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ECONOMIC GROWTH AND REGULATORY PAPERWORK REDUCTION ACT (EGRPRA) OUTREACH MEETING

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WEDNESDAY
DECEMBER 2, 2015

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The Outreach Meeting met in Auditorium C , L. William Seidman Training Center, 3501 Fairfax Drive, Arlington, Virginia, at 9:00 a.m., Rae-Ann Miller, Meeting Moderator, presiding.

PRESENT

MARTIN J. GRUENBERG, Chairman, Federal Deposit Insurance Corporation
THOMAS J. CURRY, Comptroller of the Currency, Office of the Comptroller of the Currency
DANIEL K. TARULLO, Governor, Board of Governors of the Federal Reserve System
E. JOSEPH FACE, JR., Commissioner, Virginia Bureau of Financial Institutions

STEPHEN C. TAYLOR, Commissioner, District of Columbia Department of Insurance, Securities and Banking
RAE-ANN MILLER, Meeting Moderator; Associate Director, Division of Risk Management Supervision, Federal Deposit Insurance Corporation

FIRST PANEL: BANKER DISCUSSION

MARYANN F. HUNTER, Panel Moderator; Deputy Director, Division of Banking Supervision and Regulations, Board of Governors of the Federal Reserve System
A. BRUCE CLEVELAND, President & Chief Executive Officer, Presidential Bank, FSB, Bethesda, Maryland
RONALD PAUL, President & Chief Executive Officer, Eagle Bank, Bethesda, Maryland
FRANK ROBLETO, President & Chief Executive Officer, BAC Florida Bank, Coral Gables, Florida
GARY SHOOK, President & Chief Executive Officer, Middleburg Bank, Middleburg, Virginia

SECOND PANEL: CONSUMER AND COMMUNITY GROUPS DISCUSSION

JONATHAN MILLER, Panel Moderator; Deputy Director, Division of Depositor and Consumer Protection, Federal Deposit Insurance Corporation
MARGOT SAUNDERS, Of Counsel, National Consumer Law Center, Washington, D.C.
JOSH SILVER, Vice President of Research and Policy, National Community Reinvestment Coalition
LIZ LOPEZ, Executive Vice President (Public Policy), Opportunity Finance Network, Washington, D.C.
WADE HENDERSON, President and Chief Executive Officer, Leadership Conference on Civil

and Human Rights, Washington, D.C.
MICHAEL CALHOUN, President, Center for Responsible Lending, Washington, D.C.

THIRD PANEL: BANKER DISCUSSION

TONEY BLAND, Panel Moderator; Senior Deputy Comptroller, Midsize and Community Bank Supervision, Office of the Comptroller of the Currency
JAMES CONSAGRA, President & Chief Executive Officer, United Bank, Fairfax, Virginia
PEGGY FULLMER, Chief Executive Officer, Milton Savings Bank, Milton, Pennsylvania
MARTIN NEAT, President & Chief Executive Officer, First Shore Federal Savings & Loan Association, Salisbury, Maryland
GWEN THOMPSON, President & Chief Executive Officer, Clover Community Bank, Clover, South Carolina

FOURTH PANEL: BANKER DISCUSSION

DOREEN R. EBERLEY, Panel Moderator; Director, Division of Risk Management Supervision, Federal Deposit Insurance Corporation
JAY (JUNGHO) KIM, President & Chief Executive Officer, NOA Bank, Duluth, Georgia
CRAIG UNDERHILL, President & Chief Executive Officer, Freedom Bank of Virginia, Fairfax, Virginia
JAMES H. SILLS, III, President & Chief Executive Officer, Mechanics and Farmers Bank, Durham, North Carolina
MICHAEL CLARKE, President & Chief Executive Officer, Access National Bank, Reston, Virginia

ALSO PRESENT

FREDERICK ALEXANDER, Legal Policy Advisor, B Lab
BILL GARBER, Director of Government and External Relations, Appraisal Institute

RICHARD RICCOBONO, Director of Banks, Washington State Department of Financial Institutions

JOHN RUSSELL, Director of Government Relations, American Society of Appraisers

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P-R-O-C-E-E-D-I-N-G-S

(9:02 a.m.)

CHAIRMAN GRUENBERG: Good morning, everybody, and welcome to the FDIC's Seidman Center. This is the sixth and final outreach event hosted by the OCC, the Federal Reserve, and the FDIC pursuant to the Economic Growth and Regulatory Paperwork Reduction Act, fondly known as EGRPRA.

Our previous outreach sessions in Los Angeles, Dallas, Boston, Kansas City, and Chicago featured a diverse range of banking organizations as well as representatives from consumer and community groups, and other interested parties. These sessions had provided specific and constructive feedback, and numerous concrete suggestions.

We are looking forward to hearing directly from today's panelists and audience members as you share with us your suggestions about ways we can streamline banking regulations.

The banking agencies have issues three notices of proposed rulemaking to solicit written comments and the fourth and final notice will be released this month. These notices are available on our websites and on the EGRPRA website for the Federal Financial Institutions Examination Council, or FFIEC.

We will carefully review the written submissions received during the open comment period as well as the comments we hear at our outreach sessions. I also want to point out that we are expressly inviting comments on newly implemented rules as well.

The regulatory review process is one we take very seriously. A particular interest to the FDIC, as I think of all the agencies, is the impact of our regulations on community and rural banks. As you know, the FDIC is the primary federal regulator for the majority of the community banks in the United States.

Community banks play a critical role in our financial system. The FDIC's community banking study showed that while community banks hold 14 percent of the banking assets in the United

States, they account for approximately 45 percent of all the small loans to businesses and farms made by all banks in the United States.

In addition, nearly one in five counties in the United States, including small towns, rural communities, and urban neighborhoods, would have no physical banking presence if not for the community banks operating there.

The basic business model of community banks, careful relationship blending, funded by staple core deposits, and focused on a local geographic community that the bank knows well remains highly viable and actually held up quite well during the recent financial crisis.

The essential role of community banks in our financial system underscores the importance of conducting a comprehensive regulator review to identify areas in which burden can be reduced while preserving supervisory standards.

Thus far, several themes are emerging through the EGRPRA process. We have heard frequent comment from participants that regulators should consider whether laws and regulations based on longstanding thresholds should be changed. For example, dollar thresholds for transactions requiring an appraisal, and asset thresholds on the size of the institutions eligible for longer examination cycles.

Commenters have also asked that we ensure that supervisory expectations intended for large banks are not applied to community banks, the so-called trickle-down effect, and that regulators have open and regular lines of communication with community bankers.

We've also heard concerns about burdens and costs related to Call Reports and suggestions for improving the process, again, especially for community banks. As the EGRPRA process is unfolding, it's fair to say that the banking agencies are not waiting to take action.

For example, the FFIEC has established the process for identifying how some Call Report requirements can be streamlined. In September, the federal banking agencies issued a proposal for comment that includes the elimination or revision of several Call Report data items. We also announced that we will accelerate the start of a statutorily required review of the continued appropriateness of the data collected in the Call Report, and are evaluating the feasibility and merits of creating a streamlined version of the quarterly Call Report for community banks.

We are talking with community institutions and the trade associations to get their views on reducing reporting burden. This has included visits to several institutions to get a better sense of the report preparation process.

We are also reaching out to banks and savings associations through teleconferences and webinars to explain upcoming reporting changes and to clarify technical reporting requirements.

Finally, if I may, I'd like to mention three initial actions the FDIC has taken in response to EGRPRA comments. First, we issued questions and answers to eight applicants in developing proposals for federal deposit insurance and to provide transparency about the application process.

Second, we issued new procedures that eliminate or reduce the number of applications to conduct permissible activities for certain bank subsidiaries organized as limited liability companies, or LLCs, and in addition, we 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 their shareholders to cover taxes on their pass through share of the bank's earnings when those dividends are otherwise not permitted under the new capital rules.

In conclusion, let me underscore that the banking agencies will continue to look for ways to reduce or eliminate outdated or unnecessary requirements as we move forward with this review. Based on comments we've received during these outreach sessions, we have formed interagency working group, for example, to review the appropriateness of dollar thresholds for transactions requiring appraisals and other requirements of the interagency appraisal regulations.

As you can see, we still have a lot of work to do and are pursuing this process with, I believe, great commitment and dedication. As you can see, or let me say, in conclusion, let me thank you all for your participation today and we look forward to hearing your comments. And if I may, let me turn the floor over now to Comptroller Curry.

COMPTROLLER CURRY: Thank you, Chairman Gruenberg, and good morning to everyone. I want to thank you all for being here today to help join us in this discussion about how we can reduce unnecessary regulatory burden on community banks.

As Chairman Gruenberg noted, this is the sixth, or grand finale, in a series of meetings we've held under the EGRPRA statute. Interestingly, the first took place exactly one year ago on December 2, 2014 in Los Angeles. The discussion generated at that meeting, and at those that followed, was quite vigorous and very informative.

Today's meeting is, as I mentioned, the final session in this process and I'm hoping for a discussion that is every bit as lively and meaningful as the first five. As you know, we are working on this project on an interagency basis as well as through the offices of the Federal Financial Institutions Examination Council, or FFIEC, which brings together the banking agencies, the National Credit Union Administration, and the state's supervisory agencies.

The FFIEC participation is especially appropriate since we have making increasing use of them to provide support to community banks, particularly in resource-intensive areas like cybersecurity. Smaller banks and thrifts don't have the same kind of resources that large institutions can bring to bear on regulatory compliance.

And 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. Of course, it's true that regulations, by their very nature, carry at least some burden.

Most provide public benefits that outweigh the burden that they impose, but what worries me is the way that the regulatory rulebook builds up over time, adding layer after layer of requirements that can be quite onerous for small banks, so we at the OCC are taking this process very seriously.

I'm very interested in hearing from the panelists and members of the audience about specific regulations that are either outdated, unnecessary, or needlessly burdensome, as well as your ideas for improvement. If you don't get a chance to speak today, I would, as Chairman Gruenberg mentioned, encourage you to submit a written comment.

While this process will unfold over some time, I can assure you that we at the OCC, and our colleagues at the FDIC and the Fed, 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 authority to make changes to eliminate that burden, we will act.

Already, the banking agencies, acting through the FFIEC, are seeking comment on proposals to eliminate or revise several Call Report items. Among the other proposals we are looking at is one that would create a streamlined version of the Call Report for community banks.

These Call Repot initiatives are consistent with the early feedback that the OCC, FDIC, and the Fed have received from the EGRPRA review process. However, many regulatory requirements are rooted in laws passed by Congress and changes may require legislative action. In those cases, we will work with Congress to remove unnecessary burdens.

The OCC has advanced specific legislative proposals to eliminate regulatory burden, and let me talk briefly about two of them. First, we think a greater number of healthy, well-managed community institutions ought to qualify for the 18-month examination cycle. That would not only reduce the burden on those well-managed institutions, it would allow the federal banking agencies to focus our supervisory resources on those banks and thrifts that present capital, managerial, or other issues of significant supervisory or systemic concern.

I'm pleased that the House voted in October to raise the asset threshold to $1 billion and that the proposal has been included in another funding measure that is likely to be signed by the president. The Congressional Budget Office says that as many as 600 additional banks would qualify for the 18-month cycle under the higher threshold.

Second, we've developed a proposal to provide federal savings associations with greater flexibility to expand their business model without changing their governance structure. It's important that federal savings associations, like other businesses, have the flexibility to adapt to changing economic and business environments to meet the needs of their communities and they should not have to bear the expense of changing charters in order to do so.

We have recommended authorizing a basic set of powers that both federal savings associations and national banks can exercise, regardless of their charter, so that savings associations can change business strategies without moving to a different charter.

And I'm pleased to tell you that this proposal recently passed the House Financial Services Committee and I'm hopeful that the full House will consider it soon. I think these legislative proposals are meaningful steps which could help a greater number of smaller institutions, but we shouldn't stop there.

We should be looking at every approach that might help community banks thrive in the modern financial world. One especially promising approach involves collaboration, which was the subject of a paper we issued recently. By pooling resources, smaller institutions can trim costs and serve customers that might otherwise lie beyond their reach.

At the OCC, we've seen a number of examples of successful collaborative efforts. For example, several community banks formed an alliance through a loan participation agreement to bid on larger loan projects in competition with larger financial institutions. Elsewhere, a group of banks pooled their resources to finance community development activities through multi-bank community development corporations, loan pools, and loan consortia.

And I hope that community banks won't stop with those projects. There are opportunities to save money by collaborating on accounting, clerical support, data processing, employee benefit planning, health insurance, IT and cybersecurity, and the list goes on.

Speaking only for the federal banking system, federal law and OCC regulations facilitate collaborative arrangements through operating subsidiaries, service companies, and other structures. I would encourage you to take a look at our paper on the subject, which is entitled, An Opportunity for Community Banks: Working Together Collaboratively, and you can find it on our website, occ.gov.

Let me finish by saying that while much has been done since that first meeting in Los Angeles, 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.

Thank you for being with us today and I'd like to turn the podium over to Governor Tarullo.

GOVERNOR TARULLO: Thanks, Tom. The third outreach meeting this past spring I suggested that we could regard the EGRPRA process as a success only if it leads to significant reduction in regulatory burden for smaller banks in particular. Over the course of the year, there's been a wide range of comments on a wide range of regulatory practices that may be candidates for change, but many have been concentrated in a few key areas of concern to smaller banks, and I want to mention three of those areas as we being this morning.

They include, first, simplifying the regulatory capital rules for smaller community banks, second, modifying the information collected by consolidated reports of condition, so-called Call Report, and third, updating certain regulations and supervisory practices under the Community Reinvestment Act to reflect current banking practices.

So going back to the first, many commenters have urged change regarding the application of the Basel III capital requirements to community banks. They've argued that simpler capital rules are needed to reduce the compliance burden for smaller institutions because it is disproportionate to the benefits of the framework's increased risk sensitivity.

The greater detail the Basel III framework requires a degree of categorization, record keeping, and reporting that can be particularly costly for smaller community banks. As I have publicly stated before, I believe that it is possible to develop a simpler set of capital requirements for smaller banks that will be consistent both with the safety and soundness aims of prudential regulation and with our statutory obligations, such as the Collins Amendment.

Second, commenters have called for changes to the Call Report. Many have advocated modifying the types and amounts of information collected by the report for community banks to align more closely with the relatively straightforward business models of these firms.

As Marty and Tom have already noted, the federal banking agencies didn't wait for the end of the EGRPRA process to respond and through the -- under the auspices of the FFIEC, we have already issued some proposals that would eliminate or revise several Call Report data items, but as we complete the EGRPRA review process, we'll certainly be considering other opportunities for change.

Third, commenters have made recommendations as to how regulations and supervisory practices implementing the Community Reinvestment Act should be modernized to reflect the way that banking services are now being provided and the ways in which banks are interacting with the communities that they serve.

Here again, I believe there should be ways that the federal banking agencies can be responsive to this set of concerns. As this is the last outreach meeting of the EGRPRA process, I think it's useful to add, as Marty noted too, that we're committed to a systematic analysis and consideration of all the comments that we receive.

And I think this will allow us to prioritize recommendations and act as quickly as possible to adopt them. It's in the spirit of creating priorities for acting that I've identified those three areas, although, I don't, at all, intend for them to be exclusive, that have commanded attention from so many of the commenters in the first five meetings and also in written comments.

So let me join my colleagues in thanking all of you for your participation in today's session and I look forward to hearing the views of the panelists and people in the audience. Thank you. Commissioner?

COMMISSIONER FACE: Thank you, Governor Tarullo, and Chairman Gruenberg, and Comptroller Curry. Good morning. Thank you for attending this EGRPRA outreach meeting and welcome to the D.C. Metro area. My name is Joe Face and I am the Commissioner of Financial Institutions for the Commonwealth of Virginia.

Through the state liaison committee of the FFIEC, my fellow state regulators and I have been involved in the EGRPRA review with the planning of EGRPRA meetings and we very much appreciate your participation in this process.

EGRPRA requires that regulations prescribed by the FFIEC, the FDIC, the Federal Reserve, and the OCC be reviewed by the agencies at least once every ten years. The purpose of this review is to identify outdated, unnecessary, and unduly burdensome regulations and consider how much regulatory burden there is on banks.

When I think of regulatory burden, I sometimes think of the old saying about the weather; everybody likes to talk about the weather, but nobody does anything about it. Seems like everybody likes to talk about regulatory burden, but it feels like sometimes nobody does enough about it.

The EGRPRA process is a timely opportunity to do something about it at a very critical time for the banking industry. Let's not let it go to waste. In another ten years, many of the banks represented here today may not be around, due in large part to the crush of regulations that are already on the books and the new regulations that will, no doubt, be forthcoming.

This process is also vital to ensure our unique dual-banking system can thrive. We have, literally, thousands of pages of regulations that have evolved over the decades. Most were promulgated as a result of laws passed by Congress in response to some crisis.

It is important to look at the cumulative layers of regulations and how they could be streamlined to make a more coherent regulatory system. Policymakers and regulators also need to step back to understand the full impact of legislation and regulation on the financial system as a whole and to achieve a supervisory model that is appropriate for the diverse business models of the industry.

Such a model allows banks to serve their customers, small businesses, and local and state economies. This is the real strength of our financial system and our economy. This outreach meeting and the larger EGRPRA review process are key to informing regulators and policymakers of areas where improvement to the regulatory framework can be made. Your input to this process is essential.

Who knows better than the industry and

consumer groups the full impact regulations have upon consumers and industry's ability to serve your customers in your communities? As such, I am very much appreciative of your willingness to participate in this process and I encourage you and your colleagues to submit comments to the agencies.

I would like to mention a few ideas that have come out of the EGRPRA process out of state regulators work on right-sizing community bank regulation and the work that Congress is doing to look at the banking regulatory environment.

Recent regulatory reform efforts have rightfully centered on addressing the problems posed by the largest most systemically important banks. However, there is widespread concern among regulators, policymaker, and the industry that many of these new rules, in addition to existing regulatory requirements, pose an undue burden for community banks.

Congress and federal regulators have undertaken measures to provide community Institutions with relief. While these efforts are positive, there remains a need for a more comprehensive approach based on a common and consistent definition of community banks that does not rely solely upon hard asset thresholds that differ by regulation.

Certain qualitative factors should be considered, factors such as whether an institution operates predominantly in local markets, whether an institution derives its funding primarily from deposits from the communities in which it operates, and whether a bank's lending model is based on relationships and a detailed knowledge of the community, not volume-driven or automated models.

There are congressional proposals to lengthen the current examination cycle to 24 months and raise the threshold for banks eligible for an extended exam cycle, and the primary goal of regulators should be to better tailor the examination process to the business model and the risk profile of the bank being examined.

Extending the time between exams could run counter to state law in some states and negatively impact our ability to ensure safety and soundness and consumer protection. Federal law currently provides for an 18-month exam cycle for institutions with $500 million or less.

The OCC has offered support for raising the threshold from $500 million to $750 million. Since banks with assets under $1 billion do not pose the same risk as larger banks, absent a definition of a community bank, I think raising the threshold would be a welcome step and allow regulators to focus their resources on higher risk institutions.

Thank you again for attending this important meeting. I am very hopeful that valuable feedback that bankers, and consumers, and others provide today will lead to an improved regulatory system and supervisory efficiency. Thank you very much.

COMMISSIONER TAYLOR: All right. Thank you, Commissioner Face, and thank you, Mr. Chairman, Mr. Comptroller, and Mr. Governor for hosting this excellent meeting. Good morning, everybody. My name is Stephen Taylor. I am the

Commissioner for the District of Columbia Department of Insurance Securities and Banking. And again, I want to thank you for allowing me to part of this remarkable group of individuals here.

I echo the other speakers' remarks about this very important process and I appreciate you attending this meeting to provide your input. Looking at this impressive agenda, I think this meeting will be, to use a popular campaign phrase, huge, but I think we have a huge opportunity to really do some good work here, so I look forward to all the great dialog and input.

I would like to take a minute to build upon Commissioner Face's comments and discuss some other recommendations from state regulators to enhance the supervisory experience for financial institutions. One issue is restrictions on proprietary trading, the Volcker Rule, I support the intent of the Volcker Rule to limit speculative trading activities at banks, including limiting the involvement of banks with private equity firms and hedge funds.

I do support the exemptions to the rule related to hedging, market making, underwriting, and government obligations. The original intent of the Volcker Rule was not to burden small institutions with insignificant trading operations, thus, some federal agencies are looking at an exemption from the rule for banks under $10 billion.

While there may be little experience as the Volcker Rule is taking hold, it might be also helpful for institutions to start tracking paperwork and other bureaucratic requirements, with which they have comply, to determine if it creates any unnecessary burdens for small institutions, and whether an exemption, based on size or business model, is needed. So again, I look forward to hearing some more on this during the panel sessions later.

Another issue, portfolio lending. Banks that hold the full risk of default of a loan are fully incented to determine the borrower's repayment ability. Thus, laws and regulations regarding mortgage lending should reflect this reality. Thus, I support the granting of qualified mortgage liability safe harbor to all mortgages held in portfolio by community banks.

Third issue, a review of the Call Report. I know that there is some doubt in the industry about the EGRPRA procedure, but I really think it's worthwhile to take the time now to engage in this process. For example, the challenges of smaller institutions in completing the Call Report has been raised repeatedly during these outreach sessions.

Recently, the FFIEC issued a federal register notice seeking input on the Call Report. This is part of a larger effort by the FFIEC to review the Call Report item-by-item. Some of this work includes the goal of gaining a better understanding of those items requiring manual input and those that are most often left blank. Again, I applaud the industry's advocacy on this issue.

I'd like to conclude by thanking,

again, my fellow regulators in attendance today. The FFIEC and the federal agencies are putting in significant time and resources to meet both the letter and the spirit of EGRPRA, not just checking a box because they're required to do so by law. I have heard the skepticism by some in the industry, given the experience of ten years ago when there was a lot of effort, but few results. I believe that this time is different.

State and federal regulators have heard about the challenges facing community banks and are committed to do whatever they can to reduce unnecessary burden. The commitment of the agencies is evident today by the attendance of Chairman Gruenberg, Comptroller Curry, Governor Tarullo, and Commissioner Face.

I thank you and your staff for organizing this important outreach meeting. I look forward to hearing everyone's valuable comments today and thank you again for attending, and please enjoy your time in the Washington, D.C. area. Thank you.

MS. MILLER: Thank you very much. Before we get started, I just wanted to tell the participants that there are comment forms in your packets. If you wish to prepare written comments, you can use those forms and my colleagues out front are accepting those forms. And at the end of the presentations, if you wish to make a comment, we have a microphone up here at the front that will help the folks on the webcast here the questions.

And just as a reminder, we don't speak about individual institutions or cases in these events. So I'm going to turn it over to the first moderator, Maryann Hunter, and Maryann is the Deputy Director at the Federal Reserve Board.

MS. HUNTER: Thank you very much, Rae-Ann. Well, good morning, everyone, and it is my pleasure to be able to introduce the very first panel for today. I will keep the introductions short, I think there's biographical information in the packets that you have, in the spirit of allowing the most time to hearing from our panel of bankers.

