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Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA) Outreach Meeting

Tuesday, August 4, 2015

Federal Reserve Bank of Kansas City
1 Memorial Drive
Kansas City, Missouri 64198

9:00 AM CDT

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<<ESTHER GEORGE>>

>> My name is Esther George and I'm president of the Kansas City fed. It's my pleasure to host today's forum where we are going to highlight issues of regulation and how it is affecting smaller community rural banking concerns in this country. I want to thank you for participating today. These are issues you live with that we live with every day. This is a forum to bring them front and center. As the name of the law connotes, that brings us all together. These are issues that affect economic growth. Ultimately at the end of the day, in the role of banking to meet the needs of consumers, to meet the needs of small businesses, the impact is on how our economy -- how our economy grows and thrives.

I'm going to turn the program over to the panel behind me to make their own introductions. Thank you for being here.

<<THOMAS CURRY>>

>> Thank you everyone here today. I want to note that a few of my colleagues here are coming home. As you probably know, this isn't the first session we've held under the economic growth and regulatory paperwork reduction act, or as we call it -- this one stands out because its focus on issues facing banks and their customers in rural America. While economic conditions and the health of the banking industry have improved since the crises, rural banks face a number of challenges. Some of you do business in towns with aging populations and you make it yourself struggling to attract new customers. The cost of keeping up with changes in technology and attracting and maintaining staff that needed to provide new services falls harder on a rural institutions that don't have access to the larger labor pools available in some urban areas.

If you're an agricultural Bank, then you and your customers are facing some serious challenges this year commodity prices are down, the cost of feed, fuel etc. have also dropped. Your borrowers almost certainly face the prospect of a reduced net income. At the same time, some of your competitors have pricing advantages that make it more difficult for you to compete with them. Of course, it's not an easy time for community banks generally. In most respects, the problems of rural banks are the problems of banks everywhere. The accumulation of laws and regulations aimed at solving real problems, they face very real burdens on the industry. Particularly upon you in the community bank sector. That's why this process is so important. As bank regulators, we cannot do anything about commodity prices or the changing demographics in your communities but we can and should do everything possible to make sure you don't have to cope with unnecessary regulations.

The operative word in that statement is unnecessary. All regulations carry at least some burden. The expectation is they will provide benefits that outweigh the burdens. What worries me is the way the regulatory rule book builds up over time and can be quite onerous for small banks. We at the OCC are taking this process very seriously. I'm interested in hearing from the panel as well as members of the audience. I believe we will consider all the comments received today. As this process evolves over time, I can assure you the OCC and my colleagues will not wait until it's over to make changes, when a solid case has been made for reform. If a regulation is unduly burdensome, we've authority to make changes and we will act. Many regulatory requirements are rooted in laws passed by Congress and changes may require legislative action. In those cases, we work with Congress to remove unnecessary burdens. The OCC has already done so with three specific proposals. First, we think a greater number of healthy well-managed community institutions ought to qualify the 18 month examination cycle. Raising the threshold from its current $500 billion level would not only reduce the exam burden on many community banks but also allow the federal banking agencies to focus our supervising resources on those banks that would send capital, managerial or other issues of significant supervisory concern.

Another idea we think is ripe for congressional action is a committee exemption from the Volcker rule. We do not believe it's necessary to include smaller institutions under the Volcker rule to realize congressional intent. We recommend exempting the more than 6000 banks with less than $10 billion in assets from its requirements. >> As an added protection we also suggested regulators apply the rule to a mutual under covered activities -- if it makes sense to do so.

This approach was also included in the bill approved by the Senate Banking Committee MPEG. We developed a proposal to provide savings associations with greater flexibility to expand their business model without changing their corporate governance structure. It's important that federal savings Association like other businesses have the flexibility to adapt to changing economic and business environments in order to meet the needs of their community. They shouldn't have to bear the expense of changing charters in order to do so. I think these legislative proposals are meaningful steps which can help a number of smaller institutions. We shouldn't stop there. We should be looking at every approach that might help community banks thrive in the modern financial world. Thank you for your attention.

<<THOMAS HOENIG>>

>>Thank you all for joining us. This process is designed to identify unnecessary or outdated regulations. It deals we share today are particularly timely as lawmakers in Washington debate various approaches to relief and various approaches to determine what types of banks are eligible for relief.

I think it fair to say there's broad agreements that the regulatory burden should be eased for community banks. Was proving more difficult, is finding agreement on what exactly defines a traditional bank and what specific regulatory changes would give such banks meaningful relief without compromising bank soundness and regulatory consumer protections.

As some of you know, I spent my career in the weeds, the book of my career right here in Kansas City supervising banks of all sizes throughout this region. My experience tells me is consistent with what I hear from many community bankers. They judge the regulations and supervisory requirements should not be the same as those applied to complex institutions that do both trading and traditional commercial banking. To be blunt, that is not the message we hear in Washington from lobbyists represent banks with a variety of business models or consultants. Providing meaningful regulatory relief for banks engaged in banking by maintaining safe and sound financial systems requires focusing the discussion more on bank activity and complexity and less on size.

With that in mind, I have recommended elsewhere and will outline again here for you what we established in terms of an objective set of criteria for eligibility for relief. That emphasizes the core commercial banking model and reports a strong equity capital.

Under the plan, a bank would be eligible for regulatory relief if it holds no trading assets or liabilities, holds no derivative positions other than interest rate and foreign exchange derivatives, the total notional value of all exposures including clear and nonclear derivatives less than $3 billion and maintains a ratio of principle equity to generally accepted accountable assets of at least 10%.

Defining eligibility for regulatory relief around these specific criteria rather than asset size effects of the long-standing business models of traditional commercial banks Because these criteria are objective, they can be enforced with less imposition on the banks using off-site monitoring and within the regular exam process. More than 90% of the approximately 6400 commercial banks meet the first three criteria. Two thirds of them meet the fourth criteria regarding capital go. The remaining one third of these banks are within two percentage points of the capital climate and could be afforded relief as they achieve this objective over perhaps a 24 month period.

It is worth noting that among banks that would qualify are 18 regional banks, with assets exceeding $100 billion. Many other regional banks could choose to follow suit. Importantly, size does not limit eligibility using this metric. And asked -- activities that are associated with commercial bank insurance companies or commercial investment firms. The effect is to keep non-bank activities outside the insured bank where they are directly subsidized by the taxpayer and create a stable economic distortions. This issue contributed significantly to recent financial crisis.

With this framework, we can outline meaningful regulatory relief for those more traditional banks that is consistent with safety and sounds. And would benefit not only these banks but the American public. They include exempting more traditional banks from all Basel III capital standards and associated risk assets calculations. In addition to drastically simplifying the calculation of capital, such an exemption would address other specific issues related to Basel III for community banks including mortgage servicing rights, banks registered as S-corporations, very high volatility CRE. Exempting these banks from entire schedules on the Call Report things will be accomplished.

Allowing for greater examiner discussion for all possible or parent fair lending violations to justice. Establishing further criteria would exempt eligible banks from appraisal requirements could be published. Exempting banks from stress testing would be an accomplishment. We judged appropriate -- alone for 18 month examination cycle as opposed to the current 12 month of traditional banks. Mortgages made by traditional banks that remain of the bank's portfolio be a qualified mortgage loan for purposes. Updating existing guidance to clarify the Volcker rule compliance requirements can be met by simply having clear policies and procedures in place appropriate controls on the activities and which are required and currently verified by examiners regardless of Volcker rule. This would not extend reforms judgment necessary for the most complex of banks that have used the federal safety net to expand into areas that are beyond traditional banking. As recently experience at a debilitating cost to the public.

US banks engage in poor banking activities should not incur the same regulatory burden as those who do not. Nor should traditional banks be held hostage to the debate that apply to firms that choose to engage in a much broader set of investment banking and commercial activities. These banks provide credit and small businesses and consumers across the country without the burden some constraints of restricted regulations.

Thank you very much.

<<MICHAEL GIBSON>>

>>On behalf of the Federal Reserve for, I want to thank everyone for attending the meetings being held as part of a review process. I want to thank President Esther George for hosting today's meeting. As you know, the federal banking agencies are required to conduct a joint review of our rules and regulations every 10 years. Review provides us with an opportunity to step back and consider whether our regulatory actions have resulted in unnecessary burden on institutions and whether our regulations are reflective of current -- industry practices. Our ultimate goal is to identify the outdated, unnecessary or unduly burdensome regulations and based on this information take the necessary regulatory action.

At today's outreach meeting, we're focusing on discussing the regulatory burden imposed on a smaller depository institutions and those that serve rural communities. I appreciate the challenges faced by rural bankers and I acknowledge the receipt a number of comments from community and rural banks that many of the recent regulations intended to address the risk of the largest financial institutions, have trickled down as perceived requirements for community banks. While this is not our intent, the agencies recognize the community bank business activities do not post the risks that the regulations implemented pursuant were intended to address. I look forward to hearing your views on issues that have been raised at the previous outreach meetings, some of those include capital relation, reporting requirements, appraisal rules, examination frequency. As well as on matters of concern for rural bankers. Each of the agencies will be using the information gathered at this outreach meeting and the other outreach meetings to support our rulemaking process so we can strike the correct regulatory balance.

I'd like to encourage everyone to speak frankly and be as specific as possible as we review our regulations we find specific examples to be the most useful to understand the industry's activities and the risks as well as the costs and burdens of regulatory compliance. The agencies are committed to ensuring the review is a productive exercise that will yield reduction while still protecting the safety and soundness of insured depository fusions and protecting the deposit insurance fund.

Thank you again for coming.

<<JUDY STORK>>

>>Good morning everybody. Welcome to Kansas City. My name is Judy Stork and the deputy bank commissioner for the state of Kansas. I realize we are in Missouri. If you lean to the left and squint your eyes, you might see Kansas from here. I am pleased to be here today with these individuals that I have known for many years and have worked with over that time. My fellow state regulators and I are part of this review process. We are part of the state liaison committee. We very much appreciate your attendance and your participation in the process.

As others have stated, EGRPRA requires regulations prescribed be reviewed at least once every 10 years. This outreach meeting and the review process are key to informing the regulators and members of Congress as to areas where improvement to the regulatory framework can be made.

This is the second time such a review has occurred. I've heard directly from bankers that there's a healthy dose of skepticism about this process and whether the comments made would be given thoughtful consideration. I think these are concerns of the result of the same review that occurred 10 years ago where there was a lot of efforts but I don't think there were many results. I'm optimistic this time around will be better because I'm an optimist.

I would just say that while the review is mandated by statute, it is not mandated that the outreach meetings occur. I think the fact that you have the senior staff of these federal -- federal regulatory bodies here they are committed to hearing your concerns, eliminate regulations where appropriate and reduce regulatory burden. From the standpoint of the state regulators, we have changes we support in order to reduce regulatory stressors for banks. A couple of these examples I will mention. First, we certainly think definition of what constitutes a community bank needs to be clarified. Taking into consideration where an institution operates, where they derive their funding, and whether the lending is based on relationships and detailed knowledge of the community.

Regulations need to differ between the largest and most complex natural institutions and community banks that have a very different business model. State regulators are supported of moving the threshold for 18 month exam cycles on the 500 million threshold to 750 or 1 billion. This allows the regulators to focus their resources on higher risk institutions. As mentioned, the House financial services committee voted last week, 58 to 0 to amend that proposal to raise the limit to $1 billion. I'd Like to conclude these remarks by thanking my federal counterparts as well as Debbie for holding this meeting here today. And to all of you for taking the time to be here. I look forward to hearing your comments today. The one suggestion, I would suggest you be as specific in your remarks and suggestions as you can be.

Whether it's to this group today or comments or letters to members of Congress. It would be worth your time to comment on specific regulations, specific processes or specific statutes that you believe are keeping you from properly serving your communities. I would suggest the details be much more influential than generalities. Thank you.

<<DEBBIE HARTMAN>>

>> Good morning, my name is Debbie Hartman. I am the acting Commissioner for Missouri Department of finance. For those not Missouri, welcome. I don't want to be

redundant with my comments, I know we went to keep on schedule today. I think the main thing I would like to stress to everyone here knows this outreach meeting and the larger EGRPRA review process are the key to letting the regulators now those areas where improvement to the regulatory work can be made. Input from you today is essential and your comments are welcome. Is a lot of concern today among the regulators and the industry that the recent regulatory reform efforts have put too much burden on committee banks.

You heard Judy say we need to get the definition on the books. There's a great deal of discussion about rightsizing of community bank regulation which includes changing the frequency of the examination cycle. Also allowing a higher exemption threshold for Volcker rule. And granting a safe harbor for those banks that hold mortgages in the portfolio.

We have a lot of important topics. A lot of topics we know are of a concern to you and a concern to us that we hope everyone will provide good open dialogue on today. We welcome your input. This is my first opportunity to attend the EGRPRA event. I want to say thank you very much to my fellow counterparts for having me on the agenda. I will turn this over to Art.

<<ART LINDO>>

>>Thanks, Debbie. We are ready to get started. Today we are going to have four panels. They will give us views on some various things that we've been talking about thus far. Our first panel will be in capital related issues, consumer protection, directors office and regulations. I will call that panel up to the program, if you would. In the meantime, while they're coming up I went to go over a couple minor ports. We'd like to hear your comments. There is a microphone that is presented here in the room for anyone to give a comment. We are going to go through the panels and then welcome your comments at the end of each one of the panels. We have time at the end of the day for the general comments. Please keep your comments on track in terms of the topic that's been discussed. If you can, make your comments as concise as possible. With that said, I think our panel is assembled. I am going to turn it over to Maryann to get us started.

<<MARYANN HUNTER>>

>>Thank you very much and I will add my welcome to the very fine welcome that we have on the principles of the agencies. We are ready to start our first panel. I will mention that our purpose is to talk about capital related views, CRA, consumer protection, and regulations related to directors, officers and employees. I will mention that the CFPB, the consumer financial protection Bureau is not part of the official EGRPRA process. Do not be overly concerned about whether or not it's a regulation of falls under your agency or under the Bureau. I know all of the agencies are committed getting to comments to the Bureau. That is the most appropriate place to hear the concerns. We went to have a lively discussion about these topics. We'll get started. I'll just briefly make some introductions. Believe that biographies are also in the materials.

Just to introduce our panel, first we have Mark Schifferdecker. Mark is the CEO of that national Bank in Girard Kansas. The bank has 11 branches. Mark is also a third generation Community Bank. I think on our panel we have long tenure in banking with family ties as well. I would only mention that Mark and has also served on the federal home loan bank board of Topeka since 2011 and has a CPA, as well as illustrious background. Also joining us on the panel is David Steffensmeier. He is the owner of the First Community Bank in Beemer, Nebraska. That bank has $140 million in assets. It is a state chartered bank. That is also a member of the Federal Reserve. David's banking career began in the 1970s. I would say that you have a lot of experience working in banking in rural communities. Bill Vaughan is the president and chairman of the bank of Omaha, Omaha, Missouri. It is $134 million bank. It is state chartered ride that FDIC. He has a long tenure in banking starting his career in the early 70s. In a bio information it says he said sure -- fourth-generation to serve as president of the bank. It is a family enterprise. Welcome. Finally on our panel, we will hear from Leonard Wolf. He is the president and chairman of the United bank and Trust in Marysville, Kansas. It is a state chartered bank that is also a member of the federal reserve. The bank is a 600 million agricultural Bank with nine different branches in the Northeast Kansas communities. Leonard is the past president of the Kansas bankers Association and very active in that American Bankers

Association. Welcome to all of you and I'm eager to hear the comments that you have to offer. The way we are going to do this is we are roughly going to try for 10 minutes each. Then at the end of the panel's comments we should have some time for others to make comments on these regulations or other matters as well. Mark, I will turn it over to you.

<<MARK SCHIFFERDECKER>>

>>Thank you Maryann. Thank you very much for the opportunity to share with you today and particularly the opportunity for rural banks. Didn't want to make David and Bill feel that but I was six years old in 1960s. I guess I am a young guy. Today our panel -- we try to tag the visit a little bit so we're not redundant. I'm going to talk about capital and the reinvestment act and then make some closing comments. If it pertains to capital, have two basic areas to talk about. The first more general topic, and I appreciate the comment that I heard this morning, is with regards to Basel III. I would submit to you as a community banker, a family-owned banker, the [Indiscernible] rules do not make a lot of sense for our bank into really go through the exercise. We have a two-year -- tier 1 leverage ratio of about 11%. We don't have our balance sheet activities. We don't have a sophisticated complex business model. We go through the calculation and tell us what we already know. We have the capital. While I was preparing for this comment, I went back to the person who prepares our Call Report. I noticed a booklet laying on her desk. It was the advisory rules for part two of the RCR. It was item 6 of the RCL. I noticed it was 89 pages long. Just to fill out RCR and the RCL was 89 pages. I think that overbought -- overall pages was of the Call Report is 800 pages. It is much too difficult for a banker of my nature. I would really encourage , and I agree with the comments that were made, we really need to look at these if there is a way to designate a traditional thinking organization as with vice president Hoenig's proposal. It needs to have real regulatory relief. The second capital related item that I'd like to talk about today relates to the federal home loan bank. The MPF program I think most of you are familiar with that. It was a successful program for our bank. We invested [Indiscernible] in loans over the last 13 years. It has worked out well for our bank. It is a secondary market program. It has skin in the game through

a credit in substantially. It is a very good program. I would submit to you in our 11 rural communities, so all of those mortgages are two small communities. It is a very important program. That credit enhancement on the call report is considered a synthetic securitization, which I would say that is not a good characterization of the risk profile of that product. Our credit enhancement is grossed up up to 12.5times. For instance, in my bank, It takes my risk-based capital from 16% down to 14.5%. It is 150 basis point on a risk-based capital. Of course, it is still adequate. That is a pretty severe haircut. Our bank has an experience of a one basis point loss over the last 13 years this program. That's one of the most significant recessions we've ever had. In addition to that, our auditors requires us to keep it in allowance on our balance sheet. We keep a 1.5 basis point reserve, if you will. We already have an allowance and it is 150% of our average loss. Then we get 150 basis point haircut on top of that. I would encourage the FDIC regulators to take a look at the capital treatment come a to simplify it. It is not a synthetic securitization. Look at that product. Maybe it would be more appropriate to be more of a 50% risk weighted category and fall into a 20% outstanding commitment. Something like that would be very much appreciated. The other item I want to talk about is community reinvestment. In our bank, as -- Maryann said, over the weekend I added up the population. The cumulative population of the living communities we serve is 26,500 people that is the cumulative population. The do the math, our average community that we serve is about 2400 people. I would submit to you, and I know many of you are from small communities. You would of the every activity runs to the community bank. Every Little League team, every fair premium, whatever it might be, our bank donates around to it or $250,000 a year in donations. All of those go back into the community. Would encourage as we look at the CRA rules that size alone does not really get a good picture. I really think that the demographics of a community bank -- I'm a $600 million community Bank so I am a small bank. Really, I am 11 small banks that are about $50 million a piece. That is the demographics of my bank. When you look at CRA activities I would submit that most of those activities are written from an urban perspective not a rural bank perspective. Any relief that can be given in that area and that $350 million threshold for a small bank, size alone doesn't give a proper perspective. I really encourage the regulators to take a look at some definitions. Look at the activities. Look at some of the things around CRA. No banker discussion would be complete without talking about bank secrecy act. I won't go into that because I know there are other panels that will. While I have the microphone, I do want to make the comment that our bank -- you know, I am all for looking for money laundering and tax evasion and other crimes like that. I think that is very important. The cost to our community banks is ridiculous. I can certainly estimate that at our bank we spent $250,000 a year at on BSA. We have special software, all of the attention, and again I am all for anti-money laundering detection and enforcement in all of that. I think, as the other panels will discuss, if we can look at the thresholds for CTRs, SARs, or the customer due diligence that are required for community banks, I think there are some serious things that can help us as community banks. I'm sure I have used up my 10 minutes. I will close with a comment. There was a good article in the Wall Street Journal on Friday called the demise of the small American bank by Stephen Moore. It is a good article. It really talks about what we are talking about today. The small American bank is having trouble surviving. The article talks about comparing the US regulations with regulation in the UK. I was really surprised that that regulation in the UK is much less onerous in the US in talking about what it is like having a bank in the UK. There are not many that there is a third-generation Community Bank family, I am very concerned about the viability of my Community Bank in my next generation. It is not because we don't have customers, we don't have a good business model, we don't have efficiency. It is because the regulation is making it so expensive. I appreciate the process today. I think you for what you are doing and I would hope that we take a very serious look at some of these positions. Thank you for your time.

