investments and help CDFIs grow so we can do our important work in low income communities. It is our recommendation that you consider regulation that allow non-profit CDFIs to be reflected as unrestricted assets on statement of financial position or a balance sheet. I ask that you consider this on the basis that EQ2s are intended to be equity equivalent investment. EQ2s are treated as debt on the balance sheet of a not-for-profit organization. Financial ratios we often drive investor decision not to fund the CDFI. We have a financial institution but without depositors so we have to rely on investments and grants to do our work. Includes the net asset ray know, unrestricted net asset ratio do not reflect the nature of EQ2s. In addition funders that review these ratios such as CDFI fund do not consider them as equity light and offer no special consideration and lastly the CDFI assessment and rating systems offers no special consideration for EQ2. Yes, EQ2s do not directly -- so what would the impact be if EQ2s were treated as equity in key asset ratio. First LiftFund as an example. We carry billion 3 billions on our balance sheet and representing about 7% of total liabilities. If this 3 billion investment was treated as a part of our net assets rather than debt, we would immediately be able to add 11 -- more than 11 million dollars in new borrowed capital it our balance sheet with no change to the net balance ratio or the debt to equity ratio. That 11 million dollars in new capital would provide 946 additional loans based on average lone size of about 12,000 and over 300 of these would be new startup businesses. These 946 businesses with new capital would create over a thousand new jobs. Again this is based on our own historical ratios. Low income communities would be 17.8 million dollars each year based on our historical multiplier of 160% ROI. Considering the impact of millions of EQ2s currently invested in CDFIs could be leveraged in to millions of dollars of capital. There may be a few concerns with this consideration. One being that CDFIs carry EQ2s on the balance sheet as a liability. Equity light they are highly subordinated and not called EQ2s, they are a general obligation that need to be repaid. EQ2 -- monitored by regulators and must be considered. Let's consider that EQ2 are safe investments over our 20 year history lift fund has not never defaulted on any bank obligation and developed processes which make EQ2 a quantifiable safe investment for banks. Consider providing new and enhanced incentives for banks to concert EQ2s to true equity or grants over time and reward banks that increase the typical EQ2 maturity of ten years or 15 years or more. The FDIC resource guide that I named earlier encourages banks to provide equity capital such as grants. How do we incentivize and reward increased grant making as well as expand the amount of banks can invest in public welfare investments. Another recommendation is for a large national banks that leave a market by selling or closing branches continue to have CRA in the markets. These banks continue to have business relationships with customers because of their deposits in the markets where they used to have a physical presence. This leads the CDFI still working in these areas with less funding. They no longer can benefit from the bank's CRA investments. When mergers happen there are no longer two banks that are providing CRA investments. Now only becomes one and usually with half the combined investment. The recommendation is that the investment continues at the same level prior to the merger. Again I would like to thank the Federal Reserve Bank OCC and FDIC for conducting these hearings and for listening to our concerns. I applaud you all for wanting to make sure we are improving the lives of the people we serve by reviewing how we do business and I want to close by quote can Einstein and his definition of insane at this. It is doing the same thing over and over and over and expecting different results. I'm glad we are here. Not choosing to go insane.

(Laughter).

>> BARRY WIDES: Thank you. Thank you Janie

(Applause.)

>> BARRY WIDES: All right, Bill.

>> BILL BYNUM: Thank you. Good morning. I appreciate the opportunity to be here to talk to you about federal banking regulations and their impact on consumers and communities. This panel is a very encouraging indicator that well being of consumers is an important consideration for EGPRA not about making life easier and profits higher for banks. Thank you for the opportunity to speak on low income consumers and communities. I serve as chief executive officer. We have a regional community finance institution. We work in Arkansas, Louisiana Mississippi and Tennessee. We undertake a range of income and asset development strategies, designed to improve the quality of life in the region since 2008 we have expanded from 7 locations to 23 locations in the nation's most impoverished region. I will talk about a snapshot of the region from the perspective of a practitioner been in community development for 30 years and then talk about the importance of repository in low income and rural communities and finally make recommendations for increasing investment in these community, partnership between banks and community development organizations. The treasury department defines county of parish where the poverty rate has exceeded 20% over the past three decades. It shows one out of four of the nation's poverty counties are located in the states Arkansas, Louisiana and Mississippi. Only in the states of Louisiana and Mississippi only half the counties and parish are classified as impoverished. It is particularly acute among communities with large African American population. In 35 of the 39 counties and parishes where the African American population exceeded 50% it has exceeded 20% for the last 30 years. According to FDIC's most survey of underbanked households, Arkansas, Louisiana, Mississippi rank 48, 49 and 50 of underbanked. 33% of the household are unbanked. They have a bank account but rely on high cost alternative providers. Consistent with the findings associate with persistent poverty, in mid south color are disproportionately underbanked, unbanked.

After a job an relationship with the depository may be the important contributor. They have a means to build credit and secure financing for purchases such as a rely able vehicle which is vital to one's livelihood. Children with a college savings account regardless of income are more likely to enroll in and graduate from college. And they are also more likely to own assets when they become adults. At the community level depositories are drivers of economic activity. As branch -- in Appalachia a study showed as a number of bank branches increase the number of small business loans also increased. In contrast when a depository exits there is financial hardship. Since the recession, the closure has accelerated. In these communities the loss of a bank branch has been shown to decrease the supply of a small business credit for long period of times of correlation between the poverty of a neighborhood, and the presence of payday lenders and other high cost alternative financial service providers and our own experience at Hope our entry in bank deserts has been an important source for families, health care providers, childcare providers, non-profits, grocery stores, affordable housing developers. When banks leave communities the manner in which they exit has significant implications. Within hope's service area the tactics deployed by some backs has exacerbated the level of hardship on both the residents and one example when the only bank in a small town of about -- rural town of about a thousand people, 82% of whom were black they closed and sold the branch facility and the sales contract included a restrictive covenant. They have been without a financial institution since 2011. Partnerships between banks and CDFIs presents an important opportunity to preserve access to financial services in distressed areas. In 2014 regions banks decided to close a branch in a town that had no other depository and the bank donated the facility to hope. Population of 59% African Americans is now served by a CDFI that provides a full range of funding services. So very stark contrast to other bank prohibited another financial institution from going in that community. Building on this information I will make a few recommendations. I encourage regulators to look beyond risk management factors in branch closure decisions. In small rural communities and analysis based on can't level or census track data -- this rural areas are more sparsely populated since the tracks are geographic larger and includes pockets of wealth inherited wealth or inherited farms and that raised the overall census tracks, number levels of census tracks, this can result in understatement of impact on low income, minority and elderly residents who live in the town where the branch is located. Such oversignficant -- to give significant weight to CRA considerations with increased scrutiny of the population that is most directly affected by the closures. Encourage regulators to use the authority -- when banks engage if behavior that negatively impacts access to credit and financial services they should be held accountable for their behavior by bank regulators. Conversely when credible decisions are made to close a bran. In low income and minority rural community banks should be incentivized. Primarily among these are bank investments and organizations such as CDFIs that serve distressed populations and provide access to financial service in underbanked markets. In closing emphasize that the depositories play a pivotal role in communities. The harmful effects can be greater accountability that helps ensure access to affordable financial services for underserved people and placed. Thank you.

>> BARRY WIDES: Thank you very much Bill. Victor.

>> VICTOR ELMORE: Thank you. On behalf of TMF I would like to thank you for inviting us to participate in this conference and this is not my first time on the stage. The Federal Reserve in the past has been very accommodating in inviting us over to chat a bit and we are always grateful for that invitation. Thank you for allowing us to be here. As I begin I have to tell you a little bit about the business model of TMF. Because our business model is quite different on those that you might know of. We are CDFI. Have been one since 2002. We began operations in May 1999. We also are a CDE two months later. TMF primarily is revolving fund. We manage funds and we are based in Dallas. We lend those funds throughout the entire state of Texas which is our target market area. We do business loans. We do loans to affording housing developers and community facilities. Our definition being elder care, charter school, health facilities and community venues. We are a for profit and that model was chosen because in the early day I heard a rumor they wanted a discipline of for profit and they wanted the possibility of given a return to our investments. Our investments constitute 18 entities 16 of those are banks, both large banks and community banks. When we joined with the first lending to do transactions, we can't walk alone on transaction but most of our action is because we have chosen to in that particular area of the business just like we chose to be a CDFI serving the low to moderate income areas. Over 15 and a half years that we have been in business we have loaned 80 million of our money, getting that to number of 80 and we have been sent another 256 million of first line lenders to join us on the transactions that we have done. About 90 of communities throughout the sovereign state of Texas. We are noncompetitive. We have no competitive section of our business model. We try to add a capital whether the first position, but primarily in the second position in to transactions that we feel when we look at them from an economic and business and growth standpoint ought to get done but not get done because of that layer of capital that is not coming to because it may be in the risk model and not seeing it as a way to get things done. So we play in. If it fits we see what we are doing within our risk model

we go ahead and make it happen. We do this with six people. Again located in Dallas. Our industry stats tell us we should have 12 to 15 and we don't know what the other ones will do but we think that's quite amusing. We have been audited independently audited since our first full year of operation in year 2000. We have been profitable since 2006. Our equity status is about 23 million. 89% of that is equity. About I guess 64% of that is stockholder money and 24% of that is deposit or retained earnings and two pieces one for two million and one for four million, one at 1.34 and one at 4% both are interest only for the time period they are in play. No collateral requirements and no (inaudible).

The way we fit in to this conversation is that as I stated earlier our investors are primarily banks. We have had individuals at one point in time. They are primarily banks. As such we want to incent and give them value for our participation with the Texas mezzanine fund. So that primarily falls in three different areas. One we offer return on investment. We have been paying dividends for the last four years, modest because our stockholders have chosen it to be such but we are paying dividends. We also borrow from time to time as I mentioned earlier and we do pay that back. And we have never defaulted on a commitment.

We also assist lenders through loan production. As I stated earlier we call it intend lending br it helps our banking institutions and other. Not only your investor will do any banker that steps with the Bible transaction. So we help with loan production. That's No. 2 and No. 3 is that all important area of CRA. Being a CDFI we offer investor credit for our funds that are inside (recording) (if you are the host and wish this conference to continue please press any key on your telephone touch pad.)

I say one more thing that I forgot to say which is a very important part of our growth in organic development, is that within our configuration we became market tax rate program in 2006, 2007 time frame. We applied given our configuration in to that very competitive arena. And we were lucky enough to get an allocation for the first time in 2008. We have applied for the subsequent five rounds and we have been successful in six applications which we have deployed in transactions throughout the state of Texas. We are in transactions from Corpus Christi to Paris Texas. We need fuel to operate this money like anybody else. Since most of the participation in our configuration is to accommodate financial institutions and this panel is focusing that. As I talk with -- and I do a lot interviews with banks, them interviewing me, but actually it is kind of the way around, too.

Regarding being part of what we are doing for CRA comes to the forefront and there are certain things that I would like to put for this body that maybe could be looked at or ought to be looked or should be considered to be looked at in order to help gain additional fuel both existing and new partners. One would be we are statewide. As such we stand ready to lend and go anywhere within the state of Texas that an opportunity presents itself that we can participate in. Of course, some financial institutions all financial institutions have an assessment area that may overlap with our area or may be part of our area. Whatever. I did not -- I'd encourage regulators to give consideration to giving the full value of credit however that is determined on your end, to any institution within our targeted area that has a footprint in our targeted area that has investment or service credit with us. Sometimes there's somewhat of confusion or lack of clarity regarding if I invest with you will I put some credit will be had by my institution. That point of clarity can be cleared up and encouraged I think that would be help the CDFIs or organizations like us to go forward. We are a CDFI. So on the surface I believe our track record and our designations somewhat anchor our income to low income communities. There appears to be a desire for more specifics when it comes to CRA activity. So they can score themselves prior to your scoring them which may inform how much and what type of commitment or participation they may have with the TMF type of organization. I am thinking that they knew on the front end what credit may be coming their way that may incent to do more and do it more often and with a little more rigor. Discussions have also led to comments regarding consistency among the regulatory bodies. We have a variety of I think people that have invested in us, occupy all the spots of regulatory bodies involved here and there have been discussions regarding similar investments, different regulators, different outcomes.

To the extent that your organizations can go on to develop a more consistent way of looking at or maybe even scoring across the board would add greatly to simplicity and a clearness and a clarity as we deal with the financial institutions that are invested us in.

And finally probably a point that's pretty unique to TMF, I stated earlier that we are a corporation, our investors are stockholders. And given the banking climate over the last several years there have been quite a few mergers, acquisitions, failures. As a result of that people often acquire our stock which is fine with us. We often get a call that we have acquired your stock to some level of banking combination. Our answer is great. Love to have you. Whose names should the stock be converted to. However it is my understanding that those investments often peer on the new banks books as outstanding investments which is fine. I would like to put before you a consideration of some level of -- if some level of additional commitment was made in connection that that newly acquired stock I am an accountant so I can guess what they acquired it for, is that maybe that newly acquired stock can be converted from outstanding to possibly consider as a new investment if a new substantial amount of investment accompanied that stock. So I think that would be a way of giving an institution a more bang for the buck if they are sitting on a million dollars of my stock and they put additional X the entire investment could be considered new and thereby adding more value to the institution doing a CRA. I conclude my comments again and thank you for having me.

>> BARRY WIDES: Great. Thank you very much Victor. Suzanne.

