DISCLAIMER: This transcript is the product of a live communication access realtime translation session (CART/Captioning). These notes are not guaranteed nor intended to be strictly verbatim. This is not a certifiable document and is not acceptable for use in any legal matter. This document has been lightly proofread and is not a perfected transcript of the proceedings, hence contains limitations inherent to realtime captioning. Where possible, this document has been edited to correct names of people and agencies and for comprehension. Times listed for panels are not necessarily actual times of proceedings.

0001

ECONOMIC GROWTH AND REGULATORY

PAPERWORK REDUCTION ACT

OUTREACH SESSION - CHICAGO

OCTOBER 19, 2015

0002

WELCOME

CHARLES L. EVANS, President and CEO, Federal Reserve Bank of Chicago.

* * *

OPENING REMARKS

* * *

MARTIN J. GRUENBERG, Chairman, Federal Deposit Insurance Corporation;

THOMAS J. CURRY, Comptroller of the Currency, Office of the Comptroller of the Currency;

LAEL BRAINARD, Governor, Board of Governors of the Federal Reserve System;

BRYAN A. SCHNEIDER, Secretary, Illinois Department of Financial and

Professional Regulation;

RAE-ANN MILLER, Associate Director, Division of Risk Management Supervision, Federal Deposit Insurance Corporation (Meeting Moderator).

RAE-ANN MILLER: Good morning, everyone. Let's get started. We have 9:00 a.m., and we have got a very full day today, so to kick us off, I wanted to introduce

0003

Mr. Charles Evans, the President and CEO of the Federal Reserve Bank of Chicago.

PRESIDENT CHARLES EVANS: Thank you. Good morning.

Welcome to the Federal Reserve Bank of Chicago. I'm Charlie Evans, President of the Chicago Fed, and we're glad to be convening this meeting today, along with our hosts from the FDIC.

I'm encouraged by the attendance, both here in person and on-line via the live stream session for those of who couldn't make it to Chicago.

So I'm pleased to officially welcome you and my regulatory colleagues from the Federal Reserve, FDIC, OCC, CFPB and the State of Illinois Department of Professional and Financial Regulation to the Federal Reserve Bank of Chicago for this very important regulatory initiative.

As you are aware, the Economic Growth and Regulatory Paper Reduction Act, or EGRPRA, was established in 1996 and requires the federal banking agencies to review their

0004

rules and regulations every 10 years.

This review is intended to help identify outdated or unduly burdensome regulations and consider how to reduce regulatory burden on insured depository institutions. We must do this without compromising the safety and soundness of the banks we supervise, the safety and soundness of the overall financial system, as well as our ability to help ensure appropriate consumer protection is maintained within the banking industry.

The information we're able to gather from these discussions is very important to the EGRPRA process and will help inform regulators as they consider changes in supervisory programs.

I encourage your active participation in today's meeting, and I hope the process proves to be beneficial for all the stakeholders. So thank you, and I'll turn it back to Rae-Ann.

RAE-ANN MILLER: Thank you very much. And I'd like to introduce Martin J.

0005

Gruenberg, Chairman of the FDIC.

CHAIRMAN MARTIN GRUENBERG: Hey, good morning, everybody, and I'd like to welcome you to this session and begin by thanking Charlie Evans and the Federal Reserve Bank of Chicago for hosting this meeting.

This is the fifth Outreach Session that the federal bank regulators have hosted as part of this EGRPRA review process.

We've held previous meetings in Los Angeles, Dallas, Boston and Kansas City. The Kansas City meeting focused, in particular, on issues impacting rural institutions, and so this is the fifth here in Chicago, and we'll have a final session in Washington, D.C. in December.

I think it's fair to say the banking agencies have been taking this process very seriously. I think Comptroller Curry gets the gold star. He's attended all of these outreach sessions. This is the fourth one that I've attended, and the fifth was attended by our Vice Chairman, Tom Hoenig, and the Federal Reserve has had a Governor

0006

represent -- represented I think at three of the meetings. And I would note that Governor Brainard is on her way from the airport and should be here -- should be here shortly.

And I think it's also fair to say that the presentations we've heard at these sessions have been extremely constructive and productive.

By and large, the bankers, as well as the consumer and community organizations that have presented comment, have been thoughtful and specific in their presentations. And I think have really given the bank regulatory agencies a significant body of information on which to consider and to develop a range of potential actions to respond.

I would also note that the agencies have issued three Federal Register notices seeking public comment on the various rules and regulations that we've issued. And we're shortly going to be issuing a notice, a fourth notice for comment. And for all of those watching and participating today, in addition to the presentations we'll hear today,

0007

we really welcome your thoughtful written comments for us to consider as part of this process.

Let me say, if I may, on behalf of the FDIC, that we are the lead federal agency, lead federal supervisor for the majority of community banks in the United States. So, for us, a particular focus of this EGRPRA process is the impact that our rules and regulations and supervision have on community banks in the United States.

And, if I may, I want to say a word about that. Because this has been a focus of attention for the FDIC.

We issued a major report on the role of community banks in the financial system of the United States. And the threshold finding that I really want to underscore, as it relates to this EGRPRA process, is the importance that community banks play in the financial system and economy of the United States.

Now, our study found that community banks today account for about

0008

14 percent of all the banking assets in the United States. Our study also found that those same community banks with 14 percent of the

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

So, in a very real sense, small business lending in the United States is largely a function of community banks.

Our study also found that there are about 3,000 counties in the United States. For about 20 percent of them the only banks in those counties are community banks. So for thousands of communities in our country, if not for community banks, they would not have physical access to a financial institution. And for a lot of those communities their very viability may, in significant measure, depend on the role played by the local community bank.

So I -- at the outset I really wanted to underscore the importance that community banks play and point out that our study also found that the basic business model

of community banks; careful relationship lending, funded by stable core deposits, focused on a local geographic community that the bank understands well, that basic business model remains highly viable. And that the vast majority of community banks that have relied on that model have come through even this recent very challenging period in pretty good -- in pretty good shape.

So that's really the starting point, I think, for this whole EGRPRA review process, one, underscoring the importance that community banks play in our financial system and economy, and try to identify ways that we as regulators can, if possible, reduce the cost and burden of regulation, while maintaining our core supervisory standards. That's really the challenge before us, and I do believe that the agencies are undertaking this review process with a very serious purpose.

Let me say that, thus far, several themes are emerging from this review, such as an interest from participants that regulators consider whether laws and regulations based on

0010

long-standing thresholds should be changed.

For example, dollar thresholds requiring an appraisal, and asset thresholds on the size of the institutions eligible for longer examination intervals.

Commenters also have asked that we ensure that supervisory expectations intended for large banks are not applied to community banks and that regulators have open and regular lines of communication with community bankers.

This is the so-called "trickle-down issue," which it won't shock me if we hear about today as well.

And we have also heard concerns about burdens and costs related to call reports and suggestions for improving the process, especially for community banks.

And I think if I could take just a moment on this last point, because I think all three of the regulatory agencies have committed not to wait to the end of this process to begin to take action to respond to the input that we have been receiving, and I think this call report issue is a pretty good example of that.

0011

The Federal Financial Institution Examination Council, or the FFIEC, has established a multistep process for identifying how some call report requirements can be streamlined. Just last month the federal banking agencies put out a proposal for comment that includes eliminating or revising several call report data items.

We also announced that we will accelerate the start of a statutorily required review of the continued appropriateness of the data collected in the call report, and the agencies are evaluating the feasibility of creating a streamlined version of the quarterly call report for community banks.

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

Finally, we are reaching out to banks and savings associations through teleconferences and webinars to explain

0012

upcoming reporting changes and to clarify technical reporting requirements.

If I may, on behalf of the FDIC, just quickly note three actions that we have taken to begin to respond to the input we've received in this process.

First, the FDIC issued questions and answers to eight applicants in developing proposals for Federal Deposit Insurance and to provide transparency about the application process.

Second, we issued new procedures that eliminate or reduce applications to conduct permissible activities for certain bank subsidiaries organized as limited liability companies or LLCs.

And, in addition, we issued a financial institution letter to the banks we supervise describing how the FDIC will consider requests from S corp. banks to pay dividends to their shareholders, to cover taxes on their pass-through share of the bank earnings, when those dividends might otherwise not be permitted under the new capital rules.

0013

It is our intention to continue to look for ways to reduce or eliminate outdated or unnecessary requirements as we move forward with this review, rather than to wait until the end of the process. And I think that's a sentiment shared by all three of the regulatory agencies.

We have a full day today, so I'll try to bring my remarks to a close.

As I mentioned, we are going to have one final Outreach Session in Washington on December 2nd. We will include the input and suggestions from these outreach sessions and the final EGRPRA report that the agencies will present to Congress next year.

Again, thank you very much for

your participation. It's really good to see you all, and I'll turn over the floor to Comptroller Curry.

COMPTROLLER THOMAS CURRY: Thank you, Marty, and thank you, Charlie Evans, for hosting this here at the Chicago Fed.

This is an important collaborative effort today between the members of the Federal

0014

Financial Institutions Examination Council, and I think that's an important point to emphasize, that we are working together to address these issues of regulatory burden, as well as system-wide issues, such as cyber security, readiness and preparedness.

One thing's perfectly clear to us, was that smaller banks and thrifts don't have the same kind of resources that larger institutions can bring to bear on regulatory compliance. And if we could eliminate and streamline others, we could make it easier for these institutions to serve their underlying purpose, which is to meet the economic needs of their communities.

Of course, it's true that regulations, by their nature, carry at least some burden. Most provide public benefits that outweigh the burden that they impose. But what worries me is the way that the regulatory rule book builds up over time, adding layer after layer of requirements that could be quite onerous for small banks.

So we at the OCC, and our member

0015

FFIEC member agencies, are taking this process very seriously. And I'm very interested in hearing from the panelists today and the members of the audience about specific regulations that are either outdated, unnecessary or needlessly burdensome, as well as any ideas you have for improvement.

If you don't get a chance to speak today, I would encourage you to submit a written comment. And, of course, you can use the comment forms or you can respond to one to one of the future Federal Register notices.

We will consider carefully all of the comments received today, and a summary will be published on the regulations.gov website and included in our report to Congress.

While this process will unfold over some time, I can assure you that we at the OCC will not wait until it is over to make changes when a solid case has been made for reform.

If it's clear that a regulation is unduly burdensome, and if we have the authority to make changes to eliminate that burden, we

0016

will act. Already, the banking agencies, acting through the FFIEC, are seeking comments on proposals to eliminate or revise several call report items.

Among the other proposals we are looking at is one that would create a streamlined version of the call report for community banks. These call report initiatives are consistent with the early feedback that the OCC, FDIC and Federal Reserve have received in our EGRPRA review.

However, many regulatory requirements are rooted in laws passed by Congress, and changes may require legislative action. In those cases, we will work with Congress to remove unnecessary burdens.

The OCC, for its part, has advanced three specific legislative proposals to eliminate regulatory burden.

First, we think a greater number of healthy, well-managed community institutions ought to qualify for the 18-month examination cycle. That would not only reduce the burden on those well-managed institutions, it would

0017

allow us, the federal banking agencies, to focus our supervisory resources on those banks and thrifts that present capital, managerial or other issues of significant supervisory concern.

I'm pleased that the House voted earlier this month to raise the asset threshold to $1 billion, and I'm hopeful the Senate will follow.

The Congressional Budget Office says that as many as 600 additional banks would qualify for the 18-month cycle under the higher threshold.

Another idea that we think is ripe for Congressional action is a community bank exemption from the Volcker Rule. We do not believe it is necessary to include smaller institutions under the Volcker Rule in order to realize congressional intent, and we recommending exempting the more than 6,000 banks and thrifts with less than $10 billion in assets, subject, of course, to a reservation of authority to bring anyone who is engaged in substantial activities under the rule.

0018

Again, I'm pleased that Senate Banking Committee Chairman Richard Shelby included this provision in his regulatory relief legislation.

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

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

I'm pleased to tell you that this proposal is under active consideration on

0019

Capitol Hill, and we are hopeful that it will eventually be enacted into law.

I think that these legislative proposals are meaningful steps which could help a number of smaller institutions, but we shouldn't stop there.

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

At the OCC we have seen a number of examples of successful collaborative efforts, and I hope that community banks won't stop with those projects. There are opportunities to save money by collaborating on accounting, clerical support, data processing, employee benefit planning, health insurance, and the list can go on.

Speaking only for the federal

0020

banking system, federal law and OCC regulations facilitate collaborative arrangements through operating subsidiaries, service companies and other structures.

I would encourage everyone to take a look at our paper on the subject, which can be found on our website, occ.gov.

Let me finish by saying that we have much work ahead of us. I can assure you, though, that all of us here today are committed to making this process work and to doing everything possible to eliminate unnecessary regulatory burden.

Thank you for being with us today, and I look forward to hearing from everyone. Thank you.

(Applause.)

RAE-ANN MILLER: Thank you very much.

I want to introduce now Bryan Schneider. Bryan is the Secretary of the Illinois Department of Financial and Professional Regulation.

SECRETARY BRYAN SCHNEIDER: Good

0021

morning.

As noted, my name is Bryan Schneider. I am the Secretary of the Illinois Department of Financial and Professional Regulation.

I'm joined today by Mike Banyan, our director of banking in Illinois, and John Ryan, who is the president of the Conference of State Bank Supervisors, and we all would like to thank our hosts for including us in this important meeting this morning.

Those of you visiting from out of town, on behalf of Governor Rauner, I'd like to welcome you to Illinois and to Chicago and thank you for attending this EGRPRA outreach meeting.

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

As you know, the purpose of these

0022

gatherings is to review and identify outdated, unnecessary or unduly burdensome regulations and consider how to reduce regulatory burdens on banks.

I can assure you that while state regulatory process itself is not directly implicated by the EGRPRA review process, my agency has its ears wide open for those inefficiencies that we might be causing. So feel free to let us know where we can contribute to reducing regulatory burden directly as a state regulating agency.

This process is vital to ensure our unique dual banking -- to ensure that our unique dual banking system can thrive. There are literally thousands of pages of regulation that have evolved over decades. Most were promulgated as a result of a law passed by Congress in response to some particular crisis. They each made sense, or seemed to make sense perhaps, at the time that they were issued.

It's important, however, to look at the cumulative layers of regulations and how they could be streamlined to make a more

0023

coherent regulatory system.

Policymakers and regulators also need to step back to understand the full impact of legislation and regulation upon the financial system as a whole and to achieve a supervisory model that is appropriate for the diverse business models of the banking industry.

Such a model allows banks to serve their customers, small businesses and local and state economies. This is the real strength of our financial system and our economy.

This outreach meeting and the larger EGRPRA review process are key to informing regulators and policymakers of areas where improvement to the regulatory framework can be made.

Your input, banking input, to this process is essential. Who knows better than the industry and consumer groups the full impact of regulations upon consumers and the industry's ability to serve your customers and your communities.

As such, I very much appreciate

0024

your willingness to take the time to participate in this process and encourage you and your colleagues to submit comments directly to the agencies.

I'd like to mention a few ideas. Although going third, you've already heard some of them that have come out of the EGRPRA process, state regulators' work on the right sizing of community bank regulation and the work that Congress is doing to look at the bank regulatory environment.

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

It seems to me at times that there are parts of the industry that are crucial to its success that are caught between the rhetoric of "too big to fail" and the reality

0025

of "too complex to comply."

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

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

State regulators support using the FDIC's definition of "community bank" that they have used for research purposes. This definition has been in circulation widely for a few years and covers, by our calculation, about

0026

93 percent of the industry.

For those institutions that are not covered by the definition, but that, nonetheless, can make a compelling case that they should be treated as a community bank, we're advocating for a petition process in which a bank would petition its chartering authority to be considered a community bank.

In addition, just recently, the House approved a bill that would raise from 500 million to 1 billion the upper limit for institutions eligible for an 18-month exam cycle, and we too look forward to prompt Senate action.

The primary goal of bank regulators should be to better tailor the examination process to the business model and risk profile of the bank being examined.

This is a proposal that has been raised in the EGRPRA process, and makes sense to me and other state regulators, and would allow us also to focus our limited resources where particular circumstances indicate a greater need.

0027

Finally, smaller institutions' challenges in completing the call report has been raised repeatedly during these outreach sessions.

Just a few weeks ago the FFIEC issued a Federal Register notice seeking input on the call report. This is part of a larger effort by the FFIEC to review the call report item by item.

Part of this work includes better understanding which items require manual input and which items are most often left blank, and, therefore, indicative of greater regulatory and unnecessary regulatory burden.

I applaud the industry's advocacy on this issue and the response from the effective regulatory agencies today.

In conclusion, therefore, I would again thank my federal counterparts for including us state regulators in this important process. The FFIEC and the federal agencies are putting in significant time and resources to meet both the letter and, more importantly, the spirit of EGRPRA, not merely check a box

0028

because they have been told to do so by Congress.

I have the skepticism by some in the industry given the experience of 10 years ago, when there was a lot of effort but seemingly few results.

I believe and I'm hopeful that this time it will be different. State and federal regulators have heard about the challenges facing community banks and are committed to do whatever they can to reduce unnecessary burden.

The commitment of the agencies is evidenced by the attendance of Chairman Gruenberg, Comptroller Curry, Governor Brainard and President Evans.

I look forward to hearing everyone's comments today. Thank you and please enjoy your time here in our beautiful city.

(Applause.)

RAE-ANN MILLER: Thank you very much. Thanks very much, Bryan.

Governor Brainard is on her way,

0029

so we will just proceed with the first panel.

Maryann, if you could take your seats with the rest of the panelists.

Maryann Hunter is the Deputy Director of the Division of Banking Supervision and Regulations of the Board of Governors of the Federal Reserve System.

And I should introduce myself. I am Rae-Ann Miller. I am Associate Director of Risk Management of Policy at the FDIC.

And as the panelists are taking their seats, I wanted to remind people that you can provide us with written comments. There's some paperwork in your folder.

And, also, for those listening on the webcast, there's an ability to submit comments remotely as well.

Thank you, Maryann. I'll turn it over to you.