First, I would just say, logistically,

the way we'll operate the panel is, we are going to cover, in this first panel, we're going to focus on the capital-related rules, CRA, consumer protection, and directors and officers, rules related to directors and officers, such as Regulation O.

I will note that we will have another panel giving a consumer perspective for the consumer regulations and CRA, so in this one, we will be hearing a banker's perspective on those particular rules.

When we begin the panel, each member will have about ten minutes to make some remarks and our hope is, I would say ten-ish, in that previous meeting, sometimes it's been a little bit longer, but our hope is to have time at the end of the session so that anyone in the room here who wishes to add a comment or make a comment can do so at the microphones.

Well, to begin with the introductions, it is my pleasure, first, to introduce to my immediate right, Bruce Cleveland. Bruce is president and CEO, and founder, of Presidential Bank. It's a bank that's just over $500 million in assets, and a national bank. He's also the founder and CEO of GIT Investment Funds, a group of no-load mutual funds.

Bruce, if you look at the bio, has a very interesting and varied background, including experience with Drexel, Burnham, Lambert in New York City, and a brief stint with the SBA, and I thought also interesting, in the early '90s, served as a consultant to the European Bank for reconstruction development, advising the Republic of Poland on its privatization efforts, so certainly varied experience and we're glad to have you with us today, Bruce.

Next, we will hear from Ron Paul. I guess we should note the other Ron Paul. Ron is the chairman, CEO, and president of both Eagle Bank and Eagle Bank Corp., which was founded in 1998 here in Bethesda, Maryland. This bank does focus on real estate development, so I suspect we'll hear a little bit about that type of activity from Ron.

Ron is also very active in bankers associations and the ICBA, and Virginia and Maryland Bankers Association, so welcome, Ron.

Next, we will hear from Frank Robleto. Frank is the president and CEO of BAC Florida Bank from Coral Gables, Florida. It's a $1.7 billion institution and I believe examined by the FDIC. Frank comes with many years of banking experience, and in particular, international experience, and he was the former president of the Florida International Bankers Association, so welcome, Frank, as well.

Finally, we will hear from Gary Shook. Gary is the chief executive officer and president of Middleburg Financial Corporation. That is a $1.3 billion institution and a state member bank in that organization. Gary has held a number of executive positions with that company and also had previous senior positions with Fauquier Bank Shares.

He's very active in the community in Warrenton, Virginia and also active in the bankers associations, so welcome to our panel and with that, we'll start and I'll turn the microphone over to Bruce for ten minutes, ish, of remarks. Thank you.

MR. CLEVELAND: I'll try to keep it ten-ish. Good morning. The remarks I have today are a mix of fairly narrow comments intended to address the appropriate regulations that are under review and some are much broader. And I realize that the banker regulators are largely bound by statutes that they can't change very easily and also some of my comments will relate to CFPB and the Treasury, who, of course, are not involved in this review, but I think very germane to what's going on in the banking industry.

And finally, I will limit my comments to the four subject matter areas that our panel is supposed to address. So first is CRA. I would like to say that CRA has sort of stabilized where it isn't a large problem for most banks, I believe. We're kind of fortunate in the fact that we have a large level of loan originations for our size, which means that we generally get an outstanding rating, primarily due to that fact.

But there is a frustration that, in the other assessment areas, it's sort of hard to find, I'll call it, projects or investments that both have practical, meaningful impact for people in the community, and are workable from our point of view from a safety and soundness point of view. So I welcome the efforts of the regulators to try to, let's say, sharpen the focus of CRA to make it more meaningful and effective, and I look forward to hearing the comments from the consumer groups on that.

Second, a very narrow issue, we're privately held, unlike, I think, the other banks here, and so we normally just have five directors, which is the statutory minimum. We had a situation where a director passed away unexpectedly just before Christmas last year, and that left us with a violation of law that there was really no way to fix immediately.

So I would think it would be within the

purview of the regulatory agencies to have a transition period when there is a vacancy that drops an institution below the five minimum so that you would be able to proceed promptly to replace a director without having a violation.

The third comment relates to capital under Basel III. This is pretty narrow, but the SSFA calculation for risk weighting structured products has the perverse effect of having a higher risk rate the lower the risk of the portfolio is. And well, the reason is kind of technical, but basically, lower risk portfolios need less subordination, which raises the risk weight, so somebody ought to look at that and try to fix it, and come up with a better formula that more accurately reflects the actual risk of the particular investment.

The next comment I have relates to Reg E, and this is much more general, Reg E, I forgot to lookup when it was adopted, but it was quite a long time ago, I think, and the world has changed a lot since that time, electronic funds transfers were pretty novel for the average consumer. My kids think -- don't know about checks, they think that's the way you move money, so I think it could use an overhaul.

And in particular, the requirement that a consumer can dispute an unauthorized charge within 60 days creates an unnecessary credit risk for the institution without much benefit to the consumer, I think, particularly since consumers have online access to their bank accounts in real time, typically, it shouldn't take 60 days to figure out that they want to dispute a charge.

Next is BSA and looming, I'm not sure exactly when, a few years out, I guess, but sort of ominously, is the regulatory proposal to require banks to obtain the beneficial ownership of all equity interests, I think it's all, a substantial portion anyway, in corporations and LLCs, and I see this as kind of creating a revolutionary upheaval because, traditionally, corporate entities, LLCs, have had anonymous ownership.

And I see an enormous burden of making

that transition. It seems quite intrusive for the vast majority of customers who are not terrorists or other kinds of target people, so it seems to me that there should be another look at that to try to minimize the impact. I know there has to be a balance between the needs for making sure terrorist's money is tracked versus privacy, but I think that balance shifts too far towards intrusiveness.

And then finally, I guess the big one, CFPB, and again, I know they're not present here, but there are a number of areas that I could comment on, but basically, the mortgage industry seems to be moving more towards public utility style regulation, maybe like the airlines were back in the '70s, where there's a minute level of regulation of all aspects of the business, and I feel like it's -- it gets to the point where the cost to the consumer probably doesn't justify the expense.

For example, with the new TRID regulations, our people say that it's introduced about a five-day delay in the closing of loans. Well, those days aren't free because almost every mortgage borrower locks his rate and the cost of the rate lock is about two basis points a day. So on a typical -- well, on our average size loan, that's about $50 a day, and our people say that the total delay is about $5, so it appears as though the cost of that regulation to the consumer may be $250. Is it really worth it to them to get those eight pages of disclosure in the new form dumped on them and have no way to waive the delay?

Similarly, this is an old problem, but the right of rescission on refinancing. Only about 1 in 1000 refinancing borrowers exercises their right of rescission, so we're making about 1000 people wait three days in order to give that right to the 1/1000 borrower. It seems to me, that is statutory too, but it bears looking at.

And then finally, QM and ability to repay. It seems to me that this has introduced an element of uncertainty to portfolio lenders who may not want to go over that magic 43 percent back ratio number, even though there is a structure where you can do it, but you're taking -- the regulation's fairly new, nobody knows exactly what the risks are going to be, so it seems to me that some borrowers who might get served, won't get served because of that, and there should be more of a safe harbor for the non-43 ATR borrowers, at least for portfolio lending.

I can understand why it doesn't make sense in securitizations, because it's hard to assign responsibility, but for portfolio lending, it seems to me there should be an exemption. So I hope I didn't go beyond ten-ish. So that concludes my remarks and thank you.

MS. HUNTER: Well within the time. Thank you. Ron, we'll turn it over to you.

MR. PAUL: Good morning. I am Ron Paul. Maryann, thank you for clarifying who my relatives are. By way of background, Eagle Bank is a $5.8 billion community bank headquartered and focused on serving the Washington Metropolitan area. We're 18 years old. We have a very successful track record of profitability, strong balance sheet, demonstrated by growth and excellent credit quality, as demonstrated by both levels of non-performing assets and net charge-offs.

I'm please to tell you that we've reported 27 consecutive quarters of record increased earnings, dating back to 2008. Despite our high concentration in real estate, our charge-offs have been negligible. Since the recession of 2008, we have averaged 27 basis points of annualized net charge-offs to average loans, with the highest point being 47 basis points.

We've achieved these results through our consistent approach to quality, local lending, generating core deposits, and always maintaining strong capital ratios. In my comments this morning, I'd like to address two recent developments that are impacting community banks like ours.

The first is capital requirements, and in particular, Basel III. I think we all understand that the intention of Basel III was to raise the bar on capital levels across the industry and we fully agree with that intent. At Eagle Bank, we understand the importance of maintaining a strong capital position and have always done so.

Eagle Bank is active and a successful commercial real estate lender. Your regulatory teams can vouch for the credit quality of our loan portfolio and the consistent level of low charge-offs. However, in its calculations for capital ratios, Basel III penalizes banks with local commercial real estate and construction loans without considering the historic track record of the current portfolio quality of the individual bank.

This higher capital weighting and the cash equity requirements for those loans defined by HVCRE appears to have been intended to discourage banks away from CRE lending. We feel that it is shortsighted because, as we have proven, it can be an attractive, profitable business for a well-run bank and has a dramatic impact on our local economy.

We are most troubled by the onerous requirement that a real estate secured loan must be considered HVCRE, and therefore, subject to the 150 percent capital weighting unless the borrower has a 15 percent cash equity injection in the project for the entire life of the loan.

There are many good loan opportunities where the presence of 15 percent cash injection is relatively irrelevant. For example, should a loan on a 20-year-old property with significant depreciation and little cash needs for development fall under HVCRE? Should a loan on a piece of ground that was originally zoned farmland, but subsequently entitled to a much higher use with dramatically higher value be considered HVCRE?

Should a vacant office building that has been re-tenanted qualify for HVCRE? Should a five-unit multi-family property with a significant appreciation be treated differently than a four-unit multi-family project? Should a borrower be permitted to roll a property that has been successfully repositioned into a committed term-out or should they be required to refinance and incur significant transaction costs for the mere purpose of avoiding HVCRE?

These are examples and there are many more of how the Basel III treatment of CRE loan have created an inefficient and very costly capital structure for our community banking system.

If this is all about mitigating risk, which we all agree it should be, why doesn't the capital weighting analysis consider appraised values, loan-to-values, debt service coverage, and other matrixes as regulators customarily do in all other credit quality evaluations?

The Basel III methodology will cause banks to both raise the price of CRE construction loans and constrict the level of CRE lending. This has doubly negative impact on driving attractive loan business to our non-banking competitors or reducing the amount of real estate investment activity, which is such an important driver of job creation and related economic activity in communities across the country.

For example, in Montgomery County, Maryland, where our bank is headquartered, the construction trade has the highest unemployment level of any industry in the county. Restricting real estate lending will also reduce the quality of the commercial building and housing stock in many communities, further impacting their economies.

The second topic I'd like to address this morning is the subject of wholesale deposits, and specifically, reciprocal deposits. At Eagle Bank, like most community banks, we focus on generating core deposits from our local customers as our primary source of funding and liquidity.

However, we also use wholesale deposits as an ancillary funding source on occasion to balance with our loan funding needs and maintain appropriate on balance sheet liquidity. In evaluating our non-core funding sources, we limit the use of wholesale deposits but often find them to be attractive source of funding as comparable to advances from the Federal Home Loan Bank.

The process is more efficient and these deposits provide a lower cost of funds across the yield curve. We reserve our FHLB availability as a future contingent source of liquidity. However, most importantly, I want to state emphatically that reciprocal deposits, in our opinion, should not be consider wholesale deposits for regulatory calculation purposes. Let me explain why.

At Eagle Bank, we have $4.9 billion in deposits. We serve 12,000 customers through 22 branch offices. About 12 percent of our deposits are held in fully FDIC-insured reciprocal deposit accounts. This is not an alternative source of funding, but accounts that have been opened with us by our local customers.

These accounts include checking accounts, money market accounts, certificates of deposit, and our held by our customers, including individuals, small and medium-sized businesses, non-profit organizations, and local government agencies.

Many of these customers are required to have FDIC insurance on their deposits. For example, one of our longest term customers is a local law firm which is often required by the court system to hold their client's escrowed funds in a fully FDIC-insured accounts. They currently have approximately $80 million with Eagle Bank; $250,000 held in Eagle Bank and $79,750,000 held in reciprocal deposits.

Are these funds wholesale funds? Not really. The customer uses these reciprocal deposit products, not because of any unusual features, but because they present no risk due to the FDIC insurance feature, as required by the court system. These reciprocal deposits are not hot money and are not sourced through brokers.

These accounts are key components of our relationship with core customers. The bottom-line is that these customers are placing these deposits because the safety offered by the FDIC insurance and those required by the court system. If unlimited FDIC insurance was available to all customers, there would be no need for reciprocal deposit products, and the funds would be all considered core deposits.

We would ask for your support in urging the FDIC to reconsider its position regarding its consideration of reciprocal deposits as wholesale deposits. Thank you for the opportunity to appear before you and provide these comments, and I'll be pleased to take any questions later on. Thank you again.

MS. HUNTER: Thank you, Ron. Turning it on to Frank.

MR. ROBLETO: Thank you very much and thank you for inviting me to this important meeting and give you some probably different perspectives from what you will hear the whole morning and afternoon. In BAC Florida Bank, we are part of that group of community banks that provide a lot of trade financing to import and exporters and foreign banks.

And I would like to talk a little bit about the impact of Basel III in one of the activities which I believe it is completely an unintended consequence of what developed after Dodd-Frank. For many decades, U.S. banks -- particularly banks in Florida -- have developed corresponding banking relationships, which include trade financing, short-term trade financing, to foreign banks.

These trade financing loans have been extremely safe through years, and our regulators can attest to this. Why? Because normally, the central banks give preferential treatment to repayment of these loans all the time because they don't want these banks to lose their lines of credit that they have with foreign banks.

Also, during the crisis, it became a great diversification strategy for banks in Florida that were engaged in trade financing as they were able to deploy loans that were safe, and they never had any loses during the crisis.

So what is Basel III, and how does this impact this business? There is a lot complexity in the Basel III rules. For that reason, the federal regulators conducted several seminars, webinars, conference calls, to guide U.S. banks through the main changes of Basel III.

Unfortunately, these events did not cover in detail the new regulations that were affecting the risk weighting of loans to foreign banks, and I'm talking about short-term loans, and probably -- probably, which is worse -- not that many banks included this issue in the comments letters that the regulator asked to all of us to include.

So let's talk about the risk weightings, and I'm going to give specific examples of this issue and the unintended consequences. Loans to foreign banks, independently of tenor or product, are now risk-based based upon something that probably a lot of people haven't heard, which is called the CRC.

This is the Country Risk Classification of the OECD, which is the Organisation for Economic Co-operation and Development, and organization that really, really was created to help the

European countries.

I think the regulators, following Dodd-Frank, of course, did not want or could not use the rating agencies, and what did they turned to? They turned to the OECD. Now, the OECD ratings really do not refer to short-term trade lending. They do refer, basically, to what they call the ECA, or the ECA, which are these agencies that promote long-term financing to its importers and to governments.

So the risk classifications, now, are based on the Country Risk Classification. In Latin America, which is very important for Florida banks in terms of trade financing, they normally go, these ratings, from 3 to 7. What has happened then -- again, the unintended consequence I am sure -- is that the risk weighting went from 20 percent to 50 percent, to 100 percent, and to 150 percent.

And I'll give you some examples of -- and the consequence will go in crescendo. You will see it. A loan, for example, short-term loan, trade loan, to a bank in Peru, okay, that loan used to be rated 20 percent. Now, it is risk weighted 100 percent. Why? Because Peru is a rated 3 country.

There are not that many 3 countries. In Latin America, for example, we have Mexico, we have Uruguay, we have Panama, and we have Costa Rica. Why are these countries rated at 3? Probably we will have to ask the OECD.

A second example. If we go and lend a five-year loan to a company in a country -- say, for example, Honduras -- the risk weighting for that loan will be 100 percent; five-year. However, if we go and have a trade transaction, a trade loan to a largest bank organization in Honduras, for example, Honduras -- being a country that is rated above 3 -- that risk weighting is going to be now 150 percent.

And I'll give you the last example, which is even more interesting. Colombia is rated a 4 country. Why is Colombia rated the 4 country versus Uruguay a 3 country? I don't know. We will have to ask the OECD. But a short-term loan to the largest bank in Colombia is rated 150 percent. Doesn't make any sense.

A loan to the subsidiary of that bank in Panama, Panama being rated 3 country, is risk weighted 100 percent. A bank in Colombia, for example, like Bank Colombia has almost $7 billion in net worth. A subsidiary in Panama has $1 billion. And yet, one is 150, the other is 100. I can lend to five years in Panama at 100; three months in Columbia will go 150.

Of course, this regulation has imposed what? An additional capital requirement. Before, a loan, trade loan, short term, to a bank in any country was weighted, again, 20 percent. What does that mean? A $1 million loan, risk weighted 20 percent, converts into a $200,000 loan.

Using the magic 10 percent risk weight capital according to one of your recent expositions, we will need a capital of $20,000. Right now, for example, in a country rated over 4, 4 or over, the loan, $1 million loan, will actually risk weight $1 million, capital at 10 percent, you are looking at $100,000. Five times what it used to be.

In a 150 percent country, then it will go 7.5 times. What does that mean? That means that our capital requirements have increased with same risk. Over the years, the losses in these loans have been extremely minimal, and our regulators can attest to that.

In our particular case -- and this is public information, so I'm not divulging anything that is confidential. You can look at it in the Call Report; you can look at it in the UBPR. Last year, as of September, our risk-based Tier 1 capital ratio was 17.5 percent. Okay? September of this year, with the application of Basel III, is 14.7. That's 270 basis points less, with the same risk, than last year.

The total capital ratio we had before 18.76, right now, is almost 16 percent. Again, 275 basis points. Well, what is the effect? Our buffer disappeared. The famous buffer of 250 basis points that we have to achieve, I think, in three more years or so, is gone, just with the strike of a pen.

Now, what do we do? Because there's a problem, we need a solution. We need to continue advocating with our federal regulators. We have proposed, through FIBA -- the Florida International Bankers Association -- the introduction of an additional factor for short-term trade-related transactions.

This should be very, very easy to implement. It's just another column, okay, in the now extremely long Call Report, which, by the way, I really applaud the efforts of the regulators, and especially Governor Tarullo, to really try to help us out because the amount of paperwork, the amount of regulations, the amount of things that we can do is actually tremendous.

Not only that, for example, in October, Brazil was downgraded by the OECD from 3 to 4. Probably rightfully so for what the OECD was intended. Well, that means that a loan to the largest bank in Brazil -- and a lot of you have heard of Banco Itau in Brazil -- short-term again, is now risk weighted 150 percent.

I used, in one of my comment letters to our regulators, the example of a bank that already disappeared, which is Espirito Santo Bank, because I was trying to compare with specific names, the effect of this rule. This is like three years ago.

Well, the bank in Brazil, as you know, sorry, in Portugal, Novo Banco, which is the new bank that was divided, remember, Espirito Santo was divided in two, bad bank and new bank. The new bank was called Novo Banco, new bank, Banco Novo Bank.

Well, vis-a-vis the banks Portugal Novo Banco brought $1.5 billion capital hold because they failed the stress test. Okay. That bank is, again, rated, you know, in the OECD, and given the same rating that they had before, meaning that a loan to that bank will go 20 percent; short-term. A trade transaction that involves that bank will go 20 percent.

Banco Itau, a bank with almost $50 billion in capital, will go 150 percent. That doesn't make, really, any sense. And again, it can be fixed very quickly by adding a new factor for product and tenor, or by using, Governor Tarullo, two years ago, I think, a proposition that banks below $10 billion, one simple measure of ten percent of capital and eliminate everything else. I think that would be great. Hopefully it's not too good to be true.

But if we do that, it will actually take a lot of burden from the banks. And why do I talk about the community banks? We all use the standardized methodology. We don't use the advanced methodology. That's for the systemic important banks. The banks are for what I think Dodd-Frank was intended for; however, you know, it applied to us as well.

Well, a systemic important bank -- a large bank using the advanced methodology -- they actually have their own morals. Under those morals, since these loans have very long history, I bet that their capital ratios are actually lower, capital requirements, than what we have required, been required, by Basel III. And again, that's unfair competition for small banks versus the large banks.

So thank you very much, and I'll be very glad to answer any questions.

MS. HUNTER: Thank you, Frank. Now we'll move on to the last panelist.

MR. SHOOK: Thank you, Maryann. Gary Shook, as I said, with Middleburg Bank. We're out in the western -- we wouldn't call it suburbs; we'd call it the Northern Piedmont of Virginia. We try to distance ourselves somewhat from this part of the world, but that being what it is, we've been in business for 92 years and sit at $1.3 billion in assets, and we also have $2 billion we manage in our money management operation part of Middleburg Trust Company, which is based down in Richmond.

And I can tell you right off the top of my head that the regulation, the regulatory burden, in our trust company operation versus the regulatory burden in our bank are completely different worlds. We don't deal with this level of minutiae at the trust company level.

My comments are going to focus upon the Regulation O, and Chairman Gruenberg's heard me on a couple of occasions now speak to the need to simplify things -- simplify it in the name of attracting directors and qualified personnel to the business.

And Regulation O is probably the central core of that. It's not what, particularly, anybody wants to talk about because it is not the politically favorite topic of how we deal with these issues, but it's an important one in the overall scheme of what we're doing. And I think as you go back and look at the regulations, and I'm going to go through in a bullet-point form of the ones I think that just jump off the page at me that somebody probably needs to take a look at.

And if you go back, it seems to me that there wanted to be, at some point, an avoidance of special treatment, whether that's credit considerations or someone gets a fee waiver where someone else wouldn't. And as it's evolved over the years, it appears to me that, yes, our directors and insiders do get special treatment, that that's negative special treatment as opposed to special treatment in concessions and the way we can do business with them.

Let me go through a couple of -- several bullet points that sort of underscore that. The one we run into some, and all of these, we run into, these are specific examples. First one is increase the aggregate limit on loans to executive officers above $100,000 for those loans that aren't exempt from the aggregate limitation.

This tends to be a negative impact on those officers -- those ones you want to take care of within your corporation, and these would be officers that fall underneath the Reg O definition of an executive officer. As an alternative to that, raising that limit, and part of what I did in my research, I played back some of your previous meetings, and nobody seemed to want to talk about Reg O, so I couldn't get any direction from out there.

But looking through the regs, I couldn't really figure out when these numbers were added into the regulatory code. You know, was it -- I've been in the business 30 years and I think I've seen these numbers for that period of time, so I'm not really sure what that period of time is.

An alternative to raising the limit of $100,000 for executive officers, and I think a much more back to my let's just make it simpler concept, is let's make all insiders -- whether you have a principle shareholder, a director, or an executive officer -- let's just make all those rules the same.

You know, determine whatever those hoops are, make them all the same for everybody so we don't have varying tiers of what I call opportunities to screw something up as we're trying to look at Reg O within the corporation, so that would be a great tactic for simplifying burden on all banks, but especially community banks that have to track all this.