>> SUZANNE MARTINDALE: Yes, thank you very much to the OCC, the Fed, FDIC and the Texas Department of Banking for inviting us to be here today. I am very pleased to be on a consumer protection panel that's not at the end of the day often happens. After thought tacked on the end when half the people are running for the airport. Encouraged to see this aspect of updating regulation is not an afterthought but integral. The overarching point that I would want to make today is that updating and innovating can and should go hand in hand with consumer empowerment. And that's something that should be considered regardless of which statute is being looked at. Because regulations no one wants to have regulations that no one can read. I can say that there are some banking regulations that I as a lawyer working in financial services have a very hard time reading at the same time the focus should never just be on repeal or elimination of regulations but also on updating and making smarter regulations and can work for financial institutions and also work for consumer which is very important. Today I think I will focus on two areas on payments and then very briefly on preemption but I think when I say innovate the first thing that comes to my mind is payment because there is a lot going on in the payments system right now. I don't have to tell you all that. As we see newer technologies, newer products coming out that can in some cases be faster and even safer and more secure than legacy systems it is very important for banking regulators to stay on top of the way the markets are moving to ensure that there are -- that the regulations continue to fit the technologies. One of the great example was also raised earlier is remote deposit capture. It is popular with consumers. You can take a picture of your check and goes deposit. There is a lack of clarity of how the

check hold regulations actually apply to that. There are some mobile apps that will hold someone's check for a long time. The go bank mobile app that will hold your check for up to 14 days. That's a long time for one to have to wait for their deposit and we think that the check hold times should apply to the deposit of a check via bank branch or ATM or mobile phone. Another thing that has started to crop up in recent years pertains to check processing are that some unscrupulous companies, the worst payday lenders out are also taking advantage of the check processing system, remotely created checks and payment orders that really can be generated by the merchant with little more than the customer's banking information and run through the check processing which makes it harder to detect and can be fraudulent debt to the consumer's account. These are purportedly authorized because in the fine print the consumer has signed an authorization. That is something that we think the Fed should take a look at in revisiting check hold regulations.

In addition I know Ann also brought up prepaid products. I think we are also seeing that many of these instruments that have been considered alternative financial services are becoming mainstreamed as their markets are maturing. Prepaid products are very different than they were even five years ago. Many of them are much more sophisticated and really are more or less functionally on par with a full transaction account. As you know the consumer financial protection bureau has issued proposed rules that will ensure those deposits will now have the consumer protections that we all take for granted on our regular bank account such as error resolution and disclosures and important to ensure that any of the check processing regulations are harmonized and updated as needed now that prepaid products are becoming a mainstream way for consumers to manage their funds.

And then finally I would just make a brief comment about National Bank Act preemption. Dodd-Frank in 2010 did amend the activity's preemption standard that should apply with respect to the preemption of state consumer financial laws and it is our view and the view of the consumer advocacy community that the analysis put in 2011 was incomplete and did not implement the changes under Dodd-Frank section 1044 that says there are only three types of scenario in which a state consumer law will be preempted. One if it has a discriminatory affect on a national bank. And two federal law that preempts and three if it significantly interferes with prevents or significantly interferes with the events exercise of powers as determined on a case-by-case basis, either by a court or by regulation in consultation with the Consumer Financial Protection Bureau. The states were on the front lines in seeing the warning signs prior to the 2008 financial collapse and many states were ham strung primarily by the largest financial institutions from exercising their right to protect their residents because of very, very broadly written national bank preemption rules. We do want to see that revisited because we think that a strong federal system can be good for consumers because again states the people on the ground are the ones who are seeing the potential problems first and should not be inhibited from ensuring what we don't have another systemic collapse like we had all too recently.

So those are the overarching concerns I have and want to raise. I will provide more details in writing. Thank you for considering our comments and keeping the consumer protection piece in mind because I believe consumer empowerment and protection can go hand in hand in this process. Thank you very much.

>> BARRY WIDES: Thank you very much. And Frances.

>> FRANCES ESPINOZA: Thank you. I'd like to thank you for inviting the North Texas Fair Housing Center to participate on this panel. And the work that we do at the North Texas Fair Housing Center we are seeing a lack of investment overall by banks in neighborhoods

where residents are predominately African American and Hispanic. First point when a bank makes a loan and the second is when bank forecloses and takes the property back under their ownership. Under the provision that the fair housing home loan data system which is 12 CFR 27. Under this provision banks may be required to keep a fair housing loan if the data shows a variation in the loans between people based on race or national origin. For complaints it is very difficult for the average citizen to make a complaint because there is no way for them to tell how their loan compares to somebody who is similar to them in regard to all economic factors except for their race or national origin.

And the second is the analysis of the data, the reg analysis can trigger a bank having to keep a fair housing log, but we haven't seen that this has happened in cases where we have seen discrepancies. The regs need to be stronger because it seems that the only repercussion for discriminatory practices is to keep the fair housing log. There really isn't anything else in the regs that tells me what will happen if that's found.

And, of course, the person or a fair housing organization like ours can file a complaint a discrimination complaint under the fair housing laws but this requires a lot of resources that aren't always available.

The second thing that I wanted to talk about was what happens when the banks take possession of the home after it is foreclosed and we have done a lot of research in this area. The regs address community investment and loans but what happens after foreclosure? We are seeing a difference in how banks invest in these properties after they take control of them. And these foreclosed neighborhoods that are -- what we did is we have looked at over 300 properties in DFW and what we found are a couple of things. In predominately Hispanic and African American neighborhoods banks are not maintaining the properties very well.

And there should be something that gets them to take this property as seriously as any property that they own. It has been really difficult for us to find out who owns the property, the banks are not transparent about that. It seems to change hands a lot. Sometimes it is in a trust and it could be a different bank that holds the trust and not even sure where to begin looking.

Of the 300 reports that we looked at we found some trends. We found that properties in minority neighborhoods were twice as likely to have holes in the structure. They were twice as likely to lack for sale signs and what that tells us there is no investment after the bank takes back the property in those neighborhoods. They are not even putting any kind of resources in to proactively marketing that property.

And so what we are seeing is these homes are being left unattended, vacant, and that is blything neighborhoods that are already lacking in investment. The regs should address not only what happens in the loan process but also like I said what happens after the bank takes possession. Because it still is investment. And then I wanted to close with I agree with the panelists in the first panel that said that the community reinvest act we need to look at it again and we need to figure out exactly what we want it to do because from our standpoint we are seeing in predominately minority neighborhoods we are not seeing as much investment overall as we are in other neighborhoods and what that means when there is it not investment there is not opportunity. There is -- there is check cashing places and not banks, like Bill said. There is not a lot of grocery stores. There is not farmer's markets where people can get fresh fruits and vegetables. The schools aren't as competitive or as good as in other neighborhoods. So, you know, we need the investment to make all neighborhoods have opportunities for all people.

Thank you.

>> BARRY WIDES: All right. I would like to thank the panel and very thoughtful

comments. At this point what we are going to do is see if any of our regulatory counterparts would like to pose questions or -- after we go through that then we'll take comments in the audience. Find out if there are questions.

>> I have something. My name is Gabor. Ms. Frances Espinoza you talked about CRA. There is a couple of aspects and we talked about the assessment we had earlier and I think -- I just want to probe that a little bit versus you talked about trends and marrying differences but you also spoke about the changes that you see in terms of being credited with a different foot print. How would that result in regulations or what would you suggest that show?

>> I will take a shot at it first. The Happy guy that spoke at the other panel,

(Laughter).

>> I'm pretty sure he has a rule markets an as he described, et cetera. We are statewide. If the Happy guy did not -- could not identify a viable, a CRA type of investment in his footprint, okay, what if he chose invested TMF with us having a statewide footprint which encompasses his entire footprint within the state of Texas, we stand ready to go in to any community with an emphasis on low to moderate income communities. We can prove that to anybody that asks and CDFI does ask periodically. So my comment towards that is an example that if he invested with us or participated with us would that give him some level of CRA participation credit even though it may not be specifically in the assessment area at the time. At least he is showing a willingness to try to get there.

>> I remember earlier you spoke about what's happening in the mortgage space and how should that relate to the assessments.

>> ANN BADDOUR: Just the main point that I wanted to make is that with a significant number of families though it is a shrinking number based on a statistics. Outside the banking system, like prepaid debit cards like Suzanne said their primary transaction and I think a lot of these companies envision that's what they hope these products will, not just a transitional product but something that people choose to use. It questions how we are looking at deposits in financial institutions as a way of assessing financial areas. Prepaid card provider that has a national presence can be using a national bank or a bank in one particular state but that financial institution under the current rules may not have an obligation to the bank in the community to where the goes deposits are coming from. Where deposits are coming from, so those communities can benefit from the capital they are putting in to the system.

>> You were saying first -- any specific aspects that you say --

>> FRANCES ESPINOZA: I don't have any specific aspects. It is not resulting what I thought it was supposed to result in which is more investment communities that need it more. And that are lacking investment. So I think, you know -- one of the other speakers I think was it Janie that talked about when a bank merges their CRA commitment then merges and so they are getting less investment in the community and that needs to be looked as well.

>> A point on that. We have seen a big donut hole around many of the communities that we serve in the Delta and rural areas. CRAs was -- came in existence when banks were banking. It was a dominate way people access the services that are seeing analysis and suggested those people have 30% -- 30% of people having gone to a bank in six months and that's only growing. And that at the same time certainly banks derive, large banks, typically more inclined to make large investments in community development organizations. They have larger CRAs on staff. And they are certainly driving profits from purchasing mortgages, credit cards, (inaudible). As well as mobile and a lot of transactions -- and then so but if you are not in the area where they have large bank presence (Off microphone). CRA credit, I have had several large national banks

when are you going to move in to Florida, when are you going to move in to Houston (inaudible) and how CRA where CRA starts.

>> I would just like to add, that was one of my points as well to underscore the fact that's what is happening. CRA the banks are not getting the -- their credit for an areas where they have people that are making deposits. So when they leave a community they have are no longer getting that CRA credit. They are getting that CRA in big cities where they still do have branches. But where they left and they still have depositors because of online branching, see ya guys and that's not good either.

>> You underscored the issues relating to branch locations. I would be interested in communities that you work in, your observations and your utilization of branches and are you seeing increasing reliance or decreasing reliance on branches for mutual services? How are the trends in the communities?

>> BILL BYNUM: It has been a fascinating dynamic to watch up close. As I said it's I have seen banks and some for good reasons. I understand we are regulated depository as well and we understand the challenges associated with bricks and mortar and maintaining a presence in the community. I have seen financial institutions slowly move and systematically position is the branch where it is less profitable and the branch closes. I understand the branch closing conversation is more about risk mitigation and profitable branch or it is losing money whether as opposed to CRA and the impact that it has on low income populations. And so as the branch may have been making profitable but not as profitable as their model, aspects in the shareholders expects it to be, so we have seen a large number, increasing number of branches close in communities and some cases we have been able to donate communities to continue to deliver services in low markets and as I said in one case we have seen banks put road blocks in to other financial going in those communities. They take the more profitable accounts and even though it puts a disproportionate burden on blue collar workers who can't take off during the day and go to a branch and make hour and a half round trip to do in bank transaction or who are not as comfortable with mobile or online banking. Internet access is still a challenge in some rural communities. So the dynamics are really put a burden on a rural communities and so incentives to help encourage banks to invest in a solution that ensures that there is some continued access to affordable financial services is important because another thing that we have seen is as those banks -- in the cases where the first inquiry about the use of the branch comes from a petty lender. And even more curious position.

>> Mr. Bynum I would like to follow up and I think you just answered the question. When you see a bank exit a community for whatever reason, as you discussed earlier, and it does provide stress on the customers there but -- but is it the payday lenders that come in?

>> BILL BYNUM: We have a high concentration, one of the highest concentrations of underbanked people in the country. In Louisiana and Arkansas and Arkansas prohibited storefront payday lenders but still have a large number of online payday lenders and check cashers and fill the gap but we have seen a significant rise in the number of storefront payday lenders in Mississippi as these branches close and even before the branch closes go in to minority, low income communities you see strips -- it is very easy to see nothing but payday lenders and check cashers and no bank branches. So incentive to begin encourage banks to lend and have a presence in those communities, if not invest in organizations (this conference is being ended due to inactivity. All callers will be disconnected.)

>> Thanks for a very informative and thoughtful set of comments. I have a comment which will --

>> You are joining your conference room. You are the host. Access is immediate. For a menu of available prompts, press the star key, 6 and the pound key.

>> United States is behind many advanced economies and even emerging market economies in terms of mobile payments and more ubiquitous access to payment system. At the Fed people tend to come and sit in our board room and said you should do something about and we don't have explicit regulatory authority over that as some other central banks do. After some encouragement we have decided to be a convenor and hold together not just small, medium and large banks but also consumer groups are right in the middle of that and the idea is to try to get together and imagine that effect, a faster safer, more efficient and more ubiquitous payment system because it seems like mobility payments can be cheaper and faster and also -- can be a good thing for consumers. Consumers want them as we discussed. Branch is 15 miles away. You save yourself a trip and if you are a bank it saves you having the bricks and mortar. Some emerging market countries seem like they are skipping the whole brick and mortar step. I don't know if you are aware of that. Appreciate your comment.

>> I saw your report the other day. It was very encouraging to see. We at a very interesting time and in some ways it is almost like a generational paradigm shift that's about to happen. Fed has been monitoring the use of mobile financial services. Although are absolutely challenges, you know, to those that are in underserved and very rural communities and accessing the Internet. A lot of people are accessing the Internet having a mobile phone plan. So that's where the possibility for financial inclusion come and the FDIC has the committee on inclusion. At the same time people do want the brick and mortar and I think the younger consumers are adopting this stuff and going with it. We are also seeing some wireless carriers providing more no contract plans that may be more attractive to those who are of more modest income and don't want to be locked in to a two year mobile plan but might be more willing to take on the mobile technology which opens up a whole world of possibilities but there are ways in which these newer technologies and mobile financial services could make it easier for somebody to deposit a check, and send money to their mom, do a lot of things that we take for granted if we lived in a more -- in a better served and centralized location. So I think it is really important to look at that. There is also -- there are newer technologies out there that will make our system safer and need to be monitored. Virtual currencies are becoming a hotter topic. I don't think that the thing about them being currencies what's interesting. They provide new payment platforms that could more securely transmit funds in a way that could reduce the likelihood of fraud and be safer and faster and near realtime payments could be a real at this tomorrow. Make sure our payment system is prepared to keep up in that regard as well.