* * *

FIRST PANEL: BANKER DISCUSSION

* * *

MARYANN F. HUNTER, Deputy Director, Division of Banking Supervision and

0030

Regulations, Board of Governors of the Federal Reserve System (Moderator);

MICAH BARTLETT, President and CEO, Town & Country Bank, Springfield, Illinois;

MICHAEL BURKE, JR., President and

CEO, CSB Bank, Capac, Michigan;

LUTHER DEATON, President and CEO, Central Bank and Trust Company, Lexington, Kentucky;

DAVID REILING, President and CEO, Sunrise Banks, N.A., St. Paul, Minnesota.

MARYANN HUNTER: All right. Thank you very much, Rae-Ann. Give a minute for our panel to assemble.

All right. Thank you very much.

Well, it is my pleasure to be able to kick off the first panel of our day today, and I'll start with some brief introductions of our panelists, though I will also say there's very detailed bios in the packet of materials, and so I would refer you to that to learn more about these very distinguished bankers that we are going to be hearing from this morning.

Before I do the introductions, I

0031

would just mention that each of these panels will cover different topics, so in the first panel we are going to be focusing on capital-related rules, the Community Reinvestment Act, consumer-protection-related matters and then rules related to directors, officers and employee regulations such as Regulation O.

In this I would note that we will have another panel with community group members talking about the CRA, so this is intended to be from the bankers' perspective, and we'll look forward to hearing those remarks.

And I think for this and every panel we have really tried to encourage, and if you've in the audience and thinking about comments, it is very helpful to the regulatory agencies, to the extent we get specific examples, of how various requirements introduce burden or increase staff time or introduce hard costs into your operation.

So with that, I'll begin the introductions.

First, we're going to hear from

0032

Micah Bartlett, the president and CEO of Town and Country Financial Corporation and Country Bank. It's a state member bank supervised by the Federal Reserve, but just over 500 million in assets. So you've crossed that threshold that I guess the small holding company statement actually was something that you were interested in there.

Micah has been in banking for many, many years, and many years of experience, a seasoned commercial banker for more than 25 years. He also serves on a number of civic organizations and also was a member of the Community Depository Advisory Council for the Federal Reserve Bank of Chicago in the past. So welcome, Micah.

Next we're going to hear from Michael or Mike Burke, yes, welcome, the president and chief executive officer of CSB Bank from Capac, Michigan. That is also a state member bank with about 240 million in assets, so that it's a smaller size.

This bank was formed in 1898, so it actually survived several significant

0033

downturns and volatility.

So I'm hoping that you can enlighten us on how you can navigate those many periods of history and regulatory burden to be a successful organization.

Micah's also very active in the community and including, I noticed in here, the University Michigan Club of Flint, and in that you and I share the heartbreak of a very recent football game. Really tough weekend.

(Laughter.)

MICAH BARTLETT: It was a tough weekend for sports fans, in particular, here in the Midwest.

MARYANN HUNTER: Yes, there's so many games we could reference here, but, nonetheless.

Next we are going to hear from Luther Deaton. Luther is the chairman and president and chief executive officer of Central Bank and Trust Company in Lexington, Kentucky. This is a nonmember state-chartered bank supervised by the FDIC with about a little over 2 billion in assets.

0034

Luther is also a very experienced banker. You started as a teller and worked your way all the way up. Certainly has lots of experience in many different aspects of banking and probably will be able to share some of that experience in your comments.

He is also very actively involved in the community and actually has much expertise in commercial lending and in retail lending. So we're eager to hear from you.

Finally, David Reiling is the predecessor and chief executive officer for Sunrise Banks, a national bank, about 840 million in assets.

This bank -- actually, David's bank is unique in that it is the first Minnesota bank certified as a Community Development Financial Institution, or CDFI, and the first Minnesota B corp., first Minnesota blank to join the Global Alliance of Banking on Values.

So as a CDFI the bank focuses on serving low to moderate income areas and underserved communities. And I think David's

0035

work has been recognized by a number of prestigious groups for his innovation and recognized leadership.

So with that, I am going to now turn to the panel. Each of our bankers will talk for about 10 minutesish, and with the hope that we'll have time at the end, so that if any members of the audience would like to add to the discussion and make any comments, that we will have time -- time left to do that.

So, Micah, I'll turn it over to you.

MICAH BARTLETT: Thank you.

As Maryann mentioned, my name is Micah Bartlett. I'm the president and CEO of Town and Country Bank, headquartered in Springfield, Illinois.

We're a $515 million community

bank with approximately 150 employees in nine locations in central and west central Illinois.

I've worked in banking for over 25 years, having started as a teenaged teller in a $16 million bank.

My wife and I also own a small

0036

business with approximately 20 employees. The combination of banking and small business owner provides me a unique perspective about what is actually happening on Main Street.

I normally like to talk extemporaneously, but to make sure I uncharacteristically stay on time, I have prepared my remarks today.

I'd like to start by quoting a few excerpts from the 258-page Joint Report to Congress from July 31st, 2007, after the last EGRPRA process.

Again, these quotes are from perspectives from over 10 years ago. Quote:

"Over the past 17 years regulators have adopted more than 900 rules. Accumulated regulation has reached a tipping point for many community banks and has become an important casual factor in recent years in accelerating industry consolidation."

The writer went on to state:

"Smaller community banks unquestionably bear a disproportionate share of the burden due to their more limited resources.

0037

Accordingly, I am deeply concerned about the future of our local communities and the approximate 8,000 community banks under 1 billion in assets that represent 93 percent of the industry, but whose share of industry profits has declined to approximately 11 percent."

Now, let's fast forward 10 years.

By the time the next Joint Report to Congress is issued, there will have been many hundreds more rules written and/or proposed; nearly 400 from Dodd-Frank alone, with only a handful slightly improved or eliminated. And there will likely be 3,000 more community banks disappear.

Therefore, I have concluded that the last EGRPRA process did not work. And if this process takes the same path, focusing only on incremental, discrete and specific items of regulatory relief, it will miss the point too and will also be a failure.

Except this time we can't afford another 10 years. I understand the intention of the EGRPRA process is to identify areas of

outdated, unnecessary or unduly burdensome regulations. And the process is designed to identify very specific examples.

However, the real burden comes from the cumulative effect of decades of ineffective rulemaking.

Therefore, I'm going to submit my specific examples of regulatory burden, including the topics of this panel, as well as other topics, in a written follow-up, and instead use my time here today to lay out a better vision, broad principles and a call to action. But, first, I'd like to share a true story.

It is widely known that the east side of Springfield is economically depressed and has an extremely high crime rate. I have the perception that the area is also underserved from a banking perspective.

So a few years ago I had the idea to consider opening one or more small offices to serve the needs of that community, potentially enhancing our brand by more broadly serving our entire community, while also

creating an opportunity for profit at a time when industry earnings were dangerously low.

The challenge was that our existing branch locations exist in micro economies that lead to more commercial loans, higher home prices and mortgages and more trust and investment business.

The higher average loan sizes and diversity of revenue combine to cover the overhead of operating a banking office. Since

I knew the commercial mortgage and investment business would not generate the same portion of revenue in this other area of town, we would have to cover our overhead more exclusively through consumer and small business banking and generate revenue from other services.

I spent the better part of a full day working on a profit model to see if I thought this idea could work.

After laying out all of my assumptions, based on my assessment of the market potential, I concluded the only way to make the office work economically would be if we charged slightly higher interest rates and

0040

fees on the core consumer and small business products than we did in our other branches with a more diverse revenue base.

For example, I might need to charge 9 percent, instead of 5 percent, for a car loan or a small business loan.

This area of town also happens to have a larger percentage of minorities. And since regulations and rules around fair lending would not easily allow us to charge higher rates and fees, after that day of work, I decided my idea was not possible. I closed my spreadsheet, and I haven't considered it again, even though I want to.

So, now, instead of my 9 loans, Payday and title loan establishments and pawn shops have filled the gap, some effectively charging 300 percent annualized interest. And when the CFPB finally clamps down on them and some of them exit the business, I wonder who will then fill the gap.

I also wonder how many more businesses would have been formed over the last decade; micro businesses, female-owned

0041

businesses, minority-owned businesses, had the fair lending rules not scared responsible community bankers away from taking the risks they might have otherwise taken.

My point for today is not as much about regulatory burden per se, even though it is real and pervasive. My point is that the rules are not working.

I'm actually not here today to represent community banks. Even though we are struggling and suffering under the weight of excessive micro regulation and our profits no longer cover the long term cost of capital, the truth is our owners will probably be fine.

I'm actually here to represent our community, the citizens and the small businesses. The rules are not working for them.

Using the example of my story before, I assumed the positive intention of fair lending rules was to promote additional access and lower cost credit to minorities and other economically disadvantaged citizens, but because the rules were written from a negative

0042

perspective, to punish the tiny minority of abusers at the cost of the vast majority of responsible lenders, what those most vulnerable citizens got instead was less access and more expensive credit.

This is just one example. I could tell a hundred more stories from entirely different areas of regulation, but they would all make the same point:

The rules are not working.

We don't need incremental, discrete and specific examples of regulatory burden identified and fixed.

We need a fundamental shift in the thinking and approach to regulatory policy and rulemaking.

Now, I don't like to focus on problems without providing a solution, so, first, I would like to suggest a big vision for the future state of our industry, one that I believe would foster safety and soundness in banking, while also promoting economic prosperity for all constituencies.

I envision rules that allow

0043

bankers greater flexibility to try new and innovative ways to address the needs of their communities and solve problems.

I envision communities where bankers work with interested groups, citizens, local businesses and organizations in a fun and productive way to tailor local solutions without fear of regulatory criticism.

I envision a rulemaking process based on encouraging that which we do want rather than punishing that which we don't.

I envision bank examinations where local examiners who know local bankers best can truly exercise judgment during exams based on principles rather than rules, and always from the perspective of understanding the banker's intention rather than any isolated exceptions.

I envision a capital structure that encourage the owners of banks and the providers of capital to be more engaged in the specific risk-taking of the individual institution, rather than relying on prescriptive capital rules from Washington, D.C. that rarely differentiate among the most

important risk elements, factors such as borrower character.

I envision members of the community evaluating which banks are truly reinvesting and then rewarding them with their business and patronage, rather than looking at all bank as commodity providers and to a limited set of definitions to determine which bank is outstanding versus satisfactory.

I envision a future where bankers are encouraged to experiment and innovate, to assess the specific needs of their local community and craft solutions, whether it be entirely new products and services, information, tools, resources, experts, et cetera.

And, finally, I envision an industry where we start to rely more on the heavy hand of consumer choice, free markets and the powerful impact of social media over the heavy hand of government policy, knowing that most honest players desire the same thing, a robust and growing economy that provides for maximum prosperity for the maximum number of

0045

people.

We cannot create fundamental change overnight, but we can take incremental steps towards this vision. There are many steps, but the one I would like to address today is a call to action for the heads of the federal banking agencies to go back to their shops and begin a process to fundamentally rethink the rulemaking process itself. And I would like to suggest the following as a few broad principles that should be adopted in the approach to rulemaking in the future:

Number 1: Rules are written from a positive versus negative approach. Again, they should encourage that which we do want instead of punishing that which we don't.

Number 2: Rules should be principled and flexible to contemplate the myriad business models, specific risks and true drivers of risk to individual institutions rather than formulas in one-size-fits-all standards.

Number 3: A deep assessment must first be undertaken to determine whether a new

0046

regulation is truly needed or whether market competition will solve the perceived problem if allowed time to work its course.

Number 4: In the rare cases when rules are required, the problem should be well-defined and the desired outcome articulated. Then the agency should solicit from relevant constituencies comments and possible solutions before beginning to draft the proposed rule. This would be different than the current process of rule makers proposing only one solution and then opening up for comments, which stymies more broad, innovative an effective potential solutions.

Number 5: The agencies should conduct an economic analysis, determining the macro implications and the possible unintended consequences once proposed rules are implemented to determine if the perceived problem will be solved or actually exacerbated.

Number 6: Agencies could experiment with beta banks to test for potential pitfalls before applying new rules to the entire country.

0047

And number 7: All new rules should require a post-rule assessment to determine if it worked or not, and potentially also include an automatic sunset provision.

Our industry is in turmoil. We won't solve this problem by eliminating a few call report line items, by reworking a couple definitions, by lengthening some time frame from 12 months to 18 months or by increasing some dollar threshold from 500 million to 1 billion or from 10 billion to 50 billion, although each of those changes would be favorably welcomed.

We all understand we live in a country of unfortunate and complex political pressure. However, I know that most of us desire the same outcome.

There are hundreds of areas and steps to be taken to fundamentally change the regulatory structure. For today I have focused on just one:

The actual approach and process of rulemaking itself. I would encourage the regulatory agencies to use the broad discretion

0048

they already have to begin a new process of fundamental change, and I stand prepared to help in any way, just like I know many of my fellow bankers would, too.

A change to the rulemaking process would be an excellent and meaningful first step to build credibility and reopen the banking business in a way that we bankers can in turn promote the economic prosperity of the consumers and small businesses in our local communities. Thank you.

MARYANNE HUNTER: Thank you very much. I'll turn it over to Mike.

MICHAEL BURKE: Good morning. Thank you. I'm honored to be here to share my thoughts on this important topic.

I am the president and CEO, as mentioned, of CSB Bank, which is in Capac, Michigan, which is about an hour north of Detroit.

We are 117 years old. Started in June 20th of 1898. I have not been there for that 117 years, just to be clear, so I've been there about 3 1/2 years, but I have been in

0049

banking my entire career. Started out as a teller and worked my way up.

We're about $245 million in assets. We have seven branches and about 85 employees.

As Maryann already mentioned, I'm a proud graduate of the University of Michigan, so take it easy on me as I am still in mourning.

So whether you -- the only way you don't know why is if you don't own a TV or watch TV.

(Laughter.)

So I do appreciate being able to be here to share my thoughts with all of you. I know that the idea of making -- or needing regulatory relief is not going to be a surprise to anybody in the room, but the theme of my comments will be around the tiering, you know, using regulatory review based on the risk profile and getting back some time for myself and my team.

But the best way I believe I can do that for you is to paint a picture, kind of

0050

get you behind the scenes of what goes on in a bank of our size. I'm probably going to guess I'm one of the smaller banks here, so we run things just a little bit different.

We have the simplest business model there is, I believe, in banking. We take in core deposits and we make loans. That's it.

Our revenue is 75 percent interest income and 25 percent noninterest income. So there's not a lot of complexity there.

Our lifeblood is loans, and we

need every single good loan that walks in the door. So we do our loan process based on relationship. We don't use automatic models. We know who we're lending to. We're very close to them. They're in our community, and we look for every loan that we can.

Where we do struggle is not just around the cost of compliance but the resources, and by "resources," I mean employees. And that's really what I want to paint for you today.

I wish I could calculate the cost per FTE of compliance and regulatory oversight,

0051

but we can't. We're -- our bank is just not that big.

What I can tell you is our efficiency ratio runs at about 81 percent, and where we're running is that there is a fixed cost, just like any small business, to open our doors every day.

Our NIM is very compressed, so as that will grow, we'll get a little better spread there, but there isn't the cost just of every single day of opening our doors.

A large part of that is having the employees available, not only to serve our customers, but make sure that our regulatory compliance is in the proper place.

In most banks you have committees, but in a bank of my size everyone has to wear multiple hats. That's how we get things done.

I just wanted to list a few committees for you that we have within our bank:

Audit, BSA, security, IT, steering, compliance, marketing, 401(k), second review, legal, loan, wellness, mentor. We have

0052

a committee that looks at feedback from our customers, disaster recovery, ALCO, ALM, vendor management and many more.

What does that all mean? We have 85 employees, remember, and about a third of those are little more than tellers, so what that takes is that the folks that are in the positions on those committees are usually the ones that should be out getting loans.

And so instead of, you know, talking to our customers, being with our community folks, we're working on all this committee work.

It's not just the meetings that happen. It's the work that comes out of them. A lot of those committees, you could probably guess, come from a direct result of the need for compliance with many regulations and regulatory oversight, secondary review of our loans, vendor management, IT steering, compliance, all those committees.

Keep in mind it's not just the meetings that we have on our calendars, but when you go to the meeting and you work through

0053

things, there's also work that comes out of them. So, again, it takes us away from going out and talking without -- directly with our customers.

You know, it doesn't sound like a big deal, because everyone has to wear multiple hats, but lately it's becoming a real issue. Every time an issue comes up we form a committee. And that just takes away again. Very common theme.

I sit on -- personally sit on at least half of those committees, which takes up a lot of my time.

I do want to give you just a couple of stories, again, taking you kind of behind the curtain of what happens.

We were looking at our balance sheet and decided that based on our ALM model that we could afford to maybe put some longer term -- residential mortgages on our books. We thought that would be a pretty simple decision. You know, the interest rate risk model says we can do it. We should just start booking them.

As we started talking about it and

0054

started talking about it from a compliance standpoint -- and we are very blessed at our bank. We have a super strong compliance person. The issue was raised of, of course, fair lending.

So if we were to start booking those deals on our balance sheet and possibly charging a lower rate, what did that mean for the customers that we booked six months ago and sold off to one of our partners, and they paid a higher -- or not rate but a fee, so although a great business decision probably on our end, we started to worry and had to step back and say how would that appear. Would we have any potential risk by doing in that way.

Ultimately, we decided we needed more meetings. We needed to talk to people. We needed to get with our regulators, which we continue to do, but instead of us being nimble and being able to quickly make a decision to move forward, we, in effect, get paralyzed because we're worried about that.

One of the more recent ones is with HMDA, with some of the rulings that have

come out, depending on a prequal or a preapproval, do you have to collect that HMDA data. If you do, what does that mean?

One of the cites of the rule says you should not. One of the other cites says you should. But, of course, then we get worried if we collect it are we going to be possibly looking at a fair lending issue there if those loans aren't exactly done the way the should.

So all these discussions take time and follow-up and take, again, away from us making solid decisions and moving forward quickly and nimbly, which is what separates my community bank from many banks is that we should be able to move quick and nimble.

I'll give you another good example. Last year we made the hard decision to close one of our branches. We were one -- when you went any direction from that branch, we were the next closest bank, so we did make that decision. It was very hard. We looked through the impact to our community.

But we did make the good decision

0056

to keep all our employees. Our most tenured employee there was our branch manager, and as we talked about where should we keep that person in a different position, we would have loved to make the decision to make them a loan officer, but even for our $240 million bank what we did is we put them in compliance. So now we have two people in compliance that are working through everything on a daily basis. And that was really anticipating more complexity coming and regulatory burden.