Also, I think increase the $500,000

aggregate limit on loans to insiders where prior approval is required. In a normal mortgage loan situation -- and I will put on my D.C. metropolitan area hat on this one -- a $500,000 loan is fairly small. A $1 million loan is probably the norm -- $750 to $1.2 million, as we approach the Beltway.

And like all real estate transactions, everything's timely, but to then have to get the board to approve it prior to the granting of a normal mortgage loan, it gets it out of sequence of what really makes sense given the dollars that are in a market such as Washington, D.C., so to increase that aggregate limit, I would contend to double it from the standpoint, or exempt mortgages, those types of things, where the prior approval of the full board is required, or a majority of directors is required.

The one that I think is, maybe, the most comical in my mind, and that is our prohibition of paying a check, an overdraft on a director, that exceeds $1,000. I think we would all agree, and if you follow the check cashing programs that some banks offer that I don't, a lot of clients get checks cashed for a whole lot more than that.

Also, for our best clients, which we tend to think our directors would be, we would cash checks considerably higher than that knowing the reputation of the client with which we deal. The $1,000 number, and this is the one I really did the research on, that one has been in place my entire career and probably needs to get pushed up to something that's a little more reasonable in today's day.

And you may think, well, that's no big deal, but you return your director's check, that sends a lot of messages, and the tracking mechanisms that we have to run our directors on to make sure nothing slips through, because I'll tell you, a field examiner finds that $1,001 overdraft faster than anything else on an examination and that is something that I think we could spend some time on creating.

The other one would be to change the requirement for also prior approval of an extension of credit on a line of credit unless the credit has been approved within a 14-month period of time. I'm getting down into the nuance of it, but to do an advance, if there hadn't been a specific approval of that director or insider's line, then that 14-month period of time requires a majority of board approval to be able to make an advance on that line, and that's probably outdated at this point as well.

The one that I'm always speaking to that has a lot of meaning, and this is all around my world of trying to attract qualified directors to the business, is also be able to insure directors for their D&O obligations for the full gamut of what a normal company would be able to, public company, insure them, and that specifically includes civil money penalties for compliance related issues, which are currently exempted from our ability to insure, which, it's sort of hard to explain to a director, why am I subject to that when you can insure me for everything else?

It just doesn't -- the crime doesn't fit the pattern of circumstances I think you run into when it's something like -- well, the $1,000 limit or some of the other things like that if you haven't followed compliance issues, which is more of a management issue, that the directors can't be insured for that needs to be looked at and a new appreciation for that.

I'm watching my time and I do want to hit a couple of other things as we go through it, but as I roll-up on the Reg O side, it hasn't been discussed much here, but there are really some archaic rules that sit out in Reg O that, if you all could put a committee on taking a look at to see if we can refresh some of those thresholds and make them a little more current with what we see today.

Of course, I would be remiss if I didn't talk about the need for a safe harbor for qualified mortgages that we put on our bank's portfolio. I sometimes scratch my head and wonder, you know, whose money is it? And it's our money as the bank management and directors representing depositors and shareholders as well, and we don't want to do anything, we're on the same team. We don't want to do anything that would damage our reputation and our portfolio that we take great pride in.

And to have a safe harbor for loans that we do want to put on our own books makes a lot of sense. We talked about the 18-month safety and soundness examination. Sounds like you all are working on that. Another one I bring up are CTR reporting issues, and to go through that -- and I don't know if this is over in another area, or where this falls -- but there's a lot of unnecessary filings that could probably be eliminated there.

And once again, in taking a look at the specific number dollar amounts, you're probably -- rather than have a $10,000 threshold for the aggregation of deposits and for the tracking of CTR purposes -- probably doubling to $20,000 or some new number that's probably more representative of where the crime really fits the risk of all of the paperwork.

And somebody on your end has got to read all the paperwork, and somebody on our end has got to create all the paperwork, and there's probably a higher threshold that really makes some sense there. I think we've talked about mailing our privacy notices, and it sounds like that'll be dealt with. A short-term Call Report.

Looks like, here's another one that, it's what I call arcane nuance, but it's something that creates a lot of tracking within a bank, and that's under Regulation D -- Federal Reserve Reg D -- and that's the transaction withdrawal limits on savings accounts.

And right now, you can have six withdrawals a month, three of those can be by check -- paper check. We need to move that number, I would suggest, to at least 20 per month, basically, one per day, with no restriction on what type of means. For example, the checks for the restriction on the six per month currently applies to an ACH, a phone transfer, online transfer, overdraft transfers, they don't apply if you do the transaction in person, ATM, mail, or night depository.

Well, in a world of trying to simplify the world, let's just make one simple rule that you can have this many transactions through the cycle and not worry about what kind of device it is, because I tell you what, that's another one that they like to find in a very quick manner in a field audit of, oh, you've had -- this one had four checks, or this or that. That's minutiae. I mean, that's purely minutiae when it comes down to a savings account, a standard savings account, and trying to come up with what makes sense in today's world.

On capital, I only have one comment that I want to make there in the essence of time, and that is, with all the new rules, CECL, Basel III, everything else coming into play, the current restriction is, only 1.25 percent of the allowance for loan losses can be contributed and allocated to the Tier 2 capital.

With everything pushing the requirements for capital up, I think it would make a lot of sense and it would be a big plus for, certainly, community banks, to raise that allowance amount of the 1.25 percent of the allowance for loan loss reserves to a higher number or include it all for the purposes of capital, because it is sitting there and it's serving as a capital buffer.

And the ability for those banks, and I'm one, that carries more than 1.25 percent in the allowance for loan loss, we are directly penalized for trying to be prudent in the things that we're doing in allocating more capital towards loans.

Again, thank you all for the opportunity to be here. Always excited to be in front of Commissioner Face, my primary regulator, who I think sets a great example as how a regulator should operate in times of crisis and in good times as well, so thank you all.

MS. HUNTER: Well, thank you very much for each of the panelists and the comments. I'll turn to the principals to see if there are any questions or follow-up comments that you'd like to

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GOVERNOR TARULLO: I have a couple. Thanks, Maryann. So, Mr. Paul, when you were talking about all the varieties of CRE or CRE-associated lending, you know, one conclusion that one might draw from that is that the capital regulations need to be more granular, you know, more nuanced, more complicated in order to distinguish. I assume that's not really the direction that you'd like to end up going and that something more along the lines of simplified capital framework that maybe has a trade-off of higher capital ratio in return for many fewer Basel I-like categories, rather than Basel III-like categories, might be your first choice? Am I correct in that?

MR. PAUL: I think a lot of it really comes down to the equity side, the equity definition, as it relates to, you know, 15 percent equity being defined by Basel III as cash could be a much broader spectrum of equity. So where I do believe that there are certain types of real estate that should require more equity than others, to me, equity just doesn't always equate to the cash, as my examples of properties that have been around for a long time that have significant equity.

So putting in cash, as opposed to a project that's appreciated over the past 20 years, just, to me, is missing the point of work off of the appraised value of the asset as opposed to just the cash infusion of that asset, but I do agree that it should be more granular because there are certain pieces of real estate that clearly have a higher risk rating than others.

GOVERNOR TARULLO: Thank you.

CHAIRMAN GRUENBERG: Just before letting you all go, I just wanted to thank you for your testimony just with the presentations we've had previously. The specificity and the detail that you provided to us, I think, is very helpful and very much would be the subject of our agenda.

COMMISSIONER FACE: Gary, you said something -- thank you for your comments. You must be needing something from me pretty soon. Gary, you mentioned the -- what did you call it -- archaic nuance of Reg O and some of the things that you mentioned. I'm just curious if you can put some kind of quantitative value to it as to, maybe, how much time you spend or your staff spends on these things and how much it might cost?

And maybe for the topics that the other bankers touched on too, if maybe they could, sort of, quantify that to time and money, I guess. Does that make sense?

MR. SHOOK: Yes. You know, to this getting absolutely specific, I can talk. Let me use the -- I'm using the $1,000 returned check overdraft thing as my example because it's one that I see on a directly basis. There are six people, three of them executive officers, that are tuned into the overdraft list to make sure we're not letting an executive officer slip through.

Now, of course, our systems are coded to kick them out, but, you know, this account, this guy might have this much in this account and that account, or he might have written instructions that provide all the little outs that you have from that, but in that case, there's six people that are tuned to this one thing, three of them being executive officers, with the rule is, we can't let one of these slip through, because we've been stung by it, and we shouldn't be.

But to me it's, is the crime worth the punishment of having to allocate the time of six people to make sure a director doesn't cash a check for $1,001 that gets paid and sent through the system? So there's an example on that particular one. I think on the one that -- and on the loan side is probably where I become -- I have my greater concern because when you choose a director, you like to have them as a good client, and what I'm finding, it's much easier to make my good director my former good borrowing client, because it's a whole lot easier to send them over to the bank across the street with my voucher that this is a good client, to please take care of my director for me because the rules are too onerous and they don't really want to jump through them.

And that gets down to the 14-month cycles, the approvals before the loan gets made, the over $500,000 aggregate limit, and then my executive officers, you know, whether it's professional courtesy or whatnot, generally all have to go somewhere else to do borrowing business, and that isn't the way it should be.

I know there's been bad actors in the past, you know, but for the sins of a few, you know, we've sort of impugned an entire class of folks that are insiders that you want to be your very best clients, and it's hard to under the regs.

MR. PAUL: Commissioner, if I could just answer the question. As it relates to Basel III, we calculated that the difference between 100 percent and 150 percent comes out to about 98 basis points of additional cost of capital for us on our CRE -- again, without getting granular into different buckets -- but as a totality, it would be about 98 basis points.

MS. HUNTER: If there are no other comments there, I would invite, if there's any member of the audience that would like to make a comment, you're welcome to step up to the microphone. I know we have a couple of minutes left. Looks like we have one. And I'd ask that you please introduce yourself and mention who you're with.

MR. RICCOBONO: I'm Rick Riccobono, Director of Banks for the State of Washington. I came today with quite a list of issues, but they were actually pretty much mentioned today, so I would just like to sort of reinforce some of those issues that I see actually out there in the State of Washington in the field.

One was, Mr. Paul mentioned, you know, this concept of reciprocal deposits. I know in the past I've mentioned I think we need to rethink how we're defining broker deposits, and more importantly, how they can actually be used to the benefit of an institution, a small community bank, to manage its interest rate risk.

We've kind of gone 180 degrees. We were accepting -- brokered the money as a given when we were chartering institutions, back when we were doing that, and then now we're at a point where, you know, wholesale money is just evil across the board, and I guess I would tell you it's not.

And while we're faced with statutory changes perhaps we can't do, we certainly could look at this concept of reciprocal deposits. In support of community banks, it's kind of a nice way to insure your larger customers, particularly your small business customers, who get very nervous when their balances get up over the insurance limits, or a homeowners association required, by their rules, to be insured.

I don't see the harm in saying that brokered deposits put into a reciprocal arrangement, I'm putting my core deposits out there just simply to insure all my deposits, I don't think that necessarily creates the evil intended by the rules. I mean, we can look at what they're doing with wholesale money, and if they're growing rapidly with it, we stop them, but at this point in time, I think we create a tremendous disadvantage for community banks not allowing them, or counting in their core, I mean, in their brokered deposits, the concept of reciprocal.

I would just reiterate, we've watched our banks, most of our community banks, now get out of mortgage lending. They were only doing mortgage lending. They would never take on a 30-year, fixed-rate loan, put it into portfolio, but they would take on the five-year, right, fixed for five years and then they would rewrite the loan. They were not abusing their customers, they wouldn't do that, they have a reputation issue, but we've kind of thrown the baby out with the bath water.

Because the balloons were abused, they're no longer available and we've kind of approached it with the rural definition, and so I think we need to continue without -- if we can't get it through Congress, kind of expand that definition to allow the community banks to get back to 1 to 4 lending. If it's held in portfolio, it shouldn't be subject to QM.

And then lastly, this really affects the savings banks, federal associations, and the holding companies where we have the FDIC enforcing this now on any state-chartered depository that has a savings and loan holding company, is the QTL test -- Qualified Thrift Lender.

The background of all of that QTL was about the powers of a savings and loan holding company. If you had a savings and loan holding company and you were engaged in activities that weren't permissible for a bank holding company, the check and balance in that was, you had to meet the qualified thrift lender test, and that's why we'd allow savings and loan holding companies to engage in activities beyond that of commercial bank's bank holding companies.

We've fixed all that. Savings and holding companies, there are still some grandfathered, so perhaps the QTL has some application there, but for the vast majority -- 98 percent out there -- the QTL has no relevance, and yet we're out there trying to enforce it when they have a savings and loan holding company that's not engaged in any activity at all or the activities of the holding company are that of a bank holding company.

So I think we need to -- again, we really need to rethink whether or not we should be enforcing the QTL because as Comptroller Curry pointed out, it just forces these institutions to change their charter and get rid of the holding company; unnecessary expenses.

MS. HUNTER: Thank you very much.

MR. RICCOBONO: Thank you.

MS. HUNTER: And with that, our time is up and we now -- so it's the end of the first panel. Thank you again for taking the time to provide us with such helpful comments, and I believe we have a --

MS. MILLER: Yes, we have a break. Please come back at 10:45. Thank you very much.

(Whereupon, the above-entitled matter went off the record at 10:33 a.m. and resumed at 10:50 a.m.)

MS. MILLER: Okay. Let's get started.

We have our Community and Consumer Group Panel today that is hosted by Jonathan Miller, and Jonathan is the Deputy Director at FDIC's Division of Consumer and Depositor Protection.

MR. MILLER: Thanks, Rae-Ann, and good morning again, everybody. Thanks for being here. I know some people have to travel to get here and it's a miserable day out there, so thanks for making the effort. As Rae-Ann mentioned, my name is Jonathan Miller. I'm the Deputy Director for Policy and Research at FDIC's Division of Depositor and Consumer Protection.

Today's second panel will focus on consumer and community-related issues with respect to federal banking rules. Unlike the other panels today, this panel will really be focused on the community and consumer's perspective on issues related to regulatory relief, reform and improvement.

Panelists will discuss topics such as the Community Reinvestment Act -- CRA -- rules related to community development financial institutions -- CDFIs -- fair lending rules, Dodd-Frank rules, such as those related to mortgages and mortgage servicing, and others.

The comments will focus on suggestions for how the panelists believe rules may be updated or amended to get better outcomes for the communities their organizations represent. I'm really honored and pleased to have our distinguished panel here with us today.

Individually and as a group, they bring a wealth of knowledge, experience, and expertise regarding a host of financial services and consumer protection issues. I'm going to begin by introducing briefly each of the panelists and they'll be given about ten minutes to speak -- as Maryann put it, ten-ish minutes. Their full bios are in the materials that were distributed when you checked in at the front desk outside.

After the panelists' presentations, we'll give the agency principals an opportunity to ask questions or get any clarifications, then the audience will get a chance to comment as well, and as moderator, I may ask a question or two in addition.

So our first speaker today is Margot Saunders. Margot is a counsel for the National Consumer Law Center, or NCLC. The non-profit NCLC has used its expertise in consumer law to work for consumer protection and economic security for low-income and other disadvantaged people, including older adults.

Margot has testified before Congress on dozens of occasions regarding a wide range of consumer law matters, including predatory lending, payments laws, electronic commerce, and other financial credit issues. She is a co-author of the publication Consumer Banking and Payments Law, published by NCLC, and a contributor to numerous other NCLC legal manuals.

Next we have Josh Silver, who is a senior advisor at the National Community Reinvestment Coalition, or NCRC. In your programs, John Taylor, who is the CEO and president of NCRC was listed. He was, unfortunately, unable to attend, but Josh will take his place today.

NCRC has grown to include more than 600 community-based organizations around the country. These organizations promote basic access to basic banking services in order to create and sustain affordable housing, job development, and economically vibrant communities for America's working families.

Seated next to Josh is Liz Lopez, Executive Vice President for Public Policy at the Opportunity Finance Network, or OFN. OFN is the leading national network of CDFIs, which focus on investing in opportunities that benefit low-income, low-wealth, and other disadvantaged communities across America.

Liz leads OFN's federal and state policy efforts, focusing on developing, supporting, and influencing implementation of policies that benefit CDFIs and the markets and communities that they serve.

Our next panelist is Wade Henderson, President and CEO of the Leadership Conference on

Civil and Human Rights, or LCCHR. LCCHR is the nation's leading civil and human rights coalition, with a diverse membership of more than 200 national organizations working to promote and protect the civil and human rights of all persons in the United States.

Wade has headed LCCHR since 1996 and is a well-known and well-regarded expert on a wide range of civil rights, civil liberties, and human rights issues.

Our final panelist will be Mike Calhoun, President of the Center for Responsible Lending, known as CRL. CRL is a non-partisan and non-profit research and policy institute, focusing on consumer lending issues. Mike has more than 30 years of experience in the consumer lending field and has been an active participant in crafting consumer financial legislation and regulation at the state and federal levels.

So we're going to begin with Margot and go down the line. Again, each panelist will have about ten minutes, so, Margot, go ahead.

MS. SAUNDERS: Hello and thank you for having me here today. I'm here to speak on behalf of the low-income clients of the National Consumer Law Center on a variety of topics. First I want to talk about -- does this sound all right? Is this -- okay. First I want to talk about the benefit of regulations to consumers, to industry, and to the general economy.

Nineteen years ago, when the EGRPRA law was first passed, it was the heyday of regulatory relief efforts. It was very lonely for me back then arguing for more regulation because the focus in both Congress and the regulatory agencies was on eradicating regulations.

But we should all remember what this fever of regulatory relief brought us -- the 2008 financial crisis. Consumers, investors, honest market players in the country, as a whole, suffered. There should be no misunderstanding, the financial crisis was the direct result of the massive reduction of common sense regulations, as well as the race to the bottom engaged in by many financial institutions.

The passage of the Dodd-Frank Act brought significant and important regulatory reform, establishing the CFPB, the federal agency designed to protect consumers, provided, for the first time, some real balance in the marketplace between the relative powers of creditors and borrowers.

Eradicating the Office of Thrift Supervision and placing both banks and national savings -- and federal savings bank under the same regulatory umbrella also eliminated the very dangerous dynamic of banks demanding more deregulation in order to maintain their position with their regulator. We're all better off today.

But there's still some distance to go. First I want to talk about preserving qualified mortgages. Among the most important changes made by the Dodd-Frank Act were the provisions injected into the mortgage market, requiring lenders to determine their borrowers' ability repay mortgage loans.

These evolved into the requirement that the homeowner either be provided the qualified mortgage or that the lender actually engage in the comprehensive evaluation of the homeowner's ability to repay the mortgage. It seems really absurd that we needed an act of Congress to require lenders to evaluate their borrower's ability to repay their mortgages.

But I'm still seeing pre-Dodd-Frank mortgages cross my desk in which the lender forbade the statement of the homeowner's income in the underwriting documents and made the loan based solely on the borrower's credit score.

For example, I have a case from Queens in which a Hispanic woman who could not speak English and earned between $15,000 and $20,000 a year as a housekeeper was provided a mortgage of $450,000 on a rundown townhouse in Queens. The loan was a NINA loan, No Income, No Assets.

That meant that the originator, a national bank, forbade either her income or her assets to be stated anywhere in the mortgage documents. And you know why that is, because if they had been stated, she wouldn't have qualified.

Because the loan was high cost, interest only, adjustable, and had a 100 percent loan-to-value ratio with huge upfront fees to the broker, everyone piled on to defraud this woman. But she and her tenants in her little house struggled to make the mortgage payments for years before she faced foreclosure.

Now, legal aid attorneys are trying to use the predatory nature of the loan to save her home. We'll see what happens. The critical issue here is that NINA loans are no longer legal and we shouldn't get anywhere close to allowing loans like this to be made ever again.

I also want to talk about the importance of preserving and extending the protections for successors in interest. This is something that is particularly within the Office of the Comptroller's realm. We see, quite often, problems resulting from the refusal -- particularly of mortgage servicers -- to recognize the interests and the legal rights of successors in interests.

It's become apparent that it's critically important to change and improve these regulations. There are spouses, children, and other relatives who, by law, court decrees or transfers pursuant to a will, become the owner of the home after the mortgage was provided.

Servicers sometimes cite due on sale clauses in the mortgage contracts and alleged restriction on assumption of mortgage loans as reasons for denying loan modifications to the widow or the child of the original mortgagor. A successor is often told she cannot apply for a loan modification to reduce her payment because she's not the borrower and because she's not qualified to assume the loan or because the loan was in default.

I had a case in Ohio in which a father deliberately left his daughter his house, yet after he died, when there was a lapse in payments for a few months, the national bank servicer would not talk to the daughter despite her repeated attempts.

The daughter was repetitively required to prove her right to talk to the servicer about the loan. She sent in her father's death certificate to the servicer five different times, yet the servicer kept postponing all discussions about the loan mod. The daughter had even figured out how to reach the president of the bank's office and had corresponded with them and was trying to get them to help.

They said they were helping and in the meantime, the home was sold in foreclosure to a bona fide third-party buyer. The death of a homeowner can precipitate a financial crisis as well as an emotional one. We should not allow mortgage servicers to continue to refuse to modify the loan or even provide basic loan transfer information after transfers like these where the successor homeowner was not the original borrower of the note.

That was one of the main purposes of the Garn-St. Germain protections, to preempt state laws that allowed the calling of the mortgage when this kind of transfer occurred and we ask that the OCC improve these regulations and implement protections that would actually assure that successors have access to loan mods.

I have a few more points. We hope that you deal decisively with the rent-a-bank schemes, I know Mike is going to talk about this more, I just want to add that I've been involved, somewhat, in dealing with rent-a-bank evaluations with payday lenders, and the problems are just as serious when the loans are marketed as marketplace loans.

When there's a high-cost, high interest rate loan, we ask you to consider that the basis for that high interest rate is the expected large number of defaults. And when lenders make loans with an anticipation that 35, 45 percent of their borrowers will default, you know they're not losing money on the overall product. They are, instead, figuring out just how much money they need to make over how long a term in order to make their profit.

And in the meantime, they are creating

havoc for the borrowers who are entering into these loans and suffering with the consequences of defaults. The amount of wisdom, and knowledge, and understanding of the consequences of defaults is way uneven.

Bankers, the creditors, should be responsible for making sure that loans are affordable and not likely to lead to default. Finally, in the new faster payment systems that are being developed by the Federal Reserve Board, we urge you to make sure that consumers have the right to challenge fraud in the inducement as unauthorized so that when you have the scams that we keep seeing of the grandmother scams, or some other scams that have nothing to do with the actual payment mechanism, but result in a payment being made from an innocent duped party to the scammer, there should be some way in the new payment system to allow the payments to be recalled if the scammer can't be reached.

I can go into more detail, but I see I'm running out of time, so thank you, and I'll be happy to answer any questions.

MR. MILLER: Okay. Thank you, Margot. Josh?