>> Just related to that, I am very encouraged to hear this as a priority. More -- low income people, people of color actually have a higher rate of Smartphone usage than the population in general. It is a significant opportunity. Interesting to see Bill Gates in his letter talk about this being a priority but all his work is focused in developing country as a significant opportunity and if anybody knows Bill I wish they would tell him that. But there is a need here in the U.S. But not to discount the need elsewhere, but we have seen a -- we have a mobile app that's very intuitive, very user friendly for the population that we serve and over half of the users of our mobile app are in high distress, economically impoverished communities. We are encouraged about what we are seeing and I think whatever the regulators can do to encourage and give some latitude to banks, community banks and others who are looking to serve that market it may be a way for them to balance the cost of bricks and mortar and be innovative in reaching the markets. Banks have not served very well over the years but I think there a market,

reasonable bubble of property and sustainability can be achieved by using technology. We are also using Kiosks. I was talking to one of the largest banks in our region and they are still struggling with the same challenges. Video Kiosks, self-service branches, smaller branches with two people, how do -- what is the model, what the new model that is based on communities and technology is an important piece of the puzzle.

>> BARRY WIDES: If in is no other questions from our regulatory counterparts I would like to see if there is any comments from the audience and if so you if you could please step up to the microphone and state your name and organization you are with would very much appreciate it.

>> I am lawyer here in town in Dallas. The point I would like to make is we -- you asked for specific comments about regulations and 91 to 94 I was a lawyer with the OCC in Washington. And one of the projects that I worked on during that time was part 27 the housing home loan data system. I represented to revise it in 1994 and I asked the question at time why do we have this regulation. All the other banks have HUMDA. The OCC and national banks have HUMDA and Fair Housing Act. In 1994 I asked that question and in '96 the Grifa was passed. This is one area where you can reduce burden on national banks. The regulation I just went online and looked at it, the charts are exactly the same as they were in 1994. The regulatory references to reg C are to the Feds regs. They don't make reference to the CDFI regs and it is duplicative and I recommend that you strongly consider removing that recommendation. Part 27, hopefully in 2016 will say reserve. That's what I would -- that would be my goal. So thank you very much.

>> Friendly lawyer here but my name is Patrick Kennedy and I am a lawyer in San Antonio Texas and I have been representing banks for 35 years and also fortunate to represent a number of CDFIs, development entities as well as community corporations. So we have had a lot of experience in connecting the banks with public welfare type investments. Those experiences have all been good. So I guess my point would be to the panel and to the regulators that consider ways to increase the opportunity for banks to make public welfare investments. Those specific limits that are con strained from 12 USC 24 paragraph 11 defining what a public welfare investment is, setting a limit at 15%, that is a very, very vague definition. I would submit that there are a number of community focus banks that probably spend 60 or 80% of their time in the focus of investment or loans in doing things that would fall under the category of public welfare investments. So one of the suggestions that we would make is the regulators might think about defining specifics -- some of the specific investment limits. For example, small investment business corporation, community development financial institution have a separate limit. Community development corporation have a separate limit. So the other suggestion would be that there seems to be some differences among the agencies about whether investment actually includes a loan. So thinking about the investment limits which the OCC rules may go up to 15%.

Under Federal Reserve rules, for example, I believe section 12 C 208 just states 5%. Other ways to get there. But there is confusion that's created and then the difference between a loan and an investment and whether a loan is actually considered to be an investment under these rules.

And also I think the definition of what an investment is. Investment limits change over time, investments are returned. They earn revenue. Reported by the banks and banks capital (inaudible). So those are (inaudible). Also just want to re-emphasize the point that Janie Barrera made about EQ2 investments. There is an opportunity of banks to make investments in CDFIs and other for profit or not-for-profit entities. CDFIs are typically for profit. The exception of TMF which Victor has talked. They can use their leverage is through their unrestricted assets. Grants and earnings are the only way to do that. Broadening the ability to take equity like investments (Off microphone) would be helpful. Thank you very much.

>> BARRY WIDES: Okay. Thank you. We have just a couple of minutes left. Are there any other individuals? Okay. Thank you.

>> General counsel for independent banker's association of Texas. It is a plea. As you are all looking at mobile banking systems don't forget your Padre as across street at Federal Communications Commission. I don't know if you all have the ability to visit with them but the texting rules then also affect how banks can offer and implement the mobile payment systems and they can get really hyper technical on some of those rules. We have commented, for example, on the FCC proposal so that we can actually get text messages to get fraud alerts out. That would be a good thing. And we do need the FCC to cooperate on that. So I know that this is not in your bailiwick exactly but please don't overlook the fact that there are other rules and other regulators that significantly fence in some of the things that we have to do. Also, of course, FTC and the (Off microphone). Your panel said that (Off microphone). Thanks.

>> BARRY WIDES: Thank you very much. Okay. Gill, what are our instructions at this point?

>> GIL BARKER: I would like to thank all the panel members for your input and comments and responses to the questions that have come up and thank again for the folks in the audience that offered up constructive suggestions. Really helpful. Thank you for that.

(Applause.)

>> GIL BARKER: Thank you. So at this point we are going to break for an hour to -- for lunch and it is my understanding that lunch is being provided in the same location that breakfast was available this morning. So we will break for an hour. We want to start promptly at 1 o'clock. So please be back at 1 o'clock and we will get started with that third panel of the day. Thank you so much.

>> Thank you. Great job.

>> Thank you.

>> Thank you. Very good.

(Lunch break until 1 o'clock)

*****

>> Hope you enjoyed your luncheon. And we are about to get started with our third panel of the day, this is once again a banker discussion. Thank you very much for the bankers that are joining us for this part of the program. I appreciate that. The focus of this particular panel is on the categories related to securities, safety and soundness, and rules of procedure.

Our moderator James Watkins, Senior Deputy Director, Division of Risk Management Supervision for the FDIC in Washington. Jim? Take it away.

>> JAMES WATKINS: Welcome, and thank you, Gil. I'm delighted to introduce our third session today. We will explore the topics that Gil mentioned, such as securities, primarily relating to registered transfer agent type issues, the topic relating to money laundering which includes the bank secrecy act compliance and reports of crime and suspected crimes. Topics on safety and soundness, wide areas of industry activities covered under that topic. And then rules of procedure and regulations, including uniform rules of practice and procedures, resolution and receivership rules, recordkeeping requirements for qualified financial contracts and restrictions on sale of assets by the FDIC and other issues as well.

These topics cover a great deal of ground for banks, bankers, and frankly for bank regulators as well. To help assist us in reviewing these issues we are fortunate to have four very experienced bankers that have extensive back grounds and successfully leading banks and navigating the regulatory requirements and bank operations.

Let me introduce our panel members. Asif Dakri, is vice-chairman and CEO of Wallis State Bank in Wallis, Texas, 400 million-dollar minority owned institution with 11 offices serving the Houston and San Antonio markets. With recent expansion including Dallas area as well.

His family along with other local investors purchased the bank in 1991. The bank offers traditional banking services, focusing on commercial and small business lending, and as a SBA preferred lender as well.

Next he will be followed by Richard or Dick Evans, Chairman and CEO of Frost Bank in San Antonio, Texas, who for the past 17 years has been the CEO and Chairman of the institution, range over 43 years of experience with Frost Bank.

Under his leadership the bank has quadrupled in size and is one of the 50 largest U.S. banks at $27 billion in as else. He is on the Board of Directors of the -- in as else. He is on the Board of Directors of the Federal Reserve bank of Dallas and member of the advisory council in Washington and community and civic associations and activities.

Next he will be followed by Garry Graham, president and CEO of affiliated bank in Bedford, Texas, which Garry was previously a bank consultant before joining the bank. When it became insured by the FDIC in 1998, the $458 million bank has three offices located in the Dallas/Fort Worth area. Finally he will be followed by Alden McDonald, president and CEO of Liberty Bank and trust in New Orleans, having held his current position since the bank's inception in 1972. Under his guidance this minority-owned community development financial institution has grown from 2 million to 572 million and expanded partly through failed bank acquisitions and by the way thank you for that, Alden, to locations outside of Louisiana including Mississippi, Kansas, Missouri and Michigan, and Illinois. Also served on the board of a number of community regional and national entities as well.

Brief biographies of panel members are included in the information packages of today's program.

Each panel member will now address issues on one or more topics and we encourage any follow-up or clarifying questions after the initial comments from the panel members.

We are hopeful to have time to solicit comments from the audience. Now let us begin, Asif, if you would start, please.

>> ASIF DAKRI: Thank you, Jim. I realize we are the first panel after lunch. So people might be nodding off. I'll try to keep it short and sweet, so I don't bore anyone to death.

Let me start by thanking FDIC, Texas Department of Banking, OCC and Federal Reserve for having us. We appreciate you guys having us here and giving us the opportunity to tell you what we are seeing out in the marketplace.

I'm going to focus more on the items that pertain to me and my bank, specifically the safety and soundness aspects and anti money laundering BSA aspects of the panel.

We are a 400 million-dollar community bank in the true sense of the word community bank. We serve various rural communities, small rural communities and we also serve the metropolitan areas. We don't have a large staff. We don't have all the bells and whistles of the larger mega banks. But we do a good job of serving our community.

From the safety and soundness aspect of things, the few things that I believe could be changed to help banks such as ourselves would be, one, the exam cycle. I know the OCC I believe tried to amend this cycle to go to 18 months for a billion dollars or less. But I suggest we push that further.

I would like to go to a two-year cycle. We already are on 1 month cycle, but with the amount of information that is available through call reports and whatnot, I think a two-year cycle would be much more beneficial to us. There is so many audits we go through, month upon month, if it's not safety and soundness, it's IT, it's compliance, it's internal audits, external audits. Everything that goes on, I feel like we have an auditor in our bank every month.

If we can expand that to a two-year cycle, for the banks that deserve it, if you are a satisfactory bank, you should be able to extend to two-year cycle.

For the exam itself, the scope of the exams need to be more targeted. Right now, I know the FDIC and the state has attempted to do a risk-based approach to the exams. I do appreciate that. We had our state exam about eight months ago. The first time that I'm aware of, a examiner said we will be in and out in two weeks, and they were.

But they targeted exactly what was the deal with our bank. They didn't waste too much time on things that don't apply to a bank of my size, we are a plain vanilla bank. We don't have to get too involved in securities and other things like that. I would think if we can tailor those even more to the smaller banks, it would be very beneficial and help get the process rolling and get through what we need to get through.

Comment was made earlier in one of the panels, to avoid the trickle down of the best practices, and I am a firm believer that needs to take place, while the intentions of these laws are meant for larger banks and they are specifically written in there, I feel a lot of the examinations we have the best practices is push you had down to us and they require certain things that are meaningless to a bank of our size.

We do it to essentially check the box. I think we can avoid some of those, specifically we are a liquid bank, and we were asked to have a formal contingency funding policy. We had a contingency funding plan but no modeling of the plan. We were 33 percent of our assets were cash, and so I said, what is the point of this? We want to check the box. Okay. We did it.

How meaningful is it? I don't think it was meaningful at all. But we did it to satisfy the examiners.

Another thing that's been mentioned before, call reports simplification, I'd wholeheartedly agree with everything that was said on that. If it's too much to reduce 80 pages to a smaller amount for every bank, maybe we can establish a threshold, billion dollars or less or mechanism to determine if you are a traditional community bank, billion or less, you don't need to fill out every single form that is here.

On the lending aspect of safety and soundness, appraisal thresholds, the 250,000 de minimus appraisal threshold has been around for many years. Today's world, with all the public information that is available through websites, through county records, through other mechanisms that are there and available to the banks, I think you can easily increase that limit from 250 to 500,000 and be comfortable with what comes up.

Obviously, it's always the prerogative of the bank. They can always get a appraisal. But having that right and ability to make that own judgment call should be there. I recommend if we can move that from 250 to 500,000, it would also help us.

Amounts for loan loss, there has been some movement here from the FASB as regarding the new requirements for allowance for loan last, but I also believe here there is a need for simplification for smaller banks, under a billion dollars.

I'm a C P.A. I've been through this. I understand what FASB is doing. I understand how it is but at the end of the day, this is still a estimate from management. What happens, I'll be a hundred percent honest, what happens in banks like my size we know what our allowance should be. We play with the FASBs and adjustments, to make the number be able what we want it to be. Nobody will tell you that but that is what happens.

(chuckles).

Because I know, if I go by the book, it is going to be a number that is too low for me. No examiner that I'm aware of ever told me why don't you take that to income. It's important to have simplification. We need to make sure the banker is still in the community bank and our ability to know our own portfolios is still adhered to and listened to.

Again, numbers are numbers. You can manipulate them however you want. But ultimately, there has to be reliance on what I know and what I can do.

Another small thing, CRE monitoring thresholds, the 100, 300 percent thresholds, is not really set in stone, but I would recommend that if we can remove owner occupied construction from the hundred percent bucket that would help us too. Many of the loans that we have are owner occupied, but they are in the construction phase. They are building their store, building their warehouse. It fits into the hundred percent bucket which is erroneously inflates our numbers. If that can be looked at, that would be appreciated also.