Overall problem: Instead of going out and getting loans we chase a lot of potential problems, and I say we get stuck with paralysis by analysis, because we are worried about what might come.

The other topic I'd love to cover is the call report. The number of items that go into that doubled over the last 20 years. Many items on that 85-page report don't apply to us, but it takes my CFO and his assistant two to three solid days to complete that.

Again, he's totally out of pocket while that's going on. Hard to get to him to

0057

talk about if he's going to be doing -- if we're looking at rate exceptions or what we should be doing there. Add-on, if we're notified of exam, really locks us down for a couple months, collecting the information that's necessary. And then also, you know, dealing with the exam when they're on site as well as afterwards.

So enough whining. So what am I asking?

I would love to see a tiered regulatory oversight based on our risk profile. Again, I feel that my personal bank has the lowest risk profile there is, so it should be a little less burdensome when it comes to the exam process.

We'd love clear definition of the rules. Take out all the gray. That's a struggle for us, especially in the fair lending area.

We would love to be able to call someone and say, Here's our fair lending challenge. What do you think? And get a clear-cut answer back.

We get a lot of, Well, this is a thought, but, really, it's up to you. And that makes it hard to move forward.

A condensed call report or maybe just doing one full report at year end and smaller ones the rest of the year would be great to get some time back.

Based on the risk profile, I did hear this already this morning, sounds great. Moving to more -- less frequent reviews and exams would really help out our bank.

One thing I just wanted to leave you with is that it really is something that is terrifying to our bank and our board, when we talk about civil money penalties or any kind of impact that might come from that, and we really -- we take that to heart. We are not able to just write a check and assume the reputational risk that would come from something like that.

I have enough customers that come in every day and tell us we don't make fair loans. We don't need that to get out into our -- the public that that was also confirmed

by one of our examiners.

Basically what I'm asking is for more time back so we can serve our communities. So thank you very much.

MARYANN HUNTER: Thank you very much, Mike.

Next we'll here from Luther.

LUTHER DEATON: Okay. Good morning, everybody, and I want to thank the Federal Reserve, our host, and other agencies here today for inviting us to share experiences and frustrations with Congress and the growing pattern of ill-advised regulations.

Central Bank started in 1946. It's still owned by the same family, and they take nothing out. Let us put all our retained earnings back into our growth of our company.

I spent 37 years in community banking at Central Bank in Lexington. Our bank has about 2.1 billion in assets and growth, and we're the leading community bank in our -- in central Kentucky.

We have more than 120,000 customers who are engaged in banking,

0060

insurance, investments, mortgages and wealth management services.

I'm also pleased to say that we have heavily invested in technology, and almost 30 -- almost 55 percent of our banking customers actively use our on-line service to manage their deposit, loan and credit card relationships.

We employ almost 500 bankers who make significant contributions to the communities.

However, I feel that we're threatened today because Congress wants to punish all banks for mistakes of a few.

The future pace of new regulations is overwhelming community banks. Dodd-Frank, the CFPB and recently new mortgage disclosures are prime examples.

It is forcing senior management in our bank to spend more time in meetings with attorneys, less time serving our customers and growing our bank and helping our local economy.

A primary example of the Dodd-Frank: They create 398 regulations,

0061

including mortgage rules, the Volcker Rule, SEC, municipality adviser regs, stress testing, the Durbin Amendment, Swaps regs, rules for asset-blocked securities -- asset-backed securities -- I'm sorry. Asset-backed securities, executive compensation and the CFPB in 13,000-plus pages of proposed and finalized rules.

The Durbin Amendment is an example of a new regulation that was supposed to affect banks under $10 million. Well, here's what really happened:

Since the implementation in 2011, my bank's interchange income on its debit cards has been reduced by $1.4 million. The cost of revenue per-transaction declined 12 percent. I feel like that's a pretty big impact for a bank with 2.1 billion in assets.

Recent changes to the mortgage disclosure was introduced too swiftly that software vendors have not had enough time to update our system in time to meet the deadline. We're coping, but it's difficult.

I read this week that the mortgage

0062

applications across the country has declined 27 percent in the first week the requirements took effect.

One other issue, we had established a customer whose mortgage was approved but delayed because guidelines first indicated the property was in a floodplain, only to change upon a second review right before the closing.

Our customer who was packed and ready to move with two children was forced to delay and get a place to live while we scrambled to produce documents which provided the required notification to meet regulatory guidelines.

Deposit customers also have issues. The FDIC has issued recommendations on overdraft protection programs dating to 2005 and an update in 2010. My bank has adopted the guidelines to ensure compliance. However, the result has been a 33 percent decline in our bank overdraft income.

Congress needs to consider fixing Dodd-Frank, so the examples we struggle with in

0063

community banks that are essential to the growth and health of our towns throughout this country.

My bank has had many issues on Reg O -- we don't have many issues with Reg O. We have really long term directors who are great customers. However, on one case, he was going to borrow some money for his company, and the rate, I couldn't do the rate, so he had to go out and get a quote from another company, another bank and bring it back and I could match that rate. Shouldn't have to do that, but we do.

And we are finding that community development projects have gotten much more difficult and more expensive. We have very few low income tax credits available in our markets, and the banks have been forced to be extremely aggressive on pricing to get them.

That provides an element of risk that regulators can criticize. So we haven't been able to participate as much as we would like to, even though we would like to support local projects.

0064

As a result of these realities, we have learned that building enduring customer relationship is the best strategy for long-term success. We believe our ability to serve and develop the needs of our customers and our community consistently and effectively are the only essential differences of our local community bank and the local offices of super national banks whose interests are vested in far-away places.

In closing, in 1984, I had this young man walk in my office starting a business. And we took a chance with him. I told him, I told him, I said, You get a banker, which I will be, you need a good attorney and you need a good CPA.

And the first year was a struggle, and today he's my most profitable customer of my bank. He's one of my largest customers. He passed away two years ago, but that company continues to go. But if that same person walked in my bank today, I could not make that loan. Could not do it.

The first year I had him I had to

0065

cover his overdrafts, I had to cover his payroll, but he's got about 400 million in sales. He employs about almost 2,000 people throughout this country and does a great job.

That's what community banks is all about. But here's the difference:

I helped him when he needed help, and when they come and wanted the banks to take TARP money, we refused to take the TARP money. I said, We need to raise our own money in our community. Back then we could do trust preferreds. So I did trust preferreds. I call him up and I said, Would you like to participate in this? And he said, Well, how much you need and -- how much you going to need? I said, About $22 million. He said, I'll take it all. I said, No, just take half of it.

In one hour and a half, I sold enough trust preferred to come up with 22 million, 5. That would be paid off in March.

But we felt like, and my board felt like we needed to do it in our community where people believed in us and we believed in

0066

them. And it's people that we brought along in the community bank that put -- invested back with us, and that's what it's about.

It's building customer relationships, and we know our customer. And this guy was unbelievable. He's been written up in every magazine in the country, but he put in place a good succession plan, and even though he passed away from cancer two years ago, his company continues to go on.

So that's just one of many we've got in our organizations. And that's what we need to get back to is taking care of our customers and not worrying about doing all this other stuff we have -- it does no good to nobody. Our consumers are hurting.

So thank you so much for the opportunity to speak to you.

MARYANNE HUNTER: Thank you, Luther.

DAVID REILING: Thank you, Maryann.

First of all, thank you to the OCC and all the regulatory agencies. It's really

0067

an honor to be here today and participate in this process. And thanks to the Chicago Fed for their hospitality.

Sunrise Banks is located in Minneapolis in St. Paul, Minnesota, of which I am the owner and CEO. It's probably a hundred -- 850 million in total assets.

Through innovation Sunrise Bank seeks to radically change the way urban communities and underserved people thrive by empowering them to achieve their aspirations.

Sunrise is certified by the U.S. Treasury as a Community Development Financial Institution, a CDFI. We are also a certified B corp., which demonstrates our commitment to transparent corporate governance and positive community impact.

With the national charter we employ a twofold strategy:

A place-based strategy with products and services that targets our local urban low-income communities and a people-based strategy that targets the underserved across the country with products such as TrueConnect,

a safe alternative to a Payday loan.

In an overview, the sheer volume of regulations we face every day is daunting, and the challenge is this:

Just when you think you have your arms around the regulation changes, the interpretation changes, redefining the scope and complexity of the reg.

Secondly, competition for community banks has expanded. No longer is the traditional financial institution our main competitor, but it has expanded to nontraditional financial institutions, such as on-line lenders and other nonregulated organizations, such as check cashers, pawn shops and currency exchanges.

In addition, our industry is being disrupted by new financial technology, which makes it easier for money to be moved around without walking into the bank.

This makes it an exciting time to

be a financial institution, as we are seeing the needs of underserved starting to be met, but it also makes it challenging for -- as

0069

regulations oftentimes tie the hands of community bankers and create unnecessary burdens.

To start with I'd like to talk about consumer protection. Bankers are not necessarily experts on flood insurance, but we are asked to have a supporting statement to ensure real estate loans located in a flood zone are insured with a policy that meets the national flood insurance program minimum requirements.

FEMA has been charged with a considerably large role to insure the mitigation of flood damage through community floodplain management and through the Flood Insurance Program.

However, borrowers don't go see FEMA. They come and see their banker. Thus, we need to help. Typically, when there's a loan in a flood zone, we have to speak with the insurance agent. Most agents we work with rarely sell these policies, so we end up educating them. We should not be the experts but -- we should not be the experts, but the penalties are so severe that we cannot take a

0070

risk of error.

This back-and-forth delays projects, holds up loan closings, costs the borrower and the bank more money and time to execute the loan.

There are also times when county officials tell the property owner that they are not in a flood zone, but when the flood zone provider tells us, the bank, that it is in a flood zone, we must hold to what the flood zone vendor tells us based -- which is based upon the FEMA maps.

The county official may have a survey that shows the proper elevation out of flood zone, but they have not followed the FEMA procedures to remove the property from the flood zone.

This mismatch in information can create distrust with our borrowers, and, again, cost more time and money, both to the bank and to the borrower.

FEMA and the regulators need to coordinate their efforts to provide information and guidance about program changes. Bankers

0071

need clear and comprehensive guidance that informs us as to our regulatory obligations and with less punitive regulations.

Reg D: Regulation D has not kept up with technology. The limit of a six saving transaction goes quickly when considering that these transactions are coming from -- not only from the bank and ATM, but now also multiple mobile banking outlets.

Having banks monitor for six withdrawals of certain types is time-consuming, and if the consumer, after warning letters, doesn't stop executing excess withdrawals, we have to close their account to the confusion of the consumer. Besides, there is great confusion when you try to explain to a customer using a teller or an ATM in your lobby doesn't count against the six transaction, but the ATM immediately outside your bank does.

Regulation D restrictions should reflect the significant changes brought about by the technology impacting the banking operations and customer interaction. Customers increasingly manage their accounts on-line and

0072

through mobile platforms or cash withdrawals at point-of-sale terminals, while banks are less reliant on branches and have fewer face-to-face customer interactions.

The ease of access these technologies provide, coupled with the decrease in consumer reliance on traditional banking portals, such as tellers, mail and ATMs, highlight the need to revisit regulatory language and develop definitions of savings deposits that are responsive to bank innovation and evolving consumer expectations.

For these reasons revision to the

six-transaction restriction should include a broader category for unlimited transfers to include computer, on-line, mobile platforms, permit bank-initiated transfers to facilitate overnight sweeps and recognize preauthorized transfers to cure low balances and unforeseen overdrafts to assist customers.

I encourage the Federal Reserve to look at moving to an unlimited or greater number of transactions to keep up with technology, as long as it allows for the Fed to

0073

properly monitor money supply and effective monetary policy.

BSA, AML continue to be an excessive burden with increased costs to monitor the impact of bank regulatory -- I'm sorry -- increased costs to monitor and the impact of bank ratings on BSA and AML.

While financial institutions need to report suspicious transactions to authorities, we should not be expected to serve as law enforcement when evaluating unusual or suspicious activity. Policymakers need to reform BSA to support enforcement while maintaining -- while minimizing unnecessary regulatory burdens on banks.

Overall, consumer protection tends -- trends that I see fall under the veil of protection of consumer -- consumers, but it comes at a cost of less access to -- or more limited access to the traditional banking system that has resulted in the growth of the un- and underbank population and generally unsatisfied with banking systems to the benefit of costly alternatives and innovative financial

0074

technology.

Regulation O, Officers and Directors. The unwritten policy at Sunrise is that we do not lend to our designated Reg O officers, our board members and management. We only allow for overdraft protection. We pick and choose which risks, and when it comes to Reg O, we don't want to accept the risks, which, honestly speaks to the over punitive nature of the regulation.

The result of our executive -- as a result of this, our executive officers, including me, as the owner the bank, bank and other financial institutions.

On a side note the threshold of a hundred thousand dollars in Reg O has not moved in the 25 years I've been in banking.

It is not necessary for bank directors to hold a nominal share of stock. This is simply a paperwork exercise that causes unnecessary burden. It is critical to have effective and transparent governance. The current regulatory expectation is that directors make policy and approve actions, such

0075

as loans, which is an over -- an overreach of good board governance.

Directors should make policy and approve activities within tolerance. Otherwise, there's very little difference between board and management. In short, there needs to be governance clarity.

Capital: The elimination of Basel capital standards for community banks. United States banking system is unique.

As the majority of bank charters in the U.S. are considered community banks, they have different regulators depending on their charter type and have different legal corporate structures, C corp., S corp., and in some unique cases, not-for-profit holding companies.

A large number of community banks already met the standard of Basel III; thus, the creation of a significant body of regulation that causes unnecessary paperwork and burden.

Subchapter S: Basel III requires banks to hold capital conservation buffer in

0076

addition to its other capital. If the bank buffer does not -- if the bank does not have the requisite 2 1/2 percent capital, then the regulators can limit bank dividends, discretionary bonus payment for bank officers and even capital stock repurchases.

Subchapter S corporations rely on the ability to -- to dividend funds to the bank holding company for income tax purposes. We have asked for a resolution to this problem since Basel III comment period in 2012.

It is important to note that the bank regulators and the bank holding company regulators are often different. With multiple regulators with different rules neither the banking industry, nor policymakers, should lose sight of the fact that we have an issue of dividends from the bank and also the holding company.

Coordinating and standardizing requirements across agencies would strike at the root not only of Basel III issues but for all regulatory burdens.

One key innovation regulators can

0077

make that would have an immediate and profound impact would be to eliminate the 125 percent maximum limitation on reserves eligible for inclusion in Tier 2 capital. Capital is capital and should be sufficient and allocated appropriately to meet the risks of a bank regardless of whether it's credit risk, operational risk, strategic price, et cetera. The 125 percent limit on Tier 2 capital treatment for a bank's loan loss reserve is calculated by multiplying 125 percent of the bank's total risk-weighted assets.

The more the bank allocates its liquidity to less risky investment and improves its overall credit risk profile, which sounds like a good thing, the bank's regulatory capital calculation is penalized under the 125 percent rule, even though it possesses the exact same amount of capital in real dollars.

This is a fictitious calculation. Every dollar of capital in a community bank is precious. For the regulators, bank owners and deposit insurance funds to ensure depositor safety, capital is capital.

0078

Basel III significantly increases

the risk-weighting percentages of certain loan types, demanding more risk-based capital from community banks.

In addition, we face, yet again, another loan loss methodology change. This is the fourth since change in my 25-year career. The new FASB Current Expected Credit Loss, CECL, proposes to increase loan loss reserves on community banks by 20 to 50 percent.

More capital cannot simply be the answer to every regulatory question and perceived risk. Quality bank management has, does and will continue to be the ultimate component of mitigating inherent risk.

The massive burden of regulation on community banks, a/k/a death by a thousand regulatory cuts, and those specifically related to increasing capital levels and restricting access to capital for community banks, can only lead to one conclusion:

That the new regulations are an intentional effort to reduce the number of community bank charters in the United States.

Hence, we are witnessing the loss of approximately one community bank charter per business day in the United States. This is a cost to the diversity and flexibility of the U.S. banking system.

While making effective and efficient regulation is not easy, we have to find the balance between safety and soundness of individual financial institutions and the preservation of our diverse U.S. banking system.

This is why this process is so important. Because our industry is on an unstable path of regulatory burden and cost for community banks to thrive.

I'd like to speak to audited financial statements. Recently, there has been a change in the asset limit for small bank holding companies from 500 million to 1 billion. While this change has given some benefit to a number of local community banks, I've been approached by banks that have -- that are just north of 500 million, who have pointed out that the agencies have not changed the

0080

asset limit that requires a full audit. Several closely held banks believe that this regulatory cost has no corresponding benefit to them.

CRA: Finally, the current geographic limitation of CRA assessment areas are antiquated. We are living in a different world with innovative technologies driving product -- technology solutions driving products and services that go beyond a specific assessment area. Thus, we need to broaden the definition and availability of CRA qualified and community development activities partners and investments.

We often find in our community that there's a competition for qualified CRA investments which increases the cost. CRA needs to be desperately redefined to include responsible access to credit, depository and payment services, whether it is local or national in scope.

For example, Sunrise, we have a national small dollar loan product targeting those who do not have access to credit. We're

0081

helping people build credit scores, but for CRA we will be penalized for making these loans outside of our current assessment area.

In some cases, it is necessary to loan money outside a CRA assessment area to effectively serve the underserved.

Economic diversity within a communicate is a healthy characteristic. Perpetuating a concentration of low- and moderate-income households has not been a successful community development strategy. In 2015, and in the future, CRA is less about geography and more about the underserved and access to services.

Sunrise, with our people and place-based strategies, we are meeting the needs of underserved intensely in both the local and national communities, both in and outside of our CRA assessment area, to the future detriment of our two-decade-old outstanding rating.

We need to simplify reporting requirements. There's a great deal of preparation for Sunrise as we move to a

0082

larger-sized bank. Right now we're getting ready to become a CRA reporter. We have purchased a purchased CRA -- purchased CRA Wiz and are redesigning our forms to capture information differently. It is a big change between each level of CRA reporting. Small bank to intermediate small and then to large. The rules for each category are very different. This adds cost and complexity for growing banks. Consider working with bank vendors to develop web-based systems to automate this product for the good of everyone.