<<MARYANN HUNTER>>

>>Thank you, Mark. You are well within your 10 minutes. You are good. David, would you like to take over?

<<DAVID STEFFENSMEIER>>

>>Thank you, Maryann. First of all, I want to thank the regulators for the opportunity to express my concerns and opinions today regarding current thinking of regulations. As Maryann explains, First Community Bank is a $135 million bank as of the last call report. It is family owned and predominantly agriculture. We have three locations all in town. We have less than 750 people. The bank was originally chartered in 1899 as a state bank and converted to a national Bank in 1903. More recently in 2010 became a state bank. We have 21 staff in our locations. We have four in one location, five in another. One staff member is completely a compliance officer. She is also a daughter. It is family.

Our current loan to deposit ratio is 93%. At times we will exceed 100%. 54% of our loans are in crop production and livestock operations. Mainly cattle, corn, and soybeans. The county probably has in excess of our 150,000 head of cattle on feed anyone time. We also 25% of our loans are agricultural real estate. That makes us about 80% agricultural. 16% are either guaranteed by FDA are [Indiscernible]. 1% of our loans are average family loans. The average size is less than $33,000. Then we have another 2% of our loans are consumer loans. I will explain that later. My best estimation of compliance costs for our institution is approximately $150,000. It is very burdensome to our profitability. I also believe that this burden has a direct effect on the sale of small family-owned bank to larger institutions and continues to trend with a decrease in the number of bank charters in the United States. I believe that this consolidation removes from the local communities financial support that that bank will make in the form of donations, primarily cash to churches, schools, town celebrations, county fairs, sports team, and the list can go on and on. As Mark said, they donate a lot. We made a specific line item on our financial report as to what we call community support. So far this year, we spent $43,000 in last year we spent $64,000. I'm sure there are other things in there that are not included such as volunteering. A lot of our bank staff becomes leadership for different events. In fact, the town just had it celebration which we have annually. Another daughter of mine that works in the bank as a teller also was a leadership and at that. If you consolidate all of these banks, you will lose all of this stiff in small towns. Mark also talked on capital related rules. Basel III confuses me to no end. Don't see how it applies to a small simple agricultural Bank that is well capitalized.

I saw in a another presentation that the tangible capital seemed to make a lot of sense for a long time. The second RCR report is completely out of line. There are 46 pages in of the software program that we use to define RCR. This is on top of 46 pages in the manual that the vice president went through the report to show him how to do the RCR. With another 252 pages in the workbook as to how to complete the call report. I used to do the call report up into a year and half ago. I have had a lot of experience in that. RCR seems to be over overkill for defining capital to consumer bank. I still remember when I call report was four pages long. It was typed. It had five sheet of carbon paper. I think that that section of our RC-R should be simplified in some degree. I went through our call report which is 93 pages long. Of those 93 pages, 37 pages either were not applicable or had zeros in the answers.

CRA is another thing that involves quite a bit of additional time and staff for us to assemble the data. We currently have 76 of our 6% of our loans by number of loans in our CRA area from 81% by volume. At one time we had a conflict between CRA BSA in servicing our location adjacent to two Native American reservations. The branch that is close to that reservation will go through $300,000 worth of cash monthly. It is from cash, Social Security Tax, supply businesses with the funds they would use to cash payroll checks. This becomes a reporting nightmare. It used to be the all of these people were receiving a check for Social Security and whatever is important. Today they have to get a direct deposit. In our institution at the branch, the majority of them open a simple savings account. There are no fees for that. The money will come in whatever time of the month they get it and it will be there that morning to get the cash. They will leave $10 balance in the account so that it stays open. This BSA regulation has forced this customer to have to use banking in a more traditional sense that they really don't trust. I will be perfectly honest with that. We will provide that service for them because we believe that is a necessary service that this bank should do for that location. Maybe they will decide to do some other business with us. Regulation –12CR 1003 is a proposal that becomes effective January 1, 2016. That increases the field reporting a 27 new fields. This change will also include agricultural real estate which happens to have a dwelling on the land. This could be a small acreage of 5 acres or can be sections of land that have more than one house on it. In ag landing week try to obtain a deed of trust on property as additional collateral. The reason we do that is because crops will disappear, livestock will disappear, and if those of us that have any memory, we remember George Young. A lot of livestock disappear. This is an additional burden on my staff. The time we do in operating loan on an annual cycle, we have to check flood insurance on the real estate. We have to make certain disclosures because we have that deed of trust on the real estate. Now we are going to be required to report that in one of those 27 fields, which my staff tells me will be a pain. They are already overworked on reporting and now we will have another one. It is my opinion the agricultural loans should be exempt from that, especially if you are taking the real estate as an abundance of caution and not as the primary collateral on the loan.

On consumer protection privacy notices, as we all know, a come in the mail and very few of us ever read them. We just throw them away. I think I got three of them from three different credit card companies last week. As I mentioned briefly, we have a small amount of one from three different credit card companies last week. As I mentioned briefly, we have a small amount of 1 to 4 family loans, 38 to be exact. When the new regulations were published, I called my stuff together and ask them if we should continue to make home loans out of our area. It is lucky if we do six home loans per year that we retain on our books. That is out of each location. That is six in total. If we have a loan that qualifies for the secondary market, we will take the application and forward it to a correspondent bank. They will do all of the processing. They will remit the forms to us and receive a fee for doing that that. The vast majority of the loans that we have on our books is a square peg trying to fit into a round hole. Most of the time these applications are longtime customers who have decided to quick ranting and by a small home. Again if you're buying a home in a small town than -- most of the loans going to be below the threshold. We also are going to have them issues with medical and satellite collections and other items. When we try to do these lands, they will become what is called a high-cost loan classification. Once we get into that category, this triggers a whole new set of requirements. One of which that my staff laughs at. This applicant is required to take counseling. The closest place to take counseling from Beamer is 38 miles. Why would he want to finish the loan application after that month? If he has to travel 38 miles. All he has to do is tighten his budget a little bit and he will be fine. Most of the time these are good customers that are going to be a high-cost loan because of appraisals, fees, and other items that go into this. I can tell you that we will start long and hard to make this loan but not have it be a family loan. We will find additional other collateral, we will go with a guarantor, a family member, whatever we can find. A lot of time we will make -- use a vehicle title. It is not a large dollar amount.

I'm going to give you an example of a young man, third-generation coming back from trade school. He is going to work for his grandfather and father. He wanted to own his own home. He did not want to live with his parents. Again, there is hardly anything to rent. The loan size would be less than $40,000. By the time we have an appraisal, which will cost five hundred dollars, title search are flood insurance, origination fee, if you can squeeze one in there, it becomes a high-cost loan. This man does not need counseling. He went to trade school on his own. He worked during the day and on the weekends and paid for his school. He saved money for the down payment on his house. It is going to be a high-cost loan so why would he need counseling? He already knows how to handle his money. We did make the loan and his parents cosigned for him. We went around the rules just to avoid that. I don't think we should have to do that. Appraisals in our area are another issue. We have a limited number of qualified appraisers. In fact, on our qualified appraisers list we are lucky to have three. These three know that they are the only ones available and they set their fees accordingly. So we have problems with their fee amount but we have to use them. Directors of officers, currently all of our directors our family except for two. We encourage our family members not to use our bank as the bank for borrowing. We have them set up all of their borrowing arrangements with the correspondent bank so we don’t conflict with the rules and regulations. Mortgage size -- limited for $100,000 -- it needs to be changed. It needs to be based upon some kind of inflation factor a national average of those houses sold on a regional basis.

Our current regulator which is a federal reserve Bank of Kansas City would like us to add a few outside directors. I told them it would be easier to pull teeth without a pain pill. None of my good customers that we would like to have on our board are willing to serve on the board and accept that position. It is not enough to compensate a director for the potential liability that he would have for serving on the board. We are going to try and advisory board of these four people that we would like to have that maybe we can learn something from them as to what they would do that -- desire for services. I think there needs to be a way to have an outside director as long as they do not hold a significant position of equity in the bank. In closing, I would like to take this opportunity to thank you for letting me voice my concerns and opinions. I also want to say thank you to all of the examiner's that I have worked with over the last 40 years. They have always been professional and helpful. Actually, we look forward to the 18 month cycle of examinations so they can come in and tell us what we are doing right and wrong. I think it is a cooperative effort to make sure that we are on the same page.

I must confess that there is only one time that I walked out on an exam in meeting. My early years on a loan review, an examiner got under my skin and I thought I should walk around the bank before I blew my top. I learned a lot over the years. Everybody is trying to accomplish their job. Thank you very much.

<<MARYANN HUNTER>>

Thank you for those comments. Now we will move to Bill Vaughn.

<<BILL VAUGHAN>>

>>Thank you for the opportunity to participate in this today. –The Bank of Urbana has four locations. Its main location is in Urbana a town of less than 400. Our largest market is a ton of 3500. Today, I would like to get down to where community bankers spend most of their time. Had a few topics I would like to briefly comment on. The first, being the HMDA law. Currently there are 25 data points to enter on the log. Our bank made 159 reportable loans in 2014. Which means, 159×25 is 3975 bank loans. With the new proposed additions to the law,

the amount of data points will approximately double. When we add the new requirements to our data points, we doubled to 50 per loan. So, our 159 loans and our reportable datapoints increased to 7950. >> There was a proposal to expand the types of loans which will be reportable. Our bank we estimate an increase of approximately 35% in reportable loans and as a result, these data points will increase to 10,750. We are expected and required to input these data points with no tolerance for error. We internally scrub, review all loans posted, we review all loans to be sure all reportable loans are included.

Now we're dealing with 159 loans times 50 data points, plus about 35% estimated increase in reportable loans times to the number of times we handled the data and we find we're dealing with almost 21,000 21,500 data points. Then we're finished with all that, we retain an outside vendor to also come scrub. This puts a financial and time burden on the bank.

Next, I would like to make three observations about appraisals. There is a limited number of qualified appraisers in rural areas with local market knowledge. Right now on our list, we have two. In our experience, we have sustained more losses since the change in appraisal rules. As you remember, I've been in the bank a little while. When we use non-licensed, non-lender internal appraisers. The most troublesome part for us is the comparable sales requirement. In theory, it's a good idea. In rural America, there are few subdivisions, similar houses, or even consistent size tracts of land. In our experience, it's not uncommon to have acceptable comparable sales 20 miles or more . Also, with a rural setting in a smaller population base, where there are not always a lot of sales one year or less for comparisons.

Where we seem to struggle the most is finding properties that actually compare. Most times, to find comparable homes, we must be comparing subject property, the sales of houses with 60 acres, and in the same report to house with 5 acres or house with 120 acres. So, the adjustments at the bottom of the page are quite wide-ranging. We feel we could make a better determination from our experience in comparing the subject property to parcels that are not fully comparable. What kind of value estimation does the borrower really receive for the money spent?

Next, I'm going to turn my attention to a recent prohibition of selling credit insurance on loans. That are secured by a first mortgage on borrower's primary residence. We make many first mortgage residential loans of $40,000 or less. Autos and pickups can cost more. I can only assume, at least part of the rationale behind this prohibition is consumers can purchase insurance coverage at a lower rate. Which is undoubtedly true for a younger individual looking for insurance coverage in six figures. Relatively speaking, credit insurance may be more or less expensive, depending on age. As you know, it is the same premium, no matter whether you are 18 or you are 70. But have you tried to purchase insurance in the amount of $40,000 lately? Insurance companies are not too interested in that. Another possible reason for the prohibition could have been concerns about credit toward practices. Credit insurance is a voluntary product. If the customer desires credit insurance, he must sign affirming his choice. And he is given multiple disclosures about his decision. If predatory practices was a reason for prohibition, what was the study performed, and is that available?

I'm aware of two bankers that recently shared the same problems. These bankers were making five year balloon mortgages and loans ballooned. The customers were both about 65 years of age, and had always chosen to protect their loan with credit insurance. But with the new rules, they were unable to purchase and continue their coverage. These customers priced separate term insurance, but because of their age, the premiums were approximately half of what their mortgage payment was. In each case, they were unable to afford the premium and are now without coverage.

Another thing about credit insurance is that it is a convenience process. At the most, the borrower answers three questions about health and without any significant conditions, or without guarantee, the payment is included in their mortgage, there is no medical examination, yet, the borrower cannot choose. However, when the borrower leaves the bank, there is no restriction from keeping him stopping at the convenience store to purchase a 2L bottle of soda, when he could buy it at the supermarket for likely less cost. He has a choice whether to go to the supermarket, but no one tells him he has to. I would like to echo a little bit about what Mark and David said about the BSA, and would like to add, our bank files 127 currency transaction reports in 2014. Which would have been 387 if we had not worked to exempt some of our customers. However, of the 127 we filed, and assuming that all were CTRs with the minimum amount of information required, we would have dealt with 5334 data points. We understand this information is desired, and a reason for the information makes sense. The time and effort it takes is great. Sometimes, it seems we are investigators, not bankers. And if I may close with one thought. It would be quite refreshing and welcomed for rural banks to have regulators and rule makers who have experience in the weeds, making rules and the regulations for rural banks and have less rules and regulations coming from those with the 50,000 foot view. Thank you for the opportunity to present some of my challenges and concerns, and for letting me express some of my gripes. Thank you very much.

<<MARYANN HUNTER>>

Thank you. And now, we will turn to Leonard Wolfe.

<<LEONARD WOLFE>>

>>Thanks, Maryann. First of all, being a third-generation banker, my banking tool does not run quite that deep, or at least I'm still in the shallow end of the pool. My dad was the janitor at his bank, and he'd always like to tell people that he had a son in banking, too. I'm going to be a little bit skeptical about the process. I'm one of the bankers that Judy talked about. As a look back 10 years ago, we went through the same process at that time, there were, I understand, more than 300 pages of conclusions that were going on, and when we looked back at that, a lot of the very same things, exactly the same thing, appraisal limits, CTRs, BSA, examination frequency, a lot of the same things. I know there’s another panelist that will talk about this later on, but I don’t believe we have seen any, at least in my bank, reduction in paperwork in the last 10 years. So I'm not cynical, but I am skeptical. There is a fine line there, I think. So I want to talk and address these issues specifically from an agricultural Bank. Agricultural banks are often launched into the same category, and I just want to point out that we all do the same thing but we do it differently. We deal with the different types of

customers, different products, different weather patterns. There is just a huge difference within the ag sector, if you will. So, each of the banks represented on this panel, even though some of us even compete in the same markets, our risk profile is quite different, even among agricultural banks. That is one of the things that makes this very difficult to apply the regulations as they are written, the multitude they are written today is that we are all different. And it is difficult for us and extremely difficult for the regulators to apply those. Regulations have typically been written in a reactive stance, obviously, Dodd Frank being the most recent, what I call horrific example, dealing with problems and issues that we have virtually nothing to do with it. But, we are being penalized right along with everyone else. I'm going to talk about several different things, but I'm going to temper my remarks a little bit because I do have an examination that starts next Monday.

[Laughter]

I'm a little bit sensitive to that. First of all, capital rules, Mark touched on that in great detail and I want to echo what he had to say. I think it should be like a checkbox on a medical application form, if you will. You have X percentage of capital, and you do these things, as Mr. Hoenig mentioned earlier, if you don't do any of these things, you pass the test. If you do some of these are your capital is below a certain level, we have to get further into the weeds, such as Bill said. So to make sure that we are adequate for that specific bank model that you have.

CRAs were written for metro banks. There's no doubt about that. It's very difficult to apply in the rural markets that we represent. There just simply aren't very many opportunities out there. As Mark mentioned, there is nothing that happens in our communities. I have 15 branches in nine different communities. Nothing happens that doesn't have some sponsorship of our bank. Hardly anything at all. As I mentioned, there's a large number, there's an expansion going on in the local hospital, that number is 50,000 for us. And if that is not community reinvestment, then nothing is, but we get no credit for that. Because it doesn't fall into the guidelines that are written out there for CRA. Even some of the more recent consumer regulations that are written are making it even more and more difficult, such as QM, make it more and more difficult in the rural markets because they conflict with each other, they actually conflict with the CRA.

I'm just going to touch briefly on consumer protection, Bill covered that in great detail, the LAR, and the CFBP has their own agenda, obviously, that they have to follow. And we are frustrated by that. We want to focus on what you will hear us on today. Generally, a lot of the regulations being written today are there to protect the consumer. And, I say that they are having the exact opposite effect of that. It is driving those consumers who have traditionally banked with highly regulated commercial banks from a relatively unregulated source, such as payday lenders. And that is not in the best interest of those consumers. I also would encourage you to continue to provide the clarity on flood insurance and HMDA related issues that is a confusing issue and ongoing topic from examination to examination. What I'm going to focus on today are primarily on director and officer regulations and this is where I think a real difference can be made in paperwork. In some of these areas here. And, where we could do that was by changing some thresholds, increasing some thresholds that we have. First thing I want to talk about is regulation O. I know it is a sensitive topic. We have to talk about ourselves when we talk about this regulation. But this was implemented in 1982, and the thresholds remain essentially the same today. 1982 to today. Outside directors are generally our bank's best customers and our community's best citizens, but we can't, for reg O, allow them to be over drawn at any period of time more than $1000. $1000? That hasn't changed for 33 years. And I'm not saying that these people should receive multiple favorable treatment than our other customers, I'm not saying that at all. But, we all have these stories about this great customer who also happens to be an outside director who is away on vacation with their family, and through a mistake of them or another authorized signer on the account, becomes overdrawn. And if that number is about $1000 and we can't contact them, no transfers are made, their checks have to be returned. And that is something that we don't do for any of our best customers.

There's another limit on there, as mentioned earlier, $100,000. That is the maximum that an executive officer can borrow from our bank, unless it is secured by their home or for purpose of educating their children. And in our ag community, a lot of our officers are also involved in farming, arranging interests, and these limits, as we forced these, there are employees. We trust them explicitly but yet, we can't loan the money in their own operation. They have to go borrow it from another bank, or heaven forbid, a farm credit. But unfortunately, that happens. So, to thresholds need to be changed. We need an increase from the thousand dollars threshold for an overdraft for an insider, on a temporary basis, I'm talking about. And, we need to raise the threshold for a $100,000 limit to the executive officers. I think those should be 10,000 and 500,000, respectively.

Real estate appraisal guidelines, which were touched on by a couple of the other panelists out here, I'm sure that this was mentioned throughout the day. 250,000 is the threshold it has been for more than 20 years. I think it's time to take a look at that. Certified appraisals are hard to obtain. There hard to obtain, and hard to obtain in a timely manner, in order to allow us to meet the timely decision regulations that are out there. So, that is becoming more and more difficult as we get into this.

I want to talk about the call report. Again, our current report was 93 pages long last month. And, same as it is for everybody. 27 schedules, hundreds of pages of instructions, and my CFO who has been in the banking business for 39 years, he's been doing a Call Report for 27 years, it now takes her one full week to report the report. And this is going backwards. Our call report at the end of the year with only 83 pages. And, I actually started out in my career doing that report, I can remember when it was four pages, and I remember having to change at all of the paper photocopy seven to the state, FDIC, and so on. But, it is amazingly where this has taken us. The schedule related to RCR requires 134 pages of instructions, just for that one schedule. I'm going to refer to this in a minute, too, when I talk about now exam frequency. We talked about that a little bit, and it seems likely that that threshold for an 18 month cycle is going to be raised to $1 billion from the current $500 million level. I'm in that slot. 600 million. So I'm on a 12 month cycle now. But, even 18 months, in my opinion, and I understand why Bill and David are staying at a smaller bank, that is your audit. But, where we have auditors in our bank, we probably average, monthly, in our bank, I don't believe with 90 -- or, a 93 page financial information provided on a quarterly basis that we need to have examiners physically in our bank, even as often as 18 months. I think there is enough data points there, red flags, I hate to use that word. But, they could be raised and could trigger some things, but, to physically be in the bank. And, with that, why not come to the banks in those four months when we are involved in doing the call report? If that is going to be 90 pages, takes a week, let's not have examiners in the bank four months out of the year. Just a suggestion.