MR. SILVER: Good morning. I thank you and I'm honored to testify this morning. The National Community Reinvestment Coalition is an association of more than 600 based community organizations that promote access to basic banking services, capital, and credit for America's working families and communities.

Lending in America is stagnant. The number of home purchase loans in 2014 is half the number of loans in 2006. African-Americans receive 8.7 percent of all home purchase loans in 2006, but only 5.2 percent of loans in 2014. Low and moderate income borrowers received 34 percent of home purchase loans in 2011, but just 27 percent in 2014.

Branches continue to close in minority and low and moderate communities. Banks are pulling out of small business lending. This week, an article in the Wall Street Journal reported that banks originated 43 percent of all small business loans this year, which is a decrease of 58 percent from the bank's share in 2009.

Each and every day, NCRC, and our members institutions, experience the fallout or the devastation racked on working class communities due to the foreclosure crisis and the continued retreat of lending and banking services.

We hear heart-wrenching stories every day. The lending that Margot discusses seems like the lending in the 2000s before the foreclosure crisis. It's still going on. Banks continue to be replaced by predatory lenders and payday operators. Meanwhile, more than 98 percent of banks pass their CRA exams.

Something is rotten in America. I want to challenge the bank agencies today. I ask you to take a hard look at your statutory mandates and mission statements. For the Federal Reserve, the Full Employment and Balanced Growth Act of 1978, known informally as the Humphrey-Hawkins Full Employment Act, imposes a dual mandate to combat unemployment as well as inflation.

Part of the fight against unemployment would be to ensure that banks are lending to qualified small businesses and homeowners. The Office of the Comptroller of the Currency describes its mission to ensure that national banks operate in a safe and sound manner, but also to provide fair access to financial services and treat consumers fairly.

The federal agencies must not only ensure that banks are successful, but that the banking industry is successfully serving communities, particularly minority and low and moderate income communities. There is not a more important institution in working class communities than the bank.

The provision of credit and capital is the lifeblood of communities. I want you, the agencies, to show more urgency and to get more vigorous and rigorous in examining banks for CRA and compliance of fair lending laws. Here are some of NCRC's major recommendations. We have several other recommendations, but I cannot discuss all of them in ten minutes.

Banks must demonstrate a public benefit when seeking to merge. The Bank Holding Company Act and the Bank Merger Act require federal agencies to consider whether a proposed merger benefits the public. This requirement was enhanced by Dodd-Frank. However, the regulatory agencies have not provided clear guidelines for banks and community organizations regarding what constitutes a public benefit arising from a merger.

This results in weeks of community group letters and bank replies that are often not productive and extend the process without a win-win resolution for all parties. It would be much better if regulatory agencies established clear expectations and guidelines. This would make it more likely that mergers would result in more responsible lending.

Examine retail lending beyond CRA assessment areas. Several banks make considerable numbers of home and small business lending outside of their assessment areas, but this retail lending is not evaluated by CRA exams. Therefore, banks have reduced motivation to ensure that lending outside of assessment areas is reaching low and moderate income borrowers and communities in a responsible fashion.

If a bank makes a significant portion, such as 25 percent of its retail loans outside of its assessment areas, examiners must evaluate retail lending outside of assessment areas to assess whether the retail lending is consistent or inconsistent with retail lending performance to low and moderate income borrowers in communities in the assessment areas.

If the lending outside of the assessment areas is inconsistent, in that the performance is worse than inside the assessment areas, the rating on the lending test should be downgraded. There are cases of examiners looking at retail lending beyond assessment areas, which we describe more fully in the written testimony, but these cases do not make clear what happens when the retail lending is worse outside than inside the assessment areas.

Quoting from the Federal Register Notice, the EGRPRA process is often devoted to determining outdated and unnecessary regulations. NCRC asserts that CRA and fair lending regulations have become outdated due to benign neglect and the failure to update them. A lack of updating CRA is a burden on minority and modest income communities. It is burden on communities of color, who receive either abusive loans or few loans. Yet, CRA continues to neglect examining lending to communities of color. Ironically, exams scrutinize lending to minorities communities before the 1995 regulatory reforms to CRA.

It is a burden on all communities when affiliates continue to be excluded from CRA exams at the bank's choice. As a result, affiliates simply have more license to either engage in abusive practices or neglect modest income communities. It is a burden for communities when CRA exams pass more than 98 percent of all banks, yet lending keeps going down year after year.

Ratings do not reflect the reality of differences in bank performance in serving communities. We recommend replacing the 1 to 24 point scale with a point system of 1 to 100. More detail is in the written testimony.

It is a burden for smaller cities and rural counties when CRA exams call their areas "limited scope assessment areas," meaning that bank performance in these areas does not count at all or to a very small extent in the CRA rating.

At the very least, the performance in so-called limited scope areas for each state ought to be aggregated or summed and count as one full scope area.

And here is one that our bank partners should applaud. CRA sunshine submissions are a burden and should be retired. CRA exams and decisions on mergers often miss opportunities for enforcement when CRA exams pass banks or when agencies approve mergers without any requirements for improvement.

In recent years, the agencies have imposed more conditional merger approvals require specific improvements in performance, but I can still count on one hand the number of these approvals. The number of conditional merger approvals need to increase in order to ensure the public benefits are realized.

Moreover, while readers of CRA exams know which geographical areas have lower ratings, the exams are not that helpful in succinctly summarizing why the bank scored poorly in these areas and what specific steps it could take to improve performance in these areas.

Why not include specific requirements for improvements in CRA exams to address areas of weaknesses? For example, these could be requirements to improve lending to African-Americans as well as low and moderate income borrowers or increasing investments in smaller cities.

Communication is poor between the agencies and communities. The agencies have responded to NCRC recommendations for improving their websites, thank you, but their websites still have a tendency to bury CRA and merger information, and thus make it hard for communities to use the CRA and merger application process. It is hard to figure out, for example, who to contact if a member of the public has questions about CRA or the merger application process.

CRA examiner training needs to be greatly enhanced. It is still too rare for examiners to talk to community groups when conducting exams. When they do talk to groups, the community group comments are summarized in a very general and non-informative manner on CRA exams.

In closing, NCRC will strongly oppose any proposals to rollback existing CRA requirements. For example, we will vigorously oppose expedited merger approvals for banks receiving outstanding ratings and any adjustment to asset thresholds that result in more banks receiving streamlined exams.

These proposals do not reduce burden,

but they do reduce the rigor of CRA and merger enforcement, and will result in fewer loans and investments in underserved communities. Exactly what we don't need now.

In the EGRPRA process, the agencies should reduce burden by increasing clarity, like describing what is required to demonstrate a public benefit. The EGRPRA process can be a win-win for banks and communities if it creates a predictable and clearly rigorous CRA and merger enforcement regime, but it will be a loser for communities if it replaces CRA's continuing and affirmative obligations to serve communities with a periodic obligation to serve communities.

Thank you very much.

MR. MILLER: Thank you, Josh. Liz?

MS. LOPEZ: Thank you. As Jonathan mentioned, my name is Liz Lopez and I am the Executive Vice President of Public Policy for the Opportunity Finance Network. On behalf of OFN, I would like to thank you for the opportunity to be part of this conversation on the decennial review of the EGRPRA.

OFN greatly appreciates your commitment and focus of this review of the regulations. I would like to start by providing you with an overview of OFN, our members and the communities they serve, as well as an overview of CDFIs' relationships with banks and comments on the Community Reinvestment Act.

OFN is a leading national Network of community development financial institutions, or CDFIs. CDFIs invest in opportunities that create vital community services and entrepreneurial capital in urban, rural, and Native American communities. There are four types of CDFIs and over 900 CDFIs certified by the U.S. Department of Treasury.

Loan funds make up more than 50 percent of the industry. Credit unions are next with 26 percent; banks, thrifts, and holding companies with 19 percent; and venture capitals with 1 percent of the CDFI market.

As of February, the CDFI industry total

assets were over $90 billion. CDFI asset sizes are very diverse and ranges from less than $100,000 to over $6 billion in assets. As you can tell, it's a very diverse industry.

OFN Network includes nearly 240 performance-oriented CDFIs. What makes our network unique is that CDFIs must meet OFN's eligibility criteria and performance expectations. In 2014, OFN's members achieved results with a net charge-off ratio of less than 1 percent, comparable to the rate for FDIC-insured institutions.

OFN members partner across the public and private sector with government agencies, foundations, corporations, and banks to provide innovative solutions and to scale capital into larger investments. Over the past 30 years, our network has originated more than $33 billion in financing to people, businesses, and markets and communities just outside the margins of conventional mainstream finance.

In November, OFN released a

groundbreaking report outlining an analysis of CDFIs' performance, impact, and growth over the last 20 years, from 1994 to 2013. Some of the findings are that CDFIs have maintained their ability to provide capital in underserved communities, even during recessionary periods when conventional banks retrench.

CDFIs' average loans outstanding increased slightly in the wake of the 2008 recession, from $28.2 million to $28.6 million, helping to create jobs, housing, and community services during the downturn, and that CDFI's industry growth has been impacted by capital supplied by banks, thrifts, and credit unions, $12.7 million in 1994 to $1.7 billion in 2013.

During this period of growth, OFN has supported banks' CDFI partnerships in three-ways. By creating CDFI investment strategies. These are customized, bank-focused, capacity-building strategic plans to help individual banks understand the CDFI industry, identify CDFIs in the bank's footprint, to have the capacity to work with banks, and develop relevant products and services for CDFIs. By providing asset management services to banks that includes educating staff on how to underwrite CDFIs, providing underwriting services, and managing CDFI portfolios for banks, and by designing and developing capacity-building programs that may also provide CRA credit to banks for their investment.

Two examples of OFN work with banks includes working with a bank to decide and execute a program to increase its commitment of annual assets to community development investments and expand its portfolio of financial services targeted towards underbanked, low to moderate income markets, and minority populations.

Another example is OFN's work with a bank to develop a strategy aimed at CDFIs through which the bank committed more than $10 billion to increase economic development activities, including LMI mortgage activity, small business lending, and community development investments.

When regulators modernized CRA in 1995,

they tied CRA to CDFIs in a way that, together, with the CDFI Fund, has fueled our industry growth. Now, because it is impossible for any bank that participated in TARP to get an outstanding CRA rating, banks will no longer try.

Because a bank can get a satisfactory rating without stretching itself, banks no longer have meaningful CRA strategies. Instead, banks have broader corporate social responsibility programs. This is one of the major factors affecting the change in CDFI capitalization.

Because banks no longer are under regulatory pressure to stretch, they will extend credit in more conventional forms for shorter terms with greater scrutiny. What we're hearing from our members is that banks' lendings to CDFI has plateaued and is currently declining, and that not all banks understand how CDFIs operate and how banks can identify the best CDFIs to partner with.

We urge for CRA enforcement to be strong and for bank performance under CRA to be disciplined and community-centered. We would also ask you to consider how bank CRA assessments are determined, applying the same consideration to partnerships with CDFIs that are extended to qualified investments in minority and women-owned institutions and low-income credit unions, as well as CDFI training for CRA compliance officers and banks.

Currently, there is a disconnect between how banks do business and how CRA assessments are measured. Our ask is that you consider adding to the bank's assessment, those areas it reaches by means other than branches and deposit-taking ATMs, and for financial institutions to have a commensurate community reinvestment obligations in those markets.

Federal agencies have rightly recognized that financial institutions can reach low and moderate income people through means other than bank branches and ATMs. Providing consideration for these types of activities when they happen to reach low and moderate income people is not the same as requiring financial institutions to meet the needs of low and moderate income people in all the markets in which they do business.

Another area that we urge you to consider is applying the same consideration to partnerships with CDFIs that are extended to qualified investments in minority- and women-owned institutions and low income credit unions.

Both the requirements and the actual performance of Treasury-certified CDFIs support the addition of CDFIs to the list of institutions included in the qualified investment category. CDFIs are a recognized CRA financial intermediary in the CRA and they are specifically highlighted as an example of community development loans.

CDFIs frequently serve the same market interests as minority-owned financial institutions, women-owned financial institutions, and low-income credit unions. More important, they serve the same markets targeted by CRA and so will help meet the CRA's purpose in the same way as those institutions.

In 2014, OFN's data indicates that 73

percent of the Network's clients were low income, 48 percent were minority, and 48 percent were women. Because of this clear overlap, CDFIs should be accorded the same treatment under the CRA as minority- and women-owned institutions and low-income credit unions.

The inclusion will help solidify the unique value of CDFIs in helping low and moderate income people and communities with their credit needs. This is, after all, the purpose of both CDFIs and the CRA.

Our last request is that you consider requiring CRA compliance officers and banks to participate in CDFI orientation training. Our experience in working with CRA comp lawyers at each of your agencies has been excellent, but we know that gaining an in-depth understanding about CDFIs can take time, and this is further complicated by the fact that, even after 30 years, our industry continues to evolve and grow.

In regards to banks, we believe that required CDFI training could help them understand how CDFIs operate and about the CDFI industry's diversity, including type, size, capital, and communities that are served. Understanding both is essential to ensure that banks can select the best CDFI to partner with to meet their specific market needs and also their CRA goals.

OFN appreciates your consideration of our comments to modernize CRA and ensure it keeps pace with the changing financial services industry. We look forward to continued partnership with you and support of a thriving CDFI industry that provides responsible access to federal and private resources and achieves a positive impact in communities across America.

Thank you for your time.

MR. MILLER: Thank you very much, Liz. Wade?

MR. HENDERSON: Jonathan, thank you. To Chairman Gruenberg and the distinguished members of the EGRPRA panel, I'm honored to be with you this morning, honored to be a part of this panel of distinguished participants representing consumer and community groups.

As Jonathan said, I'm Wade Henderson, President and CEO of the Leadership Conference on Civil and Human Rights, the nation's premier civil and human rights coalition, with over 200 national organizations working to build an America as good as its ideals.

I'm also honored to be the Joseph L. Rauh Junior Professor of Public Interest Law at the University of the District of Columbia. But for these purposes, I'm most proud to be a member of the FDIC's Advisory Committee on Economic Inclusion, one of the nation's leading forums on financial regulatory issues and innovations that aim to bring all Americans into the financial mainstream.

Now, I know that much of today's hearing has been devoted to discussing the regulatory burdens that financial service providers face in today's environment, with an eye toward the elimination of regulations that are unnecessary, duplicative, or outdated.

Now, these, of course, are worthy goals that few could disagree with. However, I want to caution against the overzealous or too narrow an application of these principles in a manner that might well exacerbate the growing problem of economic inequality in our nation.

Now, for my testimony today, I'd like to offer the perspective of a lifelong advocate for civil and human rights, by discussing how we arrived at our current regulatory environment, the importance of protecting the financial health of all communities -- particularly communities of color that far too often bear a disproportionate burden of under-regulated loans and other consumer financial instruments -- and a few of the challenges that I believe we'll face as a nation moving forward.

Now, let me begin with one of the most basic understandings that lies at the heart of the Fair Housing Act of 1968 and other important steps our nation has taken in fair housing and fair lending.

Where you decide to live, or, in some cases, where someone else decides you ought to live, has implications that affect virtually every aspect of your life. This one decision has more impact than anything else on which schools your children attend, it affects whether you can find a decent-paying job and whether the transportation systems exist to actually get you to that job. Historically, it has determined how much you'll pay to cash your paycheck or get an emergency loan, and it also still determines whether you can use the money to put healthy food on the table and get the best of healthcare.

Now, as we've seen with the heartbreaking case of Freddie Gray of Baltimore, Maryland, who died mysteriously in the back of a police van transporting him into custody earlier this year -- or last year -- it affects whether you will be exposed to lead or other toxins that, even decades after the rest of the country has eliminated them, still keep many people from reaching their full potential. That's what happened with Freddie Gray.

And as we have recently seen in other cities, it affects whether you'll live in fear of violence or face a two-tiered system of justice if you happen to find yourself accused of doing something wrong.

Well, needless to say, whether you can get a mortgage and on what terms is one of the biggest factors involved in the decisions of where families live. And getting to the point of today's hearing, this is an area that was in desperate need of stronger and more responsive regulation, and remains so today.

Now, I understand that this is the first time the EGRPRA process has been convened in nearly a decade, and it is staggering to look back and see how much has changed since then. Some of you may remember a Time magazine cover from 2006, which showed a man literally hugging his house, and which proclaimed that America was "going gaga over real estate." Now, on the surface, that is certainly how things appeared. Yet the truth of what many civil rights and consumer advocates, and even some regulators, like Sheila Bair and Ned Gramlich, had by the time had been arguing for years was that the mortgage lending system was profoundly flawed.

Tradition lenders had abandoned their responsibility to communities they served, enforcement of consumer protection laws was being neglected, the lines between investment and consumer banking had been eliminated, and as a result, countless numbers of unsound and abusive loans were being made.

It was also clear who was being hurt the most. In 2005, the year that marked the height of the housing bubble, African-Americans were 2.3 percent, and Latinos 2.7 times more likely to receive subprime purchase loans than white borrowers. And the numbers were not much better for mortgage refinances. And it also should have been more clear where all of this was headed.

In 2006, my colleagues at the Center for Responsible Lending -- Mike Calhoun, representing them today -- predicted that 2.2 million subprime loans, a number that they had to revise upward the following year, would end in foreclosure, and that CRL was criticized for "betting against housing."

I don't bring this up to lay blame. There was more than enough going around without my contribution. I recall hearings over the past several years in which mortgage lenders blamed brokers, brokers blamed appraisers, appraisers blamed realtors, realtors blamed developers, and borrowers blamed all of the above, and vice versa.

Now, my point is that we should remember that the legal and regulatory structures that had governed mortgage lending were completely broken. And the consequences of that breakdown, particularly for communities of color, were disastrous. And while it is understandable to question and scrutinize and debate the finer points of a new regulatory system that has been enacted in the wake of the Dodd-Frank bill, I would only ask that we keep that history in mind as we do, because a lot of people -- and I'm guessing not too many of them in this room today -- are mired in the consequences of our failure to properly regulate when regulation was clearly needed.

Now, as this ongoing debate over the regulatory process moves forward, there are a few challenges in particular that I'd like to flag, and I'm happy to elaborate on these once we have a chance for further conversation.

First, since the ink on Dodd-Frank was still wet, we have seen attack after attack on the work, and more importantly, on the very existence, of the Consumer Financial Protection Bureau. It's one thing to debate the finer points of regulation with the CFPB experts who have been entrusted with writing them. But to the civil rights and consumer advocacy communities, the efforts we're seeing in Congress to overrule the Bureau -- as in the case of auto lending just last week -- and to undermine its independence, demonstrate not just a failure to learn from fairly recent history, but a stubborn determination to live it all over again. Defending the work of the CFPB is going to remain a top priority for the civil and human rights community going forward.

Second, we are still faced with the issue of what to do with our nation's housing finance system in which the majority of home loans are guaranteed by Fannie Mae and Freddie Mac. And, of course, since 2008, that system has been in a tenuous position. Fannie and Freddie remain in conservatorship, and with shrinking capital buffers, they remain at risk of being bailed out again with potentially serious consequences for the affordable housing mission they were meant to fulfill.

Now, while the leadership conference remains open to discussing the best way to reform the GSEs, including an explicit federal guarantee of mortgages, we also believe it's important to face reality. Their current position is not sustainable in the long run and there is no consensus or timeline on how or when Congress might come up with a better system.

Now, until such time that we might see legislative reform, we have called for allowing

Fannie and Freddie to rebuild their capital buffer and eventually allowing them to exit from conservatorship.

Now, let me just say that some people have referred to our position as "recap and release," as if we're proposing to go back to the same system we had before the housing crisis, and I reject that characterization. Thanks to the 2008 law that gave us the FHFA, with its stronger oversight, and the Dodd-Frank law that gave us the consumer bureau, and protections like qualified mortgages, we are operating in a very different world than we had before. I think we should give those reforms a chance to work, and we're going to continue making the case for that.

Now, finally, in the coming months, we expect to see the CFPB issue a rule addressing another one of the most problematic financial products in communities today, especially communities of color, and that's payday lending.

Ultimately, and after a long fight that will most likely be taken up in Congress, I expect the CFPB will prevail in putting a stop to this devastating and immoral type of lending. At the same time, the need for small-dollar credit in low-income communities of color will still exist.

I want to encourage the FDIC, including through the Committee of Economic Inclusion, and other regulators, to continue laying out the regulatory path for better alternatives to take the place of payday loans.

Now, with that, I'll stop and I thank you again for the opportunity to be with you.

MR. MILLER: Thanks very much, Wade. And, Mike, finish us off here.

MR. CALHOUN: That's a tough one to follow and you'll see I have a bit of a handicap today.

Thank you for the opportunity to speak today, and thank you for the attention and care that you are providing, you and your agencies, to the EGRPRA process. My comments follow with the last point that Wade made.

Banks, as everyone here knows, play

such a critical role in our economy. And accordingly, they're given special powers in order to carry out that role. And it's what we're seeing today, and we've seen this before, is a growing effort by non-bank entities to try and obtain access to those powers without the corresponding obligations and supervision that come with it. And it is really imperative in this process that we protect both the integrity of the bank charter, and most importantly, the consumers in the overall economy which depend upon that protection.

Now, we have seen these attempts before and they have been appropriately rejected with a lot of work by your agencies. Last year, I noticed, when issuing the new CIF Handbook, the OCC made it clear that banks may not "rent their charters," and that was in accord with longstanding policy.

I think Comptroller Hawke put it well more than a decade ago. Referring to preemption privileges, he said, "They are not a commodity that can be transferred for a fee to non-bank lenders."

But we are seeing growing efforts for that, in fact, to occur.

Courts have scrutinized those that try to rent bank charters to evade state consumer protection laws. Typically, these arrangements that we see -- and we're seeing lots of them today -- involve the following characteristics. The loans will be nominally originated in the name of the bank, but the non-bank entity will design the program, market the loans, provide funding for the loans, service the loans, and usually guarantee the bank against any losses from the loans. Often -- and I tried this recently -- you can go to the website and other materials, to the bank itself, and find no reference to these loans. You can only find reference to them through the non-bank entity.

Courts have seen through these shams, and the majority of them apply a test called the "predominant economic interest" to see who's the real party in interest in these loans rather than the nominal lender. And that's consistent with what you've done, and I would argue it's also consistent with Dodd-Frank, which reaffirmed that rent-a-bank charters are not allowed.

As everyone here will recall, previously operating subsidiaries of banks were accorded preemption. Dodd-Frank reversed that position and said, if you want preemption, you need to operate through the bank itself. And for these non-bank entities to make an even much more tenuous claim to preemption just runs in the face of what Congress did in the Dodd-Frank Act.

But as I noted, we are seeing a surge of these in the new world. I'll give the example of where it's most predominant, is the online lending by non-bank entities. Many of these entities are charging 200 percent interest or more and they're seeking to make these loans in states where that would exceed the state usury limits. And they also do not comply with state licensing.

This surge of high-cost lending has been a reaction to rulemaking efforts of the CFPB on payday and installment loans, and to the general expansion of FinTech online lending, which offers promise to provide some of the affordable loans as well. And it's how to balance that to come up with products that actually help consumers.