Lastly, on CRA, the paper-based file in a main office has run its course. Why not on-line all the time in terms of access?

Finally, we need to seriously consider the use of CDFIs, as well as minority deposit institutions to broaden access and foster partnership opportunities to serve the low- and moderate-income communities and populations. Thank you.

MARYANN HUNTER: Thank you very much, David.

So we do have a few minutes. I

0083

would invite any member of the audience who would like to add a comment to come up to the microphone. Thank you.

AUDIENCE MEMBER DAVID SCHROEDER: Thank you. My name is David Schroeder. I'm with the Community Bankers Association of Illinois, and I'd like to expand a little bit on the topic of the combined effect of regulation.

We are very concerned that with the fast-paced implementation of regulation and multiple agencies covering the same banking activities, and to address the same perceived regulatory issues or concerns, will result in harmful, unintended consequences for community banks.

For example, the new Basel III capital and risk weight, the proposed new FDIC assessment rates for community banks and the upcoming FASB Current Expected Credit Loss model, or CECL, will not only individually impact but will have an even far greater combined impact on community bank, commercial and real estate lending.

0084

We certainly hope that you have thoroughly, very thoroughly considered the combined impact of all of these different regulations, which together may very well make certain types of lending prohibitively costly or burdensome to the detriment of community banks, their customers, communities and our economy.

We would like to hear much more specifically about your rigorous interagency communication and coordination regarding the combined impact of all of our regulation on community banks. Thank you very much.

MARYANN HUNTER: Thank you. No one -- I guess I would ask one -- maybe one clarify -- or ask for clarification a little bit.

David, you mentioned -- you were talking about the capital rules, and you gave some good information about the impact of the risk weighting.

You also mentioned the paperwork that's required introduces burden. Could you maybe elaborate a little bit on some of the

0085

paperwork required under the new capital rules that maybe were not present under the previous capital regime?

DAVID REILING: Sure. I think hen it comes to particularly defining, for example, high velocity real estate loans, so now we have to look at all the definitions again and basically redesign -- again, you're going to back this up all the way to the lender, and the lender is going to initiate, Well, what type of loan am I originating? Is this a construction loan? Is it a high velocity? What is the definition? And, hence, what is the risk weighting that's appropriate to go with that?

So there's a coordination between that front line and that education process that has to take place to your accounting department to make sure that it's being recorded and ultimately reported on the call report properly.

MARYANN HUNTER: Great. Thanks.

Micah?

MICAH BARTLETT: I'd like to add to that question.

0086

So with regard to HVC or CRE the fundamental concern that I have is when we pick these discrete areas of lending and arbitrarily assign different risk weightings, I feel like that plants the seeds for future bubbles.

So, for example, in the last capital accord, we had lower risk weightings for a one-to-four family and municipal credit sovereign debt. Those are the two asset classes that were most involved in our economic crisis.

And, yet, the capital accords encouraged those assets. I wonder which bubbles we will be creating today with these arbitrary capital rules.

And then, more specifically, to the question of the paperwork involved with Basel III, our bank both has issued trust preferred securities and also owns trust preferred securities. So in Basel III there is a rule related to insignificant investments and unconsolidated subsidiaries that leads to a very complex calculation of how much of our capital must be reduced due to those holdings.

0087

So the first negative consequence for us is in our bank that leads to approximately $50 million less of lending capacity in our bank even though the deduction from capital is greater than what would be implied if we actually just sold the bonds at

market today.
And, secondly, as we have sought to report those new subtractions from capital in our call report, it's not clear to us entirely which line items those go on. So we've reached out to our regulatory agencies, and we've been told that we do not need to report those as subtractions in our call report. However, our interpretation is pretty clear that we do.
And so in that case, on those very specific capital rules, it's clear to us that the call report and the regulatory regime is not necessarily caught up to what, in fact, the rules say at this point.
MARYANN HUNTER: Thank you very much. I've got one more minute.
So I'll ask for maybe, Mike, you
0088
had mentioned a call for greater risk tiering or tiering of examination activity to reflect -- and oversight to reflect the risk profile of a bank.
I know many of the agencies have programs that we've identified as risk-focused.
Do you have any insights into how we might be able to take that further or maybe -- it sounds like maybe the way we're risk focusing isn't going far enough in your view and wanted to give you an opportunity to elaborate on that.
MICHAEL BURKE: Well, I think what we get is we can get, again, stuck in the idea of any of the regulatory ideas that come down from the larger institutions and are they going to come our way. So even though we hear they're not coming our way, because we're a community bank, we always make decisions based on, Well, eventually they are going to hit us.
And if we just had a clear understanding that we kept our business model the way it's been for 117 years, which is our intent that we would not be subject to a lot
0089
of those things, I think it would give us a lot more comfort, but we -- when those rules come

out, and we start to think, Okay. Now, they're saying it's 10 billion, but when is it going to get down to my bank? And so that's a struggle I think we constantly deal with is -- and it just keeps us from looking at different lines of business and other things because we don't want to move too far away from what we currently do.

MARYANN HUNTER: Good. Thank you.

Well, with that, I guess we'll end the panel. Thank you very much for all of your comments. Thank you very much.

(Applause.)

RAE-ANN MILLER: Okay. We'll take a short break, and please return at 10:45.

(Recess taken.)

* * *

SECOND PANEL: CONSUMER AND COMMUNITY GROUPS DISCUSSION

* * *

JONATHAN MILLER, Deputy Director, Division of Depositor and Consumer Protection,

0090

Federal Deposit Insurance Corporation (Moderator);

KRISTIN FAUST, President, Chicago Community Loan Fund, Chicago, Illinois;

CALVIN HOLMES, President, Chicago Community Loan Fund, Chicago, Illinois;

BENJAMIN KEYS, Assistant Professor, Harris School of Public Policy and Co-Director of the Kreisman Initiative on Housing Law and Policy, University of Chicago, Chicago, Illinois;

LIZ RYAN MURRAY, Policy Director, National Peoples' Action, Chicago, Illinois;

DORY RAND, President, Woodstock Institute, Chicago, Illinois;

BETHANY SANCHEZ, Director of Fair Lending, Metropolitan Milwaukee Fair Housing Council, Milwaukee, Wisconsin.

RAE-ANN MILLER: All right. So our next panel is featuring our community and consumer groups. And Jonathan Miller, who is no relation to me, although we work closely together, is our Deputy Director of our

Division of Deposit and Consumer Protection.

0091

So, Jonathan, I'll turn it over to you.

JONATHAN MILLER: Great. Thanks.

I refer to Rae-Ann in our many meeting together in the FDIC as Mrs. Miller, and she refers to me as Mr. Miller. It confuses people. We enjoy that.

So good morning, and thanks, again, for everybody being here.

As Rae-Ann mentioned, my name is Jonathan Miller. I'm a Deputy Director in the FDIC's Division of Depositor and Consumer Protection.

Today's second panel will focus on consumer and community-related issues with respect to federal banking rules, and unlike the other panels today, these -- our panels will focus on the community and consumer perspectives on issues related to regulatory relief, reform and improvement.

Panelists will discuss topics such as the Community Reinvestment Act rules, rules related to community development and financial institutions, CDFIS, fair lending, Dodd-Frank Act rules, such as those related to mortgages

0092

and mortgage servicing.

The comments will focus on suggestions for how they believe rules could be updated or amended to get better outcomes for the communities these organizations represent and the people who live in those communities.

We really have a terrific panel here. I'm honored and pleased to have them with us today. Individually, and as a group, they bring a wealth of knowledge and experience and expertise regarding a host of financial services and consumer protection issues.

So I'll begin by going through a brief introduction of each of the panelists. As with the prior panelists and those -- the next panels you have much more extensive biographies in the conference materials, the conference packets that have been distributed.

After the presentations we'll give

the principals here, the agency principals, an opportunity to ask any questions. I may ask a couple of questions to bring out some clarifications. And then we'll give the audience an opportunity to comment.

0093

So our first speaker this morning is Kristin Faust, president of the Neighborhood Housing Services of Chicago, NHS.

NHS of Chicago is a non-profit neighborhood revitalization organization created in 1975, committed to helping homeowners and strengthening neighborhoods throughout Chicago, South Suburban Cook County and Elgin. And I can say from my own experience with NHS Chicago, I think it's accurate to say that it's one of the most innovative and effective in pursuing its mission.

Next we have Liz Ryan Murray, the policy director of National Peoples' Action founded in 1972. National Peoples' Action or NPA is a network of grassroots organizations.

Indeed, NPA has specialized in building grassroots leadership and creating strong community organizations.

Seated next to Liz is Benjamin Keys, Assistant Professor at the University of Chicago's Harris School.

He teaches courses on housing

0094

policy and the financial crisis and statistics for public policy. And he studies issues related to urban economics, labor economics and household finance. He's also the co-director of the Kreisman Initiative on Housing Law and Policy at the University of Chicago. And I understand he's an alumnus of the Federal Reserve Board as well.

Next is Bethany Sanchez, the director of the Fair Lending for the Metropolitan Milwaukee Housing Council organized in 1997.

The Metropolitan Milwaukee Fair Housing Council is a private, non-profit, membership-based organization created to promote Fair Housing throughout the state of Wisconsin by combatting illegal housing discrimination and by working to create and maintain racially economically -- racially and economically integrated housing patterns.

Next, Calvin Holmes, president of the Chicago Community Loan Fund, started in 1991. The Chicago Community Loan Fund is a non-profit certified Community Development

0095

Financial Institution that provides responsible financing and technical assistance for community stabilization and development efforts that benefit low- to moderate-income neighborhoods throughout metropolitan Chicago.

And, finally, Dory Rand, president of the Woodstock Institute. Woodstock Institution is a leading non-profit research and policy organization based in Chicago focused on fair lending, wealth creation and financial systems reform.

Since 1973 Woodstock has worked locally and nationally to advocate for broader inclusion of lower wealth persons and communities of color in the mainstream financial system in order to help these communities achieve economic security and prosperity.

And I will not, also, that Dory just came back from visiting her daughter, who is learning to be a pastry chef, so next time I hope she'll bring goods with her.

Kristin, why don't we go ahead and get started with you. Again, as Maryann said,

0096

10 minutes each, 10 minutesish. So let's get going. Thank you.

KRISTIN FAUST: Thank you, Jonathan, and thank you for the opportunity to speak today before the EGRPRA panel.

As Jonathan mentioned, my name is Kristin Faust, and I'm president of Neighborhood Housing Services of Chicago.

Our mission is to help people move in affordable homes, improve their lives and strengthen their neighborhoods. We serve over

5,000 families a year, and over 200,000 since or founding in 1975, and we do this through four primary lines of business:

We are a non-profit, licensed mortgage -- single-family mortgage lender in the state of Illinois. We also are a HUD-certified mortgage counselor offering individual counseling for purchase, pre -- post purchase and financial capability. We serve foreclosure prevention clients and offer an eight-hour home buyer education class.

As an important tool in revitalizing our communities, we have a real

0097

estate redevelopment corporation that reclaims the many wonderful and vacant unit buildings that are now in our neighborhoods since the foreclosure crisis. We've helped bring those homes back to productive use.

And, lastly, while we serve the entire region, we have focused efforts in eight neighborhoods across the city and the suburbs where we have staff from the community working for the community to strengthen and bring about more community reinvestment.

We are a charter member of Neighborworks of America, a network of over 240 community development organizations across the country. We're also a federally certified CDFI, Community Development Financial Institution.

This year we expect to lend $12 million into low- and moderate-income neighborhoods in the Chicago area for purchase mortgage, home improvement and refinance loans.

We have invested over $600 million in low- and moderate-income communities and to low- and moderate-income households since 1975.

0098

We couldn't have done any of it without partnership with the banks. We fundamentally believe that community investment requires a public, private and non-profit partnership led by the residents of the community.

But we also couldn't have done any

of it without the Community Reinvestment Act and the additional tools that support CRA, such as HMDA and now Dodd-Frank and the CFPB.

Every three years or so we go out and raise a pool of capital from the banks to allow us to make our home mortgage loans and our rehab loans--the rehab loan that is so desperately needed in the Midwest, where the average age of the housing stock is over 80 years, where houses are, in fact, deteriorating, and where families have just come out of the financial crisis, and, finally, now, have a chance to start thinking about rehabbing their home, which will then cause their neighbor to rehab their home, which will then attract that investment, which will then bring about the strengthening of the community

we so much want.

So we go out every three years, and we raise that pool of capital from the banks. And I must tell you that the community banks are a very, very strong partner to us. We work with over 28 of them right now. We have a community bank partnership.

We have regional banks as part of our pool as well, and, unfortunately, less and less the national banks.

When regulations do impact our ability to raise that capital as we go out and approach the banks, we do -- it's a 30-year residential mortgage lending pool, and the banks aren't sure. They aren't sure about safety and soundness. They aren't sure about their cost of capital. They aren't quite sure yet about how the CFPB and other regulations are going to impact their investment in that pool. Nonetheless, we have been successful doing this on more than six occasions and are successfully deploying that capital right now.

It continues to be a challenge, however, and we need the tools of these

important and effective regulations that are understandable and easy to use for the banks as well to allow us to get the capital into the neighborhoods.

I want to highlight a couple things that are working for us around regulatory environment and a couple of areas that are not working for us.

So what are some areas that are working?

Well, the FHFA, the Federal Housing Financing Agency, has designated Chicago as a neighborhood stabilization initiative city. We're just one of two cities in the country. And that's been a great addition to our toolbox for helping homeowners avoid foreclosure and for preventing vacant properties.

Because we're an NSI city, we're able to offer struggling homeowners a modification to their mortgage that is very, very attractive. And what we do is we're able to bring legitimacy to the outreach done by the servicers.

Most homeowners at this point have kind of a fatigue around getting letters about refinancing their mortgage, and the NHS name can help add legitimacy and help encourage them to take advantage of this. So that's been a useful tool.

There's also a first-look initiative under NSI, where we, as a non-profit real estate developer, have first look at accessing a vacant property to rehab it and making it affordable again to a first-time home buyer.

Other areas where we're encouraged is we are encouraged by efforts to review CRA and the guidance. And we like the idea of using alternative credit histories and manual underwriting procedures, which we use every day, to help hundreds of low- and moderate-income home buyers. 90 percent of whom are African-American and Latino acquire and achieve the dream of home ownership every year.

We're also encouraged by the proposed guidance to include additional

0102

examples of activities. We know that housing is just one piece of a neighborhood's health and safety, and so we recommend adding language that is inclusive of home buyer education and other neighborhood stabilization work.

Where do we see additional challenges and additional work needed?

There is still not enough lending going on in our neighborhoods. DePaul Institute For Housing just came out with a 2014 HMDA analysis. There were 8.1 mortgages per 100 residential properties in the Chicago region. That's down from 12.6 in 2012. But in our neighborhoods it's like 3 1/2 to 4 mortgages per hundred, and this is a challenge. We try to fill that gap, but we should not be the largest lender in our neighborhoods. We don't want to be the largest lender in our neighborhoods. We want the banks there as well.

But there is a challenge, and it's a challenge you did hear from Micah and others on the previous panel which is:

Our average client is acquiring a

0103

loan of $414,000. Because the values in our neighborhoods, you can buy a house for $40,000 or 80 or 120. So these are low-value loans. Our average rehab loan is $27,000. I know it's hard for the community banks to make a profit on that because I know what it's costing us to do it. But yet it's needed.

Without those loans. Without -- these are our home buyers. These are our neighborhoods. The values are low, but credit is needed. We have -- our average buyer or refinancer is an African-American woman, single head of household who earns $42,000 a year. She's got a credit score of 689. That's not bad, but she still has challenges accessing credit to either buy and rehab a house or refi and rehab her house.

So we still need these very, very important tools to help us make this work for all Americans so that all of us have access to credit and have a chance at reinvesting in our neighborhoods.

There's a few other areas where we see some concerns. We do think that physical

0104

presence in the neighborhood still matters. Community banks, one of the things we love above them is they have local decision-making. They know the community. We think that relates also to branch presence and that branches still make a difference in low- and moderate-income neighborhoods.

We also have some concern about in the revised guidance where it mentioned something about third parties working with the depositories.

We think that that should be non-profit organizations that would encourage partnering with HUD-certified housing counseling agencies. We're a very unique organization. We're a lender, and we're a HUD counselor. The HUD-certified counseling agencies are trained and staffed and fully certified. They have the highest qualifications. And research has shown that homeowners working with HUD-certified counselors are less likely to fall delinquent.

Thirdly, we really do need more clarification from the regulators around

0105

community development investments in markets that are not quite in the bank's territory.

For example, we're putting together this pool. It might be a $40 million pool of loans to make those loans that the banks can't or are not making right now.

I've got a bank in the south suburbs. They want to come into the pool. I need the pool to cover the whole region, but they're not sure their regulator is going to give them credit because I'm going to have some loans in the City of Chicago, and I might have a few loans out in Elgin because I cover this region, and they're worried about, you know, Should I really -- you know, will I get the credit that I need?

And we really need clarification, and we're looking for a stamp of approval on these regional pools that are clearly dedicated to reinvesting in low- and moderate-income neighborhoods and working with homeowners that are -- clearly who CRA was intended for.

So -- I'm okay. So, yes, so fundamentally, I just would like to reiterate

0106

our point that it takes partnerships. It takes creativity and innovation to get capital back into our neighborhoods. Our neighborhoods are still just coming out of the great recession. Just in February of this year we saw the line cross where our client -- people calling in, coming through our door are more likely to be wanting a new loan or to rehab their house than they are to be calling because they're in a distressed mortgage.

We need to jump on that right away. We need to help get our neighborhoods out of the great recession and get reinvestment, get capital back in. And we want to encourage you to continue to do that through the amazing tool of CRA. Thank you.

JONATHAN MILLER: Thank you, Kristin. Encouraging to hear the turnaround there.

Liz?

LIZ RYAN MURRAY: Good morning, and thank you for inviting me to provide testimony today.

My name is Liz Ryan Murray, and

0107

I'm the policy and communications director at National Peoples' Action.

NPA is a 43-year old community-organizing network based here in Chicago. We're comprised of 28 state and local organizing groups in 18 states. NPA and our affiliate groups work on a range of economic and racial justice issues at the local, state and federal level, but the roots of our organization and our network lie in the pursuit of access to fair, affordable credit for low income communities and communities of color.