I also want to spend a little bit of time on the subject that I don't think has been talked about before, in the EGRPRA meetings. But the Herfindahl Hirschman Index, this isn't specific to our area but seems to apply a lot more in the rural markets. The Herfindahl Hirschman Index is meant to eliminate a monopoly, if you will, in small communities. And it's applied whenever he wants to acquire or merge with another bank within their already to market, defined by the Herfindahl-Hirschman Index. Unless it has are been defined, by a market, and can't, anyway, as one county. I have a lot of issues with this. I mean, I'm just going to highlight some of those. But if a person doesn't want to bank with a bank in their community, they have literally thousands of options. Geography is not an issue today, and, believe it or not, even in our remote areas in Northeast north-central Kansas, most people have a telephone. A lot of them actually have an iPhone or a smart phone and have access to the Internet. They have so many more options today obviously than they have ever had historically. The index is based on the only measurable thing that was available, it was 35 years ago when we first started applying this index. And, that is the FDIC's Market Share Report, the Deposit Market Share Report. Things have changed since the 1980s. They have deposits in an Internet bank, they have deposits with Edward Jones, from credit, even though they don't call it a deposit. There's a lot of other various sources out there. So the index really doesn't capture the market, especially in a rural setting any longer. And, it has a lot of adverse effects with them and it takes a lot of paperwork, if you will, if the index changes by more than 200 points, it has to be approved and reviewed by Washington DC. And, I think it has an adverse effect on small banks in rural America today. If you eliminate one or two possible purchasers, a lot of times you have eliminated the market for a small bank. And I think it is having that effect on that. When five banks in America control 55% of all deposits and that is not considered a monopoly, I don't believe that a county in Northeast Kansas that has a 5000 population and only five banks available to serve them could be considered a monopolistic threat. And, I suggest that this HHI test go away completely, or at least an adjustment to the index in today's environment. Another option, just to redefine the market as an entire state, or something along those lines, to expand it so that it is not exclusive.

I want to also talk about a subject that creates a lot of angst in our industry, things called best practices and agency guidance. We have enough regulations to deal with that without throwing these two things into the mix, that I believe are obviously being applied sometime without supportive regulation. I'm all for hearing about ideas that will make us better, even if it is in the form of recommendation. But I want to point out that the "R" in MRA doesn't stand for regulation. Okay? And that is what we are seeing in our area. Since I have the floor for another minute or two, if I do, even though it is not included, I want to talk about BSA. Of all of the regulations are industry has to deal with, this is the worst when it comes to unnecessary paperwork, in my opinion. In 1970, the threshold that triggered the need for a CTR was set at $10000. That was made in 1970 and remains the same today. I went on to the Internet trying to find out how many CTRs were filed in America. It is a hard number to find. The only hard number that I found was in 1996, there is assumptions that it is still about the same today, but in 1996 that number was almost 13,000,000 CTRs that were filed in America. So, assuming that there are still 13 million. I mean, if you are truly serious about reducing paperwork, look at this number. We could eliminate, if we raised the number for that threshold, to 20 or 25,000, it might cut the number by 70% or 80%. We have to deal with these massive numbers of reports filed, and they also have to on the other end. And in addition to that, if our people, through, you know, acting in good faith, happened to check the wrong box, or heaven forbid miss the opportunity to file the 13 million in first CTRs, their highly criticized, the bank is fined, it is just an onerous act, and we need to expand that so that we are not exposed quite as much. The threshold needs to be increased. You pick the number. Don't care what it is. But it needs to be addressed after 45 years. We have also been told that the regulatory agencies are going to increase your focus on BSA compliance. Really? As Mark mentioned, that same number stands out for me, our bank spends approximately $250,000 annually on BSA compliance. That is a hard number. We virtually pay the entire cost for implementing this. I'm not talking about a going away, but the act was retained to catch terrorists, and drug dealers that were laundering the money. Today, it is used, I believe, more to try to identify people who are skipping out on their IRS bill. That is what we are seeing. I mean that is generally what we are seeing in our areas. We have driven that criminal element I think out of using cash transactions as money laundering and banks today. I don't believe that we need to increase our focus, I think you need to lighten up on this compliance issue. And in closing, I promise, I want to remind you that the community bank model in rural America is being threatened today. Regulations make it very difficult to make commercial and consumer loans and mortgage loans, as we talked about already, are becoming nearly impossible to make. And then you add in the fact that we have to complete every day with the tax exempt GSE from credit, our existence is in jeopardy, much like what Mark talked about earlier. The Farm credit administration and the NCUA, regulatory agencies for Farm credit and credit unions, respectively, go to bat for their industries. We are asking you to do the same for us. Please remember that we are required by our charters to serve the customers in our communities. If the revelatory burden gets so bad that we can't serve that customer base, everybody gets hurt. Thank you.

<<MARYANN HUNTER>>

>>Thank you very much. And thanks to all of the panelists for some specific and helpful comments. I'm going to term -- turn to Tom to see if there are any follow-up questions.

<<THOMAS CURRY>>

>>I just have one. I think this has been very helpful to hear the impact of these various federal statutes and regulations on your banks, particularly the rural banks. I think all of the agencies, federal and state, try to have a risk-based supervisory process. And I would just be

curious if you have any observations on how well that has been executed in terms of taking into account your individual circumstances. I mean, we do have some flexibility in how we will be plan our examination strategies. Has that helped? Or, do you see any room for further improvement?

<<MARK SCHIFFERDECKER>>

>>Leonard, tell him your story. You have an exam coming up.

[Laughter]

<<LEONARD WOLFE>>

>>Yeah, I have been in banking 37 years, only one exam. Right? Yeah, to some extent, that is true. But, again, I did not want to talk about specific issues appear, because this isn't a give and take. And I don't want to point fingers and things like that but we need to talk about it I think a little bit. Audit procedures. We are a $600 million bank today, we are required to have, you know, certain procedures, as long as we're over 500 million. We adhere to those procedures. And in the last audit examination that we had, which was the Federal Reserve exam, we were actually held to a higher standard, a standard only required of things that are $1 billion and above. We had to ramp up our audit procedures and in terms of not only quantitative but qualitative assessments. We had to identify 27 in our case, auditable units. And, we had to expand our audit procedures. And that relates back to what I said before, that the "R" in MRA doesn't stand for recommendation. Because it was a requirement and we had 60 days to implement and the cost was $25,000 to do it within that sixty-day period and the additional ongoing cost is going to be 30,000 more a year for that outsourced audit procedures. So I mean, my answer is, no. I really haven't seen a direct benefit of that. I think that all banks should be risk profiled. And our procedures should be addressed accordingly.

<<MARYANN HUNTER>>

>>We have just a couple minutes. I would ask one follow on. Comments about HMDA, I know the HMDA requirements don't apply to every bank, there are some carveout for non-metropolitan areas, so what are the definitions that are bringing your banks into the HMDA reporting requirements?

<<MARK SCHIFFERDECKER>>

>>I will take that. Start with that. But as I told you about the demographics of our bank, we have one branch in Holton, Kansas, north of Topeka. And because Jackson County is continues to Shawnee County, that makes me a HMDA reportable bank. So, I really think if we could look harder at some of the demographics, I think some of the different bankers fall into the same thing, we are not a Metropolitan Bank. Our average bank is very small. Holton has 3500 people, but yet, we are HMDA reportable. I think if one branch follows into an MSA, the whole bank becomes reportable and that is a huge burden for us. And so if there is some way to carveout out and really, truly look at the profile, I think a significant improvement could be made.

<<BILL VAUGHAN>>

>>If I could comment a little bit about that. Also, our bank is located 50 miles from Springfield, Missouri. And because we are in the contiguous County of Springfield, and we are in a standard Metropolitan statistical area. Granted, we have over $44 million worth of loans or whatever that threshold is. But again, there is nothing metropolitan about where we live. A town of 400.

<<MARYANN HUNTER>>

>>Thank you very much. Well, I see that our time is actually up for this panel. Which means that we did not have the opportunity to invite people to come to the microphone but I would suggest that maybe when we get to the BSA panel, they can feel free to comment on

the capital and consumer regulations and others may be at the next session will have an opportunity to address these regulations. So, thank you very much. I appreciate your remarks.

[Applause]

<<ART LINDO>>

>>Okay, well, Maryann, you end of the panel right on break. We are due for a break. We are going to take a 15 minute break and start up at 10:45 with the next panel.

[The event is on a break and will resume at 10:45 AM Central Time]

<<ART LINDO>>

>>Okay. If you would freshen up your coffee and head back to your seat, we will get started with our next panel. Before we get to our panel, I just wanted to make an announcement for our Internet viewers. You can provide your comments online by typing into that, I guess there is a submit comment box. If you're not familiar with that, if you would exercise that option, you can report your comments which will go into the record and we may even relay them here during the discussion. With that said, I'd like to turn to our next panel, which is the consumer increment -- community group related matters. I will turn it over to Anna Alvarez Boyd to get us started.

<<ANNA ALVAREZ BOYD>>

>>Oh, here we go. Good morning, and thank you, everyone, for being here. This panel will focus on consumer and community related issues with respect to the federal banking agencies. So in the previous panel, you heard from the banker's perspective, community reinvestment act, BSA, etc. In this panel you will hear from the community and consumer perspective about those issues as well. So, I am really honored and pleased to have our panel here with us today. We really have a little bit of diversity. In both their abilities and issues that they cover. To my immediate left, Darrin Williams. Mr. Williams serves as the CEO of Southern

Bancorp, he came in yesterday to be here with us. He oversees the activities of a group of community development financial institutions which are collectively known similarly to them as Southern. Prior to joining Southern, Mr. Williams joined in the office of the General Counsel for the US securities and exchange commission and as the Arkansas chief Deputy Attorney General and then later as partner in a law firm, Carney Williams Bates Pulliam and Bowman. There he focused on class action litigation against some of the nation's largest publicly traded companies. He served in the House of Representatives and has received several awards for his service in the House of Representatives in Arkansas. So, thank you, Darrin, for being with us.

Immediately to Darrin's left, you will find Elizabeth Hollins. She is the senior director of the Midwest region of NeighborWorks America. NeighborWorks America is a national nonprofit organization that supports a network of more than 240 organizations, all of the federal financial revelatory agencies serve on the board of NeighborWorks. And, Tom Curry in fact has -- Tom Hoenig, as well, you worked there in the past. Tom Curry has been the chair of NeighborWorks and has served with NeighborWorks for at least 10 years. He is very familiar with the organization. Miss Hollins began her career at NeighborWorks as a data analyst and program analyst focused on risk assessment of the networks community development organization. So, thank you, Elizabeth, for joining us today.

And then we have Will Jordan, executive director of Metropolitan St. Louis Equal Housing and Opportunity Council, Mr. Jordan is the executive director of the Metropolitan St. Louis Equal Housing and Opportunity Council and has worked to ensure equal access to housing for all people through education, counseling, investigation and enforcement. They were recognized in 2008 with the blue ribbon award and he has prior to coming to the EHOC, he partnered with the Development Corporations YouthBuild in East St. Louis.

Finally we have from Washington, joining from Washington DC this morning, Bob Reeder, who oversees the Rural LISC program staff, they encompass a folio of 72 partners covering 43 states that it is ability, grant and loan assistant, organizational capacity building assistance, rural economic development with a focus on incorporating the arts, culture, and systems into overall creative peacemaking. Definitely some rural issues and concerns we have there. Him -- we will go ahead and begin the panel starting with Darrin.

<<DARRIN WILLIAMS>>

>>Thank you. I appreciate that discussion. I was last in order but they have reversed the order, that's what happens when you come late. Thank you for this opportunity. Again, I'm executive officer for Southern Bancorp, thank you for giving me the opportunity to provide comments on what we consider out dated and overburdened regulations. I'd also like to thank you for meeting this meeting about issues. Southern Bancorp target some of the most economic and rural distressed areas, mainly rural Arkansas in the Mississippi Delta. Rural America is a special place. There are nearly 50,000,000 Americans living in the rural communities that feed us, protect us, provide us with raw materials necessary to secure our position at the top of the global market place. But once dominated by labor into investments have led to opportunity in. Rural America. People in rural America matter. They deserve just as much chance to achieve the American dream as we here in Kansas City, Dallas, New York or anywhere in America. But they need access to financial services that they lack. Which is precisely the reason that Southern Bancorp was founded in 1986 by then Arkansas Governor. Bill Clinton. Southern was founded on the idea that a financial institution could be created to serve a higher profit but instead both balance the margin and mission to live up communities to both responsible and responsive financial access. In 1994, then-President Bill Clinton, took this idea to the national level using Southern as a model , in part, to create what has been known as community development financial institutions, or CDFIs, of which there are nearly 1,000 today. What started out as a simple idea has now turned into a financial institution with over 1 billion in assets, many employees serving 80,000 consumers in states. From agricultural lending to microloans, two matched savings accounts, we are uniquely identifying the needs and serving the rural people. As James Adams described, we have a dream of a land in which life should be in a better place, richer and fuller for everyone, with opportunities for each according to their ability and achievement regardless of their circumstances of birth or

position. What he is describing here is what should be possible for all Americans. In rural America, the signs are undeniable that the American dream is all too often just that, a dream. Because of so many roadblocks to success. The lack of access to credit and financial services is one of those roadblocks, and it is being exacerbated by the declining number of financial institutions in rural communities. The number of federally insured financial institutions are at a record low. Over 1500 bank branches closed in 2014 alone, a disproportionate number of those were from rural communities. The great recession and regulations continued to avoid future financial fallout is one of the key drivers of these closures. Some view this as thinning of the overcrowded market as a positive, what is often not discussed is that that thinning is occurring often in unbanked and underbanked communities. The high cost of regulatory burdens, liability concerns related to those regulations and higher capital demands include the lack of succession planning by community rural bangs has created the perfect storm for rural communities and banks.

How does this impact the American dream? It's simple. Access to responsible capital and credit and financial products is what makes capitalism work. In the access of a traditional community banker, many rural lenders seek out-- in urban areas or branches that are near their community's. This seems like a reasonable alternative, however perception is not always reality. Much of the benefit that comes from a crew community banker lies in the personal relationships that exist between lenders and consumers. Many of the businesses in rural communities have unique needs that are not always met by traditional lenders which don't necessarily consider those loans good loans. Community bank lenders know their customers. They go to church with them. Their kids play together. They understand the unique circumstances of rural customers and are willing to make loans were others often without those relationships are not willing. In fact, extended a study by the FDIC pointed out that a distance from a bank branch influences how much credit a business can access. Southern zone recent study highlights the larger banks simply do not serve rural distrust markets as well as smaller, mission driven community banks like Southern. Even large banks with branches in rural communities don't make small business loans quite the numbers in low and moderate income census tracts. Our small business lending outpaces larger branches in the market. For example, 55% of our business loans are for less than $10,000. In 2013, there were much larger regional banks operating in Poinsett County, Arkansas. Yet, Southern made 111 of the 118 small business loans under $100,000 that year. In the same time period in Phillips County, Arkansas, one of the most economically depressed counties in America, Southern produced 90% of the small business loan volume, despite other banks over $1 billion being present in the market. We have similar statistics throughout the market we serve. This gets to the root of the problem in rural America. The lack of access, the financial products and services, missed economic opportunities, and inhibits entrepreneurship and increases poverty. Without community banks that are focused on serving all rural communities, the American dream will continue to fade throughout rural America.

So, what can be done to support rural community banks that serve the vast majority of rural bank customers? We can start with rightsizing the regulations. Laws have since reduced risk taken on by two big developed banks the trickle down to smaller banks they did not cause a financial crisis. Secondly, I propose that we enhance community bank access to capital through [Indiscernible] or CRA incentives for large banks to invest in PDF I without regard to investment areas. Finally, I propose a supporting the rural housing market by removing regulatory barriers such as ATR and QM rules which have had a chilling effect on community bank mortgage lending. Currently, CDFI, like Southern, are exempt from such rules. However, I propose similar exemptions for community banks that hold mortgages in their portfolios.

So, how could you right size community banking regulations? Rightsizing regulations will be again by creating a definitional approach to community bank which would develop common characteristics of the community bank rather than on regulations based on asset thresholds, such common community bank characteristics include but are not limited to banks that operate primarily in local markets. Thanks to a primarily lends deposits they collect in the communities they serve, and lending models based on relationships and knowledge , detailed knowledge of the community come in the corporate government structures. Starting with common community bank regulations can develop rules consistent with characteristics, capabilities and risk profile of community banks. The Basel Accord was written in response to problems of large, internationally active financial institutions have not a response to community bank prices. Capital adequacy is vitally important to all banks, Basel 3 has eliminated previously relied on sources of capital for many community banks. With the increase capital adequacy requirements and decreased options for capital, many community banks will close, leaving more rural consumers without access to capital needed to fuel the American dream.

Another proposal for rightsizing regulations for community banks would be to adopt the independent community bankers of America the regulation to allow the recognition of a bank's allowance for losses as tier 1 capital up to 1.2% of RWA. One of the main goals of Basel 3 is to absorb the bank's shock absorbing capital. The loan losses is intended to be the banks first line of defense against bad loans, so why not count this as tier 1 capital requirements? The CRA is well-intentioned to assure that minority, low and moderate income communities have access to capital. It has long been recognized by the regulators that minority deposit institutions play an important role in addressing financial needs , as such, it has long been the position of federal regulators that majority institutions may receive favorable CRA consideration for investing in minority depository institutions that serve low and moderate income communities and people. Even if the minority bank is not located within an assessment area of the investing bank. This is a great idea, but the practical impact on minorities in rural communities is not in existence, but the very few MBIs serve rural community spirit large banks have a little incentive to make such assessment in rural community spirit similar, as with MBIs, regulators have provided CRA incentives to encourage large banks to invest in transit also have a long history and supporting low and moderate income census communities and people. However the incentives related to CDFIs do not have the added benefit of applying to investments made by larger banks that are outside those assessment areas. Therefore, I would propose permitting an investment by large banks and CDFI banks should receive favorable CRA consideration without regard to the assessment area. As it does with MDIs. This could provide additional resources of capital needed in CDFIs that serve rural and low to moderate income census tracts and it would be beneficial to rural consumers. Further, I would suggest to provide more guidance on exactly what the favorable CRA consideration means. Looking to make an investment in our CDFI, a large banker could not clearly understand what favorable CRA consideration myths. The dream of owning a home, one of the key facets of the American dream, is also being threatened in rural communities as a result of the cumulative effect of oversized regulations. Although it is not -- it was not your local community bank that cause the mortgage crisis, the applicability of ATR and QM rules have had a small but significant chilling effect on these banks. On large -- unlike large banks who securitize their portfolios and sell them in the market, many community banks hold those loans on their books.

By way of example, Southern has right now 120 million mortgage loans on our books. The average loan size is 69,500. By comparison, we sell less than 10 million of our mortgages in the secondary market. Therefore, our proposal is that community banks hold mortgages in their portfolios should be exempt from ATR and QM, similar to the way the CDFIs have that exemption. In summary, to support rural consumers we need to get away from the one-size-fits-all mentality and look at realistic, right sized revelations and reforms that take into account the characteristics, capabilities and risk profiles of small community banks. But also take into account the unique needs of rural consumers. These small changes I have outlined can have big impacts on rural consumers and communities. The federal government has the opportunity to keep the American dream alive for everyone in this country, not just a select few. Or to simply put it, one ZIP Code should not determine one's financial future. Thank you for the opportunity to make these comments.