From the BSA, and anti money laundering side, I talked to our folks there. There were a few things they want us to look at, inconsistencies they believe. Monitoring instruments log, that threshold is set at 3,000 to $10,000 and has been around for a long time too. The inconsistency they see is that they are looking at every cash transaction over a thousand dollars anyway, and then two, CTR is only triggered at $10,000.

Why have a duplicate task of recording these monitoring instruments when they are only between three and ten. It seems to be that there should be some consistency between the numbers, either the same CTR or some other mechanism to look at that.

Speaking of CT Rs, that is another area we believe that we need to increase our limits. The $10,000 limit has been around again for decades. It needs to be increased. We believe at least, to $20,000 based on where, inflation has gone over the last 20 years. We follow 700CT Rs a month. When I ask our people if we increase it to $20,000, it would reduce CTR by 44 percent. The reason we do a lot, we have convenience stores and retail stores that we deal with. These are customers that have routine deposits day in, day out. This leads to the next portion, exemptions for CTRs. A lot of regulators say, exempt some of these people. Unfortunately, the excluding factors for having a exemption preclude us from doing that. If you sell a money order you are not eligible to be exempt. If you are a MSB, sell money order, you can't be exempted. We can't exempt these customers. Even though they have been customers for 20 years, we can predict they are going to deposit this amount, we know what it is but we can't exempt them because the rule states if you sell a money order, I'm sorry, you are out of luck.

There was also a comment made about remote deposit rules, the review aspect. We fully agree it's overburdensome, and not needed in today's world.

Secondly, there is a comment made on reg D, about money market and savings accounts. The fact that you have to monitor these. I completely agree. That is a rule that needs to be adjusted and changed in today's world.

I have a couple other small items. Then I'll wrap it up. One is branch relocation versus open and close. 1,000-foot rule, we do live in Texas, you don't normally make it out of the parking lot in 1,000 feet.

I think we need to revisit that, that basis of that rule. In regards to new branches, I think we can do away with some of the applications. If you are a highly rated bank or satisfactory rated bank and your C R.A. compliance is good why do we have to apply every time to open a branch?

There should be a mechanism there. Lastly, this is an IT issue that my IT people asked me to ask, specifically here, FDIC requires us to send secure E-mail with customer information included in it.

We are top 50 in the country, SBA will not accept a encrypted E-mail. So we are put in the catch 22, we are stuck in the middle, where FDIC and states say you must send secure E-mail with customer information. I have the SBA saying don't dare send it to me because I won't open it.

There needs to be some communication between the two here, where we can figure out how to do this appropriately. I think the FDIC did say, why don't you tap on the button where you say you don't have to secure the E-mail. Then I'll get criticized when the examiners come, saying you are giving people the option to either encrypt or not encrypt.

That is all I had for now. But I will end with one comment. I think my biggest issue I have right now is a lot of these regulations are really taking the community banker out of their community.

We are not able to do what we can do best, which is know our customer, know our communities, and know what we are doing. The regulations are getting to the extent where they say, yes, you might know your customer but you still can't do anything. You need to follow these specific rules. It doesn't work with the community banking model. It takes away the money from the people that need it the most.

It is something that needs to be addressed, in my opinion. Thank you.

>> JAMES WATKINS: Thank you very much. Dick?

>> DICK EVANS, JR.: Thank you for this opportunity to be on this panel today. I'm going to make a few comments about why the frustration is so high between banks and regulators, and about regulation versus banking fundamentals.

First let me be clear that I believe history has shown and will show that community banks have been a major factor in the United States being the economic leader that it is in the world. If you look community banks are the foundation of free enterprise and capitalism and as I go through and demonstrate some of the limitations, we will find that maybe that person that is in the middle of western Montana, west Texas, Kansas or any rural area will maybe be the next Apple computer company, Exxon Mobile or you pick someone that you know will have that opportunity. My views come from 50 years in this business, starting with the OCC for a number of years, now 44 years with Frost, four years I've been on the advisory committee with Chairman Greenspan and Chairman Bernanke six years here, couple years on the San Antonio branch, all were to represent community banks and to participate in open debates, both with the fed chairs and the board to defend the importance of this community banks and American banking. Unfortunately, with very little success.

Today, the future exists of community banks is at risk, for the banks they are at less than one billion dollars in assets they do not have enough scale to cover their compliance cost.

Today, we have 5,852 banks in this category. They represent the most active segment of consolidation. In 2008, there were 6,012 of these banks. So 160 of them have grown beyond a billion dollars, merged or failed.

Additionally, regulators have chosen to draw lines in the sand, zero to ten billion, 10 billion to 50 billion, 50 billion on up and then a separate category for the too big to fail or in other words, that's how they have been addressed. Again as with all regulator solutions, they come as mathematical solutions or models, rather than human solutions and culture.

Yes, the head regulators says, I know this panel and others as I've experienced have given instructions to examiners to move around, and be sure that they understand these different lines of responsibilities.

But these examiners move around to different size banks, and because of the complexity of the rules, examiners in the field tend to fall into a pattern and stick with it. Simply stated, water flows downhill.

Unintended consequences of this regulation is to limit growth. I believe that growth in an economy is good. I believe that growth in America is good. And these regulations are limiting growth.

Some other results, it gives fewer choices and slowness for consumers at a higher cost. Ultimately, the consumer pays for it. Let's talk a minute about money laundering.

I do not know any and it does not exist, any banks that participate in fostering drug dealers, terrorists or any other illegal activity. So, we bankers spend millions of dollars, following pages of laws, filling outs forms and send them off to some bureaucratic office. It's totally form over substance.

However, for an individual bank, the unintended consequence and the risk is that an examiner may find one paper mistake and it exposes the bank and can lead to the bank's reputation being in question, and can lead to the lack of confidence of depositors and can eventually put the bank out of business.

Zero-tolerance never solves any issues or problems. We have got to remember that depositors deposits in banks don't belong to the bank. They belong to the customer. And they only stay as long as there is a truth, a trust and a good reputation with that bank and it relates to soundness, safety and soundness. And safety and soundness is 90 percent not making bad loans.

The money laundering, what it has done is put banks and extended them into the law enforcement business.

Switching now, one of the objectives of Dodd-Frank is to deal with too big to fail. It's interesting these banks are even bigger today and still too big to fail.

Human capital and culture would not be addressed. No, instead we have do the focus is all on financial capital. Regulators should consider the human side, the culture side, and understand what regulation, what relationship banking is about, and not just about capital.

I also believe that customers should choose the winners and losers, not government. Banking is about people serving people. It's that simple. Dodd-Frank is about rules, models, enforcement, nothing about addressing the cause, the culture, the values and ethics in this business.

In our industry, there's been a lot of talk about the stress test. It's interesting for Frost we estimate that the stress test directly and indirectly costs us about $2 million a year.

Let it be clear, we are totally committed to follow the laws of the land and regulations, because we totally understand that is how we stay in business. That is our license.

However, while we have tried to find value in the stress test and helping us run the bank, to date, we have found none. It's interesting that I experienced during the '80s, quite frankly our experience has helped us most recently in the downturn of oil prices, not the stress test.

A comment about the shadow banking system, and technology companies. This is a rapidly expanding, for both consumers and businesses, are embracing the nonregulated alternatives.

Regulators are only addressing the low-hanging fruit, the parts of the banking industry that you already have authority over. Dodd Frank was a gift to the shadow banking system and technology companies.

A word about the generation Y which feeds into this. Those are the individuals that are 18 to 34 years old. Research shows us that this group is very negative on the perception of banks. Also, this group by 2020, are projected to have 50 percent of the working population.

At the same time, we are overregulating banks, this gen Y group dislikes, the shadow banking and tech companies are poised to sweep up and take this business away, and they are doing it very well every day.

As banks identify and prioritize their risk factors which we should, regulatory risk is consistently at the top of the list. In this case, it is a risk without a return.

In closing, the unintended consequences of massive rules and regulations are significant and widespread, and will be seen to participate in the next crisis. It's interesting that while Dodd-Frank has been positioned to be the panacea to keep us from having another serious crisis by those in Washington, it is possible it will be part of the cause.

If Washington's objective is to bring this system down to five or ten banks such as we see in Canada, it will be accomplished over time.

Thank you.

(applause).

>> JAMES WATKINS: Garry?

>> GARRY GRAHAM: Easy to follow that, Dick. (chuckles).

Thank you for the opportunity to come visit today with you folks, very seldom in my career have I had the opportunity to ruin my career in ten minutes but I'm going to give it an effort here (chuckles).

I think if there is anything that came out of the events of 2008 that we learned, that there are those that truly present systemic risk and those that don't.

Community banks are vital to local economy. That has been talked about already several times today. Very vital to the economy, create a 80 percent of the small business loans, etcetera. But we don't present systemic risk.

The large banks present systemic risk. We don't. Community banks don't really present a threat to the insurance fund, I mean after the events of 2008 it ought to be pretty clear.

So maybe it is time to rescale and rethink about some things. In my opinion, large banks traded customer contact for automation 40, 50 years ago. And they went to the technology route, and they lost touch with their consumers. Everything had to fit into a credit box, a credit score, and that is how they made loans, whereas community banks are more down to earth, right there with the people in the daily woes of life, and frankly we are the George Baileys of it's a Wonderful Life. We live with those people, we die with them. We see them every day.

They are outside of the credit box and we have to think outside of the box in order to work with them. Large institutions, that can't happen because they have to manage those institutions through stringent policies and procedures.

But a fact of life is you cannot policy and procedure everything you do. I'm sure you can't in the regulatory side and we can't, either. As a result we end up making loans to people that don't fit into those credit boxes. That is why the large banks miss those loans and don't do them and why we end up with 80 percent of those loans and the big banks end up with 20 percent of them, when they have a specific credit-driven program.

The thing that we have going for us, community banks, we are nimble. We can make a local decision in a timely manner. We play a vital role. Again we don't contribute to the systemic risk, although we are vital to the system. We do contribute to the economy.

I always remind people of who we are not. We are not the folks that as community banks that run massive credit card operations designed to earn 20 percent plus yields and saddle people with never ending consumer credit. We are not folks that ran out of quality mortgages to make and we had to start manufacturing them or enticing people to manufacture mortgages -- that is not who we are. We are a George Bailey.

I've had the privilege in the honor of my career, I was born in a humble household, knew nothing about banking. I was mentored by a man when I was involved in scouting and that is where I got the opportunity to start banking in high school. I had the opportunity to serve with the OCC for six years in Denver, Colorado, and Fort Worth, Texas. Got back down to god's country here.

And then I had an opportunity to move on to a larger institution, and then to a small community bank. I chose community banking over the other banking markets simply because it was where the rubber meets the road. It is where you get to see the change you make in people's lives, etcetera. You had the opportunity to help people. Some of that has been taken away through the extensive regulations.

We can no longer reach into the community and make a loan on a home loan, because if we make a mistake in that decision, helping the wrong person out, then it's our fault. There is a price to pay for that.

I think community banks are extremely challenged in the future. I think there's no mystery that, I came back from a conference where 3 percent of the banks are going away in a year in the community bank sector.

I think that there are tough decisions to make in the community bank sector. It cannot be we are a hundred million dollar bank anymore and be viable. The regulatory burden has grown too much. We have grown our institution from a hundred million dollar bank in 2009 to about 500 million. We have had to add capital, raise, be creative, do things to add critical mass to afford the compliance function.

When I first started in the banking business, we started Affiliated Bank we had 8 million in assets, 2 million in capital. We were a converted credit union. I can easily measure back then, there was only four employees. I was one of them. We can easily measure back then the effects of just the on-site examination process, because I was the only guy that was generating business for the bank. Loans, I had to generate them, had to work 'em up, present them to the loan committee, make sure they got closed. We had four people.

Through that process, whenever I have examiners come in, I can show you on a scale every time they came in, how much life had sucked out of the organization just because of the dedication of time.

Now, five years ago, six years ago we were a $100 million bank. We had grown, added capital. We had 25 employees. Now I'm a 500 million-dollar bank and I have close to that many compliance people, IT people, and appraisal review personnel.

The task has grown on a regulatory burden and it would be hard as a small institution to achieve any type of return on equity to encourage additional investment.

Since the great recession, there has been a cascading volume of regulations coming down, day after day, year after year. Quite frankly, guys, our size don't have time to make comments. Much less keep up with it all. It's very complex, and just because it's published in the federal register doesn't mean people have time to look at it. We are trying to run the business every day and stay ahead of it.

I look at the administrative burden that's grown at community banks, we have 75 percent regulation, probably 25 percent marketplace with the cyber crime, we have to be more vigilant in those things. But there is certainly a burden there.

The end result of all this is we have less time conducting our business and serving our community, where the rubber meets the road, and more time in the administrative process. I would invite anyone to -- our audit committee process, I'm amazed, I'm not that smart but I had to hire smart people to get around that. It is amazing what we go through from the best practices, etcetera, to checklists, risk assessments, all of that, in the examination process.

I mentioned this to someone, I own rental properties, small critical mass, not much, and in those when I do my assessment of those, I owned them for 20-plus years, I find that I spend two months of my rents' pay on the property taxes, I pay the government two months of my rents. I pay the insurance company another month of my rents. I pay my property manager because I don't have time to manage them another month of my rents and I pay for upkeep, maintenance, log care. That is three plus months of my rents, Garry is left with five months of rents to do something with, whether I put it in my pocket. I made the decision to sell them. That is what you are seeing in the community bank sector. The burden got so high, that the thought of crawling up that mountain again is difficult.

While I'm optimistic for the business model we have in our bank and excited about our future, I think overall I have to share Dick's comments on the fact that community banking is being weeded out.