NPA was there at the beginning, fighting for the passage of the Homeowners Disclosure Act, and armed with the data that proved the redlining case neighborhood residents had been making for years, the passage of the Community Reinvestment Act. That's what I'm going to speak about today is CRA. The purpose behind CRA was and remains simple. Guarantee equal access to credit and services for all communities from banks.

In preparing for these remarks and our written testimony, I spoke with some of the

0108

activists and community leaders that were there in the thick of the fight to get CRA passed.

One of them told me a story of a meeting with Senator Proxmire, the chief sponsor of CRA, in which he outlined his rationale for the act:

We created a stable market for the banks with FDIC insurance, implicit guarantees, preferred borrowing rates. All we're asking is that they make loans available to everyone.

It's a simple, persuasive argument that resonates today, and I really want to highlight that especially today. The theme of these hearings is about simplicity and streamlining, and you don't get much more simple than that.

The moment that spurred CRA's passage was one of rampant redlining with overt and covert discrimination that locked entire communities out of the possibility of home ownership, basic banking services and the founding and growth of small businesses, the engines that create economic mobility, wealth and basis stability in our economy.

0109

Unfortunately, that picture has not changed enough. Study after study on the persistent racial wealth and income gaps in this country points to a lack of inherited and built assets, all of which require credit to gain a foothold. Fair Housing cases are still in the news, and the entire mortgage meltdown, with its stark racial and economically disparate outcomes, bear witness to the systemic disinvestment in communities of color and low-income communities. But the outstanding ratings keep rolling in.

At least some of this can be attributed to a CRA regulatory regime that is deeply out of step with the market.

I'd like to talk today about two aspects in particular that are glaring. Assessment areas, which I was happy to hear came in the last panel as well, and credit quality blindness, which obliquely came up as well.

It's undeniable that banking, mortgage and credit markets have changed significantly since CRA was passed and since

0110

it's been updated. The days of a single bank originating all of its loans solely through a brick-and-mortar bank are long gone.

But one of the pillars of CRA, the assessment area, based on branch location and single entities remain. We now have an examination and assessment system that ties itself in knots to test a bank's lending and service record based on geography that bears no real resemblance to an institution's actual footprint, but that does allow banks, and I am speaking primarily about big banks, to cherry-pick the institutions and loans to stuff those artificial assessment areas with all their best-appearing businesses, all while in their true footprint we still see redlining, illegal foreclosure and the provision of substandard credit and service.

I urge the regulators to seize this opportunity and reduce all the paperwork involved in the shell game and instead institute a simple, comprehensive assessment area structure that grades banks on the entire MSA where all of their banks are taking

0111

deposits and doing business, not for extra credit, but as a true reflection of the service it’s providing to all the communities and surrounding communities where it does business.

I alluded to credit quality above, and along with assessment areas this is critical to CRA functioning as it was intended, in the best interest of all communities. Not all credit is created equal. One of the many morally offensive aspects of the subprime crisis and its devastating impacts on communities of color and low-income communities is that some of this toxic flood actually helped banks appear to be meeting the credit needs of underserved communities while destroying them.

From predatory -- today credit and service quality is still an issue. From predatory overdraft and ATM fees to the emergence of predatory on-line small business lending, these products and their characteristics are well-documented by banks. And with HMDA now to require even more critical mortgage underwriting and term information,

0112

this data should be easy to produce and evaluate.

In short, if a bank puts forward a product or service as serving the needs of underserved communities, the quality should be assessed before credit is given.

We heard earlier that -- about a bank that's, you know, in their fifth year of net income increase talking about perhaps opening a branch in a lower-income community, and the only answer that could be come up with was to charge people who can least afford it more. There are other answers.

There are many additional topics that can and will be covered by other members of this panel and in written testimony by our colleagues around the country, and I urge you to carefully consider all of them.

Happy to answer questions and, again, thank you for having me.

JONATHAN MILLER: Thank you very much, Liz.

Ben?

BENJAMIN KEYS: Thanks, Jonathan.

0113

Thanks very much to the organizers for inviting me to participate in this important discussion today as the token academic. I will try not to bore you too much, but I will reference some of the recent literature on some related topics.

Now, my name is Ben Keys. I'm an economist at the Harris School of Public Policy at the University of Chicago. I'm also the co-director of the Kreisman Initiative on Housing Law and Policy.

My views have been shaped on this topic through my time in Washington, where I worked at the Federal Reserve Board as a staff economist and as a researcher on topics related to household finance, particularly subprime mortgages and securitization, credit card lending, student loans and personal bankruptcy. In short, household leverage and indebtedness.

First, a bit of context for the state of regulation at the moment. Most communities are still recovering from an economic crisis that led to roughly $7 trillion in household in wealth being wiped out when house prices fell, and over 4 million

homeowners losing their homes to foreclosure.

Notably, the boom-and-bust cycle disproportionately affected low- and middle-income communities, minority homeowners and younger home buyers.

The housing boom represented a period when free-flowing credit and largely indifferent regulation combined into a perfect storm. Lending standards were extremely lax as the subprime market required little money down, limited or no documentation of income or assets and utilized nontraditional mortgage contracts that sharply but temporarily reduced monthly costs relative to a 30-year fixed rate mortgage.

In a recent research project, my co-authors and I estimate that more than 60 percent of all newly originated purchase loans were using at least one nontraditional financing feature in 2005.

During this period, our regulatory

system was too splintered and incomplete to effectively monitor and police bad behavior in the mortgage market.

0115

One of the key challenges is that there were many actors who were either uncovered by regulation, covered only tangentially or covered inconsistently.

For example, mortgage brokers in many state had little oversight of their behavior, were not expected to act in the best interest of their clients and profited most when imposing the highest interest rates for borrowers from the payments known as yield spread premium.

These incentives distorted broker behavior and are only one small example of the incentives throughout the securitization chain to quickly originate and distribute high-cost, high-risk mortgage to investors clamoring for higher-yield mortgage-backed securities.

A related challenge is one of inconsistent regulation. Inconsistent regulation creates an uneven playing field across participants who may offer similar products or services to consumers and distorts those market actors when rules are differentially enforced.

0116

A clever new research paper by Chicago Booth Professor Amit Seru and his co-authors finds that even the same rules are enforced differently by different banking regulators. That may not be news to many of the people in this room.

(Laughter.)

As federal and state regulators rotate through the same banks, they find that banks appear to respond strategically to differential scrutiny. They find that federal regulators are found to be systematically tougher than state regulators, on average, with a direct effect on bank operations, asset quality and profitability.

One of the exciting developments to fill in coverage and make it more consistent are the efforts by the Consumer Financial Protection Bureau to monitor product markets. The CFPBs focus not necessarily on the institution, but on the products, many of which are provided by nonbank actors, maybe a profound shift in the regulatory framework.

An example of this is the CFPB's

0117

analysis of the Payday loan market, which covers both nonfinancial and financial institutions.

This approach will surely lead to more rigorous regulation and supervision of nonfinancial institutions and alternative credit products. Evaluating the effectiveness of this regulatory strategy is of great interest going forward.

Consistent and simple universal regulation with less burden and fewer loopholes that covers both bank and nonbank actors creates a level playing field and a transparent means of monitoring consumer access and consumer protection.

It's worth noting that many financial institutions that were highly regulated still collapsed during the housing crisis. Thus, the regulatory framework that succeeds going forward is likely not one of more regulation, but, rather, regulation that is better targeted, less fragmented and inconsistent and less susceptible to gaming by market participants.

0118

In terms of consumer protection, I've been impressed with the CFPB's approach to releasing its white research papers, as well as closely collaborating and seeking input from academics.

The recognition that consumers may have less information about financial products than the firms that provide them is a crucial hurdle to overcome when considering the appropriate level of consumer protection.

Financial products like nontraditional mortgages or subprime auto loans may be especially confusing to consumers and lead to their choosing products incorrectly and subsequently misusing or defaulting on their debts.

The next natural step is to consider ways to make products even safer and more advantageous from the consumer perspective.

One promising direction is the area of automation and defaults. Creating automatic default contributions has been shown to be extremely successful in 401(k) and other

0119

retirement savings setting and has been widely adopted. However, these automatic defaults have not been adapted to the debt side of the household portfolio in the same ways.

A first automated option could address the refinancing option on a mortgage. During a recent low-interest-rate period many homeowners failed to refinance their mortgage despite the dramatic savings that refinancing would have provided to reduce monthly payments and federal programs such as HARP to encourage such refinancing.

My research on this topic, in conjunction with NHS Chicago, as well as other research, suggests that consumers maybe too inattentive to the refinancing option or may simply not trust refinancing offers that sound too good to be true. In an environment of potential scammers, it might make the most sense to avoid all offers rather than trying to figure out which one is most beneficial to the household.

Thus, embedding an automatic refinancing option into mortgage contracts

0120

would be a way to help those consumers who may benefit most from a reduction in monthly payments and be most likely to miss out on the substantial savings in refinancing.

Another area of automation and defaults is the minimum payment on credit cards. My research with Jialan Wang of the CFPB has found that consumers are highly sensitive to changes in the required minimum payment on their credit cards. Again, that may not be news to many folks in this room, although almost one-third of accounts pay at or near the minimum payment in a given month, and most of these payments are slightly above the minimum, as consumers round up or tack on a few extra dollars to beat the minimum. But when the minimum moves, consumer payments moves too, suggestive of the use of the minimum as an anchor in the repayment decision rather than a rational optimizing decision.

We conclude from our research that consumers would repay these high-cost debts much faster if they were provided with a somewhat higher required minimum payment.

On a final note, I'd like to highlight the fact that the research I've mentioned today has only been made possible through the expansion of access to bank level and consumer level data sets.

The growth of data availability over the last 10 years, in conjunction with developments in data storage and big data analysis techniques, have ushered in a new wave of researchers with the ability to scrutinize large data sets and extract important facts and patterns in entirely new ways. This would not be possible without greater availability of data on the part of government agencies and private firms that license their data.

I believe much more can be done to facilitate partnerships between researchers, firms and government agencies to leverage these data resources. In particular, combining and merging data sets to provide a more complete picture of consumer behavior and consumer leverage is an exciting direction for future research and one which I think will pay off in terms of deeper insights into economic theory,

as well as practical tools and techniques for both micro prudential and macro prudential bank regulation. Thank you.

JONATHAN MILLER: Great, Ben. Thank you very much.

Bethany?

BETHANY SANCHEZ: Good morning. I'm Bethany Sanchez. I direct the Fair Lending program at the Metropolitan Milwaukee Fair Housing Council, a private, nonprofit organization with 38 years of experience in the Fair Housing arena, protecting the civil rights of home seekers and working to ensure equal access to housing for all Wisconsin residents.

The Fair Housing Council helps with Fair Housing questions or Fair Housing complaints related to rental properties, home sales, home loans, homeowner's insurance, renter's insurance and mortgage rescue scams.

Staff members from the Fair Housing Council's enforcement program conduct intake of Fair Housing and Fair Lending complaints and investigate allegations of discrimination.

0123

The Fair Housing Council staff members also provide presentations and information to the general public, providing training and general assistance to banks, social service agencies, civil rights organization, housing providers and government agencies. We work with partners to ensure that borrowers in the home lending market have equal access to loans and are treated fairly to prevent foreclosures.

We connect lenders with opportunities for lending and investment in central city communities and work with community organizations, developers and local policymakers on the need for inclusionary housing policies and the promotion of racial and economic integration.

Our focus on Fair Lending began in 2001, as issues arose in our community, raised by the lack of regulation or oversight on Fair Lending. Prior to Dodd-Frank and the spotlight on Fair Lending, in Milwaukee, as well as the rest of the country, toxic, high-cost loans reached previously unimaginable levels.

0124

In 2006, 45.6 percent of the

mortgages in the city were high-cost loans.

In hyper-segregated Milwaukee, those toxic loans were extremely concentrated in our minority neighborhoods. And half of them were refinance loans sold to long-time homeowners who had worked for years to make improvements on their homes and build community.

And, not surprisingly, when the foreclosure crisis struck, the foreclosures were concentrated in those same neighborhoods, disproportionately devastating people of color and entire communities.

In response, we strongly supported Dodd-Frank's mortgage regulations which banned highly risky loan products, like negative amortization loans.

Amended mortgage servicing rules requires lenders to disclose all the costs involved in each loan, and, most importantly, required lenders to verify a borrower's ability to repay the mortgage. Imagine that?

The Fair Housing Council's Fair

0125

Lending program has created and/or worked within a number of partnerships that leverage HMDA, CRA, Fair Lending laws and Dodd-Frank as tools to increase all creditworthy borrowers equal access to fairly priced credit.

In 2002, as concerns about predatory lending were emerging, we put together our STOP initiative, bringing together over 75 organizational members from government, banks and non-profit community groups. STOP work groups examining HMDA data and marketing tactics of predatory lenders showed the link between those factors and foreclosures and developed outreach to help borrowers avoid creditors. We also helped legislators to understand the need for increased borrower protections from high-cost loans.

Our CRA caucus provides a collective way for organizations serving LMI and minority people to effectively leverage the provisions of CRA to advance our common goals.

In preparation for writing comment

letters on mergers, acquisitions and CRA exams, we examined the HMDA data and check in with the

0126

community about the bank's strengths and weaknesses.

Our joint comment letters to regulators describe the existing practices and products of the institution that we feel benefit the community. And we express our concerns and our goals for increasing access to capital and credit.

Our comment letters have leveraged productive, ongoing relationships with the banks and their staffs. On one occasion, I was thanked profusely by the bank's head CRA officer, who said that our letter had reinforced the changes that she was trying to make from within the bank and provided her with the leverage to be more responsive to the needs of all the communities that the bank serves.

The National Community Reinvestment Coalition provides another important resource for our work, leveraging HMDA data, CRA and Fair Lending laws to serve LMI and minority communities across the country.

I've been on NCRC's board since

0127

2004, and I believe that Milwaukee neighborhoods have truly benefitted from our collective work to use and improve CRA, to help craft Dodd-Frank and monitor its implementation and to push back on proposed GSC reforms that didn't ensure that all credit -- that did not ensure all creditworthy borrowers would have equal access to fairly priced loans.

Take Root Milwaukee is a Milwaukee-area-focused homeownership consortium made up of local national banks, non-profit housing counseling agencies, non-profit neighborhood groups, realtors, realtists, the city of Milwaukee Wisconsin's Housing and Economic Development Authority, philanthropic foundations and two local television stations.

Together we worked to increase stable home ownership in the Milwaukee area, particularly for underserved communities, and helped existing homeowners to preserve and maintain their homes and avoid mortgage rescue scams and foreclosure.

We've branded ourselves in this partnership as the trusted resource that home

0128

seekers and homeowners can turn to for professional, free assistance.

With our shared goals, working together, we operate an informative website, a telephone hot line and extensively cross-promote our individual and collaborative events and resources.

As a consortium, we sponsor an annual homeownership fair and several regional foreclosure prevention outreach events each year. This work has effectively connected thousands of Milwaukeeans with the resources that they need and helped them to avoid scams.

Take Root Milwaukee has also served as an effective mechanism for intersector communication, as we meet regularly to discuss emerging issues, structure roundtable discussions on topics such as how to better serve the mortgage needs of immigrant populations or to address homeowners' insurance cancellations.

Banks participating in Take Root Milwaukee find that the consortium helps them to meet their CRA obligations and grow their

0129

customer base, regularly and routinely connecting them with organizations serving LMI people and neighborhoods.

The information gained through roundtable events and via our loan products work group has informed their work to better serve the credit and capital needs of the LMI people and neighborhoods.

Earlier this year we looked at HMDA data showing the home lending of Take Root member banks and their affiliates for 2011, 2012 and '13. And we compared it to the banks' bears who are not Take Root members.

While the data and maps clearly

show that there's still progress to be made in increasing lending to minority and LMI neighborhoods, Take Root Milwaukee lenders outperform all lenders as a group every year in terms of reaching those neighborhoods.

Prior to joining Take Root Milwaukee, two of our current bank members settled Fair Lending and redlining complaints with the Department of Justice and HUD. They, along with other members, now see their

0130

collaborative work with Take Root Milwaukee as a way to connect them with productive people and ideas to enhance their institutions and communities going forward.

In 2009, we began using the FTC's rule and Wisconsin state law on mortgage rescue scams. Our campaign to prevent mortgage rescue scams includes providing in-service training to banks -- to staff at bank branches in the Milwaukee area, presentations to elected officials and their staff, radio and television ads filmed by our mayor, Tom Barrett, and a variety of other outreach mechanisms to help homeowners understand that they should not pay for help with obtaining a loan modification or with foreclosure prevention.

And using state and federal regulations as a basis, we provide assistance to homeowners who have already been scammed, filing complaints again the scammers with the CFPB, the Wisconsin Department of Financial Institutions, and, depending on the specific features of the scam, a number of other regulatory agencies.

0131

While many of the scammers are long gone by the time we hear about them and file our complaints, in our successful cases we've recovered an average of over $3,000 for each of our scammed homeowners.

Our Inclusive Communities program works to affirmatively further Fair Housing, working to educate and encourage municipalities and counties to proactively create more opportunities for all members of communities to access safe, affordable housing and to show connections between housing choice and transportation, health and jobs.

When the proactive work is not effective, the affirmatively furthering regulation can be the stick. We currently have an open complaint against Waukesha County for its failure to affirmatively further Fair Housing and its failure to take steps to overcome discrimination.

In 2012, in cooperation with the National Fair Housing Alliance, we began doing REO investigations. We have filed four Fair Housing complaints based on our findings of

0132

significant differences between how lenders were maintaining and marketing their REOs in primarily minority neighborhoods and how they dealt with the REOs in primarily white neighborhoods.

Going forward, there's still much work to be done. Recent Department of Justice and HUD Fair Housing Act enforcement cases demonstrate that some mortgage originators continue to target minority borrowers for higher cost loans, without regard to the borrower's credit qualifications, and that redlining by banks continues to result in denial of access to mortgage credit to qualified minority borrowers.

We need regulations to be enforced and enhanced to ensure all people equal access to housing opportunities and to create and maintain racially and economically integrated housing patterns.

I've described the important ways that CRA has helped the communities we serve. My colleagues on this morning's panel will call for the modernization and strengthening of CRA.