<<ELIZABETH HOLLINS>>

>>Thank you to the agencies for the opportunity to speak at this event. I'm so happy to be here on behalf of the NeighborWorks America network to speak specifically to issues that impact rural communities. NeighborWorks America creates opportunities for people to live in affordable homes, improve their lives, and strengthen their communities. As a congressionally chartered nonprofit, NeighborWorks supports a national network of 250 local and regional

organizations in all 50 states, the District of Columbia and Puerto Rico. In 2014, the network consisted of more than 323,000 households with their housing needs created 21,000 new home buyers, owned and managed 118,000 units of affordable housing, and provided 108,000 families with housing and education counseling about buying or preserving their homes. As of December 31, 2014, more than 1.8 million homeowners facing foreclosure around the country had been counseled by the 1700 grantees and sub grantees of the national foreclosure mitigation counseling program. The NeighborWorks rural initiatives promotes, supports and enhances comprehensive rural community development. A mix of housing, economic to development and other locally determined strategies that strengthen and revitalize rural communities. The rural initiative includes 109 NeighborWorks organizations in 48 states and Puerto Rico. The member organizations are as diverse as the communities they serve and include some of the most economically challenged regions in the countries, such as central Appalachia, the lower Delta region Colonia and Indian country because of these issues, [Indiscernible] proposed or neck it may be best viewed from the neighboring organizations, that said, NeighborWorks engagement with neighboring organizations, some patterns of similar comments have emerged, which may help to inform the work of this panel. Given the regulations under review that have been proposed by several of the board agencies from NeighborWorks America, these comments have not been committed to or approved by the Southern Bancorp import. The views do not represent those -- I'm sorry, do not necessarily -- either collectively or individually represent the views of neighborworls Board members, instead these comments review the work of NeighborWorks management and have been formed in competition with regional leaders in NeighborWorks and the network. NeighborWorks has undertaken a number of incentives to address rural housing needs. One example is the recent launch of a new rural rehab or replacement program called Safe and Sound, in partnership with Wells Fargo, a second example designed to address opportunities for durable rural homeownership and shortage of affordable housing units is an ongoing partnership with USDA rural department. The recent final rule on certification of nonprofit five direct loan packages and the direct outgrowth of series of demonstration pilots across the nation NeighborWorks America has supported. Talks are underway with rural developments RHS teams on ways to streamline the transfer of for sale 515 projects. Through our lens at NeighborWorks America, we look for housing organizations to address these challenges. These are not hours, present but what we in our intermediary role have heard from networks were gleaned from analysis from external entities. First I would like to look at strengthening rural consumers to make informed financial decisions. Prepurchase financial counseling is a proven method to improve borrower performance. NeighborWorks America has supported homebuyer education counseling and research to improve efficacy. In 2013, Neil Mayer associates and Experian found that -- financial education whether in person or online are nearly 1/3 less likely to fall behind 90 days or more on their mortgages, within two years of origination, compared to consumers who do not receive NeighborWorks prepurchase counseling and education. Similarly, financial fitness course is designed to help consumers make more informed financial decisions can also be seen as a significant risk mitigated factor. These and related studies would suggest policies that acknowledge this mitigated risk and incentivize said qualified consumer education programs and certifications help to remove existing barriers to asset building opportunities. From interest-bearing and FDIC insured savings account to conventional real estate mortgage loans. Regarding CRA regulations, encouraging regulated financial entities to provide equal access to credit across rural markets is an issue I will be addressing. The housing assistance Council, a national nonprofit organization that supports affordable housing efforts, policy , and research with a focus on rural areas, conducted an assessment on rural mortgage marketplace to better understand the CRA implementation in rural communities. The assessment show that there is an evolving marketplace in rural areas. As it has been stated earlier, the number of FDIC insured lenders declined by half between 1990 and 2010. The number of depository institutions based in rural areas declined 21% between 2020 10. In 2012, 52% of FDIC insured lenders were headquartered in rural small towns. Rural institutions received a small bank CRA exam, 85% of them. Approximately 99% of rural and small-town banks receive an outstanding or satisfactory rating. However, the vast majority of banks -- I'm sorry, the vast majority of rural mortgages are made by large banks. Nearly 70% of rural mortgages made in 2012 were made by large banks. Only 13% of rural mortgages were originated by small and community banks. CRA assessment areas do not entirely reflect where lender activity occurs in rural areas. Preliminary findings show that 25% of rural mortgages are originated outside and institutions assessment area. Regarding CRA and I need and remote rural areas, preliminary assessments showed that CRA covered lenders have higher loan origination rates than rural and distressed communities designated as remotely rural or economically distressed, compared to non- CRA institutions. However, there are nearly 2 times as many high-cost loans in the remote rural and economically distressed areas compared to national rates, even for loans made by CRA covered institutions. So to the issue of whether CRA is outvoted or should it be updated, this might be the case in rural areas. Findings show -- I'm sorry, the nearly 1/3 of all reported mortgages in rural areas are made by non- CRA institutions. So, that CRA is not capturing the rural mortgage lending going on. Pointing to a alliance on brick-and-mortar locations and prevalence of the manufactured home lending. It might be useful for the agencies to perform a comprehensive assessment of CRA, especially with regard to CRA assessment areas. Such an assessment would explore a CRA examination process and incentivizes lending, services and investment in credit and capital investments, such as the Mississippi Delta and Appalachia, as well as other underserved and rural suburban areas and small towns. For the most part, these regions may still fall outside CRA assessment areas even using statewide and regional assessment areas definitions. In addition to the important function of CRA, rural practitioners continue to voice support for the potential under the Federal housing finance agencies due to provisions addressing both rural and manufactured housing.

Related to CDFI regulations, we support the growing and strengthening of networks with CDFIs, policies that support and strengthen CDFIs, increasing the flow of consumers from the un-banked to the banked over time. Extending credit in providing technical assistance to individuals, small businesses and nonprofits working with consumers. The NeighborWorks network includes 77 organizations certified by the US Department of Treasury's and CDFI. These organizations operate in the low-wealth communities across the country including many with a special focus on providing affordable financing services to individuals and small businesses and rural America. The capital and technical assistance provided by these organizations help stabilize communities, create jobs and alleviate poverty. CDFIs fill a critical gap between the financial services available to the economic mainstream, and those offered to low income people in communities. NeighborWorks is proud -- I'm sorry. NeighborWorks is proud to be part of the CDFI fund capacity building initiative to expand technical assistance to training opportunities for CDFIs nationwide. Including a new native CDFI sustainability initiative. This training helps ensure a solid, sustainable lending infrastructure for investor partners and thus, ensure access to capital for Native American communities. We would like to thank the agencies for their review and expansion of the innovation and flexible lending practice provisions to the community reinvestment act. We would like to encourage the agencies to consider expanding the list of flexible or innovative lending programs to include programs such as investments in CDFIs, including equity investments and affordable capital. This example could also include banks partnering with CDFIs to provide outreach and marketing to potential CDFI borrowers. Banks bring seasoned second loans for CDFIs, affordable project housing development, in addition to these recommendations, I'd like to acknowledge and highlight for you the recommendations made by the NeighborWorks network member [Indiscernible] of Phoenix, Arizona, as the largest Latino community development organization in America. It speaks to that thinking and their housing needs of the rapidly growing Hispanic community. In its comment letter, they concentrated on the challenges of FHA lender overlays, providing incentives for prepurchase homebuyer counseling, and expansion of CRA definitions of the term community development to include loans , investments and other services to encourage investment and loans for housing rehabilitation. Thank you.

<<WILL JORDAN>>

>>Hello. My name is Will Jordan, I'm the executive director of the Metropolitan St. Louis Equal Housing and Opportunity Council. I want to thank the board for allowing me to speak

today and I've got some written comments, but first I wanted to comment on what I just heard. That was great. The idea of having CRA regulations to be relaxed enough to allow banks to work with CDFIs , to allow banks to work with credit unions, where there is a better fit, because they bank is identified in a market with that CDFI has identified another market, and the proficient staffing to do that, it is a great idea for the regulators to be able to give them credit for making investments in those institutions that are meeting those needs according to CRA. And, to the extent that the regulator can do that are not real technical about what regulation exactly is under the CRA, but that is a great idea. I know that the banking community has a tendency to be very competitive and secretive, because money is the same, but people are different. I understand that. But to the extent that the federal government through CRA could give credit to banks for being able to make investments in those institutions that are doing a good job will have a vision for doing jobs that banks are not necessarily set up to do so well, is just a great idea. And, I heard two things coming from them, but I think, I'm so glad that they said that today. So, I just want to reemphasize that. That is great.

Now I will get onto the stuff that I wrote. I would like to direct my comments about the community reinvestment act and later to the fair housing issues. EHOC is one of the founding members of an organization called the St. Louis equal housing and community development. It's a community of organizations looking to increase investment in low income committees regardless of race and in minority communities, regardless of income. We do this by ensuring that banks are meeting the obligations of the community reinvestment act and fair lending laws. Therefore, obviously my comments are that I think that the community reinvestment act helps us to do that. It was formed in 2009, and we regularly also, Alonso the examiners, examine banks for CRA and fair lending performance and submit public comment letters to write letters for consideration in the CRA examination. And on bank applications to merge. Or expand. We engage with banks to work together to improve services to underserved communities. In the last six years, our work has resulted in four new full-service bank branches opening in low and moderate income areas , which I know is unheard of in this economy, with an additional two branches opening soon, over $30 million has been committed by banks or community developed activities, and the new products continue to be developed by banks that are specifically serving needs allowing consumers, especially the un-banked and underbanked populations. A couple of things I want to say about that. St. Louis is not a rural community, but it is. A lot of people in Missouri understand that Missouri is made up of a lot of small towns and St. Louis is no different. 81 municipalities and they act like small towns. And so, the need for CRA to use it in a small town kind of scenario is exactly what we do in St. Louis. And, of those four banks that have already opened, I can tell you that in the two that are going to open, that only three of them are open because we made them do it through enforcement. The other three that are opening is because they saw that it was a benefit. And, of the four that have already opened, I can tell you that each one of those are meeting or exceeding their expectations for the positive in order for them to be profitable in those communities that they are located in now. And to me, that is huge, but they are actually making money. They might not be making a ton of money, that they are not losing money, that's for sure. So, the CRA is vitally important to making sure that all people, households and communities have fair and equal access to mainstream financial services.

First, the CRA must be expanded to cover other financial institutions. And I know that you are not totally talking about all of this today, for example, credit unions and other service providers that operate in the shadows that have taken advantage of our other communities, like payday loan places. I hate them. I just went on national record to say that. And I don't think anybody else here is really happy about them either. I also want to say this. I think that the community bank is a great model for blending. And our organization and organizations that we work with, we are actually 100% in favor of the community bank. We are actually very jealous of the opportunities that community banks offer, and one of the things we do in our city is we want in. We want into the community banking relationship, and we want out of the relationships for payday loans, and very large banks. We don't think they care about us as much as a community could because we could fish together and that's what we want to do in St. Louis. We think that the services should be expanded to other financial institutions and I think that one thing that could be more closely dealt with is mandatory inclusion of bank affiliates and CRA examinations, currently under the community reinvestment act, banks are not required to include the non-deposit taking affiliates in CRA examinations. However they have had the option of including affiliates, including mortgage companies him and include non-deposit taking affiliates -- I'm sorry, companies, and often do when they believe that including these affiliates would benefit their examination. While choosing to opt out of including their affiliates then engage in predatory lending or have low performance in LMI communities, mandatory inclusion of bank affiliates, such as mortgage companies, should be included in CRA examinations in order to assure that the bank is effectively meeting the need of its community in a safe and sound manner.

Second. The need for CRA to have stronger enforcement. Our experience shows that CRA interest on enforcement for both the banking regulators and the community in order to make sure that access is possible. Examinations and reporting of CRA data are not overly burdensome on banks as far as we are concerned. I will tell you why. I was listening to everybody speaking today and one of the things I heard about was the cost of putting out these forms and the data points. Right? So the cost is whatever you pay your staff and the outside consultant. And from what I could tell, most of those fees are going to be paid to your staff members sometimes in a rural bank, that is your daughter. Okay, so you give them $150,000 this year in order to help you make regulations, money still stays in your community. I would have to go outside, this money is best when it is spent. Every banker knows that. Money is best when it is spent. If it is held onto, our economy is terrible. So, I say, spend that money to make that regulation and let's keep going. Now also, I want to talk about addressing CRA grade inflation. Since 2002, the failure rate for banks has remained consistently low at 1% to 2%. `This is made to inflation in one of the three examination areas when the other two areas are low. This grade inflation creates an incentive for banks to get away from their responsibilities on the CRA rather than allowing for bank examinations to serve as a tool for influencing banks to meet obligations. One way to address this inflation would be to provide specific benchmarks that banks would need to meet in order to receive a satisfactory rating on the CRA examinations. And of course, I will be submitting all these comments in writing.

So, next, onto their housing. Their housing issues should be examined properly and consistently. Including as a part of the regular CRA exam. Fair lending investigations need to examine signs of redlining and the failure to meet market loans or services to certain populations or communities. Based upon a protected class. Let me tell you why. In St. Louis, EHOC has filed four fair housing complaints. Against banks with the US Department of Housing and Urban Development, and/or with Department of Justice. Yet, all of those banks received at least a satisfactory relating on the CRA exams, and no evidence of discrimination was uncovered in the fair lending examination by the regulators. Their housing and fair lending investigations need to be posted in order to uncover those illegal fair housing practices which should also result in a failing CRA exam. Additionally, the CRA needs to play a more significant role in the bank merger act and Bank holding Company act. When a company is applying to merge with another bank, the record of community of investment needs to be considered for both the bank's past performance as well as plans for the future. Banks need to be required to make public benefits commitments that detail how the bank is going to reinvest in the community as an expanded institution. We have worked successfully in St. Louis for banks to develop public benefits commitments during the merger, but those plans will only work if they are made public and enforced consistently by the regulators. I also want to close out with the bank in particular, because a lot of people say, you guys are really messing up the water. I understand. But in St. Louis, we had a bank in particular they decided that they would voluntarily work with us in our coalition to make some investments in the low income and African-American community of St. Louis. So, they voluntarily entered into an agreement. I can tell you that I wish that bank president was sitting right here next to me today to tell you, not just the social capital that they were able to get in the community for doing and making such a move voluntarily, but also the real financial benefit that they have been able to capture in that market, because they are serving in a niche that literally no other bank was in. And certain ZIP Codes in the St. Louis metropolitan area, there are something like six banks on every corner. And the other ZIP Codes, there may be one in the entire ZIP Code. They were able to capitalize on that in those same places, and that bank is making money today. They are doing well. And it was they were here to say to other banks that it is possible when you're in that semi rule -- semi rural city, urban market, like St. Louis is, to be able to move into a market that traditionally had not been participating in by a bank and make money and do well. But, you have to build a machine that is able to operate with the margin of profit not necessarily as high. But, once they build that, that machine is working in St. Louis. I also want to encourage access to full-service bank branches, that are still vitally important, particularly for low and moderate income communities, and predominantly minority communities. We found that in St. Louis, the St. Louis region, the top 20 largest banks in the region disproportionately are located in the higher income areas, wider areas, and CRA still needs to include an analysis of full-service bank branches and their accountability to low and moderate income communities. The CRA regulation needs to modify how assessment areas are determined. CDFIs to be evaluated on the performance in those areas in which they do business. The assessment areas should be drawn in a way that more accurately reflect the geography of the bank's business not just for the have branches.

For example, the St. Louis Metro area is not included as an assessment area of Wells Fargo or J.P. Morgan Chase. Even though they are one of the top mortgage lenders by volume in the St. Louis metropolitan area. Shame, shame, shame. The assessment areas must better reflect areas in which a bank does business. Finally, we need greater transparency for the public regarding CRA. For example, Associated Banks located in the Wisconsin Chicago area have not had publicly available CRA exams since 2006. The spirit of the CRA is to provide community groups with public information to be able to hold financial institutions accountable to serving the credit, capital and banking needs of underserved communities. The failure to publish CRA performance evaluation in a timely manner violates the spirit and decreases the ability of the public to be an active participant in the CRA process. This is what we found in our work in St. Louis over the last six years. Banks were better able to comply with their obligations, and the community is better served when there is active community group involved in the CRA process, that there are more bank branches in underserved areas and more dollars for community development, and more un-banked and underpinned families opening checking and savings accounts, and getting loans from banks, rather than payday lenders. That's all I have. And I want to thank you for hearing my comments today.

<<BOB REEDER>>

>>Well, good morning. Is this coming through all right? All right, thank you. I'd also like to send my thanks to the regulators for allowing me to come before you this morning. And I also want to clear up what might be a glaring disconnect that here I am from Rural LISC, with an office in Washington DC.

[Laughter]

Okay, let me just say, it happens to be where we pay rent and get mail, but I was raised in the South, and I was raised when country wasn't cool. Let me put it that way.

[Laughter]

Again, I'm Bob Reeder. I'm currently the program director for LISC, rural programs. LISC, who are not familiar with -- what the acronym stands for local Institute -- intermediate community and CDFI with a long-standing history of collaborating with community groups to identify local needs and mobilize capital. And in addition to capital, mobilize expertise to get programs running and to get projects built. Since 1980, LISC has raised and invested over 14.7 billion in low income communities, which have been primarily in urban communities which is important in a minute, and have another 44 billion from public and private sources. So again, I work for the LISC rural program. Rural LISC was started in 1985, with the recognition that rural communities were conspicuously lacking access. To a broad array of financial resources, capital, both philanthropic and tribal than that of our urban counterparts. Rural LISC has been around for about 20 years. I have been with him for about 10 of those years. And in those 20 years, Rural LISC has partnered with rural communities, helping to force innovative solutions that lead to prosperity in the community that might elevate speech. But anyway, we currently work with 71 partners in 43 states covering 1395 counties, and were mobilized within Rural LISC 220 million grants and loans with an additional 850 million in equity, bridge financing much of that equity coming from local community bank partners.

Now, onto the EGRPRA let me state for the record that I am, again, a trained attorney but not a banker. So, I don't want to misrepresent -- some of these guys know the intricacies of the revelations we're talking about. But I will say, we have worked with our partners, some of which have worked with local community banks to obtain project financing involving loan fund or to partner with respect to small business lending. In fact, three of our partners do in fact constitute the controlling holding company of a local community bank. The specific comments with respect to EGRPRA were the effective input we received from some members of our rural partner networks and Community Bank partners. So, I really don't believe anything that we have heard from them will be new to any of you who either are or work closely with small community banks. But in the honorable spirit of restating the obvious, let me say again, I will show those with you. One respondent indicated that he worked with a local partner bank that had only one commercial lending officer on staff. That lending officer indicated that he fully spent at least seven full weeks per year dealing with nothing other than regulatory and compliance issues. And that he personally failed to see a proper cost-benefit balance to his bank between the need for some regulations and the negative impact of the current regulatory and compliance structure, imposed on his ability to ask might his bank's bottom line, as well as stimulate the local economy by taking him away from his primary line of business. Banking loans, doing deals that provide a banking return on investment and contribute to local community growth. Another responded indicating that his bank has had significantly back services to consumers in direct response to a growing regulatory burden. His opinion, it's a big negative for consumers and banks alike. We cited surveys indicating at least a third of compliance officers from community banks indicated having to turn down otherwise creditworthy loan applicants in order to comply with regulations such as the new ability to repay rule. Another banker indicated the biggest issue he faced was that FDIC regulations relating to credit risk and collateral risk. Ideally, this banker would like to see the contributions to small business startups by CDC partners treated as equity, rather than an amortizing loan, thereby affording the bank a stronger position to lend to an otherwise weaker commercial borrower, or on a case-by-case basis, of course. This comment addresses the limit currently imposed upon community banks with respect to loan-to-value limits and type of collateral they allow to accept. And finally, one last, I will not repeat anything, so I'll keep it short, finally I would like to say that we've heard from almost all of our respondents that in many rural locations, and I have heard that here this morning as well, smaller institutions are choosing, or at least choosing if you look at it on the positive side, or maybe have been forced to merge with larger institutions that possess deeper resources to handle the rising burden. None of this is new to you, I'm sure. And I want to thank you very much for allowing me to be a part of that.