Enough of that, I guess. Anyway, specific changes regarding the regulatory world, I have to mirror -- I forgot your name, sorry, but I mirror what you said about that. Two or three-year cycle is appropriate. We don't present a systemic risk or to the insurance fund, and we are vital to the community. There are so many off site things with the extensive call reports, audits to verify that, the loan reviews, the compliance reviews, the IT exams, all these functions we have done to ensure the quality and integrity of our information, that it seems to me like it would be appropriate to lengthen out the cycle. Since we don't present a systemic risk or true risk to the insurance fund, it would be appropriate to push those resources someplace else.

I join the OCC in 1977, while I was in college and then got out, served as a examiner for a while. At that time there was a large transformation in the OCC from being an entity that went out and counted cash in every bank, sealed up the vaults, balanced bank records, etcetera, to adopting more of a top/down approach. It was a appropriate approach, top down, look at the management systems, go down in that regard.

I think that that is, that has largely been successful in the regulatory process, and I think with all the data integrity, I think it would be a open opportunity to lengthen the exam cycle because we have so much data integrity now.

Obviously you will miss somebody sometimes and someone will stay in but there is enough money there to cover those anomalies.

My specific wish list, what I'd like to see the regulators address, is I'd like to see expanded time frames between the exams. I'm 57, and it seems like I woke up and I thought I went to bed in 2013 and now it's 2015. Time passes very quickly.

I don't know that, how much meaningful tangible results are derived from a annual exam.

Also, mirror one of the commentators earlier, I think it is important that the regulatory world realize it's a shrinking community bank industry. Most of us are developing our own business models, those of us that will survive are developing our own business models. It is going to be more important to focus on business models of the specific institutions, how they are accomplishing those objectives, rather than a bank is a bank is a bank.

There is a lot of changes going on in that world. As community banks we are adapting to the new normal, which is all the new regulations, consumer regulations, while we may not always agree with them. But we think that they hurt our people in the community. We will comply, we will do what we have to do. But there is a new normal that is forming out there.

Such as past due ratios on residential loans with the CFPD rules on the way you collect loans, there would be a new normal in past dues and it would be higher, because it's baking the cake.

Stay in touch with the community. I know that is what these outreach sessions are all about. I think it would be important. We constantly will host or have the opportunity from some of our vendors that we use in the business, to study the real estate market, which is a focus area of ours. They give presentations. It would be nice to see examiners come to those. It doesn't cost any more. I'd like to see them come to those, so they can see what goes on in the marketplace that we look at. That would be helpful.

I think there could be a change in the appraisal regulation, couple aspects. One, de minimus rule, that has been out there 20 years. I would certainly welcome seeing change in the discounted appraisal rules, because we run into the situation where once we get a fifth house building in a subdivision we have to have our builder pay for a discounted appraisal.

So we have four spec units in the subdivision, we get four individual appraisals and then when the fifth unit is presented to us, we have to get the $2,500 appraisal which does not flow well. We usually send that loan to some other bank.

But it would be nice to see some consideration of that. One thing that I've always thought about for a long time and we have never, use the ombudsman, hope to never use the ombudsman office but that is a function that could be expanded to include people that have been on this side of the fence more, instead of well regarded, just well regarded regulatory examiner, find people that have been on this side of the fence. Let them have input to the process. Let those same people have input into the rulemaking process, whenever there is rule changes coming up, because there is nothing like having white walls in the room on some of that.

I'll mirror comments on A triple L. Most of us get to a point where we are not sure what the AICPA wants but from our experience we know what is comfortable.

In summary, I have read over the years various articles and comments coming from the regulatory world, industry analysts, that basically talk about the size, the community banks are, by their nature, a undue burden on the banking system, because there is an inordinate amount of cost in the regulatory process allocated to that.

I think that there ought to be some ways to change that, because I don't think it presents a systemic risk, that at one time was perceived.

That is really all I have.

>> JAMES WATKINS: Thank you. Alden?

>> ALDEN McDONALD, JR.: Thank you very much.

Garry, I'm not going to try to wreck my career in ten minutes. I'm going to try to suck up a little (chuckles).

First of all, thank you for giving me an opportunity to share with you some of my thoughts on the safety and soundness section of this panel discussion.

I would take a different flight in trying to get my point across. I want to first of all lay the groundwork, and this is really truth, a lot of regulations that has come down to financial institutions, in my opinion, has been very good for the industry as a whole.

It has been very good for the consumer as a whole. I've been in banking 48 years, 42 at the same bank. I've had an opportunity to experience the ups and downs, the different economies, and also a change in the way things are done, both from the regulatory side and from the banking side.

Years ago people would ask, do you know what FDIC stands for? The older bankers will remember. Forever demanding increasing capital. I think you have a new name today. And it's forever demanding increasing compliance.

You have heard not only from this panel but from two previous panels, the cost, the heartburn, the inefficiencies that regulation or increased regulation is causing community banks.

I can honestly say that I have witnessed the regulators reducing regulation. But on the other hand, I've also witnessed each time you have reduced regulation, somebody else increased it three times.

I think the real problem is, you guys are working very hard, and you are listening to the bankers. I truly believe that. However, there are agencies and other forces that are sending additional regulations down, which is affecting community banks both through cost and inefficiencies.

I'm going to hold this piece of paper up, because it was very interesting. My mother-in-law received this in the mail. She said to me, she is 91 years old, she said what do you want me to do with this? I said I don't know. This was for her IRA account. It didn't require a signature. It only required the bank to mail it out. No return of anything.

This here represents a few sheets of paper for a disclosure for the application on a real estate loan.

Now, Chairman Gruenberg, I gave you a packet of compliance stuff back in October for a real estate loan.

I'll ask everybody in this room, when was the last time you refinanced your home, or you purchased a home? And how many of you read all of the documentation that was given to you? The simple fact is, the compliance and what you are attempting to do is very good and should be done. But I think perhaps, no offense to lawyers, but we need to find a way to simplify the message.

The information that you want to give the consumer makes sense. But we have to simplify the way that we give them the information, so they can understand it.

Now, I am going to take the path of the area of change that I'm recommending, which is not necessarily in concert with what I've just spent the last five minutes saying to you, but I'm going to give you an area of change.

I'm going to try to explain why, and I'm going to attempt to tell you how to, those of you who know me, you know I am not bashful about telling you how to.

I am going to zero in on the exam frequency. I say it should be ten years. Do I have your attention? Two years, look a hell of a lot better than ten years. Now that I've put it in perspective.

Two years is not a bad time frame. What I'm going to do, I'm going to walk you through what happens. You already know this, but I'm going to try to put some time out with each step.

We get a telephone call stating that we are going to have an exam in a period of time, maybe 30 days, 60 days, 45 days, whatever the number of days looks like.

They send us a list of maybe 150, 200 questions and things that we have to prepare for the exam.

This is very good. I'm not complaining about it. But it takes time away from the staff each step of the way. And I think what you have done with an exam process over the past years has been very good. So this is not a criticism. I'm only attempting to show how much time it takes the staff to do the preparation, and why my suggestion is to go to a two-year minimum for an exam cycle.

We send you a list of our loans. You dump the loans into the computer. And you have that list from previous exams.

We prepare all of the information that is requested, and that involves the operations area of the bank, the loan department of the bank, the accounting department, and it basically takes a number of individuals that 30-day period to sort of accumulate the information. It's not a straight 30 days, but off and on, they have to within that 30-day period gather the information.

Then the examiners come on site for anywhere from two to three weeks. So chalk up another 30 days for easy math.

From that point, after they leave, there is additional information that is requested so they can finish their write-up. That is another 30 days of fooling with the examination procedure.

Then we wait for the exam report, anywhere from 30 to 60 days for the exam report. Then we have to respond to the comments in the exam. And that may go back one, two, three times back and forth. So that is another 30 days of fooling with the exam.

Then we have the Board of Directors audit committee, which will review the exam and do the follow-ups, which maybe is another 60 days.

That process, we have been fooling with the exam process for six months. That time period that I give you makes up about six months. In between that time, we have to spend a lot of time reviewing the new changes of regulations and compliance that is constant. We do not have a whole staff, as one mentioned, to provide comments on all of the issues.

So in between everything, we have to stay up with the changing regulations and policies and procedures. Then when we finish understanding that, we then have to plan and do the training of our staff, so that for the next exam we are not cited for noncompliance.

As mentioned, in addition to the exam, we have a board audit committee. We have --

>> We are going to have two more minutes.

>> ALDEN McDONALD, JR.: Internal loan review, external audits, internal audits, compliance audits, IT, etcetera. We have to remember that one size does not fit all. So the exam process should take perhaps, you should take a look at overall. So how to do it? I think the easiest way to do it is through the electronic data that you already collect.

You have the UPBR that you collect. You have all of our loans on your system. With the UPBR and the call report you could look at my capital on a quarterly basis. You can look at my asset quality. You can look at management by way of looking at the P and L, the allowance for loan loss, the delinquencies, past dues, you can look at the earnings, you can look at liquidity.

You literally, looking at the bank on a quarterly basis, and in that quarter, we have had review examiners to call and ask us about certain changes.

So, in the whole process, we are monitored, and it would save the banks a lot of time if we move the exam process from the one-year cycle to at least a two-year cycle.

I have many more things I wanted to talk about. But because we are out of time, I'll be more than happy to talk on the sidebar. Thank you very much for giving us the opportunity, and I enjoyed working with the other fellows on the panel. Thank you.

>> JAMES WATKINS: Thank you very much. We turn it back to you now for time purposes?

>> I think we have time for maybe one comment or so, or any observations from the

audience? (pause).

>> GIL BARKER: Okay. Well, we are going to take a extended break at this time right now. So according to the agenda that you have got, we show that we have a break planned from 2:00 to 2:45.

So we have been running pretty hard up to this point in time, so it's an opportunity for you to make some phone calls, to the extent that you need to, to refresh. I'd ask that you come back for our fourth and final panel discussion at 2:45 is when we will reconvene. Thank you so much.

(break)

>> GIL BARKER: We have a substitute for Governor Powell. Anna Alvarez Boyd has joined us. She's a representative from the Federal Reserve Board in Washington, so she is director -- Senior Associate Director. So she'll be sitting in for Governor Powell. So the fourth panel that we've got today will focus on the capital regulations, consumer protection regulations, and directors, officers and employee regulations. I'm very pleased to introduce our moderator for the panel, who is Maryann Hunter. She's the Deputy Director in the Division of Banking Supervision and Regulations with the Board of Governors, the Federal Reserve System. Maryann, I'll turn it over to you.

>> MARYANN HUNTER: Is that on? Yes, well, and thank you all for returning from our long 7th inning stretch, but we promise to make this a very dynamic panel, right, panelists? In order to finish off the day strong. I'll just begin very quickly, Gil mentioned the regulations we're focused on here, the capital regulations. Those related to officers and directors, and that includes things like limitations on extensions of credit, disclosure of financial information or management interlocks type of issues, regulation, the limits on borrower -- on borrowing by officers and directors. There is CRA, and I think this is our opportunity to get a banker's perspective on some of the rules and issues that we heard in the earlier panel, and that was a great discussion. That was the basis for our discussion today. And then also some consumer protection regulations, which could include things like fair housing and fair credit reporting, flood insurance or other types of consumer issues.

Then I'll turn to introduce our panel members. First on the panel, and I would also refer you to the longer biographies in the material that we have, but first is Drake Mills. Drake is the Chairman, president and CEO of community trust financial Corp., $3.6 billion holding company and operating in Dallas, Houston and northern Louisiana. That's correct, and in addition we have Joe Quiroga -- I'm sorry, Quiroga, close enough. I've been practicing and I messed up on my big moment, president of the Texas national bank in Mercedes, Texas, and Joe mentioned to me that he took over a very small bank and made it into a slightly larger community bank, somewhat larger community bank, but I noted in the biography information that bank was chartered in 1920, so it's made it through the Great Depression issue the 1980s, and our most recent events so I'm sure you'll have interesting information to share with us on the panel.

We also have Patti Steele, president and CEO of First Volunteer Bank, in Chattanooga, Tennessee, and also with many, many years of banking experience, an $890 million institution that serves Tennessee and northern Georgia. And then finally David Williams, Chairman and CEO of Centennial Bank in Lubbock, Texas. That's a $750 million commercial bank, and it's also a fed member, and I would say a fed member bank but you also have involvement in another bank, a national bank in northeastern New Mexico, so have the perspective of working with multiple agencies to share with us. All of our panelists have decades of banking experience so we're eagerly waiting to hear what you have to offer. I'll turn it over to you Drake for your remarks.

>> DRAKE MILLS: Thank you for this opportunity and look from afar in the back of the room and I almost want to apologize because it almost seemed like you were getting ready for a root canal as this process was going on. We are a fast-growing institution. I grew up in this institution as a retail bank and it's one of the most disturbing aspects of that today is that 1.8% of our portfolio today is made up of consumer loans. We are going through the -- the unfortunately task now to -- unfortunate task to determine whether we want or can afford to stay in the consumer lending business and that opens up the door for many other issues. So as I approach the topics today I thought I would stick with a couple things that have bothered me over the years, and the first is the Fair Housing Act. It's always been confused as you look at regulatory burden and how we could reduce the cost of compliance, and let me stop there for a second, because in 2014 our institution, which is about 3.7 today, increased our compliance cost by $835,000 in calendar year '14. A lot of that is directed by BSA and obviously, I understand the issues there, but a good portion of it was consumer compliance, a business that continues to fall to the wayside. My issue with Fair Housing Act is that the Fair Housing Act and Equal Credit Opportunity seem to be a position of where we could merge those two regulations into a single regulation, and I know that the Fair Housing Act applies for housing purposes, but when you look at the applications of both acts, when you look at the prohibits of discrimination of both acts, and you look at the prohibitive factors of both acts, especially from a fair housing standpoint, it picks up some strength through the ECOA. It's an area that as you start to look at the dollars involved in reporting and the compliance issues that are involved, it just opens up, I think, an opportunity for that -- and I'm sure it's been looked at before, but this is an area that makes sense to me as a banker.