0133

I echo their suggestions, particularly on assessment areas and standardized training of examiners and would point you to NCRC's position papers for more detail.

We're concerned that several proposals in Congress would have rolled back many of the important systemic safeguards and consumer protections enable by Dodd-Frank and regulations implemented by the CFPB.

In just a few years, the CFPB has already made great strides in creating a fairer and more transparent financial system, working to put a stop to fraud and abuse, and returning billions of dollars to millions of people harmed by illegal, deceptive and discriminatory practices.

Congress should not weaken the power of this critical agency that has already done a great deal to protect consumers and create a safer financial system. If anything, the CFPB should be provided more resources so that it can speed up the implementation of regulations, including regulations that will include more enhanced reporting of small

0134

business loan data.

We look forward to working with our local and national partners in the public and private sectors to promote healthy, integrated communities across the country.

Thank you for asking for our input on these important regulations.

JONATHAN MILLER: Thank you, Bethany. And finally -- oh, I'm sorry, not finally. Calvin, and then one more after that.

CALVIN HOLMES: Thank you, Jonathan.

Folks, please bear with me as I put on my new reading assistance devices. I am now a gentleman of a certain age.

(Laughter.)

Good morning. Chairman Gruenberg -- actually this doesn't work because now I can't see.

Governor Brainard, Secretary Schneider and the Chicago Fed, thank you for bringing this listening tour to Chicago. I'm very pleased to be a part of the public conversation on the decennial review of EGRPRA.

0135

I don't -- not sure I knew what the acronym meant a month ago.

But I'm the president of the Chicago Community Loan Fund, as Jonathan noted. Now I've got to put them back on. I've got to really get the hang of these things.

We are a midsized, 70 million, 20-person CDFI fund certified, and I want to underscore, AERIS-rated Community Development Financial Institution serving six-county metropolitan Chicago.

We are a very flexible, patient and responsible Community Development lender and technical assistance provider, supporting the production and preservation of high quality, affordable housing, community facilities, commercial retail and social enterprises with an emboldened commitment to helping create communities where people thrive through a comprehensive cross-sector approach to community development.

We serve midsize and small organizations, and we are especially proud of the role we play as a key link to capital NTA

0136

for change agents whose annual operating budgets are a million dollars or less and have five or fewer employees. These are fairly small, frontline community redevelopment organizations. Many folks shy away from lending to them.

Compared to the lending levels of many of the depositories that you regulate, the 15 to 20 million a year that CDFIs -- the my CDFI lends might seem less significant. However, the 30 to 40 small to midsized nonprofit and for-profit community development organizations that we work with each year are bringing on-line some of the most important and catalytic development projects and social enterprises in some of the region's most distressed communities, many of them creating net new jobs in areas bereft of them, bringing healthy foods to good deserts, attracting net new, higher quality retailers that are providing goods and services that have been absent for decades, and mostly certainly building and rehabilitating housing and stabilizing communities a block at a time.

0137

Many of our efforts are also expressly designed to lead to additional long-term outcomes, such as increasing tax revenues for municipalities, reducing the carbon footprint of our communities, and improving public safety.

Our customers and my agency collaborate with other community-level partners, municipal and foundation stakeholders, regional planning agencies, policy groups such as the Woodstock Institute and National Peoples' Action, other CDFIs like NHS, and many community, regional and national banks and insurance companies, some of whom are in the room, to stabilize communities and get those hardest hit by the great recession back on their feet.

This evolved awareness around the critical need to collaborate amongst all of us community development actors brings me to my first observation of three.

It is a simple one, and that is that there are some activities under the Community Reinvestment Act that are working, and

0138

I think that it is important to acknowledge this so that we can encourage continued process -- I'm sorry. Progress.

The progress that I want to highlight is that, in my opinion, the bank-CDFI relationship, in general, is evolving in a positive direction.

Recent research from the Opportunity Finance Network, OFN, the leading national network of CDFIs, documents that insured financial institutions invest billions of dollars in CDFIs, representing more than one-third of dollars in CDFI's borrowing capital.

In 2013, for example, banks invested 5.2 billion in members of the Opportunity Finance Network. It is notable that of the 45 percent of OFN members who borrowed capital that year, clearly a third of them borrowed it from banks.

Further, our partnerships with banks has led them to a greater understanding of the capital access and the need for capital control for communities of color and other

0139

disadvantaged entrepreneurs and have given those banks feedback on ways to amplify the effects of their efforts.

In essence, the banks stepped-up level of investing in CDFI as one of their key strategies for fulfilling their CRA mandate to help meet the credit needs of their entire communities is actually working.

The fact that it is working leads me to my second observation.

Let me suggest a change to two specific EGRPRA regulations that are outdated that might enable insured depositories to invest more in CDFIs, as well as community development corporations and mission-driven housing developers.

Again, under the -- I'm still getting used to the EGRPRA regulations there's so many of them. Under the Powers and Activities section of -- and for the OCC, I think it's the National Bank Community Development Corporation/Community Development Projects and Other Public Welfare Investments Rule.

0140

And for the Federal Reserve system, if I'm not mistaken, it's the Community Development and Public Welfare Investment/Investment Bank Premises/Investment Security Rule, they both require depositories to limit their community development and public welfare investments to no more than 5 percent of their capital stock and surplus on a dollar-for-dollar basis.

The idea I have that could give regulated financial institutions leeway to make potentially billions more and qualify community Development and public welfare investments is to lower the amount of capital stock and surplus that has to be charged when banks make community development and public welfare investments and Community Development entities that are rated by a rigorous third-party rating system or participate in a robust and ongoing self-evaluation process.

As you know, the Community Development field has evolved tremendously over the past 30 years, and a great number of CDFIs, community Development corporations,

0141

community-based organizations and housing development organization have become high capacity and sophisticated enterprises.

This evolution includes the development of rigorous evaluation systems. One great example is AERIS, formerly a CDFI assessment rating system, or some of you may know it as CARS.

Launched by the Opportunity Finance Network in 2004, AERIS is now an independent corporation conducting CAMELs-like ratings for CDFIs. It expects to be collecting data on 250 CDFIs by 2018.

Having been rates by AERIS for nine years, and having survived them all, I can testify that they are indeed very vigorous and have let my organization to implement numerous governance, risk management and liquidity management improvements.

We also believe that it's greatly improved our agency's ability to recruit larger investments from regulated depositories and retain them as well.

Another example of a rigorous is

0142

Strength Matters. Launched in 2007, it is a collaborative of three national networks of non-profit owners and developers in the affordable housing field. Housing Partnership Network, Networks -- I'm sorry. Neighborworks America are stewards of affordable housing for the future.

They developed and built consensus on a range of sector-wide accounting and underwriting principles and practices and created an unprecedented financial data platform to facilitate benchmarking and transparency in property financial reporting.

The vision of Strength Matters is a thriving, well-capitalized, high-performing non-profit affordable housing sector.

Unlike AERIS, housing development organizations are not evaluated by a team of analysts. Instead, they receive invaluable insight on methods to improve their product and service delivery along with financial sustainability by voluntarily participating in the Strength Matters network and accessing its numerous well-researched papers, case studies,

0143

tools and reports on best practices.

Best practices derive from the careful study of the operation of 100,000 affordable housing units. Currently 62 local, regional and national housing organizations subscribe to Strength Matters.

My understanding is that regulators are not as familiar with the business models of the community economic development entities that insuring depositories make community development and public welfare investments in, and, therefore, still require dollar for dollar charges against capital and surplus, in part, because of this lack of understanding.

I would encourage regulators to become more familiar with the transparency, accountability and sustainability of industry-wide systems such as AERIS and Strength Matters that the community development field has put in place.

Doing so should make it possible to reduce this outdated capital and surplus charge burden so that insured depositories can

0144

significantly expand their public welfare investments to help meet the credit needs of their local communities.

My third obligation is related to CRA more generally but still has to do with capital. You can tell I'm obsessed with capital. It is focused on the type of capital insured depositories can provide, specifically, the Equity Equivalent Investment or EQ2, a tool pioneered by OFN and Citibank in 1997, and it's received praise from many, including the OCC. The EQ2 is one of the most common forms of -- I guess we would call it Tier 2 capital for CDFIs and is a long-term, deeply subordinated loan with features that make it function like equity.

My understanding is that banks don't feel that they are being sufficiently rewarded for making EQ2, public welfare investments any more, because regulators no longer view EQ2s as innovative and complex.

If it is true that regulators no longer categorize EQ2s as innovative and complex because they have been in use for a

0145

while, this perspective is out of touch with the needs of some of the most proactive lenders for LMI communities. If it is true, I could not disagree more with their perspective.

As I noted during a CRA listening session a few years ago CCLF and other CDFIs have been able to grow our lending capacity greatly through EQ2s, unlike for-profit corporations that can raise equity by issuing stock to build their Tier-2-like capital base through -- I'm sorry.

Unlike for-profit corporations -- I'm really still getting the hang of these glasses.

Unlike for-profit corporations that can raise equity by issuing stock to accumulate their Tier 2 capital, non-profit lenders need to build their Tier-2-like capital base through contributions from private philanthropic sources, governmental agencies such as the CDFI fund, or retained earnings. This can be a very difficult process.

EQ2s are a very important type of investment as former OTS director and FDIC

0146

board member Ellen Seidman noted in previous testimony here in Chicago.

EQ2s can benefit CDFIs by

strengthening capital structures, leveraging additional debt capital and protecting senior lenders from losses, making CDFIs even more attractive to new, non-bank investors. The price in turn CDFIs receive from banks really matter.

Thus, I would encourage regulators to permanently consider equity-equivalent investments and innovative and complex CRA activities and reward their regulated institutions accordingly for making them. Doing so remains very relevant and effective.

In closing, let me state for the record that CCLF lists its voice in chorus with our fellow advocates regarding many of the issues discussed on this panel and in other forums across country, including the call to broaden the definition of CRA and modernize it, and to specifically encourage regulators to develop new tools to support minority depositories.

Thank you for considering my views, and I look forward to working with you -- let me take these glasses off.

I look forward to working with you on the updating and modernizing of EGRPRA.

JONATHAN MILLER: Thank you very much, Calvin. And regarding the glasses it doesn't get better.

(Laughter.)

Dory Rand.

DORY RAND: Good morning. Dory Rand from Woodstock Institute.

Like National Peoples' Action and Cal Bradford and others in the room, Woodstock Institute has been at this for over 40 years. We were there at the beginning of passing the Home Mortgage Disclosure Act, CRA, help coined the term "CDFI" and so on, so it's great to be here to share our views. I also want to thank my fellow panelists and support their comments.

I also struggled to find something from the earlier panel that I could agree with, and I'm happy to say that I agree with the banker who said that assessment areas are

0148

antiquated in CRA and need to be updated and also agree with the idea that banks that offer safe and affordable small-dollar loan alternatives to Payday loans should get credit for doing so. You may not agree with the rest of my comments.

As for CRA modernization, I wanted to focus primarily on the retail service test, and I know your Q&As are still pending. Look forward to getting those.

I think that it's really important to maintain the focus on actual branches and ATMs in low- and moderate-income communities.

In addition to providing other kinds of access to banking, on-line banking and mobile banking is not currently sufficient to serve the needs of all the people in our communities. Definitely want to encourage CRA credit for offering low cost, safe accounts, particularly accounts that do not include overdraft. That has been such a death trap for so many people. And many of the banks have now started coming out with products that serve those needs. They're doing it profitably and I

0149

think show that it can be done.

I think -- I want to compliment the FDIC on its ongoing surveys on the unbanked and underbanked. It's critically important that you keep doing that. I would like to encourage you to get down to an even smaller geographic area in your surveys.

And, as I suggested before, I think it would be wonderful if you were able to overlay your survey data with real bank assessment areas and come up with some measurable goals for every bank in every assessment area to better serve the unbanked and underbanked, and to get specific credit for doing so and to collect the data that we know the banks already have about who is actually using their products, who is actually opening checking and savings accounts.

I'd also like to suggest that race be recognized explicitly. Other people have commented on the growing racial wealth gap and income gap. It's not getting any better. Ignoring it is not going to make it go away.

We'd like to see race be

0150

recognized explicitly. And I have to say I was disturbed by some of the earlier comments from some of the bankers complaining about the burden of complying with Fair Lending laws. It's absolutely essential that we have strong Fair Lending laws and strong enforcement.

I want to turn my comments now to a couple other things, mergers, marketplace lending and the CFPB. We have seen an uptick in the mergers and acquisitions lately. I think that's likely to continue.

We've really appreciated the opportunity to participate in public hearings on a number of these mergers. We think that should happen much more often. We'd like to see more time to comment on these mergers and acquisitions, more public hearings, more community input. And I think the OCC and others have done a good job in some of the recent mergers of making approvals conditional on certain acts, whether it's creating a CRA plan, working with community members to develop that CRA plan, making that an enforceable part of the approval. But it's got to have teeth,

0151

right? Just saying it as a condition of approval is one thing, but really enforcing it and making sure that the banks comply with that is another thing. So really want to hold your feet to the fire on that.

We've heard from our colleagues at Accion Chicago, City of Chicago, some of our bank partners who are trying to lend in low- and moderate-income communities and communities of color that the new Fintech on-line small business lenders are really wreaking havoc. There is not a level playing field. There's a desperate need for regulation to make sure that all of the lenders who are making loans to small businesses are held to high standards with ability to repay and reasonable collection practices and so on.

I know Treasury recently came out with a request for information that we responded to on that, but it seems that none of the existing regulators really has full authority over that, and it needs to happen sooner than later. It's hurting our entrepreneurs, and I know Chairman Gruenberg,

0152

you mentioned that our community banks are making 40 percent of the loans to small businesses. They don't have a level playing field against these on-line marketplace lenders, who are charging outrageous interest rates and not making ability to pay standard.

So in fairness to those community banks, we really need some action there.

Finally, I want to echo some of the comments about the importance of the Dodd-Frank Act and the new -- relatively new Consumer Financial Protection Bureau. I think it's done an excellent job of doing ground-breaking research, rigorous enforcement of Fair Lending, and evidence-based rule making. I just finished three years of service on the CFPB Consumer Advisory Board. I know they take their job very seriously, and I think they're making really good rules.

Looking at the recent HMDA data, I think it's clear that the QM rule in mortgage lending is not reducing access to mortgage credit, and I want to echo the comment about the importance of data collection.

0153

The new -- I haven't had a chance to look at the new HMDA rules, but we certainly commented on them. We use HMDA all the time, and it's critically important to have that data be publicly available so that researchers and community groups like those represented on this panel can use it to see who is getting credit and who is being left out.

I think we need to definitely preserve the independence of the CFPB and look forward to working with all of the regulators going forward. Thank you.

JONATHAN MILLER: Thank you very much to all of the panelists. Really thoughtful and insightful comments. Before I turn to the principals, maybe I'll ask the panelists if any of them have any comments on each other's statements or have any points they want to underscore in each other's statements.

CALVIN HOLMES: Sure. I'd like to just comment on I think it was Kristin and both Ben who noted that direct lending to minority home buyers and low-income communities is down, and I think that's a bit more up on the data.

But I'd like to suggest that one variable that we see very clearly in Chicago is that some of that lending is down because many of our neighborhoods have sustained and protracted very low property valuations, and many of the lenders who are anxious, eager to still make those mortgage loans can't do it because the LTVs are just hard for them to negotiate around.

I did a little bit of digging around and talked to a few experts on this, and I think that there is some examples of where the regulators in the past have created some -- some work-arounds that have allowed insured institutions to still make those kinds of loans where evaluation is one of the key variable that stands in the way from making the credit, so, if I remember correctly, I think the FDIC and the OCC recently made it possible for banks to set aside less capital on certain high volatility commercial real estate loans.

And, essentially, the banks didn't have to hold as much capital on their books for those loans, and the examiners were instructed

to allow that.

Another example is back in 1993, during that recession, a number of bulletins were issued by the OCC that allowed the banks to create baskets of loans, if you will, that didn't have to have quite the same level of documentation, which allowed the depositories to still move forward with those transactions.

So the point, though, is that regulators have been creative in the past. They can continue to be creative in the future. This valuation issue and no (inaudible) communities in Chicago and probably all around the country has stripped a generation of wealth from people of color, particularly African-Americans, and we have got to figure out a way to move forward on that. Otherwise, the American dream won't be available to those households.

JONATHAN MILLER: Go ahead. Bethany and then Liz --

BETHANY SANCHEZ: Thank you.

JONATHAN MILLER -- and I'll turn to our principal.

0156

BETHANY SANCHEZ: First of all, I feel a little sheepish that I didn't call for race to be an added factor considered under CRA.

I just want to be sure and make the point that a Harvard study has projected that between 2010 and 2025 a full 75 percent of new household formulation will be -- 75 percent of those new households will be people of color and minorities, nonwhite households.

So if you're going to continue with making money in the financial institutions and serving the whole community, we need to make sure that race is in fact a factor.

The other thing is that Fair Housing laws don't exclusively cover race. I mean, yeah, exclusively cover race. There's a whole lot of other protected classes in Fair Lending laws, and we need to make sure that everyone is covered, that every creditworthy borrower has equal access to fairly priced credit. We're not asking for people to make bad loans. I mean, CRA specifically precludes people or says, You need to make safe and sound

0157

loans. We want -- but we want fairly priced credit for every creditworthy borrower.

JONATHAN MILLER: Liz, did you have a comment and then I'll turn to our principals?

LIZ RYAN MURRAY: Just a quick comment on CFPB, which a couple of the panels have mentioned, and I agree with the value that they have shown, but I do want to -- especially at this event point out that CFPB did not replace you in your job with CRA.

And I think especially at the beginning, when Dodd-Frank was first passed and CFPB was first established there was a great pulling back on the part of the regulators, like that's that, you knows, Consumers are no longer our job. I've been very pleased to see that that kind of has gotten better but want to make sure that that continues, that CFPB is not the exclusive realm where Fair Lending happens, where CRA happens, where good credit happens.

JONATHAN MILLER: So would any of our panelists like to -- principals like --

CHAIRMAN MARTIN GRUENBERG: I'd

0158

just be -- I just wanted to follow-up with Mr. Holmes if I could on the -- your suggestion, I take it, on the -- to consider limiting or increasing the limit on community development and the capital that community development lending account for, and I gather you're suggesting we utilize what appear to be two particular and perhaps other forms of evaluating underwriting of the institutions. Is that -- I just wanted to be clear that that's what you were suggesting.