<<ANNA ALVAREZ BOYD>>

>>Terrific. Thank you all. So, I'm going to start us off with a follow-up question, and then I will turn to the principal. But, I wonder if you could reflect on the changing role of the branch in rural areas. I hear a lot, as a regulator about the changing role of the branch, often from an urban perspective, that branches are, in cases, becoming less relevant. How do you view the branch for a delivery of services in rural communities? And what is the potential to the impact of the delivery of services?

<<DARRIN WILLIAMS>>

>>I will be happy to start with that as a rural CDFI with 42 locations predominantly rural communities throughout Arkansas and Mississippi Delta. The branch in our network is vitally important. Probably much more so than in urban settings. And, that is true, even though we have some of the most advanced technology possible. Because our process, we actually own part of the process, a very flexible, agile and nimble core process, and we have all of the traditional technology that any large bank has including [Indiscernible] online banking. We have a number of banking apps that have been very successful. But, we find in rural communities that rural customers want to go to the bank branch. And, we try to drive them to the least costly ways of using our facilities. Including being online and having direct deposit. But, you go to many of our branches, particularly near paydays, you see long lines of people who are comfortable waiting there in the branch, largely because it is a relationship

environment. They know their branch, the banker that they have to work with and want to say hello to. So the branch work in rural communities is vitally important data don't see it being replaced anytime soon.

<<WILL JORDAN>>

>>Yeah, I'd like to say something. This is coming from a community perspective, where I just see what people see. Okay? And, in St. Louis, it is a big issue about, just like other banks, building branches, very costly. The idea of banks partnering with grocery stores, and whatnot, to have branches there we think it's a good idea. But, the branch model is still necessary when it comes to the relationship with the people. Especially in our communities of color, and low income. Because, trust is built when you make an investment. But let me say this, too. Nowadays, people are spending more money on cars than they are houses. And that is the truth, which is a shame. And, I know of a bank right now, I think it is a big bank, it has a mobile education van or whatever. And, I'm just saying, I'm just thinking out-of-the-box here, if the CRA regulators will give a bank credit for having a branch that is like a library bookmobile that moves around and takes deposits and comes to the community on paydays and shows up at the local high school or grade school and on certain days of the week to do banking, that would be great. And I would sure like to see a bank do it. Anything that could work in the rural areas as well. It is just something to think about because there is a lot of cost associated when the building sits there and needs to be heated. But if you only have to fire up the bank mobile twice a week to drive it around, you could save a lot of money. And so, just think about bank mobiles. I think that is a really good idea for the future. That just came to me just now.

<<ANNA ALVAREZ BOYD>>

>>I'm happy to say something like that would definitely get CRA consideration. In my past, I had worked on something similar that would have actually served Native American reservations.

<<WILL JORDAN>>

>>Look at that.

<<ANNA ALVAREZ BOYD>>

There are other creative things going on as well, but we are in an environment of great change. So, with that, let me turn to the principles. Mike?

<<MICHAEL GIBSON>>

>>So, I had a question, and, Will, your last question is related to it. I had talked about mobile banking, and you had talked about a different type of mobile banking than I was thinking about. We hear a lot about the growth of Internet banking and, you know, mobile banking, meaning using your mobile phone to deposit a check. I just wondered if any of the panelists had an understanding on how to growth of mobile banking or Internet banking is going to interact with some of the issues that you've raised.

<<WILL JORDAN>>

>>I definitely do. And I saw your hand up, but let me get this out. So, one of the relationships we have with a bank in St. Louis right now, they brought up that idea. About rather than trying to do all of these branches, what about if we reach out to the people and make our contact be thrown up on the phone? Man, that's a great idea. And I just don't understand why more banks aren't on it, and, if it is because regulators or regulations seem like it won't either give you credit or works against you, we've got to loosen that up. We've absolutely got to loosen that up. I think that is the future. In my community, it is about the context, right? One thing I know, there's a lot of people in our communities and the communities that I serve, that we serve, they might not have a bank account, but they've definitely got a smart phone. And I mean, they pay that bill, too. And I mean, they've got a smart phone better than mine. Do you know what I mean? And I'm telling you, it is nice. I tell you what, having a relationship with somebody through their smartphone is a great idea. And a

bank, to me, I always said that a bank ought to be able to just get into a relationship with a mobile phone company, come up with, let's say, the First Bank phone, I will give you a phone for free, the only thing you have to do is open a checking account and have a phone through us, and get a mobile phone. You get so many relationships , that would be great. I don't have a problem with that in our community. I think that's a great idea for interfacing. As long as you have that mobile application and someone behind that that can be contacted that stays connected with those persons.

<<BOB REEDER>>

>>I just want to say this is probably where this regulatory area intersects with another regulatory area, which is in the rural areas I have worked in. Just as an example, I was in West Virginia last year and at one point in time I drove for an hour and a half at 60 miles an hour and still couldn't find a signal. And, that is just from my phone. Now at the same time, those issues of broadband in the computers is also something we need to sort out. That's one of our platform areas. We've got to get that elevated to work. I agree, it's perfect. But, man, talk about not being completely served. There is an urban rural disconnect there.

<<DARIN WILLIAMS>>

>>I was going to say that online banking is a tremendous tool and asset for us in our network. And, I wish I had the staff. I'm actually on a panel for just a couple of weeks and I remember those steps, I don't have them now. But the uptake rate is increasing every month. And we have, in addition to online banking, we are creating mobile apps that allow for rural consumers, all consumers to access the platform in one of the most popular areas, really reaching the un-banked and underbanked communities that were created as a model of savings to encourage savings in the communities. And often, from a mobile standpoint, we are finding more and more customers are accessing a bank account simply to check their balance. And often times that is right before a purchase is made. So we created an application that we call shake and bake, we've had it for three years now, which allows you to check your balance

in our bank account without having to login. You just simply shake your phone and it gives you an outfit I'm going to give you a demonstration. That's the app. And it shows you the balance. And this is very popular and heavily used in our market.

[Sound of coins]

[Laughter]

<<ANNA ALVAREZ BOYD>>

Thank you for that. So, I'm going to turn to the audience in a minute. So if you've got questions in the audience, if you want to start queuing up at the microphone, that would be great.

<<THOMAS HOENIG>>

>>I think this question is for Darrin, but when you think about your CDFI and what you provide, are there any regulatory differences between you and, say, the community bank model, that you find particularly important?

<<DARRIN WILLIAMS>>

>>Well, I'm not sure. We definitely don't receive any relief by being a CDFI. We are subject to all of the stringent regulations that any bank would be, in fact, in our most recent CRA exam which I'm proud to say we received an outstanding rating, they held us to a higher standard and we don't necessarily quite agree with that the clearly, it is our intention to serve underserved unbanked and underbanked communities, but that we are not necessarily exempt from any regulation. But, the one point that I made earlier about trying to attract capital into CDFIs which would be very important because in the rural communities that we serve, there are just no large regional banks. And regional and large banks received CRA credit for making investments in NDIs who served low income communities. We also serve those same communities, but, there are no CRA related investments that we receive in those rural communities because there are no other banks there. They used to be there. They have since

left the community for more urban areas. In fact, years ago we received six branches from a large regional bank, and we operate those banks providing services to those communities, yet, this CRA incentives have left. So, we have to do that without the additional access to capital that was there when they were there.

<<ANNA ALVAREZ BOYD>>

>>Other questions? Okay, anything from the audience? I will ask one more follow-up question, so you still have time to queue up at the mic. In the previous panel, we heard about some challenges with appraisals. I'm wondering, from the Rural LISC and NeighborWorks, do you see similar challenges on your side with appraisals?

<<ELIZABETH HOLLINS>>

>>Absolutely. Many of our organizations, I have heard, have had to self-finance and provide finance products for homes that they are developing because they can't come up with a comparable appraisal. Also, in certain areas, both urban and rural, and really, I think it is a shared issue between rural and urban areas, not being able to get appraisals and comparables. And so, in certain markets, I think the strategies around sort of a micro neighborhood philosophy of sort of having a concentrated area, so sometimes they have to take the hit on the first or the second property, but then, they then have their own comps when there on the third, fourth or fifth house.

<<BOB REEDER>>

>>Yeah, and I would agree, but from a different perspective. In the sense that we have a lot of our partners working on what is called energy-efficient homes, some call them zero energy. That costs a little bit more money per square foot to build, but, the appraisers are not giving them the value of that additional money in the appraisal. So they are losing. They are underwater from the time they start. But, they think it is more valuable to the ultimate consumer to end up having to pay 600, not even 600, $100 per year for utilities as opposed to

$600 per month. Which puts them we underwater. But that increment is not being captured. And the appraisal industry hasn't yet kind of gotten comfortable with knowing how to calculate that value-added.

<<ANNA ALVAREZ BOYD>>

>>Did you want to also comment? All right. Any final words from anyone on the panel? Final thoughts? Well, thank you all for your time and for your thoughtful comments today. I'm going to give us back to Art and perhaps give you back some more time.

<<ART LINDO>>

Thank you, Anna. We are a little bit ahead of schedule. We were going to go until 12:15, but I'm going to use my prerogative as moderator and a journalist for lunch a little bit early today. So we can get started, instead of 1:15, which was our starting time, since we are 25 minutes ahead, I'm going to suggest that we break for lunch now and start the next panel at 1:00 PM, that is 1:00 PM as opposed to 1:15.Federal Reserve Bank of Kansas City has provided lunch. So I'm going to suggest that someone other than myself explain where the lunch can be acquired. I have the deli lunch in the Jones Miller executive dining room. Can one of my colleagues -- I tell you what, when you get up and leave for the break, we'll have someone directed to the lunch area. So, let's break for lunch now and we will be back at 1:00 PM. Thank you.

[The event is on a lunch break and will resume at 1:00 PM Central]

<<ART LINDO>>

>>Thank you. I will keep it zoomed way out. Okay. I hope you enjoyed your lunch. We are going to get started with the next panel, and I would like to introduce Toney Bland, senior deputy controller from the OCC, midsized and community banking supervision area also we are

going to have a discussion of application and reporting rules, as well as those around powers and activities, international activities and banking operations. I will turn it over to Toney.

<<TONEY BLAND>>

>>Thank you. Good afternoon, everyone. Thank you all for coming back. If you need a little energy, we have cookies and other treats on the side, so I encourage you all to get your sugar intake up for the balance of the session. As art indicated, our panel is regarding applications of reporting, powers and activities, international activities and banking operations a let me briefly cover the areas under that. Under applications and reporting you have the bank merger act, change in bank control, call reports, the deposit insurance filing procedures and are powers and activities , investment and bank premises, investments it is, sales of insurance, fiduciary powers, and community development investments. Under the international, foreign operations of national banks and the edge act corporations and under banking operations, there is assessment of fees, availability of funds, collections and checks, regulatory requirements and reserve requirements and similar to the other panels, our task here is to be very specific, around regulations that are outdated, unnecessary or overly burdensome. I have a pleasure to be up here with a great group of panelists. I would like to take a moment to introduce them. Their full bios are in the packets but I will just really touch on some of their background and institutions that they represent. To my immediate left his Ron Hansen, chairman and Chief Executive Officer of Liberty Trust & Savings Bank in Durant Iowa, liberty trust is a state-chartered institution with approximately $146 million in assets and four locations and in Iowa and supervised by the FDIC, and the bank was established in 1905. Next is Jack Hopkins, President and CEO of Cortrust Bank, national Association, in Mitchell South Dakota. Cortrust Bank has $740 million in assets, operates from offices in South Dakota and Minnesota, and supervised by the OCC, and was established in 1930. The next is a Jack is David Tribble, President and CEO of Farmers Bank of Northern Missouri and -- in Unionville Missouri, Farmers Bank has more than $330 million in assets, operates from several offices in Missouri and Iowa, supervised by the Federal Reserve and the bank was established in 1901.

James Hamby was the other panelists but he could not make it today. But Iran has graciously agreed to pass along his comments as well. So let me thank you all for agreeing to be panelists, first, and then some to the first and second panels, each one of the panelists will take some minutes to provide their thoughts and views on regulations. We will ask the principles if they have any comments or questions for our panel and then we will open it up to the audience for comments as well. We are expecting to have some time for comments, so I know that we did not have as many on the first banker panel so we hope to make up for that so I encourage you all to, again, get your sugar intake up, and be able to ask -- add some comments. With that, let me start with Ron. He will provide his comments and perspectives on the issues. Ron.

<<RON HANSEN>>

>>Thank you, Toney. Good afternoon, and thank you for the opportunity to participate on this panel. I am on her to represent our industry in this important segment of the process. As I thought about the remarks that I have prepared as I heard you provide your opening remarks, I thought it sounds like I am preaching to the choir but it is too late to change it so I will go with my remarks but I truly appreciate and understand that you have of the burden that you are faced with. As I thought about specific regulations were parts of regulations, that we could discuss, it occurred to me that regulatory burden for most bankers is not one specific regulation, but the enormity of all of them. With which we must comply when they are added together. The EGRPRA review is a huge and daunting task injured from the panel members on the outreach sessions across the country will barely scratched the surface in identifying regulations that should be reviewed and really do justice to the intent of the EGRPRA review I would suggest that every department in your respective agencies be charged with finding specific regulations which can be revised because they are outdated unnecessary or unduly burdensome and the fighting done is unacceptable and after talking up your earlier, that is part of the process from what he inform his I appreciate that I realized agents have requested comments from bankers and others as part of the review but quite honestly, I would expect few bankers, community bankers to take the time to comment. It is difficult to identify specific

regulations and very time-consuming. Few will make it a priority over there primary focus of running their banks. Many rely on the trade associations to respond on our behalf and I know that the various trade associations have taken the opportunity to comment on behalf of their members. Many extremely good points were made in their letters and I encourage you to take those letters seriously. Use of the trade association as a resource as you work through the EGRPRA process as they represent all this and we need this EGRPRA review to be meaningful. It cannot just be an exercise in which the agencies go through the process, check the box, and show up as completed and move on. After your opening comment, I believe that it will be. The fact that senior officials such as yourselves are involved in these meetings is very encouraging. And also comment encouraging is some of the comments I have heard you make from the past meetings and so on. It is a good indication that you truly understand small community banks disproportionate share of regulatory burden due to their size and their limited resources.

In Iowa, with 320 banks as of December 31, 2014. Of those, 50 were under $50 million in assets. 38 of those banks have only one office, and those 38 banks have an average of 7 employees. In neighboring Minnesota and Nebraska, the number of banks under $50 million is even higher. While I am sure that there are those who say that there is not a place in the world today for a $50 million bank, I assure you that each of these small rural banks is extremely important to their respective communities. Because of the volume of the regulations with which we must deal and the inability of any of us to be an expert on all of them I solicited input from bankers for today's meeting because the amount of time that we have I will not go into a great deal of depth and anyone specific issue in the first topic I would like to talk about is the HMDA reporting we have heard a little bit about this already. $145 million bank with four offices in a town of -- $145 billion bank with a total of four office has an office in a town of 138 people. Is the birthplace of our bank. Because this town is located in a county within SMS a we are required to be a HMDA to report up in the little bit of information are banker provides a for these purposes is insignificant on a national basis but it is extremely time-consuming to maintain the records and provide the information. And my understanding is required fields increase dramatically which will make this reporting even more burdensome. There have to be numerous other banks in the country that have the same situation. If the data is really that meaningful , why don't all banks have to be HUMDA reporters? Relieving a bank our size of this reporting requirement would truly reduce our regulatory burden. I suggest the minimum reporting threshold be set to exempt banks regardless of where they are located. I am not going to get into a discussion about qualified mortgages and the ability to repay and RESPA TILA suffice it to say that small banks and rural banks did not make the types of loans that led to these regulations. Our customers will not be well served by them.

Next, I would like to address regulation T which is the regulation that needs to be revised as result of the repeal of regulation Q. Certain entities can now earn interest on transactions accounts but cannot have a NOWaccount. This is confusing to both customers and banks with their really being no difference between the two. Additionally, the restrictions on a number of preauthorized transfers or withdrawals are outdated in today's world of technology and customers use online mobile banking and cash withdrawals from point-of-sale terminals. I suggest that the Federal Reserve revise the six transaction restrictions and to include a broader category of unlimited transfers to include online, mobile, point-of-sale , and bank initiated transactions.

One banker express frustrations with requirement of FR-Y8 transactions with affiliates. And having to file that quarterly. For as long as he has been filing the report he has reported the exact same information with no changes. Our bank is the same. Perhaps the requirement could be changed so that it only needs to be filed if the holding company has transactions with affiliates. If they do not, they do not have to file. Alternatively, it could be incorporated into the FRY9 or some other report this banker also reported that since the FRY-8 has had to be filed electronically, he has had to call in for technical support every quarter. Perhaps there are still some bugs to be worked out in the electronic reporting system. Our bank voluntarily submits FR 2644 weekly report of selected assets. I'm not sure why and I will be looking into what it takes to stop doing that. When we started filing this report contained 12 data fields and today's version is 36. The estimated reporting burden for this information is 2.6 hours per week or over 17 days per year as I understand this data is gathered purely for statistical analysis and we have to wonder if we are truly providing meaningful data. I asked an accountant who specializes in bank accounting about concerns he may have in regards into applications. He indicated that he often has issues with FDIC publication notice requirements, and the oversight that is applied it to acquisition accounting adjustments and beyond that, accounting is not my thing. I would have to put you in touch with him for more specific information. I would like to use the remainder my time to talk about call reports. You heard about the four page call reports and this is the first one that is actually three and up pages in the first one that I was involved in when I started with the bank in 1975. This is our June 30, 2015 call report. With all of the supporting workpapers. The individual who prepares our call report is very thorough and we never have an issue, when we submit them were when they are reviewed by examiners. As new regulations are issued, the call report gets more complicated and burdensome to prepare I heard a number of 93 pages today and this report is 85 pages in length. Yet there are 36 pages on which we have no reporting. There are also approximately 2322 data entry points and we enter data on 393 of them. It should be pretty easy for the agencies to determine how many banks are in a similar situation. It is obvious -- obviously more complicated than it needs to be for a bank with the complexity and risk of our bank. A proposal has been suggested whereby highly rated it well-capitalized banks would be allowed to file a short form call report for the first and third quarters at a regular call report for the second and fourth quarters. Depending on the requirements of the short form call report, this could cut the regulatory burden upper primary call report almost in half without compromising any of the safety and soundness metrics of the call report.

On a final note, I would like to talk about the disparity between the reporting requirements of banks and credit unions. Bank 785 page call report and over 700 pages of instructions. Credit unions have a 28 page call report and just over 100 pages of instructions. Wow. According to the FFIEC website, the Council is a formal interagency body and power to prescribe uniform principal standards and report forms for the examined -- federal examination of financial institutions by the Federal Reserve Bank, FDIC, the NCUA, the OCC and the CFPB. And to make recommendations to promote uniformity in the supervision of financial institutions. My question is, when is the NCUA going to be held to the same standards as the other financial institutions regulatory agencies? And when our credit unions going to be held to the same standards as banks? Credit union depositors are offered the same level of protection as bank depositors. Assuming that the NCUA is as sound as the FDIC. And credit unions engage in similar and most cases identical activities as Community Banks. This is a safety and soundness issue and if allowed to continue down the path later on without adequate supervision, they could easily become a problem similar to the former savings and loan industry. I have heard it said that we do not tell other agencies how to regulate their institutions. To some extent, I understand that professional courtesy. But if they are a member of the FFIEC Council, isn't it a reflection on the entire cut the entire Council if the NCUA and credit unions are not held to the same standards. NCUA needs to become more of a regulator and less of a cheerleader. I think that is the other agencies responsibilities to make the NCUA about more uniform principles, standards, and report forms for credit unions. If this is not done, you will have far fewer banks to regulate 10 years from now.