Next, it gets up to the monthly activity report requirement. Another area that maybe simplicity rules me too much, but when you look at the monthly activity reporting requirements for national banks and then state nonmember banks and then what the requirements are for member banks, it makes a tremendous amount of sense to me that we should be able to modify the monthly reporting requirement or consolidate it under reg HMDA, where we could again take some of the requirements for manual processes that we have to go through. In other words, completed applications. If we're using a Freddie Mac or Fannie Mae application they have 20 requirements on those applications that are included and the bank, all we have to do is go through the monitoring and completion of the loan process, but it we choose another application, we have to apply those 20 factors and then we have to go through a number of other data collection or points that we have of completion. So it makes it extremely difficult from a compliance standpoint to meet all those points. So, you know, if you look at opportunities to modify that, I hope that in some cases that's a chance for us to simplify regulation and make it so much more, I guess, affordable for us to maintain these businesses.

Moving into Reg O, just a couple of comments. I tried to touch on situations where we've had examples recently that affect us, but loans requiring board approval, when you look at Regulation O and the age of it, it seems like it would make a tremendous amount of sense to increase that threshold from 500,000 to a million. I realize our size probably -- and the number of directors that we have, we unfortunately have 24 directors and probably need half that many, but still we have a lot of activity in that area. And also the level limitation alone as to executive officers at 100,000 seems to be significantly outdated and would suggest maybe a 2 to 250 threshold there. Obviously those are excluding of loans secured by dwelling and education, but we've recently had a situation where we were trying to recruit a BSA officer and ran into some Reg O issues because of some lending we had to pick up and get someone else involved from a bank and bank standpoint to be able to accomplish that and this is strong credit that if it would have been a $200,000 threshold would have saved some time and energy.

Okay. Moving into CRA a little bit, one of the big issues for banks our size is we have escalated into a little bit more difficult than when we were a community bank. And just for a quick history, this is my 31st year, starting with a $13 million bank, I was the 7th employee. Went to 2,000, I was named CEO, we were 190 million and the balance of that for the most part has been organic growth. So shifting CRA has been a very difficult growth pattern for us, because of what -- what CRA used to be and we're all things to the community we serve. Community development loans is an area, especially a loan for nonprofit area not secured by real estate that's less than a million dollars, truly meets the definition of community development loans but must be reported as a small business loan or -- small business loan or small farm loan. It can't be reported as a development loan. In many communities million dollar plus loans are hard to come by, especially when you -- I'm not saying you're reducing from a safety and soundness concern but you're looking at opportunities to increase that lending activity. This is an area that I've asked questions and still do not understand why that would not be included as community development loan, just an opportunity, I think.

Data collection and reporting requirements, my thought is to simplify a large bank in reporting requirements. What we have to go through to collect data for commercial form -- commercial and form loans that are categorized under RC-C2 as loans to small businesses, we have to go through after that and the point I'm trying to make here is that it would appear that there should be some opportunity to create the same type of reporting that's -- that's required under the call report and match that with the same reporting we have to do in our annual March 31 CRA reporting loans to small businesses, because once we can take the RC-C2 information, but then we have to scrub that data, and that data -- that scrub process is a very manual process. We have to go through and extract loans secured by residential real estate, new versus renewed, loan location, HMDA reporting loans must be deleted unless they're multifamily dwelling. This is the only category I could find loans that can be double reported from a HMDA and CRA standpoint. Nonprofit. Again, in areas that would seem we could take the data we collect and get out of a lot of manual process, and where that manual process comes from is that -- I hope that's not telling me to stop, for some reason. But it is -- it's difficult to compare the CRA report back to the call report for accuracy because the call report requires outstanding balances and is filed quarterly and CRA requires that loan amount and its origination amount and new funds loans one time a year, and so that manual process to go back and get that done is a pretty good burden.

So anyway, outside of that we -- I'll get to flood insurance, which is a big issue, obviously, in Louisiana, because Louisiana has one of the, I think, only or few working coast, and what I mean by that is a tremendous amount of people depend on that coast for their homes and for their employment and for the security of their family. And I realize the feds flood regulation closes (inaudible) the statute so there's not a whole lot we can accomplish here but I think we're asking for better guidance on flood changes made in bigger waters in 2012 and homeowners flood insurance affordability act in 2014, guidance is needed to escrow provisions, forced place insurance provision and insurance value provisions. This guide in the past has been obtained in the blue book or the mandatory purchase and flood insurance guidance, but apparently FEMA is not -- or is reluctant to take it on, updating that as well as maybe federal banking agencies appears to be reluctant. So what's the opportunity for FEMA and the regulators to work together to give us this much needed -- much needed guide.

At this point that touches on the few areas that I wanted to make comments on, and I hope I was specific enough and would be -- would welcome any questions.

>> MARYANN HUNTER: Well, thank you. Joe, do you want to --

>> JOE QUIROGA: First of all, good afternoon, thank you for the invitation. It's truly a pleasure to be here providing my experience and insight into these important topics. But let me start out by saying that although this first topic is not something that can be addressed by the panel here, I just want to go on record as saying that I think it is a little odd that, you know, part of the burden that we have as bankers, a lot of the big burdens that we have over the last couple of years is related to CFPB, and them not being here to at least listen to some of our concerns is kind of a cause for concern from a small minority-owned institution, and so just want to go on the record as saying that so that at least maybe down the road that comment is heard.

One of the things that Maryann mentioned is we took over an institution that had some issues, some prior issues, and in the process of turning the bank around, one of the -- there was an opportunity that presented itself in the small business lending fund of 2010, and because of our recent history that we had as an institution that had had negative earnings and had a negative earning retained earnings account, we were essentially not allowed to apply for the SBLF fund, or we were allowed to apply but we were probably not considered for the SBLF fund, which I think is an item that warrants maybe some further attention. Specifically because we had under 12USC 59 and 60, the negative retained earnings account, the advice that was given to us was, well, you could always do a quasi-reorganization and restate your equity accounts, which although seemed simple enough to do in researching that and talking to our accountants on that, it's extremely burdensome on a small bank, and I just think that's -- that regulation is probably a little outdated, especially when you consider the fact that a state banking organization isn't subject -- USC 59 and 60, so it brings me to the point of just overall parity between a state banking organization and a national bank organization. As you all know there are some differences, specifically this being one of them, the second difference is the ability to lend 15% of capital versus 25% of our capital, and although certainly the OCC has made some headway in doing the pilot program, which has now turned into a permanent program which we take advantage of, there are still limitations on exactly what type of loans could be made.

So I just think it's time to put the parity issue kind of behind us. We're operating in Texas. We only make loans in Texas, so why not be able to operate like any other bank in Texas. We are -- one of the items I also want to address is the CRA issue, and it's been talked about and certainly there have been some proponents for the CRA regulation to be, in fact, expanded by some of the community organizations that were here, but I would just like to take -- someone to take notice that, you know, as a small bank we primarily operate on the lending product, and, you know, my particular bank has a balance sheet that lends about 90% of its -- of its deposits into our local economy, primarily minority-owned institution -- minority-owned small businesses, primarily small businesses, about 97, 98%, so that coupled with the HMDA data that's gathered, I feel like that ought to be at least for smaller banks an automatic pass. We're reinvesting back into our community. When you compare that to a Wells Fargo or JPMorgan Chase, there are certainly some stark differences. We are directly impacting our communities without any shadow of a doubt, and so to have even so much as an on-site examination to see the fact that we actually do reinvest back into the community to me seems like an automatic, and I know that threshold has been moving up every year. I just think it needs to be adjusted extensively, a billion, half a billion, something along those lines.

There's 150 -- as a $150 million bank you can look at my balance sheet and say these guys obviously are reinvesting back in their community. Quite frankly it's the only way we can survive. I was telling some of the panel members earlier, I feel like I'm in an Indiana Jones movie where the floor is falling off behind me and I'm quickly running. We started out at a $56 million organization. I just couldn't wait to get to a hundred million for economies of scale. I got up to 100 million and realized I can't be a hundred million, I have to be 150, and I'm at 150 now and here we go, 200, 250 is kind of the next threshold. It's that fast, that quick, and it's happening each and every day. No one regulation in and of itself is causing maybe undue burden, but collectively together as a small business owner, which the bank is, it's just getting to be a lot of regulations to have to adhere to.

One of the other recommendations I have, I know there have been proponents for maybe increasing the length of the exam periods for those banks that are considered to be healthy. I would -- I would echo those comments. I would support those comments, but I know that those are mandated by Congress, and so I would take maybe more of a -- of a different approach and say that the current regulatory agencies that are here could maybe take more of a remote examination procedure where instead of being four weeks on-site with, you know, a couple dozen or a dozen examiners, that maybe the vast majority of that is spent off-site and they just come in to do the absolute necessary to be on-site. I think that would certainly help us as bankers. It would certainly help the examiners with all the travel that they have. Probably save the taxpayers a lot of money as well. And one of the main reasons why I believe this is -- as a small bank, that we all have maybe talked about, a lot of us are the driving force behind the business that gets generated into the bank. Make no mistake about it, when I have an exam, you know, for those three and a half, four weeks that we're there, I don't even so much take lunch. I mean, it's just, we're there, we're just making sure that the examiners have all the information that they need, and anytime spent appeasing examiners, which understandably needs to be done, is time not spent out in the community continuing to promote our product. And so I think that would be something that could be easily done. Certainly as banks get into maybe additional risk, obviously there needs to be more on-site, but for those banks that are just cookie cutter traditional bank, not a whole lot of changes from previous examinations, maybe the remote examination process could be looked at or considered.

The BSA and compliance world, being in a border region, you know, where we're ten miles from the U.S.-Mexico border, there's no way I can deattach myself to all the international trade that goes on but yet it has become such a burden that I just literally choose not to do business, purposely. It's just too much risk, quite frankly. And I think somebody said earlier about if you did 99 things right and you did that one thing wrong, it's -- you know, shame on you, bank, and sometimes even shame on you banker, and could be pursued personally. And so we don't go there. We have good business down the Rio Grande valley that we cannot look at, or we choose not to look at just because it's too much risk for our size of institution. And being that we're so small, there's no question it's going to be looked at from an examiner's standpoint, and so we just choose not to take on that kind of risk.

The fair lending piece of it, just fair lending in general, I think it's been hashed and rehashed. There's no question that fair lending increases the cost to the borrower as opposed to decreasing it. In a market that -- like we're in where the predominant credit scores are lowered, it just does not allow me to be a banker to the community like we used to be, and I've only been in banking, in this particular bank for eight years and we've seen things change very, very rapidly. These are people that -- it's been said before, we see them, we coach their baseball teams, we worship together, we're -- you know, we're all around them, and yet when they come in we say, I'd love to help you but I just physically can't because otherwise I would be treating you differently than others. So although the intended -- the intentions behind fair lending are good, the actual ramifications of it are very, very different than what's happening out there.

The next item, the single hardest, most complex transaction that I do at my institution is the 1 to 4 single-family residence loan. By far no questions, there are more hands that are touching that loan than any other loan that we have in the bank. And when you couple that with construction lending on top of it, it just becomes even that much more burdensome. And I feel like as a community bank, that really is the last piece of product that we really can offer to the community, that the mega banks haven't pursued or that the credit unions haven't taken -- the credit unions have taken the automobile loans. They've taken the consumer lending. The larger banks have taken the mortgage product. Some construction and development. You know, with due reason, it is not bad, but just -- it just -- it's a regulatory and a compliance nightmare to do a construction -- interim construction loan with a permanent take-out. So I would ask that RESPA and truth in lending be looked at specifically. There have been a lot of changes in that arena and there are many more to come.

I asked an examiner one time when we were -- he was in the bank, he said, well, I just -- I'm building a house right now. And I asked him point-blank, I said, well, did you read your disclosures that were given to you, the truth in lending and all that? He said I didn't pay that much attention to it. Exactly. We're in the industry. Banker, he was an examiner, and we don't -- use an examiner and we don't get an opportunity and don't care to read them and surely our borrowers are not reading them either. I would ask that we look at RESPA and truth in lending specifically there.

And then somebody showed the -- what I think was a financial privacy disclosure. Quite frankly, just a waste of mail postage, effort, time. Nobody is reading those, and if even I did read those I don't think I would understand them and I'm a bank president. So surely my mom and dad, my grandma and grandpa are surely not reading those, and there's really no value there. So a financial privacy disclosure situation just needs to be, in my opinion, taken out.

I'll close by saying that, you know, we are community focused. I think all of us up here have a tremendous pride in servicing our community. I think we all love what we do. Otherwise we wouldn't be here, but it's getting to the point where, you know, we just need a little -- a little relief to continue to do what we do. When 8500 banks in America is reduced to 6500 banks in America and there's conversations that that will go down 5500 in the next 18 months, it's just a rapidly -- a rapid -- we're rapidly losing a lot of banks that would otherwise service the community, and the larger the organizations get, the mega banks, the less real focused they are on the community issues that we are faced with each and every day. And so once again, I want to thank everyone for the opportunity to be here and hopefully some of these comments will be heard. Thank you.

>> MARYANN HUNTER: Great, thank you, Joe. Patti, do you want to comment next?

>> PATTI STEELE: Sure, first let me just say thank you for being here. It's an honor to sit across the table from the regulatory bodies that really determine our success or not, and it's always a pleasure to meet with other bankers in here -- and hear their stories and compare them to mine and compare the differences. First, my bank is 890 million, well capitalized, well managed bank in Chattanooga, Tennessee. We have an 86% core deposit days and we have about a 75% loan to deposit ratio so we're taking the money in in the markets we serve and we're loaning it back out to a lot of small businesses out there. Lots of small businesses. We have 24 branches so we have a big retail presence. I say this because as I make my point you can tie it

back to the backbone of community bank goes, which I feel like is what we are. We've been profitable every single quarter in my entire career, which is 28 years.