CALVIN HOLMES: Right. So, Chairman, what I'm suggesting is that where your regulated institution is making an investment in a Community Economic Development entity that is rated, I used AERIS as an example, but some CDFIs are now also being rated by Standard & and Poor's, that that could be a proxy for the level of risk that that institution is taking with that CED, right?

And I'm sure you would argue that there are certain levels of capital that still should be charged, but my argument is that it shouldn't be the dollar-for-dollar level. That

0159

perhaps you could pull that down to 75 percent or down to 50 percent or even lower, depending on the strength of the rating of that CED, right?

The logic though is that it's not about reducing the amount that a depository would make in public welfare investments, not at all. It's actually about freeing up some capital for other organizations that might not be in a position to get rated or might not have the benefit of an industry that supports some its self-evaluation process in the way that my industry does and some of the housing developers' organizations do.

JONATHAN MILLER: Any -- any other -- please, Mr. Schneider.

SECRETARY BRYAN SCHNEIDER: Ms. Rand, we're open for all of you, but perhaps, Ms. Rand, since you mentioned small dollar loans, certainly talked to a number of banks in our portfolio here in Illinois that have expressed some interest in making small-dollar loans, but they feel that the regulatory and supervision burden is just too great.

Would you agree with that assessment? And, if so, do you have suggestions for lowering the regulatory burden that might encourage that type of lending?

DORY RAND: I would refer those banks to the FDIC's excellent program several years ago where they tested out small-dollar loans among, I think, 30 different financial institutions across the country. And they were made at a rate of 36 percent interest or less, and I think a lot of them showed that they could do it successfully. They may not have made a great profit at it, but they didn't lose money.

We've got groups here in Chicago like North Side Community Federal Credit Union, who have been doing an affordable small-dollar loan for 16 or 18 percent APR for years and years very successfully.

There are ways to do it. I don't agree with the banks who think they need to be able to charge a higher interest rate in order to offer that product.

JONATHAN MILLER: I'll just add

0161

the FDIC did a survey of banks in 2011 where we asked specifically about unsecured consumer lending.

And close to 80 percent of FDIC supervised institutions in 2011 did unsecured consumer lending at rates below 36 percent.

Any other -- Ms. Brainard, Governor Brainard?

GOVERNOR LAEL BRAINARD: Yes. Thank you very much for your presentations.

Several of you said that it's past due time to modernize the assessment area definition.

Of course, that is very compelling, but I didn't hear a lot of very specific suggestions about how to do that and how to achieve the balance. So anybody that wants to go into a little bit more detail on that front I think would be very helpful.

DORY RAND: Take a stab. I also, like Bethany, serve on the board of National Community Reinvestment Coalition, and we submitted a paper several years ago on this issue and suggested some standards like

0162

.5 percent market share as being a criteria for determining, you know, where assessment areas should cover, so that's -- that's one specific.

LIZ RYAN MURRAY: Which is a good one.

I would also just add that when doing it, looking at an entire MSA or a larger area versus the census track by census track, because then you can actually end up back ending into redlining, where if they're only take -- you know, the deposit-taking is happening in a larger degree in one area, making sure that the entire community is covered in that.

JONATHAN MILLER: Do we have any comments or questions from the audience?

Please. Please identify yourself

and go ahead and make your comment.

AUDIENCE SPEAKER CALVIN BRADFORD: Thank you.

My name is Calvin Bradford, and I'm representing Illinois Peoples' Action. It's an organization of church-based and community-based groups in Illinois that mostly

0163

serve people in smaller MSAs and rural areas.

And I did have the pleasure of actually working with Proxmire staff on developing the CRA. And when we first did that, we were hoping that it would create a development banking industry in the United States, and when you have CDFIs and in the housing market, the housing services people, especially Chicago where they pioneered doing multifamily as well as single-family housing, we did see that begin to develop. And in the early years we documented scores of really creative agreements that grew, but I would have to say in spite of that, from the community's point of view, today, in some ways agreeing with the bankers, the CRA evaluation has become a sort of a checkoff list of things that you have to do. And in many ways we see it as a failure. And from the point of view of community groups who have to decide how to allocate their resources to dealing with environmental issues and employment issues and everything else, should we really spend time trying to monitor everything that the banks do,

0164

and filing comments, it's become sort of a futile gesture. And I think from the -- rather than doing a lot of details, I have a written statement I'll submit that's got more details. But from the point of the community, the reason they think it's failed is sort of clear to them.

The mega banks that through their retail services often make and direct subprime loans through their commercial services, often lines of credit to the worst of the subprime lenders, through their investments directly in those bad securities, and then hedging against those same securities that dragged us into the great recession. And then they all got outstanding Community Reinvestment Act ratings after the market collapsed, and from our point of view that in itself is an indication that the CRA needs substantially to be changed.

And from the point of view of the smaller banks that serve our community, there's no real incentive then for a small bank to try and do something creative or serve the local needs if the people who created the great

0165

recession get the same -- get outstanding ratings. There's no reward for people to do that kind of thing.

We're particularly concerned about replacing Payday and title loans because that's probably the most immediate crisis we have, and we don't see in the CRA reports where it talks about the credit needs that were identified.

We hardly ever see that show up even though it's a national issue and everybody deals with it.

And on the redlining issue and discrimination issue, it's not just urban areas where you have that. You go through all these small areas and rural areas all through the south and through our farm communities, and those low, moderate-income and minority areas are also suffering, also have the massive foreclosures, also have the development needs. They've suffered the same way in this crisis.

And I remember in 2007 I testified before a congressional committee, again, about what we saw as a great failure of the CRA. There were at that time a whole series of

0166

Justice Department settlements, lawsuits and settlements, against banks who had literally -- not just, not just -- literally drawn maps and cut out minority areas. One of them was the largest home lender in the City of Chicago at the time.

And they were sued by Justice and had to correct it, but every one of those institutions had an outstanding CRA rating.

And in a little section that does race, it said:

We found no evidence of race discrimination.

This year we've seen a whole new group of those show up. I checked out the CRA ratings for every one of those banks that's been -- that had a settlement with DOJ and the CFPB, and every single one of them got a passing CRA rating.

And even now, when we look at some CRA ratings for banks that have had all these settlements for engaging in falsely certifying FHA loans and servicing abuses and misrepresenting credit cards and charging

0167

illegal fees, even when it's mentioned in the CRA report, they all got passing ratings.

So it seems to us that that tells there's something fundamentally wrong.

One of the things that's wrong, we think, is comparing someone to your peers. It may seem like a wise thing to do, but in an area where nobody serves low- and moderate-income neighborhoods, it simply lowers the bar.

And we've actually seen cases where the regulator basically is telling the lender, You only have to make this many loans to sort of get the minimum satisfactory rating in your lending. And in rural areas that's just a handful of loans. It really means nothing. It's almost like coaching people to get past the CRA.

Again, hurts the lenders who are really doing a good job, who aren't going to get any better ratings than these other institutions.

So -- and also combining all the loans. You combine purchased loans and loans

0168

you made yourself with no distinction between FHA loans, different types of loans that are made, which loans are made to which groups of people.

It's quite easy for some banks

actually to buy purchased loans to get enough credit in the low-, moderate-income neighborhood without ever having to make the loan themselves.

So, you know, those are the kinds of concerns we have that the rating has really failed to make the distinctions that are important to us as communities and doesn't serve the institutions that are really trying to do a creative job.

JONATHAN MILLER: Thank you for the comment.

DORY RAND: Jonathan, could I follow up on one thing Cal said, please?

JONATHAN MILLER: Sure.

DORY RAND: I think that when the banks have been found liable for Fair Lending violations are entered into these settlements for Fair Lending violations, what they have to

0169

do as part of their compliance with those findings should not be eligible for CRA credit.

JONATHAN MILLER: Please.

AUDIENCE SPEAKER MICAH BARTLETT: Again, I'm Micah Bartlett from Town and Country Bank. I just wanted to amplify some of my earlier comments in response to your comments.

And I think, really, what's the encouraging thing here is that as I hear the underlying message of your comments, and when I overlay them with what our intentions are as the vast majority of community bankers, we really agree on the intention at the 30,000-foot level. And we all love the communities that we serve, and we all want the same outcome.

So, for example, with Fair Lending, the issue is not a concern on the part of banks to comply with Fair Lending. We believe we're good people. We believe wholeheartedly in the intention of Fair Lending.

Our concern is that when you apply the very specific rules of Fair Lending in the

0170

way that they are applied in our institutions, it has led to the exact opposite of what the rule was intended to accomplish.

I believe that a new and innovative approach to accomplish that which we want is a better idea than doubling down on failed policies.

And I really hope that the result of this process is new and better and innovative ideas, and I think in this one example, one suggestion that I would make is that we conduct roundtable sessions with banks and with community groups like those represented here today, knowing that we all want the same thing.

We want to improve the prosperity of our communities. But if we go to our corners and double down on failed policy, we will have another 10 years of what we've had.

We want the same things. Let's work together to find what works for community groups and find what works for banks in a way that is supportive of our community business. Thank you.

0171

JONATHAN MILLER: Thank you very much.

LIZ RYAN MURRAY: Jonathan, could I make one quick --

JONATHAN MILLER: Sure.

LIZ RYAN MURRAY: One thing that I could not agree with more is the idea of bringing together.

And I want to encourage, particularly the regulators, to help us with that. I hate to call out the OCC, but we came with a proposal to put together small-dollar lending tables around the country with some of our partners who are working to find these alternatives and help banks meet the credit needs of their communities and were told no. We were refused to help convene those because the CFPB is working on some of those issues.

Not -- I agree with you. If we can get together, if we can talk about the ways where we can better serve communities from the lender -- the CDFI perspective, community group perspective, the banking perspective, that's when good things get done. Thank you.

0172

JONATHAN MILLER: Thank you.

I will just say that, you know, while there is a rule making outstanding, which the CFPB has started on small-dollar lending, I think it probably makes some sense to let that process go forward, understanding that bringing those kinds -- having those kinds of dialogs is positive.

Any other comments? We still have a few more minutes before we break for lunch.

Well, let me ask one question then, if I may.

Calvin, you mentioned that there may be some other relatively low cost and simple ways that insured institutions could help CDFs serve LMI communities more effectively. Would you like to elaborate a little bit on that?

CALVIN HOLMES: Sure, Jonathan.

Our framework at CCLF, to Micah's point, is that there's so many win/wins in the work that we all do.

One of the ways in which we try to partner with our institutions is to ask them to

0173

help us improve our operations through giving us access to the very special specialists that help their institutions be as successful as they are.

We're a small, emerging financial institution, and we're only 20 people. And I was really impressed to hear the number of community bankers on the first panel describe how large their staffs were. We're still dreaming of having a hundred people.

So if you think that you've got many committees, and you've got a number of executives and managers who are willing multiple hats, sit in my seat for a day, and you can appreciate why I'm going to make the point that I will.

So we're trying to encourage our depository institution investors to avail to us some of their subject matter experts around various lines of business.

No disrespect to our fantastic CRA officer partners, but we're getting large enough now where we need the deep-knowledge specialists. So whether it's the folks inside

0174

the bank who help that institution manage its interest rates risk, we need those people on our committees and on our board.

If it's the folks that are looking at enterprise risk broadly, looking at IT and security risks, those are some of the professionals that we need to avail to our mission so that we can be successful.

So we think that's low-hanging fruit. That's an easy win for all of us, and if we could just get access to that talent inside of the institutions that invest in us, that would make us ever more strong.

JONATHAN MILLER: Thank you.

Dory, so you mentioned -- again, I'm happy to take comments from the audience.

You mentioned the concern you have with the marketplace lenders and small business workplace lenders. That's a very recently servicing issue. I am wondering if you could give us a little more color on what you are seeing and what your concerns are.

DORY RAND: Sure. So Woodstock Institute used CRA data about a year or so ago

0175

to do a research report on the level of access to capital for small businesses in the Chicago region.

And we found, as we unfortunately usually do, that the low- and moderate-communities and communities of color had much less access to capital.

And then we were talking with our colleagues at Accion Chicago, a CDFI that does a lot of small business lending. And they gave us some specific examples of their customers who had come to them after getting an on-line loan from a place like OnDeck Capital at 50 percent or more interest rate.

And then Accion, who wants to lend to them, it has to not only do all their usual stuff to qualify them for a loan, but they have to help them get out of that other bad loan so that they can move forward. And it's not an isolated example.

Now, recently a group of people, self-described responsible lenders, got together to create a Small Business Borrowers' Bill of Rights. It was announced in August.

0176

Woodstock Institute provided input on that. I don't think it's a perfect document. I think it's a good start. It's certainly not a basis for self-regulation only, but the idea was you need some standards in this industry, especially as apply to the nonbank lenders, and it need to include things like ability to repay, and one of the things we suggested that isn't quite adopted in the Borrowers' Bill of Rights yet is the concept of more of a fiduciary duty on behalf of the lenders towards the entrepreneurs.

And in many ways this is more like lending to a consumer than to a business, and we're talking about small businesses. And a lot of not very sophisticated people -- they know how to run a business, but they may not know how to read the fine print of these bad loan documents. They need more consumer protection. They need to be treated more like consumers than some big commercial loan.

So I think there's a lot of work to be done in that area. And we also have asked, as part of those efforts, that the

0177

Consumer Financial Protection Bureau raise up on its agenda the document, in fact, authority under Section 1071 to collect more and better data on small business lending, including gender and race, so that we can see that there is fair access.

JONATHAN MILLER: Well, thank you, again.

Any further comments from the principals? Any from the audience?

(No response.)

Well, please join me in thanking this really helpful panel.

(Applause.)

RAE-ANN MILLER: Thanks very much. We're going to take a break for lunch. Lunch will be served in the LaSalle room, and there will be folks directing you there. The bank is very busy today, so there's actually a lunch set up out there, but that's not ours. So just continue into the LaSalle Room, and we'll have lunch there for you. Thank you. Return at 1:15, please.

0178

(Recess taken)

RAE-ANN MILLER: I just wanted to remind folks that in your packet, there's a form. If you want to submit a comment, you can fill out that form and the ladies at the desk out front have an inbox if you want to submit something. So just a reminder on that.

We are going to start our next panel, and Toney Bland will be our moderator, and Toney is the Senior Deputy Comptroller of Midsize and Community Bank Supervision at the Office of the Comptroller of the Currency. Thanks, Toney.

* * *

THIRD PANEL: BANKER DISCUSSION

* * *

TONEY BLAND, Senior Deputy Comptroller, Midsize and Community Bank Supervision, Office of the Comptroller of the Currency (Moderator);

PEDRO BRYANT, President and CEO, Metro Bank, Louisville, Kentucky;

TOM DOLSON, President and CEO, Peoples National Bank, Mount Vernon, Illinois;

0179

E.G. McLAUGHLIN, President and CEO, United Community Bank, Lawrenceburg, Indiana;

STEVE PEOTTER, President & CEO, Oregon Community Bank, Oregon, Wisconsin.

TONEY BLAND: Right. And thank

you very much. I also want to think all of you from coming back from lunch.

(Laughter.)

Oftentimes, it's a little bit more sparse, so we really give you a lot of credit. Applaud you for coming back.

CHAIRMAN MARTIN GRUENBERG: Stick around, Toney.

TONEY BLAND: Exactly.

And if you need any energy, I think there's some cookies left as well, so please partake.

We are the third panel. What I want to do is briefly cover what this particular panel will go over with you.

It's rules pertaining to applications and reporting, powers and activities, international and banking

0180

operations. And what's covered, just briefly, under each one of those, under applications and reporting, this is the Bank Merger Act, change in bank control, call reports, deposit insurance filing procedures.

Under powers and activities, it's investment in bank premises, investment securities, sales of credit life insurance, fiduciary powers, community development investments.

Under international, it deals with foreign operation of national banks, for example, Edge Act corporations.

And under banking operations, you have assessments, availability of funds, collection of checks, recordkeeping requirements and reserve requirements.

Similar to the other panelists, our goal is to get specific comments on these regulations that are either outdated, unnecessary or unduly burdensome.

I want to take a moment and introduce what I believe is a very distinguished panel.

0181

As you all know, their full bios are in your packets, but I just want to briefly introduce them.

First, we have Pedro Bryant. He's the chairman, president and chief executive office at Metro Bank, which is located in Louisville, Kentucky. Metro Bank has more than 30 million in assets, is supervised by the FDIC, and it was established in 1997.

Next we have Tom Dolson. Tom is the chief executive officer of Peoples National Bank of Mount Vernon, Illinois. Peoples National Bank has more than a billion in assets. It operates from offices in Illinois and Missouri. It is supervised by the OCC, and the bank was established in 1909.

Next we have E.G. McLaughlin. He is president and chief executive officer of United Community Bank of Lawrenceburg, Indiana.

United Community Bank is a federally chartered savings bank and was created in 1999 through the merger of Perpetual Federal Savings and Loan Association and Progressive Federal Savings Bank, both located

0182

in Lawrenceburg, Indiana.

It has more than 5 million in assets and operates from eight offices. United Community Bank is supervised by the OCC.

And, finally, we have Steve Peotter. Steve is the president and chief executive officer of the Oregon Community Bank of Oregon, Wisconsin.

Oregon Community Bank has more than 220 million in assets. It operates from two offices. It is supervised by the Federal Reserve, and it was established in 1976.

Gentlemen, thank you all for agreeing to be panelists.

As I mentioned a moment ago, very similar to the first two panels, we're going to have each one take no more than 10 minutes to share their specific thoughts and views on the regulations.

And then we open up the session with comments or questions from the principals and then comments from the audience. And as a moderator, I'll keep track of the time and may ask some follow-up questions to provide a

0183

little bit more specifics on the comments that you've made.

So let's get started, and we'll begin with Pedro.

PEDRO BRYANT: Good afternoon, my name is Pedro Bryant, and I am president and CEO of Metro Bank in Louisville, Kentucky.

Our bank was created for the sole purpose of serving distressed census tracts in Jefferson County, Kentucky. We have about 35 million in assets, and we also manage a $54 million New Market Tax Credit portfolio for our holding company.

We are also a certified Community Development Financial Institution. I have been in the industry for 32 years, and all but nine months have been spent in community -- excuse me.