You could make a difference. Ladies and gentlemen, I have the utmost respect for you and the agencies that you represent. Our bank has always had an excellent working relationship with our regulators , and the regulator -- regulatory burdens that we face are overwhelming. A friend of mine refers to it as death by 1000 cuts. I realize that much of the regulatory environment was thrust on you by Congress and you are doing your best to implement the laws that they pass. You do have the ability to make a difference in regulatory relief through this EGRPRA process, regulations must be tailored to the extent possible to the complexity, risk, and business model of the bank and rural and community banks are in a fight for our very existence. I have a ¬19 year old son think that maybe he would like to be a community banker. I am not so sure. Please take meaningful action to help ensure that he has the same opportunities that I have had and make a difference in the lives of our customers and our communities. Thank you.

I do not know how many of you know Jim Hamby from Oklahoma, but obviously, I am no substitute for Jim Hamby. But he did send me a few of his points. First was change of control. 98 percent of our stock is in the control group as is the case with many Community Banks. Although the Federal Reserve regulations do not require it, we are required to follow a change in control rule every time even one single share changes hand. This includes in notifying the Fed, publishing in the paper, and so on. This is tremendously expensive and time-consuming practice for the Fed and their banks and serves no real purpose. I could understand if five -- I could understand if 5% or 10% changed hands within the control group but every share just does not make sense.

Jim's second point is the payment of dividends and a huge problem with Basel III buffer conversion rules is going to cause sub-s banks that fall below the capital standards, see banks pay dividends after-tax so if they are denied the ability to pay dividends, the shareholder just does not get a dividend. Sub as banks should be allowed to pay a dividend large enough for the shareholders to pay taxes since they have to pay taxes on the earnings regardless of the ability to pay dividends. This can be extremely destabilizing to Community Banks and can force sales, bad relations, and so on. This disparate treatment needs to be addressed. Jim’s third concern, he wanted to pass on, the concern versus 12 CFR 7 subpart E, addressing the e-sign act. When signing up a customer to receive their statements and notices electronically, we are required by the regulations to confirm a customer's consent electronically in a matter that reasonably demonstrates the consumer can access the information in the electronic format that it is sent in. The term “reasonably” should be further defined. We like to help people signed up electronically at the bank we send a test email and if it does not come back, have we met the standards? How do we recently -- how do we meet there is a reasonability test? Is having customer sign a statement that they have Adobe and they can open these good enough? Remember, we are sending disclosures electronically.

Since we only have three panel members and I probably have a little more time with Jim's allotted time, I did come across this quote as I was preparing for today. Every day, Community Bank presidents are forced to decide whether to devote limited resources to growing a bank and it does the nation's economy or meeting the escalating regulatory and compliance demands designed and signed off by Washington lawmakers. If Washington lawmakers truly want to fix of the US banking system, they must recognize the unintended consequence of a regulatory pendulum that is swung so far that it threatens the very banks that they profess that they want to nurture and grow. That was a quote from Richard J Parsons was the author of a broker, America's banking system in an op Ed -- two weeks ago in the American banker. Thank you very much.

<<TONEY BLAND>>

>>Thank you, Ron. Jack?

<<JACK HOPKINS>>

>>Thank you. Thank you for the invitation to be a panelist for your 10 year EGRPRA revealed and I am honored to be here today and I would especially like to thank Mr. Curry for the invitation since I am a national bank. It did get me out of the bank while the crew is performing an OCC exam and I do want to preface this that I do have a good working relationship with your examination team and I hope that they do not take this out on me when I get home. They are well trained and very professional and I commend the OCC on the training program. Even though I had some training teams in our videos, thankfully not this year. I like most bankers are eager to see the results of this review but we're also very wary. We did not see much relief in the last revealed and what was in the molehill has now turned into Mount Everest. I feel as if my job as CEO has changed as head of risk management and bank direction to the head of compliance. Unfortunately, most of my time seems to be focused on compliance versus helping our communities. The first item I would like to address is tiered regulation. Our recent information request letter for the exam that we haven't process was 11 pages long and had 216 request items. We had 16 examiner show up last Monday morning. I composed a letter in 2005 to our congressional delegation addressing with now has become known as tiered regulation. In that letter, I responded to comments from but then controller when he was being interviewed by the American banker about regulation and oversight of the largest banks in the country. At about that same time, we started in exam and I had my staff log the

hours that we had examiners in our bank. When we compared the exam time, in my bank, to Bank of America, they should have had 1707 examiners in their bank full-time, all year long. They had 50 or 60, according to the controller in his American banker interview. Conversely, we should have had less than 40 hours of examination time for a whole year. Obviously, that is not realistic either. That did not include the hours, that the examination team spent outside the bank preparing for the exam and writing the report. It also did not take into account the difference in the complexity of our balance sheet, we are being examined under a microscope every time that the examination team comes in versus 30,000 foot flyover at the largest banks in the country. There needs to be some recognition to that. I did bring along a copy of the letter and the American banker article for you to have if you would like.

Examination cycles have recently been addressed but in my opinion, they should have a higher asset threshold. Perhaps the asset level should be somewhere between 1 and $2 billion. Adjusted for inflation, as long as the bank is considered well-capitalized and has a camel rating of a 1 or 2. It also should be extended from an 18 until a 24 month exam cycle and the Community Banks in general do not have items within their bank that quickly. TRA should be adjusted it to a five years for a bank with an outstanding or satisfactory rating.

The next item I would like to address is the call report. It seems to be a common topic today and I know that some of this is going to be repetitive, but I am going to say it anyway. I just finished reviewing it last week and it was a daunting task. The call report was 42 pages, 10 years ago, and it is now 93 pages, with many more to come as the Basel III gets fully implemented. This does not count the thousand pages of instructions. It has been asked if it can be automated. Yes. To a certain extent, it can. But the call report keeps changing. We are required to track more which means more training on the step on the front end for import purposes and more auditing on the backend so we do not have garbage in, garbage out. We constantly are having to remap the data fields and we continue to add and change the general ledger to keep more detailed accounting information. We also run on different databases. We have our core processor, our mortgage servicing platform, our trust accounting platform, and a different platform for our credit card portfolio. So much of this has to be manually done. I would like to suggest a line by line review of the call report for obsolete duplicate or just plain outdated questions , for example, do we really need to know the different stratification of deposits? Either they are under the current $250,000 deposit insurance limit or they are not. Do you really need to know if the time deposit has a balance between $100,000 and $250,000? And why? We need to examine if the information is really giving us any useful information or is it just interesting for somebody inside the Beltway to know? There needs to be a regulatory justification for the information that is being requested. Not just academic research. By the time that we complete a draft call report, circulated to the appropriate departments for their review of applicable sections, and have senior management review entirely, as well as board members that can attest to its accuracy, we are asking board members that are external board members to attest to the accuracy of this. It can be very intimidating in its volume of information that they are supposed to know. We have hundreds of hours each quarter into preparing this report. I personally spend many hours each quarter reviewing the report, line by line, and if I do not understand what they are reporting, dealing with each department to see how they arrived at the information that they report. This does not include the audit departments time in reviewing and checking for data integrity. In addition to the current call report, I would ask that a short form call report with minimal information should be allowed for two of the quarters of those banks that are well rated and well-capitalized. With a full call report twice a year.

Licensing and applications are the next area of discussion. We filed an application approximately 2 years ago for an asset purchase liability assumption. We worked for days trying to make the pro forma templates provided by the OCC work in the way the purchase contract was written and we could never make it work. They would not accept are internally prepared pro forma and insisted it be completed on their template. After eventually calling our assistant deputy controller and asking him for assistance, he finally got them to accept our pro forma which had all of the same information as the templates supplied -- supply template. Also, the periods that it -- other than the period for public response need to be sure to pick potential merger or purchase, you have people in limbo that are very anxious about their jobs and inevitably people leave to take other jobs due to the uncertainty surrounding the acquisition or the merger. This really causes problems if the Institute -- for the institution, if the merger or purchase falls through. I cannot totally blame these people for jumping ship. The lack of de novo chartering -- due to excessive capital requirements? Is the bar too high for the formation of the Community Banks?

Other regulations that I feel need to be reviewed. Regulation D needs to be addressed. It is antiquated at best when compared to competing non-bank products and services. At a minimum, there should be an allowance of 10 transfers per month for a non-transaction account versus the current 6 per month. Regulation S also needs to be addressed. This regulation establishes rates for reimbursement for governmental information request. There are too many exclusions and there should be none. The rates do not even come close to paying for the time and effort to research these requests. Other areas that need to be reviewed and are having a serious impact in rural areas that need to be dealt with and soon, include appraisal regulations. These need to be indexed, the levels were set out -- after the savings-and-loan crisis and have not been in -- adjusted for inflation and we are having a crisis in the real market as we cannot find enough qualified appraisers but the rules are strict and appraisers are not willing to take on apprentices and train them and why should they? They are there next competition. Prices are passed on to the customers and they are skyrocketing over the years. In the time to get an appraisal on a small rural town can be measured in months, not days. It is grinding our housing to halt in the small communities and rural areas. Mortgage loan servicing needs to be addressed. The CFPB has made the cut off for a small service are to be 5000 loans. We are on the bubble and losing money on it every month due to standards and the worthless paper shuffling that we now do. Customer service which sets Community Banks a part is getting lousy as we spend more time worrying about the paperwork that actually dealing with the customers. We request that this level be raised to 20,000 loans.

The QM rules need to include all mortgages. That are kept on our books. Our bank is a family and employee owned through a stop and no one has more interest in getting a mortgage paid then we do. Basel III, that was never intended for Community Banks, but it absolutely is having an effect on Community Banks. It is an absolute nightmare with all of the new asset weightings and limitations. Again, mortgage servicing limitations are driving banks to sell more -- mortgage servicing rights for either the very largest banks or to private party servicers. In either case the volumes of mortgages serviced is leaving the banking sector for the unregulated private party services. We all know how well that worked out for the consumer to have either the large banks or the private services handle their mortgage loans in the housing crisis. HMDA listen up the to monitor for redlining and discrimination and it has now expanded from 25 fields and will be going from anywhere from 50 until 60 fields. Why are we getting all of this information? We scratch our heads sometimes wondering why, one type of loan is reported and not another. For instance, one Banker asked me why we did not report the use of a home for business or agricultural purposes at the origination or we had to upon a renewal. If we need to report it, why don't the credit unions and Farm credit system need to report? We are leaving out major players in the reporting.

The other thing I would ask is indexing of other regulations or raising the threshold. Regulation O. I do not think that these have changed since 1978 or 1982 depending on which one you look at. $1 billion in today's market is a low number. That should be at least $2 billion. Auditing costs are going to the roof when banks reach that $1 billion number. And CRA should also be indexed. Finally, and I was not going to say this but I have to. I'm extremely disappointed that the CFPB is not a part of this. They currently have the rule writing authority and should have been an actor in this game. Thank you.

<<TONEY BLAND>>

>>Thank you, Jack. David?

<<DAVID TRIBBLE>>

>>Well, good afternoon. Thank you for this opportunity to address the concerns of rural banks. Our company -- our financial holding company is what we have which is a little different animal, due to some of the activities that are rural community needed that financial holding

company can participate in and so we made that charter switch a few years ago. We have a $330 million Community Banks in Northern Missouri and southern Iowa. Another two minority -- majority interest in $160 million bank and a $60 million bank elsewhere in the state of Missouri. We also have a community development Corporation, a real estate company, an abstract and title agency, a 1031 exchange LLC, and federal crop and livestock insurance. All of those born to serve our rural communities. I was thinking earlier, listening to the other panelists in this panel when it goes on once every 10 years, I think that maybe we should do this nine years in a row and have one year to enact new legislation. And it would be a better ratio.

[Laughter]

All three banks and four holding companies deal with quarterly call reports, federal reports, Y-6, Y-8, Y-6 RS, FinCEN, CFPB, Workmen's Comp., Department of Labor, FFIEC -- the letters just go on and on. And it is a total weight in its accumulation of the regulations that is getting us rural and smaller banks. We are like a 16 foot boat on the river next to a barge. That same 1000 pounds sinks us. Yet, a barge it only drops a half an inch. The large banks have the money and expertise to adhere to those regulations and deal with them. Dodd-Frank was created to address too big to fail which I have been in the business 30 years and always heard about too big to fail. Dodd-Frank did not address too big to fail -- the big banks are larger than they were five years ago and I believe that it created too small to survive and the burden of cost of Community Banks is not proportional for the banking system risk. Evidently Congress and regulators believe that fewer banks would be easier to manage. Some bank owners are throwing up their hands, and want to sell for those of us that want to stay, we must grow to spread the operational cost and we may be buyers for those banks.

I want to tell you about the roadblocks for growth that we have experienced. One rule that I want to address is the Herfindahl index. Having to deal with market shares in acquisitions. In my opinion, the rule is archaic and should not be applied to the banking industry period. Our bank has dealt with it twice and the first time in the early 1990s when we were wanting to purchase a failing institution. The target bank was 30 miles away, and a different County. We were not allowed to bid due to the Herfindahl index rule. The bank was sold to a regional bank. With no other bids received because local bank didn't bid. The deposits were pulled from the rural community and loans made all over the country and ultimately the regional that was the purchaser ended up in financial problems. The Herfindahl index room heard a real committed to because some of the antitrust rural about deposits. We are currently dealing with the Herfindahl index again. On an end market acquisition. We have completed 60 days prefiling review through the Federal Reserve board of governors competition committee and so far we are 30 days into our formal application in that Herfindahl index issue is back in Washington DC for review. Our attorneys fear after my speech today that it might be much longer. While you may argue that the Department of Justice rule that this is one -- the reality is that the board of governors has the ability to interpret or apply the rule. The market share deposit analysis is not pertinent today. The Herfindahl index rule is flawed only by using FDIC deposit status -- statistics a preconceived markets and no deposits in investment brokers, no insurance companies, no loans, not low deposit ratios, rarely credit unions and then at a reduced percentage. The Herfindahl index was developed for antitrust rules of businesses that were not subject to examinations and community reinvestment act like we are. When developed, they were not Internet banks gathering money from all over the country like there is today. When developed, we had an interest rate in this country. The stock market and mutual funds were for millionaires. Times have changed and the Herfindahl index did not. I am a free market believer. This rule makes it difficult for bank owners to go to sell to another institution inside the marketplace. Which he may -- he or she may feel is the best fit for the customers. In the five acquisitions that I have been involved in the, the sellers first question of us was about philosophy, strength, and commitment to our community and in some cases, they may have been able to get a higher price for the bank but they wanted -- acquired it nearer to their beliefs and HHI reduces the options to sell these banks because the uncertainty of approval time and to jump through the hoops. Currently, 200 and move it in the HHI index dictates a review from the DC competition committee and the 200 index movement in the calculation is far too low and should be eliminated or raise. At least to the 232 points that I need to get this acquisition done.

[Laughter]

I should mention on this acquisition, this is a town of 3200 there are five banks in town. I do not think that competition is a problem. When we put this acquisition together, we will only be 20% of the bank deposit market share , still half of the leading competitor. I do not think that that is a monopoly on the market. But we are going to jump through the hoops for about four months to get the approval. High capital requirements is another roadblock. It is difficult to attract new capital and return on equity is lower due to the high capital ratios. The big banks have less capital and more availability to raise capital than we do in rural America. Thus, we are disadvantaged. Banks involved in purchases that are well capitalized -- high CAMEL ratings and satisfactory CRA ratings should receive fast-track approvals and be handled solely by the local governing agency and not by Washington DC. Especially if the bank acquired has those same higher rate is, whether use combined capital percentage, or an asset growth percentage for those acquisitions, any of those would work.

The growing issue is the demands and liability placed on directors of banks. Has become ever increasingly difficult to recruit bank directors with a liabilities that the regulators are hanging over their heads, especially outside directors. The regulators expectations of these directors are that they know every rule and regulation inside and out. These folks run their own businesses, their own farms, which, in themselves, are more time-consuming than in decades past. The amount of time required, the liability and the risk reducing the available talent pool for directors to make our banks and communities better. Another issue affecting our customers is the new residential mortgage rules which many have talked about today. Our bank originates residential mortgage loans, some as low as $15,000. We keep these loans in the portfolio, 100% retained, 100% our risk. I am proud of our that is that take the time to walk borrowers through the process. It is complicated and it is confusing. Many of these borrowers have no life insurance. We used to write quite -- credit life on these loans, premium included in the loan, and these loans would have ballooned structures in order to adjust rates or rewrite insurance policies but it is no longer available today. So they go uninsured. Somebody, somewhere decided that credit life insurance it was expensive and unfair they have not had the experience of dealing with a widow and their children wondering where their next house payment is going to come from because they have lost the family wage earner. It is a different conversation when you can hand them a paid mortgage because you wrote credit life insurance. Our holding company owns a title agency affiliate company, we must then watch our the fees for the total transaction on these real estate loans. With the new rules, October 3, we believe real estate closings will take 60 days. We do not know yet what the increase in cost will be. We have seen people with credit card limits large enough to buy the house. New-car loans made in one hour at a car dealership and yet it takes us 30 or 60 days to do the real estate loan because of regulations. If the loan is held in portfolio, it should be an exemption to the enormous regulations on real estate loans.

This is where I start to kick some shins maybe and I'm sorry for that but that is my nature. I have a challenge for you. We compete with credit unions in all markets. The NCUA markets and greater as on the website, how the credit union is just like a bank, same $250,000 deposit insurance, better rates -- if you look at the website -- even how to convert your bank to a credit union, how to charter a credit union, things like that. If you go to the FDIC website, OCC, or state division, what do you find? Information on failed banks. Top left-hand corner, FDIC website how to lodge a complaint -- folks in the banking industry need cheerleading from you just the NCUA is doing for the credit union. You make it easier to lodge a complaint than to find a bank in your data. An article gets published, it is about the financial crisis or how banks made a good profit, making a sound evil for doing so. How about mentioning how much taxes we paid for the banks -- they do fund the FDIC insurance fund and not the taxpayers.

Last is some advice. Many examinations from different companies. I would ask that you get input from your field examiners . It many times in different regulations interpreting across the desk with the field examiner, I have mentioned speak up the food chain concerning regulation that is not working. I get the same answer. We are not allowed to speak up unless asked. My recommendation is a bypass the supervisors and asked the front-line folks and their banks who are working with regulation on a daily basis, for really what is going on. Thank you.

<<TONEY BLAND>>

Thank you, David. Let me ask the principles if there are any questions for this panel.

<<THOMAS CURRY>>

>>I asked the first panel. To what extent -- we have the issue of the rural issues themselves but how much has judgment, discretion been used by the examiners in terms of the risk based focus on your institution in this area? Some moderation of the burden through the exam or if there is improvement that you can give us as well.

<<RON HANSEN>>

>> We just had a state exam that started the first part of June. I think we were notified of it in early April. We sent them a lot of information and there was a lot of work that was done prior to the exam. I had a discussion with examiner in charge about the loan cut off level that we reviewed and because of our history with them, our loan cut off level was much higher than what it would have been so I would say that it is utilized to some extent. And I would say that the work that they are doing off-site today and I know the FDIC does the same -- in the work that they are doing off-site today is -- makes up for a lot of them examination burden that we have had in the past.

<<JACK HOPKINS>>

>>I would, but I do think that in many instances, they do, but I think that there are still instances where dictates are coming down from Washington DC. An example I want to use goes back to when banking crisis started. The examiners came into our bank shortly after the Lehman Brothers went down and so I think that everybody was more than a little bit on edge and they came in and every loan that we had was classified a call report purposes construction

on the acquisition development. It was classified as a substandard loan and if they could not find a reason, it was due to structure. They demanded that we have a ten-year repayment curtailment on that type of loan, and as I explained at that time, says that that has not been historically what you have required or requested from banks. Typically, those loans it do have a tendency to go through recessionary times. We would collect the interest wait for the times to get better and eventually these loans would work out. We were putting extreme -- cash strain on our customers during that time. Because we were not the only bank demanding for these curtailment and I think that was one of the things that happened during the last crisis that I think was basically getting the rug pulled out from you and your borrowers and we were fighting hard for them and basically they came in apologize and said this came down from DC. This was a mandate from DC. So yes, it does in certain cases but on the other cases, it does not.