Essentially, what happened is payday lenders were able to convince states to create exceptions to their state usury laws by arguing that their fees were not interests. They were one-time fee for deferral of a check for one pay period.

The industry, though, morphed into a model of repeat lending with the average borrower now being in a payday loan for more than half of the year. The CFPB found that the majority, the majority, of payday loans were going to people who had more than ten loans in a row with no break, and that is where the industry has moved.

And so now the industry is faced with ability to repay and other standards that may be proposed by the CFPB, hopefully soon. And so payday lenders are quickly morphing into these high-cost installment lenders.

And a final reason that this lending has gone unscrutinized, and it puts more burden on the regulators, is, virtually every one of these agreements contain binding arbitration clause that immunize them against any challenges from private attorneys. So it is only public oversight that can provide relief here.

So we expect that these more blatant rent-a-bank schemes will morph into efforts to try and appear to pass economic interests to the banks. An agreement I looked at recently had artifices such as complex loan participation structures, offshore funding sources, and complex guarantee agreements. And the regulators, we would urge, should scrutinize these arrangements to see who really does have the economic interest.

But beyond that, we urge the regulators to look at the terms and conditions of these loans themselves. In the early 2000s, we went through this exact scenario with payday lenders. Many states, including North Carolina, where we are based, decided to prohibit the payday loans. The payday lenders responded by partnering with banks in these rent-a-bank charter deals.

The FDIC, under Don Powell, responded in 2005 by focusing on the product itself, noting how it had morphed from this one short-time bridge into what had become a long-term debt trap. And they imposed standards that applied to both banks and the rent-a-charter. Their modest standard was, don't put people in these two-week loans for more than 1/4 of a year. And that made the model not work, and addressed it both for banks and the rent-a-charter.

And we would urge you again today that these high-cost installment loans pose similar problems to the payday loans. So, like the payday loans, they are dependent on the lender obtaining direct access to the borrower's bank account. Every one of these, usually it's 99 percent plus of the loans, have ACH payment on the date of the borrower's paycheck, and it is virtually impossible to get one of these loans without that. They ensure that the lender is repaid even when the borrower cannot afford to still pay their remaining bills.

Let me close with an example of one lender who did direct lending as well as one of these rent-a-bank arrangements. Its loans often exceeded 200 percent for a loan of $3,000 for a four-year term. After paying on a loan like that for a year and a half, borrowers had paid thousands of dollars in payments. But due to the up-front fees and the high interest rate, they often had paid less than $100 down on the principal that they borrowed.

As Margot had indicated, these loans have high default rates. And at that point, over 1/3 of the borrowers were in default on the loans. And what is alarming, perhaps more so, is the lender had predicted that default rate. That was not an accidental outcome. It was where they were maximizing their returns.

And then finally, on the back end, this lender inundated borrowers and their family members and friends and employers with debt collection calls. In one state, this lender had

292 borrowers. In a court case, it was found that they had made over 84,000 collection calls to that group of borrowers. That's more than 250 calls to every borrower. Now, again, these are loans that were originated in the name of a bank and insured by federal insurance.

So, in closing, I want to correct, I think, what's often a misconception about the upcoming CFPB rules in this area. The CFPB has been very explicit: their rules are not intended as comprehensive regulation of this lending, and they are going to be highly dependent upon the maintenance and integrity of state consumer protection laws and of federal oversight of banks, and particularly their lending partnerships with some of these lenders.

So, we would urge you that regulatory reform should ensure that the oversight remains vigilant to both enforce consumer protections and maintain the integrity of the bank charter. Thank you.

MR. MILLER: I appreciate the

panelists very much for your very insightful comments. I turn to the principals for any questions or clarifications.

COMMISSIONER TAYLOR: Again, I want to thank the panel. That was very, very helpful information that you guys gave.

A number of you have talked about and advocated that the banks should be doing more small loan lending. And I've heard some banks want to actually do more small loan lending, but they say the regulations are kind of burdensome, the supervision is burdensome. Are there hurdles that stop them from doing that, and if so, how can we address some of those regulatory hurdles?

MR. CALHOUN: So I think there are two things there. One, I would note the CFPB, in their at least brief of proposal -- and we expect something similar will be in their proposed rule -- has looked to provide exemptions for bank lending. It makes sense for this lending to take place in banks because it is so much more efficient. They know the customer, they don't have to build a separate infrastructure, and they're subject to your supervision.

At the same time -- and I've had some bankers candidly say this to me, that banks today are extremely reluctant to do this because it would have the effect of cannibalizing the very profitable overdraft product that they offer, which is, in many ways, operating as a small-dollar lending program.

And so I think it's noteworthy, the CFPB, I think they looked at this through the same lens, that their regulatory agenda has overdraft coming right on the heels of payday for that reason, to open up this. I mean, there's a principle we often talk about where bad products can drive the good products out of the system. It's kind of tough to go up to the C-suite and say, "Let's do this program that will knockout all the revenue from this other very profitable program." So I think that is the real key to moving forward with this access.

MR. SILVER: I would like to add that

more data sheds sunlight. You have the Home Mortgage Disclosure Act data that requires the public availability of home lending. Consumer lending and credit card lending over the years has been in a dark shroud because there is a lack of publicly available data.

And data on the number of these loans, the terms and conditions, I think would be very helpful. And this is always very puzzling to me, because banks make credit card loans and there's been a lot of -- credit card lending has also been rife with abuses -- but I think more thought needs to be made about to what extent can credit card lending serve some of these needs, to what extent can bank small consumer lending serve some of these needs? You know, why are people running to payday lenders? And I think one reason people are running to payday lenders is a lack of bank branches in minority communities and low and moderate income communities.

So I think all these things work together. I think more vigorous enforcement of the Community Reinvestment Act. And when banks merge, if they're proposing branch closures, that ought to be scrutinized very carefully.

I think all these things work together. And, you know, access to credit is too tight right now. It was irrationally too loose in the years running up to the financial crisis, but now it is too tight. And there is a way to loosen some of these underwriting requirements and do it in a safe and sound and responsible manner and really serve needs.

MR. HENDERSON: I think my colleagues have both cited examples for why banks have difficulty in stepping in this area. And they're both right, but I would ask the panel to at least be open to a conversation about trying to expand the availability of small-dollar lending beyond the conventional sources that have been the subject of your attention over the years.

There is a proposal on the table, a very modest proposal, to allow the U.S. Postal Service to engage in some aspects of tightly controlled small-dollar lending. While I understand that that may be anathema to banks and to traditional financial institutions, we would urge you to step back for a minute, take a look at the available data, study it carefully, think about the opportunity to provide venues for small-dollar lending, in response to Josh Silver's comment that banks don't have adequate and sufficient branches in communities around the country, but recognizing that the U.S. Postal Service is literally in every community in the country, both urban and rural.

And so the ability to explore this as one way of expanding the availability of small-dollar lending is certainly worthy of consideration, regardless of how you come out on the analysis. We hope you'll at least be open to looking at it.

GOVERNOR TARULLO: Thanks. I actually wanted to generalize Commissioner Taylor's question a little bit, because you all, the five of you, spoke very forcefully to, I think, two sets of issues: one, the affirmative obligations of banks under the CRA, in particular; and secondly, the need to prohibit predatory and harmful practices, some of the authority for which still lies with us and some of it lies elsewhere.

But what I wanted to ask is, as Steve did a little bit, whether there are regulations that our three agencies have in place for prudential reasons, which you all assess as unnecessarily impeding the ability to make small-dollar loans, to make loans into low and moderate income areas, to make mortgage loans. Anything that we're doing, or have done, or maybe the legacy of things that were done in the past, that you don't see either a good safety and soundness reason for -- well, you don't see a good safety and soundness reason for it, and you think it may, even at the margin, be inhibiting the ability of the banks to make those kinds of loans.

MR. SILVER: Well, I don't want the EGRPRA process to result in an attack on the qualified mortgage or the other important regulations that have been implement as required by Dodd-Frank, because I think that these protections are very, very important. The ability to repay, as Mario says, why do you even have to write a law about that? But you did have to write a law about that.

Lenders and brokers are making loans that you would not make to your grandmother or to your mother. You know, there should be a grandmother and mother test, but unfortunately not all human beings are moral and you need to write these rules.

In the 1990s, there was an upsurge of CRA lending that was not subprime lending, but that was responsible lending, relaxing down payment requirements, considering sources of saving in non-traditional ways that worked. Study after study has shown that CRA-regulated lending was much safer and sounder, and reached more low and moderate income people, than mortgage company lending and other lending that was outside the CRA realm.

So I think we need to get back to those

practices that promoted safe and sound home lending, small business lending, that was regulated under CRA and the other laws. And I think just some -- you know, one thing that the regulators can do, rather than, you know, eliminating QM protections for portfolio lending, I think that's very, very important, because what could happen to a portfolio loan? It could be sold the next year.

Conduct roundtables with community organizations and lenders and other stakeholders, and try to figure this out. Why isn't there more CRA programs to expand lending? Meet about it, write about it, discuss about it, get it in the media, and then I hope -- and more vigorous application of CRA, and I hope we see more safe and sound lending in communities.

MS. SANDERS: So, I think some have said that I've never seen a regulation I didn't like, but I would -- I think, as you might expect, we, at this table, most of us, are not thinking about the problem the same way you are. I sit at my desk, I've been working for the National Consumer Law Center 24 years now, and I get the calls from the legal aid lawyers and private attorneys who are dealing with people who have gotten loans they can't afford.

And I don't get any calls from people who can't get loans. I'm not negating that that is not a problem, but the problem that is causing the greatest amount of loss and heartburn and cost to the low-income community are the loans that shouldn't be made.

And one of the problems that I think causes that is the conflation of affordability with ability to repay. The bank's obligations, the banking regulators have required that banks only make loans where they are assured that the borrower has the ability to repay. Well, that means the bank has assured itself that it can take the money from the borrower, and thus the loan can be repaid. That is a different concept than whether the borrower can actually afford to make those payments.

Sometimes it's going to be better for borrowers to not get the loan. And we have so many stories, legal aid stories, one story I remember from East St. Louis where a woman was so pleased originally to get her home loan, and then two years later she went crying to her lawyer and said, "Whoever said this was a good idea? I can't afford it. I've lost everything. My children's lives have been disrupted."

It's not a good idea to make people loans that they can't afford to repay.

MS. LOPEZ: And just to add on to what Margot was saying, actually, the Opportunity Finance Network is launching an education campaign, because one of the challenges that we're seeing is that consumers are not properly informed about all the different options.

We're at the very early stages of this campaign, but one of the things that we really needed assess are about the diversity of the markets and how do you best reach Native American communities, Latino communities, African-American communities, Asian communities, urban and rural areas. So that is something on our end that we've been focusing on the consumer side.

MR. SILVER: Just real quick, there is a huge issue of access to credit for small business lending. NCRC has a small business technical assistance program for women- and minority-owned businesses. And this has been also written about extensively in the media, so there is a problem.

And non-bank lenders that are high interest rate lenders, it's all very familiar, are stepping into the small business lending field. And I worked for a while for a non-profit organization called Manna, a housing non-profit developer, and I can tell you, the American dream of home ownership is still a great dream for many people. I would see them every day in the offices of Manna.

The question is, is a non-profit with responsible counselors going to reach low and moderate income and minority people and offer them responsible home ownership that lasts? Or is a predator? And what we're doing as regulators and non-profits and banks is creating an infrastructure, and hopefully the infrastructure works to promote long-lasting and sustainable home ownership and small business ownership, and keep it away from the predators who want to extract wealth.

MR. CALHOUN: So, if I can add just one place that I would urge you to look, and I think it reflects the perspective you have here, is, most people know we're the affiliate of a lender that does a good bit of mortgage lending. So we get to comply with the regulations also. When you talk of people in the mortgage field, I hear a broad consensus that this is a fundamentally safer mortgage environment that we have.

And it's not just safer for the individual loans. It makes it safer that you will not have a broad, catastrophic event. Because so much we saw, for example, all of our loans were 30-year fixed rate, fully documented, we had them across the country, 48 states, and when unemployment hit 12 percent, you know, you could underwrite them as well as you want, you're going to have some high losses.

But I think those should be factored in when you look at the capital requirements, because one of the things we have seen is, it is hard for many community banks to hold loans, particularly non-conforming loans, on their books because of capital treatment there. And you want to make sure we have safety and soundness there, but I would urge you just to use care of the balancing there and have those capital requirements reflect these other protections, that, as long as they are there, do make it a much safer mortgage market than it was before.

CHAIRMAN GRUENBERG: If I could ask Ms. Lopez just briefly: we've had a longstanding interest in partnerships with community banks and community development financial institutions; is it your view that the environment today is actually more challenging for developing and sustaining these relationships? And on the regulatory side, from your perspective, what are the particular issues that you think we need to be involved in?

MS. LOPEZ: Yes. So, one of the things that OFN just actually did in November is we released a study of, really, 20 years' worth of data. And what that showed is that banks had really fueled the significant growth of the industry. That data went up to 2013. And what we're hearing now from our members is that they're feeling that the lending has plateaued and that it actually is going on the decline.

And one of the reasons being is that the CRA amendments that were made are no longer as, really, impactful as they were early on because of the changes that we're currently facing. No more banks merging, and therefore, really aiming for a higher rating in terms of CRA from satisfactory to outstanding.

So it's great to kind of have this 20-year perspective to really have seen the impact that banks have and to then have the immediate feedback of what our members are telling us what the situation is currently.

In terms of what can be done to address the issue, one of the challenges that we're also hearing from our members is that our industry is complex and not all CDFIs are created equally. And that is truly a challenge even if banks are willing to partner with us because of the complexity of our industry.

Not every CDFI will be a great match and a lot of the times that can be due to capacity issues, but there are certainly plenty of CDFIs, and they truly understand what are the asset sides, who are the communities that they serve, and what their capabilities are, so there are definitely significant CDFIs that can be good partners, but it's not one of those things that all CDFIs can be treated equally.

MR. MILLER: Any other questions from the principals and any comments from the audience? We have the microphone in the front. Well, if that's the case, then I think we stand between you and lunch.

MS. MILLER: Thank you very much, Jonathan. Folks, lunch is outside. You're welcome to take lunch and bring it in the room and eat it. We'll return at 1:15. Thank you.

(Whereupon, the above-entitled matter went off the record at 12:03 p.m. and resumed at 1:15 p.m.)

MS. MILLER: Okay. It's 1:15. Before we start the next panel, I just want to remind folks that in your packages, we have forms for comments. The ladies up front tell me we don't have any comments yet, you don't have to, but if you wish to, just fill out one of these forms with your comments, and you can drop it off out front, and it will get entered into the record. So thanks very much.

We're going to move to our second banker panel and our moderator today is Toney Bland, and Toney is the Senior Deputy Comptroller at the OCC. So, Toney, why don't you take us away.

MR. BLAND: Okay. Rae-Ann, thank you very much. I also want to thank you all for staying around and if you didn't know, we were taking attendance, so we know who left. We have panel three, and as Rae-Ann said, we're the second banker panel.

What our panel is asked to address is rules pertaining to applications and reporting, powers and activities, international, and banking operations. What I want to do is spend a moment and just touch on what is covered under those particular rules.

Under applications and reporting, we're talking about the Bank Merger Act, change in bank control, Call Reports, deposit insurance, filing procedures. Under powers and activities, that includes investment in bank premises, investment securities, sales of insurance, fiduciary powers, community development investments.

Under international, it's foreign operations of national banks, Edge Act corporations, and then lastly, under banking operations, we're talking about assessments, availability of funds, collections of checks, record keeping requirements, and reserve requirements. And that's not all inclusive, but just to hopefully give you a sample of the areas under each one of those rule categories.

As -- similar to the other panels, we asked our panelists to provide specific comments on regulations that are outdated, unnecessary, or unduly burdensome. Now I'd like to introduce a very distinguished panel and I think it's important to note we have institutions represented here of different sizes and representing different markets.

To my right is Jim Consagra, he's the President and Chief Executive Officer of United Bank in Vienna, Virginia. It has approximately $6.3 billion in assets. It is part of the United Bankshares, Incorporated, which is a $12.6 billion in assets and operates from 129 full service offices in West Virginia, Ohio, Pennsylvania, Virginia, Maryland, and Washington, D.C. Did I miss a state?

The bank is supervised by the Federal Reserve and it was founded in 1979. Next to Jim we have Peggy Fullmer. Peggy is the Chief Executive Officer and Chief Financial Officer of the Milton Savings Bank in Milton, Pennsylvania.

Milton has approximately $66 million in assets. It is supervised by the OCC. The bank was established in 1920. Next to Peggy we have Martin Neat. Martin is the President and Chief Executive Officer of First Shore Federal of Salisbury, Maryland. First Shore Federal is a federally chartered savings and loan association. It has approximately $301 million in assets and operate from nine offices across the lower eastern shore of Maryland. And First Federal is supervised by the OCC and it was founded in 1953.

And lastly, we have Gwen Thompson. She is the President and Chief Executive Officer of Clover Community Bank and Clover Community Bank Bankshares in Clover, South Carolina. Clover Community Bank has over $126 million in assets. It operates from two offices in South Carolina. It is supervised by the FDIC and the bank was established in 1987.

Thank you all for agreeing to be a panelist. Similar to the first and second panels, each panelist will take more than ten minutes, or as we like to say, ten-ish, to share their specific thoughts and views on the regulations. And again, our goal is to get specific comments.

And so we'll start with Jim, to my immediate right. Jim.

MR. CONSAGRA: Thank you, Toney. I really appreciate the opportunity to participate on this panel and to address the nation's top regulators. I am very optimistic about the results of this process as evidenced by the significant improvements and changes that we have already seen.

I would like to start by giving a brief bio on United Bankshares. I believe it will help add important perspective to my comments. As Toney mentioned, we are a regional bank holding company with $12.6 billion in assets and we operate

129 offices throughout Washington, D.C., Virginia, Maryland, Pennsylvania, Ohio, and West Virginia.

We employ approximately 1700 people and have successfully completed and integrated 29 acquisitions. Our most recent transaction was the purchase of Virginia Commerce Bancorp, a three billion dollar bank holding company located right here in Northern Virginia.

That transaction was announced in January of 2013, but for reasons I will discuss later, didn't close until January of 2014, almost a year later. In addition, we recently announced the signing of a definitive agreement on November 9th of this year to acquire the Bank of Georgetown, our 30th acquisition, so we are currently in the process of preparing the merger applications.

So as you can see from that brief history, M&A is an important line of business for UBSI. Therefore, I would like to begin my comments with the merger application process. I would like to use the Virginia Commerce transaction as a basis for my discussion.

During this process, our communication with the Federal Reserve Bank of Richmond and the Virginia Bureau of Financial Institutions were excellent. We had meetings prior to the signing of the definitive agreement, we communicated during the application process, and we were diligent in providing the requested information.

We filed our merger applications and posted the appropriate notices. During this period, things were moving along smoothly and we were very optimistic that we would be approved under delegated authority. However, the Federal Reserve Bank of Richmond received a single consumer protest letter on the very last day of the notice period, eliminating delegated authority and automatically requiring approval from Washington, D.C.

And we are very proud of our CRA record and all our previous deals were approved under delegated authority, so you can imagine we were very disappointed, and it ultimately added over four months, almost five months, to the process.

Obviously, any time regulatory approval is delayed it causes significant challenges both to the bank that's acquiring and the bank that's being acquired. We had to postpone a data conversion -- data processing conversion, we lost key Virginia Commerce personnel during this process, and retaining Virginia Commerce customers became more of a challenge.

But you are all aware, due to the gun-jumping rules, the acquiring institution is limited in what it can do to protect the franchise value of the investment until the application is approved. And I didn't even cover the challenges that the bank that's being acquired has with maintaining people, customers in a period of significant uncertainty.

I believe a lengthy approval process and uncertainty around the timing of the approval adds significant risk to the transaction. In addition, we have been told by our legal counsel in our Bank of Georgetown deal, regardless of our CRA and fair lending record, we should expect a consumer protest letter.

During our recent reverse due diligence with the Bank of Georgetown, there was extended discussion concerning potential regulatory delay and a significant amount of time was spent on the regulatory approval process due to the length of time it took us to close the Virginia Commerce deal.

Unfortunately, we were unable to provide clear guidance as to timeframe to the Bank of Georgetown management group. I understand that certain applications must be approved by Washington, but it shouldn't be based on a single letter from a consumer protest group, particularly when the acquiring company is financially sound, a proven acquirer, and has a solid CRA record.

The next topic I would like to discuss falls under powers and activities, specifically real estate lending standards under 12 CFR part 208, subpart E. This section of the Code includes important guidance on portfolio underwriting and monitoring.

As a banking company that successfully

navigated through the most recent recession, I certainly appreciate the need for stringent underwriting standards and portfolio monitoring. However, I am concerned about the HVCRE rules and their potentially negative impact on real estate lending practices for our industry.

For example, there's a requirement that the borrower must contribute cash of at least 15 percent of the as-completed value. In addition, this capital must remain in the project during the life of the project, including any excess over that 15 percent minimum.

With this last requirement, we are, in effect, penalizing the projects with the stronger equity positions. In addition, the 15 percent minimum is based on the as-completed value, so the borrower is required to hold more capital for creating additional value.

Finally, HVCRE does not allow the lender to count true land equity as capital, which is inconsistent with how we would underwrite a deal. I believe these requirements can be inconsistent with prudent underwriting standards and it creates an untenable requirement for us to impose on our borrowers.

When the cost of regulatory capital does not reflect the true risk on a project and is not consistent with the cost of real capital, it may result in poor lending decisions for the industry.

I do, however, believe that the concept of additional capital for HVCRE is extremely important and I totally support the theory behind it. I also believe that if the industry collaborates we can make significant improvements to the HVCRE rules in very short order.

I'm going to move on to appraisals now. I would like to offer a few brief thoughts on Reg Y concerning appraisals. In my opinion, the minimums are set too low at $250,000 for income producing real estate, or non-business purpose loans, and at one million dollars for business purpose loans.

I believe the appraisal thresholds

create problems that penalize the small CRE deals with this restrictive one-size-fits-all approach. I think these minimums are extremely low for the much larger institutions and could be adjusted based on the bank's capital and/or asset size.

Next, I would like to touch briefly on the quarterly Call Report filings. There's been a lot of discussion at previous sessions concerning the length and time associated with the preparation of these reports. I think Call Reports are very important, provide valuable and useful information for regulators, banks, investors, underwriters, the general public, and I frequently use the Call Report system as well when we are looking at additional merger and acquisition candidates.

However, I do think we can move to more of a 10-Q, 10-K concept with three quarterly reports and then one year-end report. This would relieve a significant burden and still provide much needed information to the end users.

I won't go into specific detail, as it's been covered in previous sessions, but I believe there's significant opportunity here to eliminate obsolete and unnecessary data.