So my first plan, new capital rules, I think that highly capitalized, well-managed banks should have some kind of consideration from the complex evaluations, measurements and calculations. For these banks the compliance and audit exercise is simply superfluous and needlessly costly and at this point we're all being treated the same and I would like to see consideration given to the better banks. Overall I think new capital rules will result in meaningful changes, M&A and investment strategies, but proactive management teams and the board will be well positioned. I'd like to cover one specific point. There's lots of points on the new capital rules, but there's one specific point that -- for our bank, which is -- we have a lot of commercial real estate, and remember, we weathered the crisis just fine, excellently, we hear from our examiners, anyway, but that would be the high volatility CRE rules. That is basically three criteria: Loan to value, ad (inaudible) maximum supervisory level, loan to value, borrower has contributed at least 15% and the borrower contributed capital is required to remain throughout the life of the project. Those are the three criteria that determine high volatility commercial real estate under the new rules that we have to start reporting on the call report on March 31.

We have to go back and examine all of our portfolios, commercial real estate to see if that fits. Here is what this means to our bank. For every dollar today of capital that we lend, we can today make -- put $12.50 of that into a CRE model at 100% risk waiting at 8% capital. For every dollar of tier 1 capital we lend under the high volatility commercial real estate, we can only make $8.33 of commercial real estate lending. So it's fairly limited to what we can do. We have to go back and analyze our existing portfolio, we've done that, and on a bank that is well capitalized and well managed and finding fine we'll have about 30 basis points hit in our percentage, starting April the 1st. So I really seriously think there should be some consideration to the good banks out there and the way that we've managed those commercial real estate loans in the past historically. Should count for something.

Total cost of (inaudible) high (inaudible) commercial real estate loan, over a typical commercial real estate loan will have to be passed on to the customer, and lenders that are unable to pass to the borrower will have diminished returns on risk weighted capital. Again, I'd like to have consideration on that. I'll move on to consumer protection, specifically flood insurance. Managed flood obligations similarly to other property risk, bank regulators are requiring us to assume responsibility for matters that should be assigned to FEMA's insurance agents.

Banks complying with mandatory purchase obligations should be permitted to manage flood risk in the same manner as other property risks insured by hazard insurance policy. And due to the wording of the rules and the enforcement by examiners, we've become directly responsible for determining the insurable value of buildings and its contents and many of our insureds and their debt pages just don't provide insurable values, so we're forced to guess if the coverage is adequate based on the minimal information we have. So in addition to -- due to the enforcement burden being placed on banks, we often wind up being more knowledgeable than the agents about the rules and the coverage requirements. We should not be the insurance experts. Flood insurance should be handled like any other hazard insurance, and banks shouldn't be the gatekeepers on it.

I would like to thank you and give you appreciation for the recent rule change to not require flood insurance on additional nonresidential structures that are located on residential property. We're in rural Tennessee. We serve 12 different counties. We're in two metropolitan areas. There's lots of barns, lots of buildings, lots of sheds, and not having to -- to require flood insurance on those as well has been a big help, and we appreciate that. It caused a lot of confusion and a lot of anger with our borrowers and consumed a large portion of time.

The last thing I would mention on flood is a strong commitment to coordinate with FEMA on the national flood insurance program. I think the regulators must coordinate with FEMA to provide information about the national flood insurance program and guidance about those program changes that impact bank compliance. If we must understand the national flood insurance protection program so that we can advise our borrowers and comply with flood laws, then the agencies condition dismiss those matters as outside their responsibility. The agencies should commit to working with FEMA, to update the guidelines and provide the industry with the necessary timely guidance that we need to advise customers.

The other consumer protection issue that I'd like to talk about is just the overall complexity versus simplicity of the regs. The increasing complexity and the prescriptiveness of the rules harm banks through compliance and increased operational costs. If it continues it's going to cause banks, and it already is, to cause (inaudible) credit products that are needed by the consumers. An example of this would be a lot of banks' decisions to discontinue mortgage lending. Just the rock bed of what a consumer out there needs today is to be able to buy a new home, that's what community bankers are here for. And I've heard a lot today, a lot of banks expressing the fact that they are exiting the mortgage lending area because of complexity. A mortgage loan, one of the most basic needs, and that we as a bank decided not to exit mortgage lending, we are maneuvering all the rules around ability to repay and everything that we need to be doing through escrowing, it has added bodies and cost to our process, but we feel like it's a product we absolutely have to offer, and as we see other banks begin to scale back or exit altogether that product, we feel these actions are going to result in a tremendous unmet credit need in our markets, especially in our rural counties.

So we chose to stay in the game, and we're eating the costs today. So I would like some consideration on how community banks get to stay in that mortgage game, and especially those that have done -- that have been properly managed and are well-capitalized.

Community Reinvestment Act, CRA. We are right at the threshold of moving to the large bank testing. We were $890 million. You have to be $1.2 billion for two years in a row to get there. I would like to see the thinking about that billion dollar threshold, just to be rethought. As banks are every day dealing with getting larger, to be able to handle the regulatory burden that we have today, this is a deterrent to getting bigger, CRA and that billion dollar threshold. That billion dollar threshold could be outdated in the acquisitive state of the financial industry. We just talked about the fact that there were over 8,000 banks and now we're down to a little over 6,000 banks. So maybe that number, that threshold, is too small. Consider expanding the threshold today to meet the future acquisitive nature of the industry.

I don't know what's good enough and what's too much on CRA today on a investing and -- there are lots of models on CRA out there, but there's nothing that really says we think you're doing a good job. It's very, very subjective to the examiner they have in house at the time. So if we could build a model, if we could build a matrix that says, this size bank, this is a minimum, this is where you want to start out at and so that it helps us -- it helps guide us. The lending piece of CRA to me is an area that we do very well. Again, we're in rural Tennessee, we are in a lot of low to moderate income census tracks but the investment piece is always difficult for us and our markets and I would like to see some kind of specific limits and minimums that would make it easier for us to know we're doing a good job and not just trying to guess based on how the examiner that's there at the time feels we're doing.

The time spent trying to collect, review and track community development loan services and investments is considerable. It's only going to get more burdensome as we grow. And the rules as written are not a true measure of the bank's reinvestments. We do a lot of community development things that are not given any monetary value at all, and I think they should be assigned some kind of monetary value. We should be able to do that.

The way CRA is tested and evaluated, to me no longer reflects the original purpose of CRA, which was red lining. It's almost become a method for a redistribution of wealth in the country, and how much is a bank spending, how much are you lending to low to moderate income families, which is fine. I think it's a great purpose. It's just -- we just need more clarity to what's acceptable and what's not.

Distinction. Directors, officers, employees, my only comment on that is the distinction between board and management duties is being lost, and I have a recent regulatory exam to talk about that. Specifically at our recent exam several recommendations were made to place management driven operating decisions that are made day-to-day about business procedures into policy. Doing this will result in the board being involved in the day-to-day management of the bank, and rather than providing guidance and strategic direction. The board's role is to set risk parameters for the bank and management's roles is to run the bank within those parameters and we should have the ability to do that without having to go ask permission to do things that really don't affect the overall policy. Really, really concerns me with what I see today, specific example of that is was there ALLL and how to defund those buckets in ALLL specifically could (inaudible) definition and policy. So we got to have the flexibility today to run our bank on a day-to-day basis. And the other side of that is when we lose that flexibility and that responsibility for managing that bank goes to the board, I think it will be incredibly difficult to find good board directors. Most of our directors are business people out in our marketplaces, running their own businesses. They don't want the responsibility of running the bank.

And the last comment I'd make is just the need for exam consistency. I was telling Christie Elmquist at lunch that since 2008 we've had eight exams. I would tell you we're on a ten month cycle, not a 12-month cycle because it takes us 30 days to gather the information and 30 days to work with them when they're there and another 30 days to get our report. So every five or six months we're getting ready for an exam, because we're on a 12-month cycle. So a need for consistency. And in the last eight years we've had eight different sets of examiners. Where FDIC and state of Tennessee regulated and he haven't seen the same face in eight years so it's been difficult consistency exam to exam. Part of that is through the crisis, and, you know, we were a pretty healthy bank so we weren't on their radar, and I think they were called away to other ones. I haven't seen a lot of inconsistencies through that process until the last couple of exams. I think it's really, really important today that -- that we have consistency in the exam process. My comment to one examiner recently, and he said, well, you had a different set of examiners from out of state. I said that is not my problem.

You know, we depend on the regulators to help us, guide us and help us interpret these complex regulations that are coming down, and so when you hear discrepancies from one exam team to the next, it's really, really difficult to feel comfortable that you're doing the right thing and that you're maneuvering these new regulations coming down, especially with the velocity with which we're seeing those come. So thank you for allowing me to make my point. I appreciate being here and I'll turn it over to David because he's the last one between us and the airport. (laughter).

>> MARYANN HUNTER: Thank you. David, it's all yours.

>> DAVID WILLIAMS: Thank you. Okay. I am the last one. Is that a good thing? Toney says it is. We welcome the federal banking regulators to Dallas. It's a pleasure to be here, it's an honor to be here. I appreciate the invitation, as well as Commissioner Cooper of the Texas Department of Banking. This was a wonderful opportunity for us to be able to speak directly to you all and share our thoughts. As said earlier, we're $740 million bank. We have 500 million in loans. We are in two very distinct markets, the Texas Panhandle and Central Texas, separated by a great distance, 350 miles, and we serve two markets. Out of that 500 million in loans, 43% of those are CNI loans, which include a significant agricultural portfolio. 54% are real estate, including about 14% of our -- of that real estate portfolio are single-family residential. We have a significant portfolio because we serve rural markets, and if we don't make the loans, nobody will make the loans. We have 4% consumer and others. As I said, we serve two regions, we have 13 offices.

Our company, our bank was chartered in 1934. We've expanded through acquisitions, de novo branches and merger. I've been with the bank for 33 years. Our mission is to build successful and meaningful relationship with our customers for a lifetime. Let me echo that. Lifetime. That's what we're about. Everything we do we take a long-term strategy. We don't focus on short-term earnings. We focus on long-term value that we can offer our customers.

Regulatory burden reaches the level of overkill when it injures the target, or the consumer it is intended to protect or benefit. That's the theme of my remarks today. I know you all, as regulators, are looking for specifics. I intend to try to be as specific as I can. First I'd like to talk about capital. Basel III. In the January 2015 American Banker Magazine under the briefing section there is an article speaking to, quote/unquote, international regulators are gearing up to make significant changes to capital requirements over the next few years in a shift so massive that some observers have already begun talking about it under a new name, Basel IV. The article goes on to say that over the next three years regulators are poised to make sweeping alterations to the existing Basel III international accord, including raising the risk based capital ratios, revising risk weightings and moving away from model-based assessment as part of the revamp of capital requirements for operational, market and credit risk. The sum of this is really potentially what I believe to be a new capital regime. As you know, as I assume you know, the financial stability board detailed many of these changes in a communique to the G-20 ahead of its meeting last month in Australia. Few have realized just how sizable these changes would be, especially their effect on community banking. This move alone should mandate a bifurcation of capital rules for community banks, banking and banks, less than 50 billion. I strongly urge you, the United States federal banking regulators, to assume a position of leadership and not fall behind international whims of complicated risk-based standards set by European and international regulators.

The U.S. is the only economy in the world with a viable community banking system. The U.S. banking regulators, you, should be setting the standard for community banking, not following other international regulators' standards or leads that do not have viable community banking systems under their regulatory purview. Such bifurcation should eliminate risk-based standards for well-rated banks, less than 50 billion. It should simplify capital standards to minimum leverage ratios. Either the bank has satisfactory identical capital or it doesn't. Do away with the smoke and mirrors. Complicated risk-based structures that are easily masked, especially without balance sheet leverage, need to go away. Everyone in this room understands tangible capital. For example, and these numbers are from last summer. For example, the U.S.

ten largest SIBs, had leverage ratios of 7% and total risk-based capital of 13.55%. These are Federal Reserve reports from last summer. The ten largest U.S. banks, less than 10 billion, which I term community banks, have leverage ratios of 8.6%, and total risk-based capitals of 13.86. A percentage difference in leverage capital between the ten largest systemically important banks and the ten largest community banks, less than a billion, those banks, the smaller community banks, had 22% more leverage, capital. That's significant. This is of course without including the LLL allowance -- the ALLL account in the leverage ratio.

Additionally, you should consider at conclusion of the ALLL ability in capital. A provision should be included in May to include up to 1 1/4 % in the AA in tier capital. This would reverse the punitive treatment of ALLL and Basel III. The ALLL capital should be captured in the (inaudible). As we all know it's the first line of defense in protection against unforeseen credit losses. Eliminate the capital conservation for well-capitalized and well-CAMEL rated banks. I echo my colleagues' remarks. This would allow community banking industry access to capital markets. The new capital conservation limits impose potential dividend restrictions to community banking investors. Community banking should be allowed to access these markets to raise capital. This is especially important for Sub-Chapter S banks, of which we are. There are approximately 2200 such banks in the United States, and they also should be allowed to raise capital by issue -- issuance of multiple classes of stock, specifically preferred stock. Sub-S stock, both common and preferred, should also be allowed to be held in IRAs, individual retirement accounts. The number of allowable shareholders, and I know this is Congressional, should be increased from 100 to 200, so we have the ability to attract outside capital to community banks that essentially are a third of the community banks in our country. Reg D should be reformed so that any potential investor with a net worth of more than 1 million, including the value of their primary residence, would qualify as an accredited investor, therefore allowing he or she the ability to make an investment in a community bank. CRA and mortgage lending -- excuse me. Also, you should strongly consider amending the Federal Reserve's small bank holding company policy statement by modernizing it from its current level of 1 billion to 5 billion. Under the modernization, qualifying companies must not have significant debt nor be engaged in nonbanking activities that include significant leverage, whether it be on or off the balance sheet.