<<DAVID TRIBBLE>>

>> Part of that is kind of two fold and in some respects, risk-based versus size-based. Because of a certain size, our banks -- we were counting up today and we have collapsed five charters into one. So we operate much more like five small banks, not one medium-sized bank. One of the things -- the size-based , for instance, we were a small bank under CRA and in the past exam cycle crossed over into the intermediate and went from outstanding to satisfactory. Because more is expected when we cross over that $300 million threshold. It did not say that we were not serving our communities any worse than we were before. Just we crossed over into the magic $305 million threshold. So what we are finding and trying to identify in outreach and things, just limited availability for us to improve that rating.

<<THOMAS HOENIG>>

>>Just a question on directors -- you mentioned that it's very difficult to get outside directors to join the bank and I understand that probably from multiple reasons, one being that fear of something happens that they are going to get sued but what kinds of explanations do

they give you as to why they cannot serve for that amount of money that you offer them as an outside director? Because we all know, that is -- we have some outside director influence.

<<DAVID TRIBBLE>>

>>Liability is the number one that we see. Time commitments to learn what is required to be a bank director. It is not one board meeting a month. It is committees, loan committees, weekly, special meetings come in. Into play, there. But it is -- these folks have their own business and we think that they can help us, but liabilities number one in that and it is not the liability of attorneys. In lawsuits that way. It is a liabilities of regulations and rules that are out of their hands in many respects. I mean, the bankers are doing the compliance work.

<<JACK HOPKINS>>

>>I would have to say it is -- it gets into the liability and it comes down to -- maybe I am too brutally honest -- when you asked the court to because I say you are relying on management to run the bank but if we screw up, the FDIC and we've seen it through their losses is going to come after you as an individual and they are coming after you for your balance sheet to make whole the FDIC. So you have got to be brutally honest with your examiner, with your potential directors. That if we make a mistake, if we guess it wrong, and they deem it is more than just a simple error on our part, they are coming after you. There is nothing we can do to protect you.

<<RON HANSEN>>

>>I really do not have anything to add to this because we have not recruited a director recently but I will be faced with it in the not too distant future.

<<TONEY BLAND>>

>>Okay. Is there any comments from the audience? If so, we have a microphone set up.

[Pause]

You can call out names. Let me ask a question and perhaps another one as folks are thinking about questions or comments they want to make. Given the rules that you all have covered and other rules, what do you think our regulations or statutes that requires requirements that are no longer consistent with the way that banking is done? Does anything jump out at you that way that just seems to be not applicable these days? Just given the way that the business of banking is being done.

<<JACK HOPKINS>>

>>Obviously, Regulation D is very antiquated. I mean, we're competing with all of these unregulated entities and there are no limitations without so that is a direct threat to our liquidity going forward.

<<TONEY BLAND>>

David, what are you thinking? Ready to kick some more shins?

[Pause]

<<DAVID TRIBBLE>>

>>I can pick a little bit of every one of them. Everybody has touched on the call report. That one. I started in 1985 during the agriculture crisis when they added the section about agriculture loans and the breakdowns. We went through last 25, 30 years, pretty good agriculture times and those questions are still in there. They never went away. Then we get a commercial real estate issue and we add to that. In there. So I do not know if anybody looked at the good data that we reported for years and said, we can take that away. Yeah. It is -- the complications and the amount of time in the call reports is tremendous.

<<RON HANSEN>>

>>The Herfindahl index, I have not given any thought recently because we have not been in a position to acquire anybody but I can see a lot of flaws in today's world with the deposit for the Internet banks in the brokerage companies.

<<TONEY BLAND>>

Any comments? Okay. Ron, Jack, David, thank you very much for your observations and your candor. And I will turn it back to you.

<<ART LINDO>>

Thank you, Toney and thank you, panelists. We are going to take a 15 minute break and then we will set up for the last panel discussion, so why don't we report back here at about 2:10 PM . Until then, thank you. >>

[The session is on a break and will resume at 2:10 p.m. central time.]

<<ART LINDO>>

>> Okay. Well, thank you for returning so promptly from the break and we are now going to move into the fourth and final panel for the day. We are happy to have James Watkins, senior deputy director at the FDIC and the division of risk management and supervision to lead the panel. Without further do, I will turn it over to James and he will get started with the introduction of the panelists.

<<JAMES WATKINS>>

>>Thank you, Art. I'm delighted to introduce our fourth and final panel today. We will explore the important topics of securities relating to register transfer agent active is, money laundering including items such as a bank to bank secrecy as the compliance and reports of crime and suspected crimes, and move onto safety and soundness, several areas of industry

activities that will be covered here and then finally rules and procedures of regulations including uniform rules of practice, and procedures, resolutions, and receivership rules can be covered and recordkeeping requirements for qualified financial contracts and restrictions on sale of assets by the FDIC can also be covered in that. In that topic. These topics cover a great deal of ground for banks, for bankers, and for bank regulators and to help assist us in reviewing these issues, we are fortunate to have four experienced bankers that have extensive background and successful -- successfully leading banks and navigating the regulatory requirements and bank operations. Let me first introduce our panel members, in order of their prepared remarks. Tom Gdowski, since 2008, has served as president and CEO of Equitable Bank, in Grand Island, Nebraska. The $200 million bank operates as a federal thrift focusing on community and agricultural banking at its three locations. In 2005, the bank became publicly owned after having first opened for business in March 1882. He will be followed by Arlen Osterbuhr who is president of the Minton exchange Bank and trust in Minden, Nebraska. He joined the bank in 1990. The bank has operated one location since it opened for business in September in September 1883. $160 million bank serves community and agricultural business needs in the county. Then, Deron Burr, who is president and CEO of Peoples Bank of Seneca, Seneca, Missouri, who joined that institution in 2006. The bank is a $136 million minority owned Community Bank with the Eastern Shawnee tribe owning more than half of its stock and the institution operates in two locations in Newton County. And then finally, David [Burrage], who is chairman of the board and President and CEO of FirstBank in Antlers, Oklahoma and has been with this $289 million bank since 1990 and also involved in public service previously with the Oklahoma banking commission and for many years with the Oklahoma transportation commission. Further in 2014, he began serving on the Kansas City Federal Reserve banks community depository advisory council. Gentlemen, thank you for taking the time to be here today. The biographies of the panelists are included in the information packages with your program today. Each panel member will address issues on one or more topics. We encourage any follow-up or clarifying questions after the initial comments from all of the panel members. We are hopeful to have time to solicit comments from the audience as well. Now, let's begin, and, Tom would you please start?

<<THOMAS GDOWSKI>>

>>Thank you, Jim, and first of all I would like to say thank you to the regulators for the opportunity to share some thoughts and ideas with you, a lot of thoughts and comments are be made that certainly I would agree with and I'm sure that my fellow panelists -- we share a lot of the same frustrations and I thought maybe that I was the only guy dealing with all of these issues -- but it is good to know that other people have the same concerns. The bank is a 200 million dollars federal thrift located in Grand Island, with offices in North Platte in Omaha. And although we are a thrift we follow a commercial and agricultural banking model and we also originate mortgage loans and have about a $90 million service portfolio. So 98% of our lending and deposit activities are generated within our primary markets, so as a community rural bank, we basically -- rural bank -- we are basically focused on our customer and in our markets and trying to help them be successful. Because if they are not successful, we will not be successful, and from the comments I heard today that is one of the things that I would like to reiterate and I will get into some specifics on examinations and regulations.

We start with the premise that we deal -- the number one thing we look at is character we deal with a new customer, whether a loan or deposit and I know that is the same with my fellow bankers. If character is not present, at the beginning of the relationship, nothing else really matters. And being in a rural community -- having the opportunity to be able to get to know people, know people that come in the door, you see them around the community and you see them in the events of supporting and find out pretty soon who you -- you find out who you want to deal with, and if you are the third bank they have talked to in the last two years. The chances are it might not be the other banks problem and I think that that is important to remember because, like I said, we are not successful unless our customers are successful. And taking some of the bigger nonfinancial or non-bank competition that we face, some of the bigger banks, we face it -- it is a little bit more of appears to be more of a numbers game. We do not have that luxury of having a lot of people -- we have to make sure that they are successful and if we ensure their success, it will also help us.

I wanted to focus my comments today on three areas, the first would be BSA and AML and second comment on appraisals and then third safety and just a quick comment on that. With regard to BSA and AML, like I said, we are a small bank, not automated in our procedures, $210 million in total assets and 66 full-time employees. We have not purchased the software to become a fully -- to have the reporting software for the BSA. I have not looked into it that hard, but it is in that half million dollar range, is what I am being told. In addition to that, it is obviously you have got to maintain it and have people and I have heard that it actually can increase the workload without changing the result. So again, it comes back to knowing our customers and believe me, when we have a customer with a large deposit come into the bank or leave our bank, we know it pretty quickly. So from that standpoint, we have to -- as a regulation and complying with it, it becomes a very -- return on energy for that area of our bank is not really very high. We have one person that spends about two or three hours weekly in regards to the BSA, so the cost for the labor, the systems, is about $500 a month. We have a person also that pulls the 314(a) list every two weeks and pulls the OFAC one time a week and that takes about four to five hours so we are talking about cost for labor and systems there at about 300 dollars and so in terms of the AML and the risk rating process, we monitor accounts for 90 days and look for all deposits, large cash deposits, and again, it is a lot of time and effort and energy put into something that we have not had anyone show up on a 314(a) list yet over the last five years in the markets that we serve. So there might be an opportunity to look at the thresholds and I know that the discretion in terms of how examinations are conducted, does not make sense to say, is this appropriate for this market? As it relates to the CTRs, we had 79 CTRs filed in the first quarter of this year. It takes basically three staff to process that because you are talking about teller has got to process the transaction and it is about 20 minutes, 20 minutes for her or his supervisor to review, and then it is about 20 minutes for the compliance officer to review it at the end of the month, review it and e-file it. So if you assume one hour, of staff time for each CTR and if you use $18 an hour times 79, that is about $1422 per quarter or about $5600 per year, not including any time for software systems. So again, as it relates to those types of activities, that go on in our banks, we just need some common sense to be applied to -- where is it appropriate?

In regards to appraisals, just in general, again, consideration in terms of the loan or the lender or the organization. If it is a business loan, once a loan is made and secured by real estate and it is renewing without any new money, it is seasoned and performing and the financials are current, real estate taxes have been paid, again, it comes back to making sure that we want to make sure that we follow the guidance appropriately. And to the extent that you have to either get a -- if the loan balloons in five years, do you recertify it? New appraisal? All of that adds up in time and money and if there is not been significant change in the markets that you are dealing in, that is something that just adds additional cost onto the borrower. In terms of 1-4 family lending, as I said, we do anywhere from $15-$30 million a year in mortgage lending. And I know a lot of businesses, a lot of banks in our area, have gotten out of it because of the complexity of following through with the guidelines. As an example, of legislation that seems burdensome, in visiting with our mortgage folks, on the new guidelines for the good faith estimate, there is a zero tolerance applied to that. So as an example, if there are -- once you put that good faith estimate out, and let's just say it is $400, that is it. That is all you can charge. Well, if you have got -- you have a hard time with an appraiser getting to a local market and he charges another $150 for mileage, you cannot pass that on, and the bank has to eat it. That's an example of -- I think the customers understand sometimes that there is more cost and that is the reality of living in more of a rural market, but to apply that to the bank and not allow any gray area seems to be fairly onerous. Again, the general profitability of mortgage lending. If you make 1.5% to 2% on a $50,000 loan you generate $750-$1000 total profit on that transaction and out of that you have to cover all of your non-interest rate related costs – onboarding the loan, staffing the loan, servicing the loan -- so it makes it -- any additional regulation makes it extremely difficult for that area of the business line to be competitive.

Finally, on the safety and soundness side, I just wanted to comment, again, we talked a little bit and heard a little bit about succession planning. And systems are getting more complex, having bankers that understand the software, to be able to make the judgments and execute -- and produce the results that you need to make sure that you are running a safe and sound manner as a bank is becoming a challenge. I think that is one thing that each additional regulation put on the books make that harder. In terms the again, the comment was made about the return on equity. Banks is typically been -- banking has not been as profitable and as it had been over the last prior cycle. Certainly in rural banks, if you are not 100% loan to deposit ratio and you're buying two year governments at 70 basis points you’re probably not going to cover your non-interest related costs and it makes it very difficult to compete. So when you get into that situation, that just leads to save and unsound practices whether you take it in credit risk or interest rate risk by buying poorly structured securities or whatever it might be. I think it is something that must be kept in mind when you add on additional cost and make it tougher to compete.

Finally I will throw in my commercial for the non-bank competition that we face. We have heard a little bit about it but we certainly need advocates. That can make sure that they understand that being a financial police for the rural communities -- it makes it very difficult to do that without having the federal tax subsidy or are you able to fund the balance sheet off of the back of the treasury yield curve. It makes it difficult to assume those costs, and compete. We all deal with it. We are competing. We will be successful as a banking industry, but it just makes -- it is one more thing that with additional regulation, it makes the bar all that higher.

So one final comment. In terms of exam cycle and with the OCC and relationships with them and expanding the exam cycle would certainly be appreciated and sharing -- I know that sharing resources is a big push of the OCC, but right now, leveraging technology -- technology is the great leveling -- it levels the playing field for a lot of us smaller banks. But right now, we have our own lenders that we apply a lending limit to and a have our own -- our loan committees and that we have our board committees and that we have our own internal lending review. We have our auditors that come in and review us. Then we also get to the exam folks that come in. So my point is that there is a lot of information that is available to be shared electronically. And I know that you have done the efforts to push some of that external review have been appreciated. And I would just encourage that we continue to use that and look for ways to be more efficient through the exam process. Thank you.

<<JIM WATKINS>>

>>Thank you. Arlen?

<<ARLEN OSTERBURH>>

>>There we are. Good afternoon. Thank you, James. It is truly an honor to be here today. I would like to thank you for this opportunity. I would like to give you some idea of our banking environment in Minden, Nebraska. It was opened in September 1, 1883 will be 132 years old this year. The bank is $150 million in assets, and offers a trust services. We have 27 full and part-time employees. The community population in Minden Nebraska's approximately 3000 people in the primary market area is approximately 20,000 people. We are located in the south-central Nebraska and in the middle of the United States. The community of Minden Nebraska was six years old when our bank was open for business. The primary focus of our institution is agriculture, commercial, industry, and consumer lending as well as trust services. Although we do make commercial real estate loans, we have moved away from residential real estate lending and now utilize the secondary market. This is primarily due to compliance, concerns, risk and penalties as well as cost-effectiveness and also based on a number of residential real estate loans made annually in the past. Our lending oversight is thorough, having a lending committee that meets twice a week, for review of loan request, interest rates, deficiency balances. Our board of directors take an active stance when reviewing the complete banking function during a monthly board meetings. Every bank is unique. What is unique about our bank is that it was opened in 1883 by the Kingsley and Webb families, known as Kingsley, Webb, and Company. The bank is still owned by the descendants of the Kingsley family today, 132 years later. Although we are a financial institution, we are also a community business. That provides more than banking services. To the area schools, churches, and civic organizations.

Our relationship with the state of Nebraska Department of banking , the FDIC, and our external auditors has been outstanding. I appreciated the ability to work with the regulated closely and we developed an amount of respect for each other which provides a for open and clear communication, as well as cooperation. Generally the process requires that the bank provide documentation and policy with procedures to the regulator prior to the arrival in the bank. There may be some telephone conversations as well. This generally will help the examination team and hopefully provide for a sufficient amount of information to spend a lesser amount of time in the bank. On the average the FDIC and the state of Nebraska will be in the bank for approximately 2 or 3 weeks upon examination. We have established a loan committee which includes nine of the bank staff and represents each area of the bank: this is roughly 1/3 of our bank staff. Our compliance committee generally meets on a monthly basis, committee provides for research, review, educational time, when dealing with bank policy and regulation. We also provide the complete staff with the same compliance review and educational training during monthly staff meetings as well. We hope to provide a general knowledge of each regulation and policy to each individual staff member when regulations are discussed and policies implemented. This provides for more sufficient cross training process in the bank and we utilize our staff members to the best of our ability and cross training, and one or two different areas of the bank in order to ensure that there is always someone available to provide a quality customer service when needed. The bank implemented a game plan which includes providing economic benefit and growth to our community. With also a goal for maintaining a sound and pertinent lending program within the institution.

Regarding our topics today, we are on an 18 month rotation of examinations with the FDIC in the state of Nebraska. Our external auditor will conduct four or five audits in a 12 month periods. BSA is one audit that we have on an audit schedule every 12 months. Our other audits with external examiner, our auditor, is trust, deposit, operations, IT, lending, and directors audit. The cost of which runs us between $35-40,000 annually and generally we review of 65 policies within the bank each year. I believe that one regulation that is not fitting to all banks – which consider line of regulations that fit asset size, capital accounts, business model, risk profile, and geographic location. Regarding securities, although we have not had any significant challenges in that category, I have been informed that there has been some question as to credit burden placed upon Community Banks with regard to municipal and securities. The fact that tax-free municipals are in some instances required to be analyzed by a broker, EMMA, or even a third-party provider -- of these types of securities have historical default ratios which is very, very low. General obligations have a rating agency grade, which should be considered acceptable.

I would also like to consider regarding money laundering and BSA. BSA audits and examinations are costly in a small bank. An extension -- I'm sorry -- an extension to 24 months should be considered. We have two people in our bank our conduct BSA reviews and information gathering in order to make necessary reporting we also have two additional people that are trained to back up this area within the bank. Responsibility of BSA has involved most all areas within our bank. Time and cost for business. Consider increasing the threshold for filing CTRs: the $3,000, $5,000 and $10,000 levels were established in the early 1970s. If the threshold were to be increased to $15,000, at our institution of we would eliminate 30% of the annual filings. Much more if it was $20,000.

Regarding suspicious activities reports. When we read the directive of the regulations with SAR CTR filings it would seem that the commercial banking industry had become the financial police as Tom has noted. And it is in the BSA office responsibility to determine and investigate any and all inconsistency and structuring of currency transactions. A determination has to be made as to the filing of the SAR report. If the BSA officer has made the determination that a SAR will not be filed it has been suggested by audit that more than one member of management review that decision and that decision would be documented for future reference. I would suggest that the actual use of the information to consider for value on timeliness of the reviews. Possibly the threshold for filing SARs report should be increased and the whole SAR program be revisited at some time for a more comprehensive reporting method and have it put in place.

Regarding mortgage loan originator licensing, currently the mortgage loan originators licensing has to be renewed each year and again there is a cost for each individual and the financial institution. In our institution, we license the lending officers and everyone it may be put in a position of discussing real estate loan programs or the secondary market. Through email, telephone, or even in general conversation. I would suggest that this renewal of licensing be extended for 24 months. Training of everyone associated with the MLO such as loan officers, as well as loan administration staff, takes place in our bank every 12 months. Regarding non-bank entities such as Farm Credit Services and others, that provide agricultural input products, that want to or do provide financial services, should meet the same criteria for detecting money laundering , terrorist financing, and customer identification programs as required by the commercial banking industry. If it is truly consumer protection that we are striving for, these non-bank entities should be required to maintain a business plan for approved credit criteria that the applicant must meet along with financial statements, cash flow analysis, et cetera. They should also maintain a certain amount of educational training of those who are considered the credit provider. I will give you an example. In our area, in our farm customers, come into our bank, they will complete financial statements, cash flows and provide tax returns and other information for analysis. So example is a large grain handler in our area, an input dealer -- they will call the bank in the spring months in order to find out if the customer has completed his financial statement, cash flow and any other analysis that we may have completed and the customer has provided authorization to share. With this, they, then, ask our opinion as to the credit worthiness of the farm customer. This information is then used by that industry or business to provide their product at a lesser interest rate than what the community bank provides.