My final suggestion on Call Report relates to coding. The quality of Call Report data for the purpose of monitoring the risk profile of individual banks, as stated in 12 CFR 304.3(a), would significantly improve if we incorporated consistent definitions of all relevant loan concentrations into a single coding system, and I believe this would be especially beneficial with CRE and HVCRE concentrations.

If we use the Call Report data as it exists today to approximate a bank's CRE concentration, despite the inconsistent definitions, they could be significantly overestimating or underestimating individual banks' true concentration.

And finally, I believe HVCRE should have its own call code category instead of being a subset of other call codes, in this way, the banks and the feds could benchmark their HVCRE exposure against that of their peers and the rule could be applied with greater uniformity.

Under the category of fed reporting, specifically FR 2052(b), liquidity monitoring report, we cannot currently upload the information to the system. The information must be retyped into the system, increasing the potential for error, so I think if we could come up with a way to upload the information, allow us to upload Excel spreadsheets, I think it'll be much more efficient and eliminate the potential for errors there.

Also, a portion of the report of selected money market rates, which is FR 2420, is required to be filed by 7:00 a.m. daily. Although we are not subject to that reporting at this time, it seems just to be unnecessary to require filing at this time of day to analyze and monitor money market rates. Some relief from the early morning deadline would be very helpful.

And my final comments will be under the category of banking operations, and I'll start briefly with Reg S, which is reimbursement for providing financial records.

I believe we need to update the reimbursement rates to reflect today's labor costs. I believe they haven't been updated in some time, and that's probably been covered in previous sessions. And finally, I was looking over the materials, I saw that debit card interchange fees fell under that, and I just could not resist the opportunity to talk about that for a few minutes.

I've talked about it a lot in private. I've never had the chance to do that publicly, so here we go. The Durbin Amendment has been discussed ad nauseam, and I realize that any changes would require legislative action. However, I would be remiss if I didn't point out that our company has lost over six million dollars in annual revenue as a result of passing the ten billion dollar threshold, and the industry is losing anywhere between eight billion dollars and $14 billion a year, depending on which report that you have read or believe.

But the point remains that valuable capital continues to be diverted from the banking industry to the big box retailer with no benefit to the customer as the banking industry predicted and warned. In fact, the consumer ultimately is harmed as the banks seek ways to recoup their revenue losses, including the elimination of free checking, points we've all heard before.

Toney, that concludes my comments and on behalf of UBSI, I would like to thank you for the opportunity to participate in this afternoon's discussion.

MR. BLAND: Thank you, Jim. Peggy?

MS. FULLMER: I appreciate the invitation to be here today and thank you for the opportunity to speak to you. In my career at Milton Savings Bank, I have seen a lot of regulatory change and burden come forth. Since the 1970s, most of the regulations have been written to protect the consumer or simply protect the whole banking structure, but one fact is sure, they were needed at the time they were written, but a lot of them are getting outdated and it is good that a review is being done.

At our bank, we embrace each new regulation, we study it to death, and find a way to attempt compliance, and we spend a fortune in audits to be sure we're following them and wait to find out if the examiners will agree at our next examination.

Many of my staff spend most of their days reviewing, documenting, and reporting on regulations, and it's my belief that the regulators are as burdened as we are, but it is overwhelming, and my bank -- I only have 12 employees, so we are small and this is a small bank opinion.

Toney asked us to be specific about some of the recommendations in regard to the ones being reviewed at this time, and one I want to address that has already been addressed by other panelists, but under Reg D with the excessive transactions, we find that they are all Internet transfer transactions.

So at a minimum, I think that those should be considered exempt transactions, and in our case, the customer could come in and do those transactions personally, which will tie up my employees who do more than just wait on customers, so if they don't have to do that, that would be great. It just increases the number of transactions that are being done and the customers who get the letter from us, which we send three, and the third one says we're converting it to a transaction account, the customers call me and they say, what did I do wrong?

Well, all you did wrong was transfer money on the Internet. So that's just one easy fix that would be great to have happen. It's a vicious cycle.

I also wanted to comment on Reg CC. We have come to the conclusion at our bank that, really, there's no way that those holds are in place long enough for the checks to come back in the first place. So most of the time we aren't holding customers' funds, we basically look at the relationship, but in the high-tech world where checks are being sent through electronically now, we don't get them back electronically, that would be very cost efficient to us. So we actually get them mailed to us by the fed, and there's no way they come back in time for us to even have held the funds.

But one area that I'm concerned about there is the fraudulent checks, and many of you know, we can't even trust a cashier's check anymore because it's probably fraud. I would like a way for us to put a longer hold on checks that we consider could be fraud, and you're really limited by Reg CC to do that.

And, you know, sometimes it takes a while until the customer whose account was affected realizes checks cleared that weren't on their account, notify their bank, and then they get back to the bank who got them. It's just a real risk to the bank. We are training our front line to be the ones to watch for that, but I'd like to see a longer restriction in those areas.

Another burdensome issue is the Call Report, but that's been hammered to death, so I'm not going to say much more on that one. We do report a lot of zeros. Being a small bank, there's a lot of items on there that we don't use, so I appreciate anything you do there. And being a mutual savings bank, I reviewed the specific regulations relating to deposits, operations, lending and investments, and electronic operations that are under review.

Deregulation in the 1980s leveled the playing field for banking and many of these are outdated as there is really no distinction between a commercial bank and a thrift anymore, but in regard to the deposits that they accept, a specific example is the now checking account. I believe that that was started in the beginning so that a savings bank -- and there was a state, Massachusetts, yes, that was a way for them to offer a checking account.

And I've been in this business a long time, and really, there used to be differences, and it was like, well, the banks didn't want us to be able to do something because they didn't want to have the competition, I guess. We used to be able to pay a higher rate, that all went away, which is okay, but the checking accounts are all allowed to receive interest now, and competition drives the rates, so some of those things are just really antiquated, and I would assume that they're going to go away.

The most interesting regulation I reviewed was 12 CFR 155, and I would hope that one's going to go away, but it requires written notice to the OCC if you're developing a transactional website. Now, my bank already has a transactional website, but I would not have even thought to look for a regulation telling me I had to notify the OCC.

So my gift to any of you out there, if you have a savings bank that does not have one, right now, you have to give a 30-day notice before you launch it, so I'm sure those are the things that you are looking at to update, and I would say that we have to do it all the time in the banks. You know, our policies, we aren't allowed to let them get stale and stagnant, and so that's really what that is.

I want to touch on appraisal as well. In our bank, we find -- I would love if that limit got increased. A lot of times we are very hands-on in our area. My directors will actually drive by a property and come up with their own value of what they think that property is, and we don't always agree with what the appraisals show. We have farmland in our area, which we just had an appraisal done where the appraiser said the land's worth $195,000 for 90 acres of farmland.

I have a farmer on my board who says that land's worth $700,000, so we don't always agree with them. So if we didn't have to get them and could find another way, that would be great. And other than that, I really don't have much more because we aren't involved in a whole lot of things at my bank, but I appreciate being able to speak on what I did. I'm glad that you're looking at these things, and again, appreciate the opportunity to speak.

MR. BLAND: Peggy, thank you. Martin?

MR. NEAT: Toney, I too appreciate the opportunity to comment as part of the Economic

Growth and Regulatory Paperwork Reduction Act. It's certainly an appropriate forum and a matter of great importance to our industry. As was noted in the introduction, First Shore Federal is a $300 million thrift with nine branches serving the Delmarva Peninsula, Maryland, Delaware, and Virginia.

Since we serve Delmarva, I'm assuming that's why we were included, since the federal law doesn't apply, many people think, to Delmarva. I couldn't resist. Our association has remained a savings and loan association in name, as we have evolved into a community bank. And I'm proud to say that we have maintained a CRA rating of outstanding for nearly two decades.

I've been CEO of First Shore Federal for more than 20 years, worked in banking for nearly 30 years. Prior to that, I served on the staff of a member of Congress and started my career as a grantsman working with federal and state programs and regulations for two Maryland counties.

So it's fair to say that I've been

around regulation in its various forms for all my working life. I do believe that the title of this law, and that's why I read it, is very appropriate because there's little doubt in my mind that economic growth and reduction of paperwork and regulation are, indeed, intertwined.

In the effort to identify and eliminate outdated, unnecessary, and overly burdensome regulations is vitally important. In fact, in First Shore Federal's Enterprise Risk Management Plan, a document developed by our leadership team, approved by our board, incorporated into our annual strategic plan, and reviewed by several sets of examiners and auditors, regulatory risk is among the most significant risk that the association faces.

That's not because we have any particular regulatory problems. It's purely and simply because we are a moderately sized institution, we have limited extra capacity in our management and staff, and our goal is to serve our customers and community to the best that we can.

That being said, a great deal of our resources and capacity is spent on dealing with the regulatory burden that is part of our industry today. The cost of consultants, various audits and assessments is very significant, and more often than not, our best people are spending their time dealing with compliance and regulatory matters as opposed to serving our customers in our community.

Of course, we're not alone in that respect. I noted that in its May 2015 comment letter, the ICBA recommended that the regulatory agencies conduct their own empirical study of the regulatory burden on community banks to quantify that burden and confirm what numerous studies seem to show, that it is significant and that it is driving community banks out of the business of banking.

The ABA, in its comment letter of September of '15, noted that we've lost 1,500 community banks in the last decade, a process that, since the onset of the great recession, amounts to more than one bank per business day, so many of us are saying the same thing.

Let me detail some specific concerns. Mortgage lending. Our association does a lot of mortgage lending in all three states on Delmarva, in fact, the local regional newspaper just named us the, quote, reader's choice for mortgages on Delmarva, so we have experience with the state laws as well as federal laws and regulation, and they do differ and can conflict.

Changes in one sector can impact the others. For example, over the past seven years we've seen significant change in the foreclosure laws that have had the effect of dramatically slowing that process. At the same time, our experience with federal regulation has been that foreclosure is defined as the, quote, sale at the courthouse steps, end quote. And that triggers a requirement for us to obtain an appraisal of the property in question.

In actuality, sale on the courthouse steps does not mean control of the property and we are not able to gain access to that property in question, and in many instances, for an extended period of time. That being the case, we're still required to obtain a drive-by appraisal or some sort of evaluation and base our ALLL calculations and Call Reports on an incomplete value of the property, and in many cases, a substantially different number than would otherwise be true.

In fact, the value that is derived from those drive-bys or evaluations is virtually useless, but the cost of obtaining that value is both rural and a waste. I would suggest that we be allowed to use government data such as assessments or some form of online data, such as Zillow, to establish values on properties until we can actually gain entry into the property.

And I think it's particularly noteworthy that the current process for the adoption of TRID has been a highly burdensome one for lenders and everyone involved in the mortgage process. There are numerous examples of other banks, including several that have testified as part of the EGRPRA process, that are significantly reducing and in some cases even eliminating their mortgage lending activity as a result of this regulation.

It is unfortunate that many regulations that community banks must comply with are not subject to review under EGRPRA since rulemaking authority for those rules has been transferred to the CFPB, so I really can't dwell on this issue. But it certainly should be evident that for the EGRPRA process to work, the CFPB should be part of this process.

We've heard earlier from another mutual institution -- and let me say that First Shore Federal is also a mutual institution, and is committed to remaining in that ownership form. We believe that it suits our mission most effectively and allow us to best serve our customers and community.

And I'd be remiss if I didn't say thanks to the OCC and to Comptroller Curry for his leadership role on a variety of issues related to mutual institutions, including proposals to equalize the lending and investment authorities of thrifts and national banks.

I noted earlier that our rating for CRA is outstanding. There's no question in my mind that being a mutual institution has contributed to our ability to earn that rating. We can respond to the needs of the community with a longer term outlook on what is good for the community, in our view.

As with many mutual institutions, our association has good adequate capital to meet its needs both now and for the immediate future. That being said, we strongly believe that there is a need for alternative capital instruments for mutuals such as have been included in various legislative proposals over the past several years.

And on the other hand, we certainly object to legislation or rules that have the effect of diminishing that capital that we do have. As such, we have concern that the Basel III capital rules could have an unintended impact on the capital mutual institutions. We've heard a number of comments earlier about Basel.

We are ever aware that regulations and laws passed for one purpose can morph into many other sectors of business and the economy. And before you know it, we're all covered by the regulations that are issued as part of the lawmaking process.

I'll just cite, quote, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, end quote, as an example. While it might have been targeted at Wall Street, it hit a lot of us on Main Street, and the 8000 pages of related final rules and guidance will impact most of us.

Quarterly monitoring and the 18-month exam cycle. Again, Chairman Curry spoke eloquently on this earlier and I'd like to add some ideas. As our association has experienced life under a new regulator, the OCC, one consideration has been particularly evident is the amount of interaction and communication between examinations is significantly increased.

There are quarterly reviews and

monitoring that can rise to the level of offsite -- and I'll call them mini-exams, even to the degree of a change in ratings being made. These quarterly monitoring conferences include a great deal of information, financial statements, interest rate risk reports, ALLL activity, detailed on classified assets, and updates and support of responses to prior examinations.

I'd suggest that this increased oversight could allow for the periods between the examination to be increased from the current 18-month exam cycle for 18-month non-complex institutions for well-rated institutions as far as onsite examinations are concerned to a period of, perhaps, two and a half or three years.

On the other hand, if you don't extend the exam cycle, you might consider reducing the volume of information requested as part of the quarterly Call Reports. It has been noted that the Call Reports are in such detail that I would question whether all this information is really necessary on a quarterly basis.

It takes multiple capable people many days to complete and confirm the accuracy of that information. The glossary alone is 87 pages and all instructions for the report total 700 pages. It's been suggested that the Call Reports be provided in summary form for three quarters, with the full report due for the fourth quarter, or as I suggested earlier, change the exam cycle to reduce that burden.

QTL alternatives. There have been proposals to allow federally chartered thrifts to opt out, in essence, of the QTL test, and we certainly think that such an option is warranted. Thrift investment in residential lending is an important part of their role, but it's also important to recognize that major lending capacity of our system is represented by the GSEs, Fannie Mae, Freddie Mac, Ginnie Mae, other federal programs in the secondary market in total.

Frankly, it is challenging for the tradition thrift to compete in residential lending alone, let alone the risk inherent in such lending, such as concentrations, interest rate risk, and additional credit risk. When I started in banking, the safest investment a bank could make was seen as a single-family home. We really can't say that anymore and many of us have chosen to diversify our portfolio.

I would suggest that the CRE review and rating is sufficient to ensure that we are addressing the lending needs of our community and remove the QTL requirement. Not having that requirement will certainly not reduce our commitment to serving the communities we love and where we call home.

I've noted the past testimony has suggested that some of the thresholds contained in current regulations need to be increased. Items like the number of checks and transfers on money market accounts under Reg D, the appraisal value threshold of $250,000, the $10,000 value on CTRs, et cetera.

I would also make a comment, and hopefully it's being addressed at this point, the

Privacy Act disclosures that are required to be mailed. I had some comments about those, but hopefully that's going to be addressed and legislation is being considered even as we speak.

Let me conclude with an interesting one, in case I haven't already said enough to get myself in trouble. Medical marijuana. Our association has no plan to get into this line of business, however, I would note that this issue has become a significant one in the states we serve.

Delmarva will have four dispensaries set up under Maryland law and there are 23 firms that have applied to run those dispensaries, according to recent published press reports. There are clear inconsistencies between federal and state laws and regulations concerning lending and providing banking services to medical marijuana businesses.

The guidance which we have seen on this issue certainly doesn't provide any confidence level to the bank or to a banker in terms of providing services to this sector of the business community. That being said, it's not hard to see that it's a business sector that might, in fact, be here to stay, so I would suggest that the regulators have some work to do to develop the appropriate final oversight of such activities.

Again, Toney, I thank you for the opportunity to make these comments.

MR. BLAND: Martin, Thank you. Gwen?

MS. THOMPSON: Thank you, Toney. Well, one of the things about being the last on the panel, you're not likely to sound creative or original because most of the things that I have to say have already been said, but do bear repeating too, so I thank you for being part -- allowing me to be a part of this.

As a bank with $126 million in assets, any regulatory relief would be greatly appreciated, and I'm going to speak to one that is dear to my heart, and that's the Call Report. And I'm sure that many of my comments will be a repeat of others, which only goes to show the importance of the requested relief.

In my research for this panel, I pulled up the completed report that had been imaged, from signature page to end, to find 96 pages. As I reviewed many of the pages, I noted that there are a lot of N/As or zeroes in the columns. Still, nonetheless, it's a part of the report that has to be read or dealt with.

When I talked with the employee that completes the report, I listened to her speak about the data gathering and reviewing of internal documents with other staff members before she begins to fill out the schedules. The report itself is automated, but there still seems to be other processes involved to get there.

When I asked her about the most time-consuming schedule -- it won't come as surprise to any of you involved with it, it has now become RCR. There is much about this schedule that still has to be manually assessed for us, so as a whole, it takes her the better part of a week each quarter to gather, complete, and edit the information. This doesn't include time that is spent with work papers for auditors and examiners.

Now, information's vital to all of us and knowing how you stack up against your peers with the information from the Call Report that comes out in the form of a UBPR is informative and helpful. However, you can slice and dice information over and over and it will only give you some idea of what's really going on in the bank.

All this information didn't keep us out of trouble, and granted, it is helping us know that we're getting better. It's a moment in time.

As most community bankers, I can tell you who my non-performing loans are by name, and how much capital I have, and I've very aware of the types of loans I make that impact that capital. And I'm glad to report that to regulatory agencies, but you can get a picture with a lot less information than we're providing.

I completed the Call Report for at least 20 of the 40 years I've been a banker. There were many quarters that I came in on a Saturday or a Sunday afternoon when it was quiet to do the report.

I would review it on Monday and file it that same day. Was the industry better or worse? I don't think all of the new data every quarter has made the industry or the bankers better.

I know there are many other differences now, but hopefully you get the picture.

As I know from serving on the FDIC's Community Bank Advisory Council, there's a lot of work being done in this area on the Call Report. But I do ask that you consider a shorter, more concise report for community banks, and banks that are a 1 or 2 rated, or at least the highly-requested two quarters. So thank you.

I'd like to briefly just express an opinion about Reg CC. While we're allowed a two-day hold on a case-by-case situation, we're finding this, as Peggy was saying, that many of our return items don't make it back until the third day. Well, then you're in a situation where you need to do an extended hold. Well, by the time they get the extended hold, it's useless, so that notification could just go away and nobody would be the worse off for it.

It doesn't help the customer, it certainly doesn't help the bank, and as some of my panelists have referred to, I started to jump in on the Privacy Act notice, but I decided I'll stay in my little territory here and know that that one is being looked at as well.

And I'll move on to Reg D, which governs the reserve requirements. So that one's been beat up pretty good as well, but the six transactions are restrictive, particularly in today's environment. As she said, a lot of it's just happening through automatic transfers, and that's where we're taking the industry, and where we try to get our customers to go. So it just seems burdensome to them and to us for all the monitoring and the notifications, and, you know, increasing this number to 10 or 12 would be greatly appreciated.

You know, I've been in this business 40 years, I started out as a teller, and, you know, we don't sit around our community bank and awfulize how much trouble or how much burden the regulations are. We just figure out how to get them done. You know, we put what resources we have to them from a staff. We've got 30 people. You know, we budget to make it happen, to get the audits in place, to do whatever it takes, and we're glad to be able to do that, but we also want to be the community bankers.

And there's a lot of time spent behind the scenes. This young lady that does the Call Report, she's very talented, we could use her 40 hours, or close to it, doing a lot of other things. So, you know, while we are willing to comply and want to be seen as a good community bank, any help you can give us would be greatly appreciated.

MR. BLAND: Thank you, Gwen, and thank you all for your comments. Let me first ask the principals if they have any questions or comments for the panel.

COMPTROLLER CURRY: Thank you, Toney. My question really relates to the appraisals. We've heard about the thresholds of appraisals at, I think, each of the six sessions that we've held. I was wondering if you can elaborate on a little different subject related to appraisals, whether we've created a meaningful distinction between the full appraisal and evaluation, and whether the agencies should be looking at the evaluations to see whether or not they're a meaningful alternative.

MR. NEAT: Let me just comment from our point of view. One of the concerns that we had with doing evaluations has been that whether or not they would actually be considered, be given, you know, the same weight as full appraisals in an examination context. We actually looked at actually sending some of our folks to a class on -- you know, appraisal class to, you know, allow them to have some credentials to do evaluations, and frankly, we found that that was an extremely expensive long-term response.

But there's no question that we do -- and that's one of the reasons that I suggested, I think, using Zillow, or something like that, to --

as documentation in addition to the experience that we do have is that, we have people that are specialists in making these loans and have dealt with properties over many years, and we would like to think that that would carry some weight in terms of being able to establish the value of the property.

And honestly, a lot of appraisers will hate me for saying this, but the record of appraisers hasn't exactly been, you know, tremendous over the last ten years. There's not a whole heck of a lot of accountability when they do an appraisal about whether or not that number is really valid or not, and frankly, by the time you get a property back, the value of that property is a whole lot different than the original appraisal anyway.

MR. CONSAGRA: My only comments are, we do believe we have the internal expertise to do those internal evaluations, and obviously, it is completely independent from the line side, so we do take advantage of that as the rules allow. We would like to see the rules allow a little more leeway there, but we feel that we have the expertise to do that, and many times, as the comments already -- we get an appraisal and we're like, this is just flat out wrong and we would never lend on that value. In many cases, we're much more conservative internally.

So we believe we have the expertise. We believe if we're given more leeway to do that it would result in better risk/reward decisions for us.

MS. THOMPSON: We use the evaluation process a lot and we've put a lot of resources into the education of someone to be able to do that, so we're very grateful for that process. It's helped us and, you know, it helps the customer as well.

MS. FULLMER: At our bank, we always did do them in-house until we were -- I mean, we ordered ones over 250, but we always did it in-house, and I think when you're a small bank like we are, and you have the ability to know your communities, you know if the values are dropping.

A lot of times it's frustrating if somebody's refinancing and the appraisal's five years old, and we have to get a new one, and we wait for it, and it comes in, and it didn't tell us anything more than we already knew, so if you raised the value and let this do.

I agree we need to have something in there so when someone's looking at a file they have a value, but being able to use the lower, even in -- we used to be able to get comp books from the realtors in our area, which was awesome, if we could find a way to get back to that, even. But we could better serve our customers, I think, and I agree that a lot of times they aren't perfect when they come back.

We look at them and think, really? I mean, you know, I drive by this house every day. I don't agree with that.

MR. BLAND: Any other questions or comments from the principals? Are there any comments from the audience, and if so, we have a microphone up front. Sir, if you would state your name and the organization you're with.

MR. GARBER: Good afternoon. Thanks for the opportunity. Bill Garber with the Appraisal Institute. I won't be able to attend the last session. I know appraisals are going to come up again, so I just want to share a couple thoughts and actually ask a question as well.

We just did a survey of chief appraisers and appraisal managers at banks, so people working within institutions in the risk management position, and we asked them questions about raising the threshold. And 80 percent said it's a bad idea to increase the threshold -- the 250 threshold.