CRA and mortgage lending. I have a couple of pictures here that say a thousand words. I know we can't go up on the screen. I'd like to pass this around. This is two of our lenders, and I'd like -- I'll pass these around. This is a file for residential interim construction loan. That's a 12-month interim construction loan. This is a picture of a file of a single-family 30-year secondary market loan that we sell under the secondary market. Pass that down, if you would. I show that -- I showed that to Maryann Hunter earlier and she said, now, David, you know a lot of that has to do with the legalese to protect you should that loan go bad, and I said, yes, ma'am, you're absolutely correct. However, those files are still twice as thick as they were pre-Dodd-Frank. Nobody reads those files. Colleagues at the table have already indicated that nobody reads these files. Nobody understands the disclosures in them, and as Robert Hulsey said, takes 44 or 45 signatures for the average consumer to close one of these. We have to change the mortgage lending disclosures and process to where we can make this credit available to our customers.

Those present here understand that these hearings do not include the CFPB. However, I'd like to make a comment about concern that the federal banking regulators, in anticipation of being overshadowed by the CFPB's rule making, are starting to issue more and more best practices suggestions so as not to be out done by the CFPB. You've seen my pictures. Please remember the single most important theme of my comments: Regulatory burden reaches a level of overkill when it injures the target or the consumer it is intended to protect.

You all should strongly consider increasing the small service exemption threshold to 20,000 loans up currently from 5,000. To put this proposed threshold in perspective, the average number of loans serviced by the five largest servicers, subject to the national mortgage settlement, is 6.8 million apiece, and an exemption threshold of 20,000 would delineate small servicers from both large and midsize servicers, and allow many community bank servicers to stay in business. It's important that you realize that if we don't offer these services to many of our rural customers, no one will therefore be allowed -- or excuse me, many folks will not be allowed to realize the American dream of home ownership because only rural bankers are willing to make these types of loans.

For banks, less than 10 billion in assets, reverse the punitive Basel III, capital treatment of mortgage servicing rights or MSRs, and allow 100% of MSRs to be included as common equity tier 1 capital. This is for banks of less than 10 billion. Community banking is committed to the communities we serve. That's all we've talked about, or much of what we've talked about today. You have heard extensive testimony, or you heard extensive testimony in the Los Angeles hearing about CRA, about how the way we bankers do business is changing daily from brick and mortar to Web-based and mobile applications. Our consumer panel talked about it. My colleagues have talked about it. In CRA assessments of community banking, you should be aware of these strategies and acknowledge and give credit for the industry's efforts to deliver our service to our mobile and connected customers as part of our defined communities. Community banking's focus in rural markets is making credit available to rural and underserved customers. Please, if you do nothing more, slow down the rate of change in regulation.

Targeted regulatory relief. Examinations. Pre-exam ratings should not be probability weighted. The score, S-C-O-R, are statistically CAMEL's off-site rating. Seasoned examiners should assess CAMEL ratings based on findings, not preassessments that suggest there is a significant probability that the banks' CAMEL ratings will be downgraded.

You should change the practice of giving examiners marching orders before they ever walk into a bank through their receipt and review of the SCOR report. At our last examination, the pre-examination package that we assembled for our federal regulators was literally thousands of pages that were electronically downloaded into the regulators' sight. Your sights need to match up to our informational responses to specifically targeted -- excuse me, to specifically targeted questions in the officers' examination questionnaire. By this I mean we spend an enormous amount of time on the phone prior to the on-site visit saying, where is this, where is that, and we've already downloaded that information. This, of course, would simplify both sides of the informational gathering and review processes to better facilitate your review of the pre-examination data.

Your examination should strive to render their reports on actual findings and their assessments of the banks as opposed to a preliminary SCOR report. To echo further remarks, a two-year exam cycle should be implemented for well-rated banks up to 2 billion in assets. This will allow your examiners to better target poorly rated banks and banks that pose systemic risk. This will provide bank management with much needed time to more effectively serve our customers and communities. And I will have some call report remarks to make, but call reports give you all a tremendous amount of data in the -- in between these examinations to allow you to properly supervise.

ERM, enterprise risk management, should not be implemented unilaterally on smaller community banks. Many people say 10 billion and less. If these banks receive good CAMEL ratings, their risk management practices should be recognized as satisfactory. This will significantly reduce burden, the regulatory burden on smaller community banks. Banks less than 50 billion should be eliminated from stress tests. Banks should be allowed to file a short-form call report in the first and third quarters of each year. We've spoken about this. Our organization's $740,000,000 bank employees a full-time accountant just to file the 18 various reports required of our regulators on an annual year. Pat Hickman talked about Navy federal, $58 billion organization. They file a 28 page call report. Accountability in exams. A workable appeals process. The trend toward oppress I have micromanaged exams nationwide is of growing concern to community banking. More and more we hear the term "best practices." We've heard that a lot today, and that we were expected to treat such recommendation as a law or regulation, when, in fact, they are not. The federal banking regulators should create an independent body, much more than the agencies -- much more than the agencies appointed ombudsman with the power to receive, investigate and resolve material complaints in a timely and confidential manner. The goal is to hold the examiners to a standard and to prevent retribution against banks that file complaints.

>> MARYANN HUNTER: David, if you could -- we're running close on time so maybe another minute or so.

>> DAVID WILLIAMS: Oh, another minute? Oh, I thought I could go on for hours.

>> MARYANN HUNTER: I'm sure you could, but we would clear the room, to -- (laughter).

>> DAVID WILLIAMS: Thank you, Mary Anne. Quickly under current policy the purported lending violations are automatically referred to the Department of Justice. This referral gets the banking regulators off the hook, so to speak, therefore allowing the banking regulator to transfer the fair lending violation to the DOJ. Prior to such referral, the specific violation should be reviewed by an experienced banking, regulatory body that has familiarity in these issues. I'm not suggesting that anyone shrink the -- excuse me, shirk the law for fair lending violations. I'm suggesting that field examiners may not have the training and experience to make these referrals without further supervisory input. Few community banking companies are willing to take on the DOJ financially, and therefore agree to egregious fines and even CMVs when the facts do not warrant such financial punishment, not to mention the stigma and reputational risk with these actions. An experienced review process could positively mitigate such actions. Thank you very much. I sincerely appreciate the opportunity to address you all, and thank you, Maryann.

>> MARYANN HUNTER: Thank you and thank you to all the panel members for the remarks. Very helpful. I'm going to turn to I guess each of the agency principals to see if there are any questions or comment foul points you'd like oh follow-up points you'd like to hear about.

>> Quickly, a couple reference to the CFPB. I think the gripper is a (inaudible) matter. CFPB under the statute has a regulatory review requirement of its own but I believe it's pursuing a separate one. So to be clear on that point. And certainly invite any interested institutions to participate in that process, the CFPB is pursuing. And then I just have one question. Mr. Mills, I think you referenced the compliance costs and particularly driven by BSA compliance. I was interested in you could give a little more detail on that one. You talked about compliance costs driven by BSA. Could you be just a little more specific?

>> DRAKE MILLS: Yes, and I think it was -- excuse me -- had a lot to do with a

movement into a large metropolitan area, and we specifically -- specifically, we moved into Houston. We had a risk assessment that we thought we were adequate, probably were under -- we had a lack of quality and a lack of quantity of people in that organization, and it seemed that our opportunity for a ramp-up period to accommodate that was shorter than I would have expected. But that being said, the majority of that was in the ramp-up of more quality people, specifically focusing on a much more intense and wider and deeper risk assessment, that we could not, you know -- we didn't have the manpower internally to do it. Obviously we can't create a risk assessment outside of the bank. It's got to be created within. The firm that we brought in helped us significantly. We had to ramp up pretty quickly, so a lot of that cost was accommodated in 2014 versus spread over a few years.

>> Joe, a quick question, you mentioned, obviously you're close to the border, but you mentioned you chose not to take the risk and you were talking about the -- could you expand on that a little bit? I'm confused when you talk about cross-border activity or what.

>> JOE QUIROGA: Well, for us as a bank, yeah, anything south of the Rio Grande we just -- we don't touch in terms of obviously lending into Mexico and that sort of thing. But even some industries that are in some ways having to do international trade, particularly wires into Mexico is a big concern, and so we just look at that really, really hard and for better or worse take a position of we're going to err on the side of being conservative and just not go there. Certainly by that I don't mean that we don't take some risk. I mean, obviously sometimes it just warrants taking that risk, but many times I would say six, seven times out of ten we just choose not to go there. We just think that the burden is so high that as a -- as a bank, to justify the sources of the funds, two and three layers deep, is just -- it's just too much, no the to mention the fact that, you know -- not to mention the fact I used to travel to Mexico all the time and there was a comfort level. I've been there, I've kicked the tires, it's there. I take pictures. Travel into Mexico now is really, really difficult and I feel like if you can't do that, then it's really hard to justify to an examiner, or even to the board, you know, I saw it, it's there, it's a viable business. And so, again, that's what we choose to do, and other banks have taken on that risk, and, you know, there's just additional cost that goes into it.

>> I would ask the panel, but also if we have time, if the audience wants to comment as well. We've heard a lot about, you know, regulations of the CRA that may no longer be consistent with the way business is being done. This question gets at what regulations or statutes that you feel create a competitive disadvantage for insured depository institutions.

>> Well, I spoke about the parity issue between the national versus state bank, but also the credit union aspect of them not being taxed, just competitively, like I said, we've just let go of some of those products that we used to do traditionally in the banking sector. They're -- it's a foregone conclusion, we just don't do auto lending anymore. And so you take that out. I was curious to hear the percentages of consumer lending, and you just -- you know, they're minuscule now. We're about the same, 2 or 3% of our total import portfolio. So the cost and burden to go into that, it doesn't make sense anymore. So fair lending is a bigger reason why, I would say.

>> DRAKE MILLS: I would also discuss just the data that has to be collected and the people that are involved in that from a perspective of -- the disadvantage, a competitive advantage, because our cost. 28% of the customers in our market that we polled in a recent survey would prefer to use credit cards for loans of less than $10,000 than come to the bank. So I think when you look at CRA, just the depth of collection of data and the cost of that puts us at a disadvantage.

>> Patti, you discussed in your -- in your comments that there are several community

development loans -- or community development activities that you're not getting credit for. Can you say more about that? What's acceptable for us to be considering?

>> PATTI STEELE: On the -- well, as more community development activities, as a community bank we do a lot of community development activities, and probably are no different from anybody on this table, but there's no monetary value really assessed for that. It's more numbers of services than it is a monetary value to that. So some of those services, we spend a lot of money to be able to do that, but we don't get any credit for any of that. It's just typical -- it's just really numbers of services, and how much is enough for a community bank based on its size. So that's what I was referring to there. Can we be given some consideration for the cost of those events and what we actually do out in the community that serves -- that serves the low to moderate income.

>> MARYANN HUNTER: Any other comments or questions from our panelists? Anything else? Very good. Well, I believe this brings us to the last part of the session. Turn it back to Gil. I think we have an opportunity for questions or comments from the audience.

>> GIL BARKER: Thank you, Maryann and thank you panelists. Excellent comments, and it's clear you've given a lot of thought to the comments and we appreciate the specific comments that were relayed as well. We do have time on the agenda, the audience has had a chance to see four different panel presentations and discussions, the focus of each of the four were on different aspects. I want to provide an opportunity for anybody in the audience who would like to reinforce some of the comments that were made up to this point in time, add some things that haven't been discussed yet, offer any kind of additional comments that you think might be beneficial at this time. Okay. That's just fine. (laughter) I want to make one housekeeping announcement before we depart. There's a sign-up sheet outside the door for cabs to the airport, to Love Field or to DFW to the extent that they need to, I get a cab, and about this time it's -- it's -- very worthwhile to sign up for a cab out to the airport. I guess, you know, from my standpoint serving as moderator, listening to the discussions that took place from this panel and from the prior panels, I'd say there's been a lot of rich discussion in specifics about items that we can take into account as we approach the economic growth of regulatory people work reduction act. Regulation and statutory changes that can take place. But I'm also impressed by the number of comments that came back not so much that will cause any legislative or regulation changes to enact, but I think several take-aways that we can consider as federal regulators and state regulators about the processes we've got in place and things that we have under our control.

So those comments did not go unnoticed as well and there are things that we can undertake I think without having to go through any type of formal process such as a GRPA to accomplish. It goes back to my comments about the thoughtfulness that the panelists have put into their comments, and again having it reinforced several times throughout the course of the day has been very, very helpful.

So I would like to say that again, as you leave today and have a chance to reflect on some of the comments that were made, if there are additional thoughts that you'd like to provide, we're still accepting comments and I would encourage you to take advantage of the chance to weigh in and enter thoughts, because it should be evident from the panelists today on this side of the table that there's a great deal of interest in listening to what it is that you've got to say. So please take advantage of this great opportunity to provide your input so we can move things forward.

With that any other comments?

>> Just your comment, I'd like to thank all the panelists, certainly this one, for their thoughtful and specific presentations. I really think you've added value to this process. It's

certainly been worth -- worth our time here today to listen to your presentations, and I just wanted to thank you for the efforts that you and the other participants made.

>> GIL BARKER: Toney, Charles, any additional comments? Again, I'd like to say thank you to the Federal Reserve Bank of Dallas for hosting this program in this wonderful facility. And with that, safe travels. We are officially adjourned. Thank you.

(Applause)

****