Regarding safety and soundness. Although we would appreciate an extension and examination rotation until 24 months, we would also want to continue to have a thorough examination. Avoid becoming relaxed, due to ratings and grades. It would be the best to avoid any and all unexpected surprises by both the examiner and bank management. I would like to know a little bit about call reports. The call report for our institution is 85 pages in length.

Given the amount of information provided throughout the year, in the audit and examination process, as well as the number of outside entities that are used to help state banks business plan such as tax accountants, asset liability reporting, investment brokerages and consulting services -- all of which are renewed periodically -- I would suggest that if the call report be considered for a more streamlined approach in order to meet the smaller bank criteria. If possible, consideration should be given to a semiannual call report program.

Again, the short note with regards to appraisals. Our institution is located 30 miles from a certified appraiser. There are few to choose from in the area, the amount of time to receive an appraisal is approximately 4 to 6 weeks. Our residential real estate or secondary market lender has a list of proven appraisers all of which with considerable distance from the community: as much as 130 miles away. That person may take some time to complete the appraisal. Also, in our area, commercial and agricultural property has been selling for an estimated -- inflated value today as compared to several years ago. The $250,000 loan amount threshold for an appraisal amount may be significantly low with regards to farmland selling in our area for an average of $10,000-$12,000 per acre. I would suggest an increase in the threshold for obtaining an appraisal.

In summary, I believe that the point that we are making today is that there is a need for community banking in rural America. It would seem that a new regulation has been reactionary. As a response to a financial debacle. I understand this. However, the regulatory demand can change as -- caused rural community banks to decrease the ability to provide the number of products and services which they have been accustomed to for a lot of years: 132 in our case. Without a level playing field, for our institution and others, this will lead to more non-bank entities such as Farm Credit Services and others that will provide financial services. I would request that strong recommendation be given to our representatives in Washington DC, for the support of Representative Scott Tipton's bill HR 2896, also known as the Taylor Act of 2015. This proposal with authorized and required the five main financial regulatory bodies to tailor all future regulations to respective institutions, business model, and risk profile. We would also direct regulators to assure that rules, regulations, and compliance burdens apply only to those segments of the industry where they are warranted. In addition, each of the impact of regulatory agencies would be required to report annually to and testify before both of the US Senate Banking Committee and the U.S. House Financial Services committee to review statutory implementation and compliance. A major provider -- provision contained within this proposed legislation would require regulatory agencies to apply the law to all regulatory -- I'm sorry -- regulations adopted in the past five years and this provision would mandate review of many of the burdensome regulations adopted since passage of the Dodd-Frank Act. Again, I would like to thank you for this opportunity to visit with you and discuss with you our concerns.

<<JIM WATKINS>>

>>Thank you, Arlen Deron.

<<DERON BURR>>

>>Thank you for the invitation to be here today. Our bank is 20 years old, we are $145 million in assets with 28 employees. We are about 15 miles south of Joplin Missouri, and what makes our bank unique is that the majority owner of our stock is the Eastern Shawnee Indian tribe of Oklahoma. I will tell you that if you want to know what will make for some exciting exams, whisper the word sovereign immunity to a young examiner.

[Laughter]

You will watch them scramble and they will go for the books.

[Laughter]

Painting a picture for second of what the community of Seneca is all about. We are a town of about 2300 people. It is a hard-working community. It is a low income community. It is a low income area. So I will tell a quick story here before we get into some of this. A few years ago our football team in the state championship game in St. Louis. The day before the game, the team took a charter bus, which our bank paid for, to a hotel. Before getting off of the bus, the coach stood up front, and told the entire team, he said, all eyes on me. He said, remember where you are from. Remember where you are from. Do not any of you get off of this bus into anything that is going to embarrass your family, your school, or this community. This hotel had better look tomorrow like it does right now. The team stayed the night, they played the game the next day, two days later they got back on Monday, back-to-school when athletic director and the head coach received a call from the hotel manager of the Hampton Inn in St. Louis. Oh my gosh. This cannot be good. The athletic director scrambled to find the coach and they went to the principal's office to make the joint call. The athletic director look to the coaches and what happened while we were there? He said I do not know, coach. I do not know what they were calling about and they called the hotel and the hotel manager said, I am sorry -- our coach that, sir, what is the problem? The hotel manager said, problem? He said, I have been managing hotels for 16 years and I've never seen anything like this. Oh, my gosh, what did the kids do? He said, no, you do not understand, coach, when the housekeeping went to the rooms, every single bed was made in every one of those rooms.

[Laughter]

Our coach smiled. He said, you know, we are a poor community. 90% of the players who spent the night in the hotel that night had never spent a night in a hotel before. We did not tell the kids that they did not have to make their beds.

[Laughter]

That is the community that I serve and that is the community that I call home. They depend on our bank and they depend on me and my staff for everything from education in the classroom on personal finance, to financial support and donations of every kind. We are a small bank a donated $50,000 last year to our school in different endeavors. When we are tied up in regulatory burden, those are the people that suffer. So here is some low hanging fruit that I'm going to kind of give you in bulletproof fashion here, bullet point.

The exam cycle. Even on an 18 month cycle, which is really 12 months by the time that we -- prepare and have the visits and make improvements, too much for a small community bank. You may not realize it, but you shut us down for two months. A month getting ready and a month during the exam. At a bank my size, it takes 25% of our staff to spend the month getting ready for that exam. The exam should depend upon complexity. If we are well capitalized, and not involved in complex balance sheet maneuvers, reward us for that. Let us take care of our community and extend this out to two or three years.

The call report has been a big discussion but it needs to be. Our CFO spends 50 hours preparing our call report. In a bank our size, he also carries a loan portfolio, he assists in management decisions, and plays a vital role in our community. I believe that a semiannual report would be sufficient with an abbreviated report maybe done on the off quarters.

Better utilization of technology. I'm going to have an exam that starts in a couple of weeks. It is been kind of a common theme today as well. We have already been discussing in our bank, where everyone is going to park. Because we will have more examiners on staff then we have employees in the bank. Yet, I just had a full-loan review conducted by former FDIC examiners the office up here in Kansas city, 2 1/2 hours from my branch, everything done remotely except the exit meeting. Your presence for an extended period of time and I'm going to say anything longer than a day or two, it's rumors flying in a small town. The last time that we had the FDIC in which was March 2014, we received a call from an employee at the subway -- and I'm not making this up -- I get a call from the guy at the subway and he said hey, Deron, I just served some pretty important looking people appear.

[Laughter]

He said, I think I saw them huddled up at your bank this morning. Is everything okay at the bank? My deposits okay? I said, Jim, everything is fine. By the way, if they are back in tomorrow, put some extra hot peppers on their sandwiches.

[Laughter]

The more that you can do remotely, is the less stress that there is on everyone.

Privacy notices, would be more prudent only require them if the bank makes a change in its existing policies.

CTR limits: an increase in the CTR limits in our shop -- if you increase it to $25,000 would reduce the number of filings that we have by 70%. Our compliance officers who takes care of that for us. Trust me, she has plenty to do right now in compliance alone.

Spousal guarantees. And this has not been talked about today. Spousal guarantees -- the SBA and requires these but we can’t. Every honest banker and regulator in this room knows that if both parties do not guarantee the loan then the guarantee that I do have is worthless. You know this because 10 or 15 years ago, at safety and soundness exams, you used to tell me that. Now they are being pressed during exams to run file searches of the loans that have two or more guarantors and then begin releasing them during the exam. I am not sure how this makes us more safe or sound.

ATR [ability to repay]. I believe that all judgment in the community bankers is being removed. In our shop, the average mortgage loan is about $65,000. We have $45 million in 1 to 4 family loans on the books, and I will say that the new disclosure rules taking effect on October 3 -- get ready -- it is the first time that I have seen a collaborative concern between the realtors, the title companies, and the banks. And our vendor is still not prepared for this. Complexity is not a consumer's friend.

10 years ago at this same event, it was suggested that the de minimus amount for the appraiser rule be increased from $250,000 to $500,000. In a small rural area, just finding a certified general appraiser is difficult, and when we do, it is a minimum of 4 to 6 weeks out. We currently have a low that we are working on for a ministorage complex. We had to go to Springfield, Missouri to find and appraiser to do this. That is one hour and a half from our marketplace.

Lastly, we are Community Banks. We have skin in the game. We attend church, ball games of these customers. That is what separates us from Wall Street. I am going to close with one last story. We have a legendary football coach in Seneca. His name is Tom Hodge. Coach Hodge has the field named in his honor. He finished with a career record of 161 wins and 38 losses with four undefeated seasons. His team's it did two things well. They blocked. And they tackled. They only ran about 5 or 6 plays, but they ran them to perfection and they practiced them for hours on end. There is a lot of tremendous bank analogies up right there but coach Todd is now our athletic director at our school. He is a big part of our community. One of the things that he has brought to Seneca, Missouri into our school is a robust foreign exchange program. He felt that it was important for kids around the world to get the chance to see what life is like in small town America. And on average year, we will host 8 to 10 high schoolers from Japan, Switzerland, Italy, France, all over the world. One of the things that coach Hodge it does is he learns how to say hello in the native language of each one of these kids. So that he tries to make them feel welcome on the first day and every day, he can say hello in their language. A few years ago, Seneca volunteered to be the host for a hearing impaired foreign exchange student from Germany. A family and Seneca had a deaf son and they saw this as an opportunity for their own kid to grow as well as for the foreign exchange student. Coach Hodge became nervous. Prior to the students arrival, he wanted to make sure that he had a way of making the student feel welcome every day so he approached the host family and he said, how am I going to say hello to this deaf student? Every morning at school, this is important. The host family said, I don't know, coach. Try this.

[Waives his hand]

[Laughter]

You know, sometimes I think that we really overcomplicate things. I think we have done that in our industry. Examiners for complexity because the trends of fewer and fewer Community Banks has to be reversed. I believe that the fabric of our country depends on it. Thanks.

<<JAMES WATKINS>>

>> Thank you, Deron. David, I do not know how you are going to follow that . . .

[Laughter]

. . . but we look forward to hearing your comments.

<<DAVID BURRAGE>>

>> I am the guy that you will have all been looking for, the last one.

[Laughter]

I am supposed to summarize what our panel is about and give you some examples. You have been hearing it all day. You guys already have the data. In fact, you have more data than we have. I would say we have been regulated by the OCC. If they have been in our bank when we were a national bank. We are a state member bank now. The state and Federal Reserve. The things that we have learned have been invaluable. The guidance that we have been given has been priceless. But for the small banks, that risk-based exam -- you know -- we had that question earlier. I would have to say that that is how we have been examined. As you go down the size level, it is stopping. There are some things that are stopping and there is no risk-based judgment about it. You are going to have to go through the inventory of items and say, we are not looking at this on a risk basis. We have got to recognize that our state associations , our lobby groups, have some good information. They are not the enemy.

When regulation has outrun implementation, it shows how far the needle has gone the wrong way. And we all know that. This competition thing -- we all react to it differently. But when we give other people advantages that we do not have, it starts thinning the industry out. You know, people -- our family -- I only came to the bank in 1990. I was doing completely other things. My brother bought a failed bank, mortgage his house to pay the interest on the holding company loan. He was 29. All he did was go in there and use common sense. The regulations helped; the guidance helped. But we are so far past that now that nobody wants to do that anymore. We have got to pull those people that I mean, hey, 25% of the banks in Oklahoma are not making mortgage loans anymore. That is significant. You have heard that from the trade association. You have heard that from other trade associations. The results of the data is really clear. We have got less bank, less choice, more cost, and the atmosphere is poor. I'm talking about the customer. Every time that we have tried to react to the regulations and I know that you guys want to hear specifics and I will give a few specifics here in a second but it is not just one regulation. It is the mountain. It is what we are trying to digest. It is what we are trying to comply with on a day-to-day basis. Guess what. In a rural community -- and this is something that you need to give thought to -- it is not just the banking regulations. Because we all sit on the boards of the hospitals, the school boards, the EMS, my nephew is a mayor and he is also a lender. Think of our bank. We have got the four kids working in it and they are all in some organization, trying to help it as well as us. In fact, we require community service. Bank of America is not down there trying to help us. A lot of the regional banks are not trying to help us. But the regulations in those other industries, along with our regulations, are so discouraging, that the leaders of the community -- that we feel like, gosh, I need to move to Oklahoma City. You know? I need to go to Tulsa. We cannot make it here and should I tell my boys, hey, this would be a good industry for you to invest your time in? I am certainly at the point -- I just had my 59th birthday – where I look at my son and my nephews and I think, are we doing the right thing by these guys? Should we cash out now like a lot of our friends have and go do something else?

But I will let go of the CTRs and we would have a 35 or 40% reduction if we just raised it to $20,000. We spend so much time training about CTRs. About the list, we have had a few hits on the list and I will go back and run them and of course, they were wrong. We have had no hits on the list. The appraisals? When we did all right appraisals we had zero real estate losses. Zero. Now we have grown some. We have had some small losses. But our challenge has been finding that appraiser. We have gone to a completely outsourced independent selection of appraisers. They went to a model where they got all of these guys that wanted to do appraisals and they started handing out those orders. When we first started it, every order was given to somebody that had no experience in that area. So we went through that. They awarded them to guys that wrote pretty appraisals up instead of guys that determine what the value was. Of course, you can say, David, you need to work harder on that. That is true. But that was an adjustment. That took time. It has taken over a year to go through that. That is what those regulations have done.

And there is a bias -- I do not care what you are talking about where your talk about roads, water, banking, education -- there is a bias against rural areas. You can say, how is that? We have got all of these programs to help you? Well we don't need that help. I mean, what we need is to be able to make the loan to the person that wants the home. And we need one piece of paper that says, here is what we are charging you in fees. Here is what we are collecting for something else. Here is our relationship with them. And here's, by the way, that hidden fee up in there that you do not know about it. That is about as simple as it wasn't when I directly made home loans myself many years ago, that is what we had. And now we have got all of these pages.

To highlight what it means for us, we are really aggressive. Security is one thing that we are supposed to talk about. We do not have any. We've got loans. When you are coming to examine us, that is part of the risk profile and we have more loans in our area than anybody and most of those our home loans. But we not -- we do not to secondary market loans because we went -- when we sent our appraisal in, they never got approved. So we quit doing them and we send -- we have actually taken the same appraisal, gave it to a broker and he gets it approved. How is that? That is a bias. I have tried Wells Fargo, working to that, I have tried to be which is the largest bankers bank in the country I believe. We have tried another small -- we have tried every method in the world to get a secondary market loan available to our customers where they do not have to drive 30 miles to go apply for it. None of them could get our appraisals done and all of them had high hopes to get it done. But this bias is really there.

As I mentioned, there are too many pages. We need to work with the vendors. By that I mean you guys, all of us. Call reports need to be the same way. When there has been a line desk let's get rid of it. I'm not saying that you don't need the data because I love data. I know that it helps everybody to have, but we've got to use that technology to make our forms better, to make our reporting better and for those small banks where it doesn't take them more time to even read it. If it doesn't apply to them, they don't need to have to deal with it.

Escrow -- when the escrow rules went into place, we're always an early adopter, we jump in there and try to adopt things off the bat. Guess what? We made one loan and that one loan we made, we are now in escrow bank. We can't go back. Because they changed the rules after. They say, let's rethink this. If you did not make an escrow loan, -- we never escrowed insurance or taxes for the whole life of the bank, until that rule came into place. We never had any losses. But now on our negative AM are up, past dues are up. Think about this. We got a logger and he makes enough money today for his insurance based on the weather. He's going to go do this specific job so that he can pay his insurance for a year and his taxes. Oh, no. You have to pay every month. He says, okay. I will try and do that. Now he is past due because of escrow. Then he comes into a negative balance. We've taken the flexibility a way for that customer. We reduced the number of products. Our most popular product is a four-year arm. We pushed all the customers to one thing so that we can get them qualified and as stay out of trouble. We've reduced the products for them.

Counseling -- A number of our have fallen into counseling because they are small loans. Little bitty loans. Because we are a C lender -- We make loans to C customers. Because if you're an A customer you go through the secondary market. We can't even get you to the secondary market now. We are reduced to the C customers. Counseling is this new rule and we sent our people to it. They brought the certificate back and our internal auditor said, that won't work. They said, your certificate won't work. They said we don't know what to do. You tell us what to do and then we will do it. So regulation out ran the rule. Today all of the counselors that are available for that in our area got the rules from us. They got their training and their form from us. Does that make any sense? The counseling doesn't make sense to me.

The ability to repay -- we've all beat that up.

The exam cycle -- well, just consider this. We have three internal control officers. We have two risk managers, 12 people in credit, we have three outside firms doing auditing. They audit IT, loans twice a year, and just regular operations is monthly. And we are under a $290 million bank, and I don't think our examination team feels like we need any less work done. I can tell you that before Dodd-Frank, we did not have half of that many. Our exam grades were the same. Our safety and soundness was the same. Think about this, three internal control and compliance people. That is all they do in our bank. None of them are part-time. We have two risk managers. They do nothing else in our bank. We have 12 credit people who only check loans every day. The loans they are checking our real estate loans, commercial and residential. This complexity issue should really be studied on you guys because you all have the data.

I would give the regulators more discretion. That is what we need to be lobbying for. Let's look at the legislation and thin it up because I think the federal reserve does a great job. I think the state banking Commissioner does a great job. I think the OCC does a good job. There are going to be problems. We all know that. But the consequences in all of this is increased cost to the customer, less products, driving our customers to less availability in the rural areas. We can't hardly keep tellers now because the job has gotten complicated enough where we -- I was telling these guys. The last person we had leave -- we have revolving door at the teller level -- went back to waitressing because we had two things against us, the complexity of the job and the earned income credit. They can make more money waitressing. They said well you need to raise your pay, David. In a rural area, is $25,000 or $30,000 enough for a teller? It must not be. We have in the rural areas the demand for talent has gotten to the point to where we can't supply it because, like I said, it is not any one regulation, it’s the mountain of them. We can't deliver those people. We've slowed ourselves down. We haven't given the customer anymore benefits. We've reduced our products and increased our costs. It can change. I know you all have the data. I know our trade associations have given you the data. Guys, we are long past the time of doing this every 10 years. I know you all are required to do it. I am hoping that you are getting some good information out of it. We already have the information, and you all know what it is. We need to fight harder and stick together and give those customers back their choices that they do not have now. Thank you.

<<JAMES WATKINS>>

>>Thank you, David. We can open it up to any comments or questions.

Art, we will turn it back to you.

<<ART LINDO>>

>>Thank you for your contribution to your comments. Those were heartfelt words there and I think we will take it back. Thank you again.

[Applause]

We do have a few minutes left to hear from the audience. Part of this is to take whatever you have to say back with us. If you would like to provide some comments, the microphone is still there. We like to hear from you before we leave.

If not, you have other opportunities to get in touch with us. For those on the Internet, you can provide us comments by just clicking on line to the box that says comments and you can submit a comment via that. The agencies will continue to take comments where you think we should reduce regulatory burden. Continue to submit those as they come up. We have a couple of morning -- meeting like this scheduled. Afterwards, we will summarize the comments. There is a formal process which will notify the public as to what our outcome is. I want to sincerely thank the Kansas City folks for putting this on today and being such great host. I'd like to thank our various panelists as well for sticking it out and telling us what we needed to hear. I like to thank the agency reps who stuck it out all day. And not least of which, I heard some things that were helpful. Of course, thanks to all of you who made the trek here. If there are no other comments, I'm going to go ahead and dismiss us for the day. Thank you for coming. Continue to send those comments in. Have a great day.

[Applause]

Thank you for coming.

[Event concluded]