So we're hearing a different story from the people that are on the ground within the institutions themselves about safety, and soundness, and consumer protection. So I would urge the agencies, when they're looking at these issues going forward, make sure you talk with them. Talk with the risk managers, the appraisal managers within the banks, and find out what's really going on within those institutions.

I think you'll hear some interesting stories there. I did have a question for Ms. Fullmer about the ag situation. Let's assume that that appraisal's less credible. There's little credibility in that appraisal. The question I have is, why would you continue to use that appraiser on your approve list if they're doing substandard work or inaccurate work?

And then conversely, what keeps you from making a loan -- I think the example was, $700,000 was an estimate, why couldn't you just document that, that there was a difference of opinion within your loan committee, document the reasons for making that $650,000 agriculture loan, with that in the file? What restricts you from doing that today?

MR. BLAND: And then, Peggy, before you respond, the audience is supposed to make comments, not question the panel, so I just want to be clear on that.

MR. GARBER: Well, then I'll position it as a comment that --

MR. BLAND: All right.

MS. FULLMER: We actually are making a loan and we did exactly what you said, but it was just an example for me of sometimes where it just doesn't make sense and there's a lot of times that we have to tell our borrowers, here's the appraisal, because we're required to give them a copy, and this happens more on refinancing than purchases. Purchases' values are pretty much already established, but my standard answer to people is, just because this is what the appraisal came in at, that does not mean that's what you're going to sell it for.

And as far as we're limited on how many appraisers we can have on our list, we have removed people that we have felt were not adequate. This was the first time this one did an ag loan, and he maybe shouldn't have.

MR. GARBER: Yes, because not all appraisers are equally qualified and so we're the first to say that.

MS. FULLMER: So I doubt we will use him

again, but basically, it was a high-valued property that he put more property on the building, and, you know, there's no way. The value was in the land, so when you did the math, it just looked weird, but we did make the loan.

MR. GARBER: Thank you. Appreciate it.

MR. BLAND: Anyone else for comments? Well, again, I want to thank the panel. Thank you for your preparation, but also the depth and specificity in your comments. I'll turn it back to Rae-Ann.

MS. MILLER: Thank you very much. It's actually time for a break and we have a webcast that's following along our agenda, so it'll be a long break, but please return at 2:30.

(Whereupon, the above-entitled matter went off the record at 2:05 p.m. and resumed at 2:32 p.m.)

MS. MILLER: Thanks very much. Okay. So we're getting ready to begin the final panel of the day and our moderator is Doreen Eberley, Director of the Division of Supervision at FDIC. Thanks, Doreen.

MS. EBERLEY: Okay. Thanks, Rae-Ann. So this is our third banker panel today and the final panel of the day. We're going to talk about securities, money laundering, safety and soundness, and rules of procedure. And we have four great bankers with us with a lot of comments.

And let me go quickly through some introductions and then we'll get started. Jay Kim, to my right, is the President and CEO of NOA Bank, an FDIC-supervised bank in Duluth, Georgia. It's a $230 million community bank that he co-founded in 2008. The bank primarily serves the Korean-American and Asian-American communities in the Atlanta area, providing SBA and conventional commercial lending products.

Jay has over 30 years of community banking experience, including with BBCN, Industrial Bank of Korea, and others. He has a BA from Seoul National University and an MBA from Michigan State University.

To Jay's right is Craig Underhill. Craig is President and CEO of the Freedom Bank of Virginia, a $380 million community bank in Fairfax, Virginia that's supervised by the Federal Reserve. He previously served as an executive vice president and chief lending officer, and has 30 years of banking experience specializing in government contract financing.

Craig previously worked for Potomac Bank of Virginia and M&T Bank. He holds a BBA in finance from James Madison University and an MBA in finance from George Washington University.

Next is James Sills, III. James is President and CEO of Mechanics and Farmers Bank, an FDIC-supervised bank in Durham, North Carolina. M&F is a $300 million community bank with seven branches in five major markets. He served as cabinet secretary and CIO for the State of Delaware for five years, leading a variety of IT consolidation, Cloud computing, and cybersecurity programs.

In 2014, James was named IT executive

of the year by Government Technology Magazine. He also has many years of banking experience, including executive vice president of MBNA America Bank, and president and CEO of Memphis First Community Bank. James serves in a variety of community and business organizations and has a BA from Morehouse College and MPA from the University of Pittsburgh.

And on the other end of the panel here is Michael Clarke. Mike is the President and CEO of Access National Bank, an OCC-supervised bank in Reston, Virginia. Access is a $1.2 billion business bank that provides credit, treasury services, and wealth advisory to businesses with up to $100 million in revenue.

Mike assembled the business plan and organized investors to start the bank in 1999. The American Banker has repeatedly ranked the company among the top 25 performing community banks in the U.S. Mike is active in a number of community and business organizations and he graduated from Virginia Tech in finance and marketing.

So welcome. Thank you all for coming. We've had some great conversations leading up to today and I'm looking forward to your comments. Jay, can we start with you?

MR. KIM: Sure. Thank you. This is Jay Kim. As background information of our bank, as introduced by Doreen, we opened the business in 2008 in Duluth, Georgia and just graduated from a de novo status. The bank has three branches and total assets of $230 million. We don't provide consumers, but provide commercial loans such as SBA-guaranteed loans, commercial real estate loans, and general business loans.

After reading the transcripts of the previous outreach meetings, I see the most common themes are regarding the threshold amount of currency transaction report, the appraisal threshold limit, and the safety and soundness examination cycle.

I agree with my peers and I also want to support such comments at the previous outreach meetings. First, about the threshold currency transaction report. The Bank Secrecy Act was passed in 1970; 45 years ago. And one dollar in 1970 is about $6.2 in 2015 terms, after inflation adjustment.

Given this large increase, the discussion and review of the currency transaction report threshold amount is a very valid issue in the Regulatory Paperwork Reduction Act. For example, during this 3rd quarter of this year, our bank filed about 350 currency transaction reports. This is approximately 1400 currency transaction reports per year and of these reports, about 1/3 is between $10,000 to $20,000, and the remaining 2/3 of reports above $20,000, so that if the threshold amount is increased to $20,000, we could save about 500 reports per year.

And our savings would increase as we continue to grow. I know this anecdotal, but this new limit was applied to all banks, this could potentially mean saving millions of reports per year.

If the threshold currency transaction

report is increased, the number of the suspicious activity report could be reduced as well. The threshold amount of suspicious activity report, which is currently $5000, and began back in 1996, need to be reevaluated and adjusted as well.

Second, about appraisal threshold amount. During this year, our bank made 75 commercial real estate loans, either owner occupied or non-owner occupied properties. Out of 75 loans, nine loans, or 12 percent, are under 250, and 15 loans, or 20 percent, are between 250 to 500, and 19 loans, or 25 percent, are between the 500 to one million, and over one million transactions are 43 percent.

If the threshold amount is increased to $500,000, we could save about 20 percent of the total numbers of appraisal report annually. As you know the required appraisal limit was established in 1994 by the Financial Institution Letters on Interagency Appraisal and Evaluation Guidelines.

The one dollar in 1994 is about $1.6 in

2015 after adjusting for inflation. Because of the depression in late 2000, the inflation adjustment is not large during this period, but my point is that the threshold amount needs to be reviewed and adjusted.

Another issue of the appraisal is about the overall cost and turnaround time. Since we do not originate residential mortgages, I'm discussing my thoughts about the commercial mortgages. Evaluation, which is used when the transaction amount is less than $250,000, the cost is about $600 to $700, whereas, the appraisal costs $3500 or more.

Although the appraisal fee is paid by the borrower, we could save a lot of money and resources for our borrowers and our communities. The turnaround time for evaluation is generally two weeks or less, whereas, the turnaround time of the appraisal report is generally three to four weeks, and sometimes takes even longer.

For small transaction loans, as you know, completing due diligence, and closing those in timely manner is very, very critical to our borrowers and customers. Also, the appraisal standards do not differentiate the threshold amount between residential and commercial properties, and between owner-occupied and non-owner-occupied properties.

Average commercial property transaction sizes are bigger than residential property deals, and the appraisal fee and the complexity of the commercial property is a lot higher than the average regular residential property transactions. So given these differences, different threshold for residential and commercial property deals need to be considered and evaluated.

Another comment is about the owner-occupied property and non-owner-occupied property. As we know, the primary source of repayment of owner-occupied property is the cash flow of owner business in the property, which is the same as the business owned.

The regulation has one million appraisal threshold for the business loan, but not specific to the owner-occupied property loans. Lastly, I want to discuss about safety and soundness examination cycle period. As I mentioned earlier, we just graduated from our de novo status.

As a de novo, the examination cycle was 12 months. So the current 18-month examination cycle is a big relief for us, but I support the comments to increase the examination cycle from 18 months to 24 months if the financial institution receive the composite rating of 1 or 2, and the size of the bank is classified as a small bank.

For the last couple of years, our bank has arranged a semi-annual voluntary meetings with our case manager at the FDIC and the state banking department. At this meeting we discuss with the regulators about the last six month's performance and our plans for the next six months.

By having more informal interim and updating discussion with our regulators, I think that extending the formal examination cycle to 24 months could work out as well. I think I have finished a little early, but to conclude, I just want to reiterate my support of the comments made by my peers at the previous outreach meetings.

To close, I want to say I've enjoyed my time here. I really have learned a lot throughout this meeting. I really appreciate the federal regulators for having me here as a panelist and letting me share my thoughts. Thank you so much.

MS. EBERLEY: Thank you, Jay. Craig.

MR. UNDERHILL: Thank you. Chairman Gruenberg, Comptroller Curry, Governor Tarullo, Commissioner Taylor, I thank you for the opportunity to speak with you here today. I'm the president of Freedom Bank of Virginia. We're a $400 million bank in Fairfax County with three branches. We have 68 employees and the majority of our business is commercial loans dealing with small businesses and professionals.

I'd like to talk with you briefly about Call Report reform, a little on safety and soundness, and then a little bit on compliance as well. So first with the Call Report. Small banks have less complex data to report and therefore, it would be much easier if there was a less complex form for us to fill out.

Over the last 20 years, the Call Report form has become significantly more complex to reflect the significantly more complex transactions in banking, but for small banks, it really has not changed. So a simpler Call Report form, I think, would be not only easier for the banks, but I also think it would be easier for many of the community bank users.

Many of our investors are small investors and local businessmen, and a less complicated form would actually be more transparent to them.

On safety and soundness, I think that, over time, banks have increased in asset size. As there's been consolidation in the industry, obviously, banks have become larger, and I think it would make sense to have a longer examination cycle for larger banks, and I've heard this, so I know I'm repeating the theme, but obviously, banks up to $1 billion are more common than they once were.

And to the extent that when examiners come in, they take a look at the bank and they make a decision on when they're going to come back, and they always could pick a shorter timeframe, but giving the longer timeframe, I think, allows more flexibility both to the banks and to the examiners, and allows resources to be focused, maybe, more in areas where they need to be focused.

Another area, I think, that's very big is qualified mortgages when they're held to maturity by the bank. I know you've heard this repeatedly throughout all of your conferences. I will tell you that community banks, I think, definitely, they fill a need, and giving us clarity on this, I think, would be better.

We do originate mortgages at Freedom Bank, which are sold in the secondary market, but we often will have small business people that will come to us, and for a variety of reasons, they will not quality for a secondary mortgage. Often, it's because they are businesses who file their tax returns on a cash basis.

So we, at the bank, will receive their audited financial statements showing accrual based profits, but they will have tax returns that show a cash loss. So when they give the tax returns to a typical mortgage underwriter, they'll take a look at that, they'll see the loss in the business, and they'll actually discount the salary took out of it because they'll say the business can't be counted on to provide that income in the future, so we provide that needed background.

And it would just be, I think, better for all parties concerned if we're going to hold the mortgage in our portfolio, we're going to take the time to underwrite it properly, that it be deemed a qualifying mortgage.

On the compliance side, there's some simple things, and again, repeating some things today, but for instance, Reg DD, with the low interest rate environment that we have now, many of our sweep accounts were converted to checking accounts and money market accounts, and transfers are occurring and they're mostly occurring with online banking.

And when I got into this business, as someone mentioned earlier, there were NOW accounts, so we were already paying interest on checking to consumers, and now we have the ability to do it with businesses. There's reasons that banks like to have checking and money market accounts and I would just say, in the current world of technology, does it really make sense to continue with these rules on withdrawals from money market accounts? So I think that's one regulation you definitely can take a look at revising.

I think it's a minor point, but it just brings up how technology is affecting some regulations that are in place. Just general topics, repeating what we've gone over a little bit today, which is, I would urge you to review anything with a dollar amount on it.

I think Gary Shook did a great job of talking about Reg O. You know, I think Reg O goes back to the Carter administration and I don't think it's been addressed since then, so it makes it very hard for your executive officers and directors to borrow from a bank.

It's been mentioned many times, and Jay did a good job on this as well, with appraisals, but the dollar amount is low, particularly in an area like Northern Virginia, where we're sitting, $250,000 is a fairly low amount, and it becomes the law of unintended consequences.

So if you have to go out and get an appraisal, someone has to pay for the appraisal, maybe $600 or $700, and then there's the delay in time related to the appraisal, it's going to make the lending process harder. Any time you set up barriers to make it harder, you're going to get less of that product.

So Fannie and Freddie do make decisions on what constitutes jumbo in different markets, and I would urge regulators to think about that as well. Not all markets are the same, so that would definitely affect appraisals.

On CRA, there was another example of that, but as I prepared this, in designating CRA market areas, I think there's a trend to want to see whole counties and whole cities as a CRA market, and I think that makes sense. I can tell you, I traveled less than ten miles to be with you here this morning, and it took me 50 minutes to do it.

So, you know, roads -- and this is not an unusual thing, Fairfax County is our entire geographic market, but if you're in Hollin Hall in Alexandria, you know, I'd like to see you get to our bank in less than an hour and a half in the morning or the evening, and so I would just ask people to understand sometimes traffic patterns and roads can be as much a barrier as rivers and mountains.

Several people have done a great job of mentioning BSA and CTRs. Again, the dollar volume of them has not been changed into the -- a small bank in particular with a limited number of tellers, the burden of having to fill out the paperwork over and over again, compliance, definitely is a disincentive to handling businesses legitimately have needs of banking services, so I would ask you to consider that as well.

And I mentioned we do do mortgage lending at Freedom, both originating for sale as well as for holding in our own portfolio, and one of the things we do is fill out the HMDA reports, which has a number of data fields. I understand it's 26 right now, so in school, if you get 25 out of 26 right, you get an A, but in HMDA, if you get 25 out of 26 right, you have a problem with your HMDA report.

I understand that there is a desire to increase those numbers of fields, and I understand that getting information is often something that people want, they want to see, but please keep in mind that there is a burden to that, and if we were getting 26 out of 26, and now you raise it to 30, we might get 29 out of 30, so there are consequences to all the actions that you take.

While I am addressing you, I realize

this is not something that affects you directly, but again, one of the earlier speakers mentioned how capital is capped out for -- I'm sorry, loan loss reserves, our allocation for loan losses, is capped at 1.25 percent on capital ratios, so capital ratios are an issue, and that certainly is an important one, but right now, we are looking at the Financial Accounting Standards Board and their desire to introduce CECL into the banking community.

I know that you don't work directly with that, but you certainly have more than a fleeting interest, and to the extent that I could address you today, I think they probably are more inclined to listen to you all than they are to the banks.

So I've heard numbers anywhere from 20 to 50 percent increases in total reserves if CECL is implemented, and that's coming down the road right now, so that's something that I would urge you to look at. That certainly will affect safety and soundness.

Last thing I would say on safety and

soundness is, growth is not a four-letter word and to the extent that you have a bank that is growing at a good pace, but is improving asset quality, has systems in place, I would urge you all to not necessarily look at growth in and of itself as something to be concerned. In fact, that growth generally comes from making loans in the community and that is how jobs get created.

So last thing I'll do is try and talk about the costs of this compliance. As I mentioned, we're a $400 million bank and we have finally designated our first compliance officer. It's not easy for a bank my size to tell you the exact dollar volume of this compliance, but I can tell you that the compliance officer and the subscription service we have to look into these various laws and regulations, in and of itself, costs us over $150,000. Now, that's one of my 68 employees.

So it's fairly easy to imagine from the CSRs that are doing disclosures and opening accounts to the lenders that are doing disclosures on the loans, everybody is involved at some point in compliance, so I would say it's fairly easy to triple that number and put it up to, maybe, at least $500,000, and I think it's probably greater than that.

And over the last eight years, the number of banks in the United States has decreased from 8000 to about 5000, so that is a fairly healthy reduction. Banks are nothing if not the implement of capitalism in this country, so you would think that an industry that had 3/8 of its participants disappear would have many people looking to fill the void, but that is not occurring.

So I would submit to you that there's some evidence that this regulatory burden is making it unattractive and making it difficult for us to attract capital. So as you all do review these regulations, I would ask you to please keep in mind the cost and burden and to do what you can to help small banks continue to stay in business.

I thank you for your time and look forward to any questions at the end.

MS. EBERLEY: Thanks, Craig. We'll move on to James.

MR. SILLS: Good afternoon. My name is James Sills. My remarks today are focused on the impact of the Bank Secrecy Act and anti-money laundering on our institution. Many community banks such as ours are really struggling to balance profitability and be in compliance with all the various regulations. And I also have a few specific recommendations related to BSA that I'd like to share with you today.

Again, I'd just like to tell you thank you for the opportunity to present to you and to this distinguished panel this afternoon. I'm relatively new in my role as the president and CEO of M&F Bank. I've been onboard for about 16 months. And as a community banker, I can really attest to the increasing regulatory burden.

The last time that I actually worked in an institution was about 15 years ago and many of my friends, fellow bankers, vendors, associates, they always ask me, you know, what's changed from

15 years ago? And my number one answer is that the compliance function within many of these institutions is actually running the bank and the cost of compliance is just rising dramatically, and I want to share some of those costs with you this afternoon.

From a blocking and tackling standpoint, we are still making loans, we're gathering deposits, we're generating fee income, we're leveraging technology a whole lot more, but the regulatory posture or attitude in the bank is just pervasive in our institution. My staff, they almost beat themselves on the -- you know, pat themselves on the back, or beat their chests, that they've, 100 percent in compliance with the regulations.

And sometimes this posture is at the expense of improving earnings or increasing shareholder value, and so there's just been an unbelievable change just in the last 15 years in terms of how internal staff, you know, how they see themselves working with the customers and their role.

I wanted to tell you a little bit about our bank. Our bank is a 108-year-old minority deposit institution. We're also a community development institution, community development financial institution, or a CDFI, serving five major markets in North Carolina. We are the second oldest African-American bank in the United States, and we're the eighth largest out of 22 banks in the United States.

And I just would like to say that Chairman Gruenberg and Comptroller Curry have been very supportive of MDIs and also the National Bankers Association, so I just want to thank you for your support. We have had 107 years of consecutive profitability, and my board does not want me to break that streak.

Overall, our profitability is okay, however, we are very pleased with the overall strong compliance posture of our institution. But again, in my view, this balance needs to be realigned to ensure that we are also pleased with our earnings. Much of our time, attention, and resources are directed toward regulatory compliance versus providing credit and financial services to our community served.

More importantly, the regulatory burden depresses earnings through the redirection of critical resources and added costs from serving communities in need of critical financial resources.

So today, my goal is to move beyond the frequent headline, community banks need regulatory relief, and I just want to change that a little bit to say, we need to tailor some of these ideas, some of these proposals, to fit the risk profile of institutions of all different sizes, and so if anything you hear from me today, I know that that's the mantra of a lot of the associations, regulatory relief, regulatory relief, but if you could just change certain thresholds to fit the risk profile of certain institutions, it would actually improve the overall profitability of a number of institutions throughout the United States.

As I stated earlier, my challenge is to improve the overall profitability of the bank without compromising the adherence to regulations within the banking system. I would like to walk you through some of our BSA costs and four recommendations that would have a positive impact on our bank if they were implemented.

Believe it or not, today, we spend, and I did some research prior to coming here, over $545,000 on BSA, AML, and other compliance-related costs. So I asked my staff, well, how did that compare to, you know, a few years ago? So in 2011, we spent over $242,000 on BSA, AML, and other compliance-related costs.

And it's also important to note that these costs do not include any of our core processing costs. As a way of background, the bank added BSA, AML costs, kind of, beginning in 2010. We implemented some BSA automated monitoring software. This software assists the bank for suspicious activity, filing CTRs electronically, OFAC compliance, and 314(a) subject list searchers.

Prior to the implementation of this system, the bank relied on reports from its core processing system, but however, a number of those reports did not produce, you know, the needed reporting that we needed to present to our various regulators.

So this automated BSA, AML system, it cost the bank in excess of $140,000 since 2010. Additionally, since 2010, we have hired two additional employees for the compliance area for a total of three employees. All three employees are involved in BSA and AML and the compliance function.

The estimated cost per year for these compliance personnel is $310,000. We're a publicly traded bank. We have some unbelievable audits from all different types of entities. We're audited by third-party firms for IT compliance, BSA, loan review, internal audit, SOX. We have auditors, be it internal or external, or consultants in our bank reviewing our bank and our portfolio nine months out of the year.

And it's just a burden on an institution that has 70 employees in five different markets. These costs continue to increase each year as we strive to remain in compliance and utilize best practices.

But here's something, and I went over this prior to, you know, agreeing to serving on this panel, but based on a recent bank exam, we had a recommendation from one of our regulators that the BSA validation model that we were performing internally was not sufficient, and so they asked us to actually hire a third-party firm to come in and validate a system that we've had for five years that's done an excellent job, that's actually in multiple, hundreds and thousands of banks all across the country.

This is very expensive for our bank. This is a relatively new expense. The estimated cost for this additional audit is $6000, but we actually received proposals from various vendors from $6000 to $15,000 a year to perform this particular service.

I wanted to just give you a few recommendations for BSA, AML efficiencies. A number of the panelists and a number of the other outreach events have touched on this, but I would really just stress to you today if you could consider a condensed form for CTR reporting. The current form has an estimated 45 fields and it takes time to complete and review for accuracy.

As Jay said, and also Craig, the CTR form was adopted, believe it or not, in 1970. It's been in existence for 45 years. The threshold is still at $10,000. We really are recommending that the threshold be increased to $25,000. It would really reduce the regulatory burden. Our bank would gain some unbelievable efficiencies. Probably about 50 percent less more time spent in that space.

Secondly, the Financial Crimes Enforcement Network, I think they could notify the financial institutions of CTRs filed on entities and individuals that are deemed not a threat. It's amazing how many of these that we file. We don't hear anything back, but we continue to file them. We know that these particular entities are not threats. We do it every year; every month.

And then I just would like to close with this. We have to work together to evaluate and streamline and tailor regulations where possible to allow for financial institutions with limited resources to reach their fullest potential. And compliance, in general, is just very expensive for an institution like ours, and, you know, I just want to just leave you with this one statistic.

There were 1.6 million suspicious activity reports that were filed in 2013, 1.6 million, but only 945 investigations were initiated based on those filings, so we're doing a whole lot of work and there's not a lot of, you know, people who are really looking at the work that we're submitting on a daily basis. There's a lot of work for the regulators also.

So again, I just want to thank you for the opportunity to speak with you today. We're, you know, very pleased to be a participant in this very important conversation. And again, we all have an obligation to continue this discussion with our state and national associations, our federal regulators, but also, our state and federal delegations, so thank you very much.

MS. EBERLEY: Thank you, James. Michael?

MR. CLARKE: Thank you. Good afternoon. As the last guy on the last panel, I probably don't have a whole lot new. That's right. I have the final word. But perhaps I can offer some additional perspective. As Doreen noted, my name is Mike Clarke. I'm CEO of Access National Bank. We're a $1.2 billion bank located not far from here in Reston, Virginia, and we serve all of the D.C. Metropolitan area.

We started as a de novo 16 years ago with $10 million of capital and nine employees. If we were to open today, I shudder to think how many employees it would take, if it's even possible, and I know that $10 million would be inadequate.

As Doreen mentioned, our bank has been quite successful over the years financially. We too have been profitable in every quarter since our first year of business, not as long as James' bank, but 16 years to us is quite an accomplishment.

Importantly, we didn't skip a beat during the recession, we didn't accept any TARP or SBLF. Today, we have 225 employees serving over 5000 small to midsize businesses in this community. I'm very honored to have the opportunity to speak with you today and I hope I can lend a hand in stemming the tide that threatens our community banking system.

As industry practitioners, we must stand up and call for change. If we don't make serious changes and take a serious approach, the community bank will become extinct. As small banks disappear, small business formation will suffer and economic prosperity will become more challenging.

In preparing for today, I reviewed the outcome report from the last time the EGRPRA process took place, and I must say I was disappointed. I was struck by two startling observations, the process seemed to be very unproductive in yielding results, and the regulatory body participation was reactionary and defensive.

I ask that you take ownership of the recommendations that are being made today and recommend meaningful change. The following represents some of my specifics.

And again, you've heard most of these. Relative to dollar thresholds, and I limited my scope to the assignment for this group, all of the dollar thresholds should be revisited. Generally speaking, they need to be doubled, and that would apply to the Regulation U purpose statement, the CTR threshold, the threshold for purchase and sale of monetary instruments, the appraisal exemption thresholds, we've heard a lot about and I agree with, and the dollar threshold for small bank exam frequency; the lengthening frequency.

Back to appraisal standards, the

property evaluation requirement, I have not heard this comment today, but there is a requirement for property evaluations when an appraisal is not required, that the evaluation include an inspection. And I would suggest that we consider for small dollar transactions, a borrower certification in lieu of an inspection by the bank.

What this requirement does is it elevates the cost to the consumer and it discourages small balance loans. Turning to a backdoor safety and soundness issue, Regulation Z, specifically, the ATR and QM rules. We need to recommend to Congress to remove all prescriptive underwriting and loan structuring requirements for any portfolio loan and declare all bank portfolio loans as QM loans.

I believe that legislative mandates of underwriting criterion are bad public policy. The bank and the regulatory community should have responsibility for setting and monitoring the credit underwriting criteria that deliver appropriate risk adjusted credit into the marketplace. I would appreciate your recommending this to Congress.

Next is the FDICIA reporting requirements. Our company is a NASDAQ listed company. We're subject to the SOX requirements. The FDICIA requirements for a small public company are duplicative.

I have a couple other recommendations outside the scope of this group that do indirectly impact safety and soundness. Capital is an important topic that's been talked about. We just need to simplify the capital rules for banks under $10 billion. Our capital worksheet is eight pages long and it really doesn't tell me anything that's not different than what our tangible capital equity ratio tells me, and furthermore, it creates an awful lot of confusion.

Two examples of the confusion that's created by the capital requirements. We've heard about HVCRE earlier. It seems to me that there is a concern over loan-to-value in equity and commercial real estate transactions. I believe that that appropriately belongs in Regulation H, or the supervisory LTV requirements, that should not belong in the capital worksheet.

If we don't like those types of loans, let's talk about it in that area and not have backdoor asset quality monitoring in the capital account.

Another example in the capital account of backdoor insecurities about asset quality is, there is a premium for past due and non-accrual loans in the capital calculation. It tells me that there's concern about the adequacy of reserves for those troubled assets. So perhaps we need to increase the specific reserves on those troubled assets and let the capital account be.

Next is a hot topic that no one wants to touch and that's fair lending; ECO Regulation B. I think that as a unified industry, we should go to Congress and recommend that Congress clarify and simplify the guidance on this issue. The banks, the real estate and automotive industries are pawns in this controversial political football.

The regulators are constantly second guessed by their inspector generals, Department of Justice, political activists, and now the CFPB. I ask that you recommend Congress undertake a project to create legislative clarity on this. We all waste vast resources.

And finally, a comprehensive regulatory simplification. I'm not asking that we change any of the laws and regulations, other than that have been mentioned, but perhaps the EGRPRA process is the unique opportunity to take all of the web of rules and requirements that we have, and just restructure them into an easier to understand framework, perhaps something that we're all accustomed to, like using the CAMELS framework, and each law or regulation that deals with asset quality should belong in asset quality, things that deal with liquidity, and so forth.

The amount of time and energy that is spent by the supervisory staff in the banks finding and defending gotchas because they're in obscure regulations is just enormous. If we could create some clarity, I think the public perception and view of the regulatory bodies would rise significantly.

I thank you for your time and ask that you proceed with the seriousness and gravity that this assignment warrants. Thank you.

MS. EBERLEY: Thank you, Michael and thank you to all of you for your comments. I'm going to look over to the principals and see if we have any comments or questions that you'd like to raise. Chairman Gruenberg?

CHAIRMAN GRUENBERG: Thank you, Doreen. I wanted to ask Mr. Clarke, you made a reference to small balance loans and I think self-certification by the borrower, I just wanted to get a sense from you, when you say small balance loans, what do you have in mind? When you say self-certification, also, what do you have in mind?

MR. CLARKE: Well, of course, the devil's in the details. Our bank generally does not make small equity lines as an example, but I would say, in this market, $50,000 would be small. Self-certification, it seems that there is a wave, a lot of these appraisal requirements are embedded from the '90s and the FIRREA, and all of that, and at that time, there was a distrust of the banking industry, and appraisals, and evaluations, and then the latest wave is a distrust of the banks, and the consumers are always right.

And so maybe the balance is somewhere in-between, so if there's somebody that's an otherwise good credit, I'm not talking about predatory lending, that is $50,000 or less, then perhaps they can certify the condition of the property.

MS. EBERLEY: Other questions or comments?

COMMISSIONER TAYLOR: I actually got a question. I haven't heard anything about cybersecurity. Cybersecurity is on the mind of regulators and industry alike, and I'm wondering, are there any regulations that are outdated or get in the way of the industry actually preparing for the risk that we should take a look at.

MR. SILLS: I'll try to take that one. I have an IT background. We're currently applying your new cybersecurity framework to our institution and we've been presenting that information to our board on a quarterly basis, and it's kind of way over their heads, but it is something that we think is very, very important.

We've also signed up for the FS-ISAC, but it's just too much information for an institution of our size to receive. We receive hundreds of emails on a daily basis on different threats, and it's just -- this whole cybersecurity, you know, the management of it, and the vendor management of it, is really a challenge for a small institution like ours.

We are looking forward to our next bank exam where they're going to come in and see, you know, that we've been presenting to our board, and we have the framework developed, but, you know, I just think it's important that everybody's vigilant and you keep that issue in front of, you know, your customers, your shareholders, your board, your staff.

MR. CLARKE: If I can jump on an opportunity for this. I've spoken to Comptroller Curry about this, and that is compelling the core processors to have the contractual ability to get their supervisory reports in a more timely basis, require them to provide us with the copies of their internal audit and SAS 70s to find out what their deficiencies are and what their remediation plans are.

And furthermore, contractual obligations for them to give us timely notification of cases where their system has been compromised. We just renegotiated our contracts and I was not successful on any of these points.

CHAIRMAN GRUENBERG: I actually was intrigued by Mr. Sills' comment on the information from FS-ISAC because we've generally encouraged institutions, including smaller institutions, to become members of FS-ISAC as a way to gain information relevant to cyber threats. Have you found the information you're getting -- you were suggesting it was so voluminous that it was tough for you to manage it. Is that what was --

MR. SILLS: Yes, a number of those threats really do not apply to an institution of our size. We actually outsource the majority of our IT, but I do want you to know we have signed up because the FDIC wants us to sign up and receive those reports, but a lot of the threats really do not apply to us, but we are reviewing them, but it is a burden.

You know, again, we only have 70 employees. We have one and a half people who actually serve in the IT role for our institution, and, you know, I've been to enough conferences where I know this first go around in 2016, you're not going to ding us, but at least we're, you know, making progress in being more compliant with that threat, but it is very tough.

MS. EBERLEY: May I ask a question? James, have you joined or looked into, or are you aware of the community banker, kind of, working group, the support group, under FS-ISAC? So they do have a community bank working group. And also, the emails that they send, a two to three-page email every week, to community bank CEOs about, kind of, at high level, what happened in cyber this week, and whether or not it's actionable to community banks, and if so, how to take action.

Those were a few things, I know, you know, and they've acknowledged that there's just a tremendous volume of information that's out there, but those are a couple of things they've tried to do to support community banks, and perhaps we need to do a better job of making sure everybody's aware of those things, or encouraging FS-ISAC to do so, but just wanted to check on that.

MR. SILLS: I do not receive that summary report, so I'm going to look into it. Our chief operations officer may receive it. I'm just not sure.

MS. EBERLEY: It's nice. It's written in layman's language so you don't have to have an IT background to read it, which is good. All right. Do we have any questions from the audience?

MS. FULLMER: Peggy Fullmer from Milton Savings Bank. Mr. Gruenberg, when you ask about the appraisals, what I want to point out is that, all over the country, values are different, so that one's a really hard one to put a dollar amount on. I have homes in my area that are only worth $50,000, so I wouldn't want to do a valuation when it's only worth $50,000, so maybe it should be based on a loan-to-value, which is what we do at our bank. If it's under 60 percent, we consider doing an in-house evaluation if it's under the $250,000 threshold.

And possibly, instead of a certification, I'd have the customer email me pictures so that I can see that there is not deferred maintenance in their house, and maybe certify that those pictures are pictures of their house, but anyway, it probably should be based more on that.

And if I can, while I have regulator's ears, I don't know if you can do anything with

Congress, but we live along a river in Milton, flood insurance is a big issue, and we have -- when the new rates were coming out two years ago, I had a property that, actually, their escrow was going to be over $400 a month for their premium.

I know they pulled back on that, and I don't know when that expires. We monitor every single property of ours, which is approximately 10 percent of our portfolio, that are in flood zones. We monitor the premium so that we can watch what they are because it's definitely going to impact safety and soundness, so if you can get the voice of you to Congress to make sure that places like Milton, the water comes up, the water goes down, you clean out the mud, and you move back in.

It's not like Katrina and New Jersey, or, you know, somewhere where it totally wiped out homes, so even if they apply different premiums for those kind of situations. I actually lived in a house, had to move out twice while it was in the flood, and literally, you clean the mud out, you blow it dry, you move back in, and the house has been sitting there since 1906 and it has not floated away.

So if there's anything you can do there, I would certainly appreciate it with the concentration that we have in our area, and those houses are not going to float away. The river is not coming from the ocean as a hurricane that will wipe them away, so thank you.

MR. ALEXANDER: Hello. I'm Rick Alexander from B Lab. We're a non-profit that promotes an infrastructure where businesses can be a force for good. I really appreciate your time. It's a great honor to be in front of this panel. And I'm afraid what I'm going to say will sound a little off-topic from the subjects of appraisal and size of currency transactions, but I've tried my best to look at the schedule and see where this would fit in and I thought perhaps it was under safety and soundness.

B Lab, where I work, we promote a form of corporate governance called Benefit Corporation, and we've gone to about 31 states now, including the State of Delaware, where we worked with Jack Markell closely to pass this statute, and the idea of the Benefit Corporation statute is to change what is the traditional corporate law in the United States where boards of directors are required under traditional law to only think about the interests of stockholders.

So they can do well by doing good, perhaps, be good to the community, be good to their employees, but it's all with the primary goal of making money for stockholders and there's no room for, sort of, an equal weight to go toward the community or others, and that's different than other countries.

So we've amended the law in 31 states. We now have 3000 Benefit Corporations, and we have had discussions with the staff at the OCC about banks becoming Benefit Corporations. And the reaction that we got was they thought it would be difficult to do or that the staff would be uncomfortable with that.

And I did some work to try to figure out why that might be, and I looked at Subpart D at Section 72000(b), which says you can have anything in your charter as a bank that's in the charter where you're incorporated or that's in the Delaware corporate statute. So it looked to me like we satisfied that, but it then went on to say, but you couldn't do anything that violated the regs, there was nothing that violated the regs, or that affected safety and soundness.

So I had to sort of piece together that it was a safety and soundness concern. And what I wanted to just present was the idea that I actually think that becoming a Benefit Corporation contributes to safety and soundness. As a traditional corporation, your goal, as I said earlier, is kind of -- has to be, your fiduciary duty as directors, has to be to maximize stockholder value.

Obviously, you have to comply with the regulatory and legal regimes towards your subject, but you only do that instrumentally. In other words, you go to the limit, but otherwise, you need to take the risk you need to take to satisfy your stockholders.

As a Benefit Corporation, you actually don't have to do that. You can try to make a profit, but at the same time, have genuine concern for the community in which you operate, for your depositors, for your employees, and others, so we thought it would satisfy. And we have more that underlies this, and we did put in a letter, and have submitted written testimony today.

But I'll just say, there's sort of three things that we thought really spoke in favor of permitting corporations that are banks or that are holding companies for banks to be Benefit Corporations. One is what I spoke to earlier. It really contributes to safety and soundness. The second is that, many states already have something called other constituency statutes.

Without going into detail, if you're incorporated in one of those states as a bank, you already have, sort of, this governance, in a slightly different way, automatically, and third point I would make is, this is extremely appropriate, I think, for community banks, and we have at B Lab right now, over 20 banks that are looking into getting certified by us under our performance principles because what we do and what Benefit Corporation does really fits right in with what community banks try to achieve.

And the last thing I'll say is, it isn't clear to me that this is something where we need to change the regulations. Again, we spoke to the staff. They were not comfortable with putting this into the corporate charter and becoming a Benefit Corporation, but it could be just a matter of interpretation, so it's not entirely clear to me that this is a rewrite of the regulations. Thank you.

MS. EBERLEY: Thank you.

MS. MILLER: Thank you. All right. Thanks. So I think this concludes the final panel and so I was going to go ahead and dismiss the panel and move into our final segment of the event today, which is just the general audience comments, so thank you very much, Doreen and panel.

So if anybody has any general comments they want to make, please proceed to the mic and remember to state your name and what organization you're from.

MR. RUSSELL: Thank you and good afternoon. My name is John Russell. I'm the Direct of Government Relations for the American Society of Appraisers and I also provide that service to the National Association of Independent Fee Appraisers and the American Society of Farm Managers and Rural Appraisers.

First, I want to thank Chairman Gruenberg, Comptroller Curry, and Governor Tarullo, as well as your agencies and your staff for putting on these events. They've been fantastic and they're to be applauded for the effort you've put into this process.

I also do want to mention before going into my substance, I understand from the comments at the start today from Chairman Gruenberg, that the IAEG task force is up and running, and we certainly appreciate an opportunity, as the appraisal stakeholder community, to be participatory in that as well, and we look forward to that.

I have two comment letters I'll be leaving behind with you this afternoon. One is from a coalition of eight professional appraisal organizations and the Farm Credit Council, as well as an additional codicil from ASA and NAIFA. We are opposing any suggested increase in the de minimis and support leaving the threshold at $250,000 for a couple of reasons I do want to go through, but before I get there, I do want to point out, we've heard a lot of people saying today, well, we should increase it, we should double it, all I've heard is it takes time and it costs money.

I haven't heard a substantive reason beyond those two why it should go up. And typically, when you're in business, it takes time and it costs money to run a business, so absent further reasons to increase the de minimis, I'm not seeing a clear and convincing case being made to shift that number upward.

In fact, what we would point to are a number of data points and things that we're seeing from our membership that suggest leaving it intact is the thing to do. I'll point first to two facts that come out of the Government Accountability Office, so they're not from my group, they're not from anybody, they're from the independent neutral government board that looks into these things.

And they looked, in 2012, at this exact question of, should the threshold be increased? And they asked a wide range of stakeholders that exact question. Not one stakeholder supported an increase. Not one. In fact, most stakeholders who were pressed said it should go lower, but since that's not the question on the table, we can set that aside and simply point out, not one stakeholder was supportive of an increase when the GAO looked at this question.

You know, further, in 2012, when the GAO testified on Capitol Hill, on a range of issues, but again, to the de minimis, they pointed out that between 2006 and 2009, the peak pre-bubble years and the first wave of the post-bubble economy, 70 percent of all residential real estate transactions in this country at the most overheated time we've ever seen were not covered by the $250,000 threshold.

Now, I would probably posit to you that that number is significantly higher in our current economic climate today, which again, begs the question, if most are falling beneath that number, is there a need, in fact, to raise it?

The question came up as well in the differences between evaluations and appraisals, and I'll touch on it briefly here, but I would point you to the ASA/NAIFA letter, we go into that very in-depth because we kind of had a feeling this question would come up.

As a threshold matter, to be an appraiser, you have to meet the requirements laid out by the appraisal foundation, which is a Congressionally authorized progenitor of standards and qualifications in the United States, which means at a minimum, you have to have certain education criteria that you meet, you have to have additional qualifying education to become an appraiser, you must take continuing education as prescribed by the state or states in which you are licensed, and you have oversight from a state appraiser licensing board.

Right off the bat I can give you four points of differentiation between an appraiser doing an appraisal and someone who is not an appraiser doing an evaluation. By the way, and I'm hoping, really hoping, no eyebrows go up behind me, but I'll judge from your reactions, did you know that in the 38 states where appraisal licensing is mandatory, if you are doing an evaluation and putting an opinion of value on that piece of paper, congratulations, it's an appraisal.

You are subject to your state's licensing requirements as well as oversight. So that's another thing to point out is that, already, in many of these jurisdictions, even though you're calling it an evaluation, you still have to check a bunch of the same appraisal boxes.

Again, I would reiterate a point that Bill Garber, my colleague from the Appraisal Institute, brought up with you earlier, the fact that when bank risk management professionals were surveyed, those who were in the chief appraiser position, should this threshold go up, 80 percent of the people on the front line every day looking at these issues said no, it should be left intact.

These are the people on the ground seeing what is coming through and in a position to best tell you whether or not the current limit is meeting the dual goals of safety and soundness as well as consumer protection, which is more and more becoming an emergent concern among consumers, especially now if they're getting the appraisal three days before closing as opposed to after the fact, thanks to Dodd-Frank.

They're now understanding before they go to the table whether or not the collateral is worth what they're going to pay for, and in some instances they're deciding, hey, the value isn't here. I'm going to walk from this deal. So that concern has to be weighed as well.

I guess my final point I would make, and this is, I guess, more so to the room generally, they're talking about the need to increase this to remove burden. Well, think about this, if you're doing Fannie Mae lending, Freddie Mac lending, if you're doing FHA work, if you're doing a higher cost or a higher priced mortgage loan, if you're doing subprime lending, if you're doing manufactured housing, there's appraisal requirements that will attach whether or not this number changes.

So simply asking this number to go up doesn't obviate the requirements that are going to pervade the majority of the work that you're doing today. So again, I ask the question, other than saying it takes time and it costs money, why are we raising this threshold?

With that, I again, want to thank you all for putting on this event. I'd be happy to entertain any questions you have, either now or in writing, subsequently, and again, thank you for your attention.

MS. MILLER: Thank you very much. Any other comments?

MR. RICCOBONO: Rick Riccobono, Director of Banks, if you got that. So I had two more things on my list. You know, I guess I would sort of categorize these as sort of supervisory process, you don't really need statutory changes or regulation changes, but I think there are two things out there that we should probably start the dialog about.

One is the way we rate earnings at these institutions. And I think what's out there at the examiner level is more a traditional approach to earnings. We have sort of a bit of a mindset of what banks should be making, and alternatively, we look to peer group. That's always worked for us, but I would tell you in this extended, very low interest rate environment, where all of the new loans, if they can make any, are being made at far less rates, and everything they're rewriting is much less, so there's tremendous compression, and they're not getting any more benefit on the liability side.

The cost of funds is pretty low, historically low, and still down there. I think what we need to do is look at earnings in the context of the overall risk profile of the institution. So when you're seeing that an institution's got satisfactory capital, has satisfactory asset quality, satisfactory management, and then we get to earnings, and because they're earning 45 basis points, you say, oh, that's unsatisfactory, and liquidity is fine, sensitivity is fine.

The message that we're sending management and the board is, take more risk, and I'm not sure that's in the best interest of the insurance fund or the regulator. So I think, you know, I tried to work this through at the examiner level, but they're really looking towards Washington for policy on this, and it may just be only temporary that we move away from the traditional analysis, but force the discussion on, is that really unsatisfactory earnings given the risk profile of the institution?

And I think that would be a better -- serve us better and not send the wrong message because despite, maybe, the institution, and the cases that I've been involved in, have been rated satisfactory overall, that management and the board is focused on that unsatisfactory rating in earnings, and I think we're pushing them in the wrong direction.

And my second topic is, maybe now is the time that asset quality has recovered and most of our institutions are community banks, is to rethink this whole, what I coined, the performing non-performing loan. This isn't statutory, this isn't regulatory, this is really derived from Call Report instructions.

But when you have a commercial real estate loan and your only recourse is to the real estate itself and not a personal guarantee of the grantor, what we do is we come in and we make the institutions write the loan down to the appraised value, I know we just heard quite a discussion about appraisals, the question is, in an environment like we've just witnessed with the great recession, how accurate were any of those values?

But the point being, the values of these properties drop, the loan is paid and continues to pay, but nevertheless we say, charge off the difference between the loan amount and what you now have the new appraisal on, and put this loan on non-accrual. I think this is self-defeating. We're wiping out our institution's capital on a loan that has continually paid and will pay, and yet, we can't even accrue that.

I think the way to address this is, think through it better with, you know, there's a point in time, perhaps, we're going to require more reserves be put on that, specific reserves on that loan, but I think we need to look beyond just simply the appraisal, we need to see the wherewithal of the borrower, they're maintaining the performance of the loan, where's that coming from? There are better things to look at than simply the hard and fast rule that we should charge it off and put it on non-accrual. Thank you.

MS. MILLER: Thank you. Any other comments today? Doesn't look like it. So we'll conclude today's events and thank you very much.

CHAIRMAN GRUENBERG: Thank you all for coming.

(Whereupon, the meeting in the above-entitled matter was concluded at 3:40 p.m.)