I've been in community banking for 39 years -- excuse me. 33 years, with nine months working for a large financial institution. I've been a banker in four states.

When I began my career in

0184

September of 1983, I was told that we would be a checkless society in 10 years and regulatory reform would address many of the issues that concerned bankers.

I want to begin my very brief comments by thanking you for the opportunity to share comments and perspectives on the Economic Growth and Regulatory Paperwork Reduction Act.

We applaud and appreciate the opportunity to share our reality on some of what we consider to be outdated, unnecessary and unduly burdensome regulations pursuant to the EGRPRA Act of 1996.

We acknowledge the efforts made to day with regard to the subject matter, but there still remains much that can be done to make our system more efficient while maintaining the regulatory safeguards that are necessary to protect the consumer and safeguard the banking industry.

I encourage you to consider, as I am sure you will, the diversity of our banking system, both rural and urban and everything in between.

0185

My home state, Kentucky, has 172 chartered commercial banks. 114 of these banks or 66 percent have assets of less than $250 million. Another 51 banks in Kentucky have assets between 250 million to a billion. The 114, plus the additional 51, represents 96 percent or 165 of 172 state chartered banks in the Commonwealth of Kentucky. Only seven Kentucky-based banks have assets greater than 1 billion, with none having assets greater than 10 billion.

Our bank serves a small segment of the larger Louisville community. There are bad actors in all communities. We're not asking for an exemption, but, rather, regulations that are appropriate for the risk profile of the institution.

Our directors are asked to sign an oath acknowledging their responsibilities and duties as bank directors. You have their names, addresses and principal place of business. Our customers know us. They know where we live, attend church and send our kids to school.

0186

It is not in our interest to do harm to our neighbors or community by intentionally or unintentionally doing them harm. We are asked to consider and review on an annual basis, and sometimes more frequently, the following as we operate our bank:

Our strategic and business plan, our budget, governance and risk management, vendor risk management, credit quality and appraisal standards, the external loan review, the audit, which is noted on the call report, compliance reviews, IT audits, stress testing, and now what scares me to death, cyber threats, flood insurance in flood zones, BSA and customer identification. All of this before we do business.

A streamlined call report would be well received as long as other sections of the call report are not expanded. We accept the cost of doing business, but the rapid pace of new and modified regulations make it a real challenge to keep pace.

The fast pace of changes to regulations requires constant changes to our

0187

systems, compliance programs, policies and training program. Documentation and testing should not be omitted.

And then there is the cost of compliance and time away from the bank. Yours is not an easy task because you must answer to a variety of constituencies.

What I would hope that you would consider is consider Kentucky and other states with a banking profile very similar to Kentucky. 96 percent of our banks have less than 250 million in assets. Surely, our regulatory agencies can come up with regulatory compliance programs and systems to manage these banks that do not pose significant risk to our banking system. Thank you.

TONEY BLAND: Thank you, Pedro.

Tom?

TOM DOLSON: Thank you for the invitation to participate in this process. It truly is a pleasure to be here today.

I am Tom Dolson, CEO of Peoples National Bank, a $1 billion bank in southern Illinois with 21 locations.

0188

As I considered preparing today's remarks under EGRPRA, I did read the definition about 20 times to make sure I had the purpose down.

It comes down to two things from my perspective, the first being regulatory burden and the second being safety and soundness.

Having endured the biggest financial crisis in the last 80 years, I asked a couple questions:

Have we identified the issues? Are we solving the issues?

Most of the regulation recently leverages the weakness in the banking environment. Between 2008 and 2011, 414 U.S. banks failed. Of these, 85 percent had less than 1 billion in assets.

Based on many studies, but I focused on one in particular, these bank failures are driven by a couple things:

First, it's driven by credit losses. Those credit losses are due to -- primarily were due to a concentration of

0189

commercial real estate loans and weak underwriting in credit administration practices. The high concentrations increased the bank's exposures to real estate. And a decline in the value of the underlying collateral of impaired collateral-dependent loans caused loss.

Keep in mind that loss and the decline in value is not controlled by the bank, but, rather, the overall market conditions.

Since 2008 to 2011 time frame, I'm already seeing loosening of underwriting standards since that time.

Recently, a lot of the focus from a regulatory perspective is focused in on cyber security, HMDA, BSA, AML, CRA. Most of those items are being covered elsewhere today, so I won't focus on those.

After enduring a period of significant bank failures, why are we so focused on areas that have nothing to do with bank failures? Certainly these are noble topics. And, by the way, we comply with all of them. They don't cause significant bank

0190

failure. Or they haven't so far.

Additionally, they're accelerating the decline in the number of community banks, and I'd say that's bad for the communities, CRA and Fair Lending in the long term.

My background is in accounting and finance, so I'll focus on applications in reporting today, specifically the call report.

I started my career at KPMG auditing financial statements and MD&A. And when you spend that time in KPMG doing -- focusing on financial statements, the focus really comes down to two things:

One is materiality.

And two is: Let's consider the user of that financial statement.

I would look at the call report in a similar fashion.

Recently, under EGRPRA, there's been a process to streamline the call report. And I do compliment the regulatory agencies on that process. We were fortunate to be included as a participant of that process and that all the national regulators did visit our bank in

0191

Mount Vernon, Illinois, and went through a process of looking through the process to prepare the call report.

Our primary recommendations focused in on considering the user as well as the burden in light of the value of the disclosures in the call report.

From 2005 to 2015 the call reports almost doubled in size. Schedule RCC, which is on loans, increased from four to five pages, while Schedule RCR, on regulatory capital, increased from 4 to 14 pages.

Focusing in on Schedule RCC, there are two areas that I think are not necessarily needed going forward.

The first one relates to troubled debt restructurings. There's been expansion of disclosures on TDRs. As a CEO, I have nobody that asked me about TDRs, including the examiners, the auditors. While it's a disclosure, I'm not sure that anybody really cares. They're focused more on classified assets, and I agree with that.

The preparation of TDRs and the

0192

accounting for it is widely inconsistent among banks. The process to identify and report on TDRs is extremely manual and time-consuming.

So I ask the question:

Who are the users? Is it value added? I don't think so.

Another section of RCC relates to loans to small businesses and small farms.

Again, as a CEO of a bank, I've never had anybody ask me about these disclosures. We don't use them. I'm not sure that the regulators use them for anything vital or relevant to safety and soundness. They're time-consuming to prepare.

So who are the users? Is it value added? From a safety and soundness perspective, I don't think so.

Moving on to Schedule RCR and regulatory capital, has the call report been modified to help ensure capital's sufficient to cover its risks or has the call report been modified to reduce the capital requirement for banks with a lower risk profile?

Over the past 10 years our

0193

Schedule RCR increased from 4 to 14 pages. The instructions are 120 pages long. After all the Basel III changes our pro forma total risk base capital ratio changed by only 5 basis points.

This is primarily due to two disclosures:

The high volatility commercial real estate, which has had some impact, but not significant in the event values decline significantly. In St. Louis, there are areas that had value declines of 30 to 50 percent during the recession. I don't think the schedules in RCR would accommodate that prospectively.

The other is due to nonresidential nonaccruals. Reasonable, but this is based on loans that are already identified as problems.

There has been a significant increase in the capital ratios under Basel III, but if a bank will fail at 10 percent, it will certainly fail at 10.5 percent.

Oil prices are currently down, and banks will have losses. Should we expect additions to RCR and exposures and loans to oil

0194

and gas? What's next? Hotel industry? Agriculture? Are each of these another 50 pages of instructions within Schedule RCR?

The issue was and remains prudent risk management and diversification. It is my belief that the additions to RCR are overly burdensome, as it does not address the cause of recent bank failures within community banking.

For a billion-dollar bank, I feel fortunate to have four CPAs on the payroll. Not all banks are this fortunate. Adding more regulatory reporting without proper consideration of value does not provide the value, but it does make banks less competitive with other financial institutions.

It is important to level set ourselves of what is important:

Safety and soundness. Risk management. Too much focus has been based on asset size and growth in these discussions. Growth did not caution bank failures. Rather, growth was a factor within banks that had concentrations and weak risk management.

Too little focus has been placed

0195

on diversification and risk management. If you have a concentration, there are many ways to manage that risk. More capital is only one tool in that toolbox. Mitigating risk to an acceptable level relative to capital is the key.

Concentrations of credit should be the focus. Stress testing should be performed based on those concentrations. We currently stress test agriculture, oil and gas and commercial real estate. So we need more granularity on these types of loans in the call report.

Insuring capital sufficient to cover that mitigated risk is the goal. While you may consider additions to concentrations of credit and other risk identifiers in the call report, it is important to consider areas in the call report that don't provide value. Otherwise, we can expect call reports to increase to 200 pages in the next 10 years.

Thank you for allowing me to speak today.

TONEY BLAND: Thanks, Tom.

0196

E.G.?

E.G. McLAUGHLIN: Thank you.

My name is E.G. McLaughlin, president and CEO of United Community Bank.

I do appreciate the opportunity to participate in the EGRPRA process. I consider it an honor to represent my fellow banks in this process.

I would also like to thank Chairman Gruenberg, Comptroller Curry, Governor Brainard and Secretary Schneider, as well as our two moderators, Associate Director Miller and Senior Deputy Comptroller Toney Bland, for being part of the panel.

I will do my best to be as specific as possible in my comments about how certain regulations and rules effect the noncommunity bank or UCB, as we are known in our community. And most importantly of all, how these rules and regulations affect our customers.

Obviously, any reductions in unneeded regulation of rules will also make United Community Bank more efficient, which, of

0197

course, will please our stockholders.

I have to admit my experience with the regulators over my 39 years in the banking industry has been extremely positive.

I always remember the words of my father about the regulators. E.G., remember, they have a job to do just like you do. Also, E.G., you can pick up a lot of knowledge from these men and women as they have seen many an example of what works and what does not work.

However, I also believe, whether it be we bankers or the regulators, we can always do things better and more efficiently.

When I found out I was going to serve on this panel. I gathered 17 members from UCB and showed them the categories of discussion. I also reminded them that we need to concentrate on just one or two items in each category that affects UCB and its customers. It was a lively discussion.

One of the first things we determined was that a number of the discussion points brought up by the team, such as necessity of mailing annual privacy notices,

0198

the annual delivery of billing right statements and advertising rules for electronic media marketing for lending products, just to name a few, are under the purview of the CFPB.

I would encourage 10 years from now that during the next EGRPRA process that the CFPB is asked and encouraged to be part of the process. Or, better yet, maybe there's a way to get them involved sooner.

So, then the UCB started with the application-of-rules category. In the application-of-rules category the obvious examples were the frequency of exams and the call report.

I told the team members I thought everybody would want to discuss these two items, and I can tell them that's what happened.

(Laughter.)

But the team members felt that these two items should be emphasized over and over again. First, we discussed the frequency of exams.

And, again, there's been some

0199

movement on that front, but we believe the exam cycle for banks less than a billion, CAMEL rated 1 or 2 and having strong capital position should be on a 18-month or even a 24-months exam cycle.

As I stated earlier, I have had a very good relationship with the OCC. In fact, to this day, I'm impressed with how seamless the transition from the OTS to the OCC went for UCB.

But why do I think the exam cycles should be extended for banks with less than a billion dollars in assets? I can tell you what UCB does to monitor safety and soundness at the bank in between our annual exams.

I believe most community banks do similar monitoring between exams. In addition to the exam that UCB has every 12 months, UCB has semiannual internal audits by external accounting firms, semiannual loan reviews by an independent third-party and does an annual external IT audit. These are in addition to our annual outside audit and the numerous in-house audits that are performed.

0200

Also, we participate in a quarterly phone call with our portfolio manager from the OCC. I find these quarterly calls very beneficial and informative. I believe the OCC gets a lot of information from these quarterly calls, and UCB is helped to understand the thought processes of the OCC.

Therefore, with all these additional audits and communication, I believe the OCC has enough information to extend exam periods to 18 months or even 24 months. Obviously, if the OCC would see trends going in the wrong direction, they could step in at that point.

Next the call report. We have all heard about the call report being over 80 pages in length, more than 2,000 line items and the many pages of instructions.

Two schedules that I would like to discuss are Schedules RCC and RCR, which Tom just went over very well.

Schedule RCC has over 100 fields that might need to be completed, and UCB completes most of these fields. Internally we

0201

have 21 supporting schedules on our network that are needed to complete this schedule. Even though this information is good information, this is a very burdensome process. I would think that the regulators could meet with bankers to reduce this complexity. Let's determine what information the regulators want to glean from this schedule.

As far as Schedule RCR, the calculation of risk-weighted assets is over 10 pages long. I totally understand the need to separate assets that -- because they have different inherent risk. However, why can't we come up with say five loan categories and assign risk weightings to each category? I believe with some small changes such as these the call report would become less burdensome and more meaningful.

Also, why not design what I call a summary, some people call it a streamlined call report for the first three quarters of the year and just do the full-blown call report for the last quarter of the year.

The summary call reports could

0202

include a balance sheet and income statement and some classified asset information. I believe this type of summary call report would be more efficient for banks and regulators.

Next, the UCB team members discussed the powers and activities category.

One item discussed was the appraisal process. Something as simple as ordering an appraisal has made the application process more confusing for customers. The person that orders the appraisal for UCB is independent of the loan application process as required. This sounds great until that person has to answer some questions. We have found that this in itself delays the closing process, which obviously affects our customers. No matter how many times a customer is told that UCB is required to do it this way, the customer does not understand. They only understand that the application process is taking too long.

I don't want our senior vice president of lending to order the appraisal, but what about a loan processer? It seems there are more and more regulations being

0203

approved that make it more and more difficult for a customer to get a loan.

The next item we discussed was flood insurance. Everybody's favorite topic.

Lawrenceburg, Indiana, sits on the banks of the Ohio River, so we're always aware of flood concerns. But what I want to discuss is enhanced communication among the NFIP, the regulatory agencies and the banking institutions.

An example why this enhanced communication is needed would be the newly mapped flood insurance program approved by the NFIP. Examiners and bankers alike were unfamiliar with this program.

This program allows flood insurance premiums to be based on a flood zone different from the flood zone associated with the property. UCB had this happen at an exam and was told that we had to force place the insurance. Obviously, this cost would have affected our customer greatly.

After a number of discussions with insurance underwriters, regulators and UCB, UCB

0204

and examiners did get the situation worked out before the flood insurance was force placed.

Bankers and examiners are not flood insurance professionals, but it seems like the industry is demanding that we both become flood insurance experts. Again, there has to be more communication among the NFIP, bankers and regulators to keep up with this ever changing industry.

Next the UCB team discussed the international operations category. To be perfectly honest, we think UCB is really not affected by this and only affected by Regulation E and how it pertains to the number of remittance transfers in this category before an additional rule goes into effect. This number is currently 100. If the 100 number is exceeded, the bank is subject to the remittance transfer rule.

Again, I believe this is also under the purview of the CFPB, but I do feel that the 100 number is too low.

The final category that the UCB team reviewed was banking operations. We

0205

discussed Regulation D and antiquated provisions for the limitation of six transfers and withdrawals to savings deposits. Customers do not understand this limitation. I believe this limitation should be deleted.

Finally, I appreciate the four principals, the two moderators, for taking the time and energy to be involved in this process.

I believe the EGRPRA process, especially in 2015, is very important to community banks. We all, whether regulators or bankers, operate differently than we did 40 years ago.

Let's take this opportunity and take the time to thoroughly review regulation of rules so we can modernize or delete regulations or rules that do not make sense for customers, regulators or bankers in today's banking environment. Thank you.

TONEY BLAND: E.G., thank you. Steve?

STEVE PEOTTER: Thank you very much.

I'm Steve Peotter, president and

0206

CEO of Oregon Community Bank. I, like the rest of the panel, is very honored with the privilege to be here, and as all my esteemed colleagues were going through their discussion, I was checking off all the items that I was going to talk about in mine.

(Laughter.)

Which is great because it reiterates a little bit of the consistency in our comments. Tom told me it would be okay if I said the same thing he did, and consistency was good.

There's also some additional comments that I'll make, but appreciate the opportunity to be here. Normally, when I'm reading words on a page, it's to try to get my six year old to fall asleep at night, so I'm going to try and read them a little bit differently for the benefit of everybody in the room.

So, as Toney indicated, to give

some insight into our bank, Oregon Community Bank, located in Wisconsin, was established in 1976, and we have about $225 million in assets.

0207

Our primary regulatory partner is the Federal Reserve Bank of Chicago. So I have spent literally dozens of hours in this building or in the Indiana room, which is around the corner, listening to our regulatory partners tell us how we could be better bankers.

So I -- and I sincerely, thus, appreciate the opportunity to come back to the building and share with our regulatory partners how perhaps they could do their jobs even better. And as E.G. commented, the relationship between regulators and bankers is a very important dynamic. We respect opinions coming our way, and we appreciate the opportunity to share our opinions back.

Additionally, as the lone bank representative today from the great state of Wisconsin, I'd like to take a moment to give you a sense of the composition of the banking industry of our state.

Pedro talked a little bit about Kentucky. I'll talk a little bit about Wisconsin. I won't mention that Wisconsin beat

0208

Kentucky in the Final 4 last year. I guess I worked that in.

(Laughter.)

Of the 268 regulatory regulated financial institutions that have a brick-and-mortar presence in Wisconsin, 90 percent of those institutions have less than a billion dollars in assets. Of that 90 percent 80 percent are institutions with 500 million or less.

So regulatory relief is not only of interest to my institution but is a focus for all institutions in Wisconsin. It's critical to achieve a meaningful reduction in the regulatory burden we are all managing in a way that does not harm consumers.

So my comments will focus around

the feedback that I've received from my colleagues in Wisconsin as well as my own.

So, shockingly, the first thing I'm going to mention is -- well, I guess the seventh thing I'm going to mention is the call report.

So there's two schedules that our
0209
colleagues up here have talked about in detail, the RCC schedule and the RCR schedule. I will echo Tom's comment, which is that the instructions for completing the RCR schedule is 120 pages long.

We're fortunate that we have one colleague at our bank who has been with us 38 years. And for those 38 years Dan has always done the call report for us. Amazing that one person's been with us for 38 wonderful years and has spent almost four decades filling out call reports for our organization.

He shared with me that the instructions for that schedule are 120 pages long. When he e-mailed me that, I made sure to ask him, Is that really the case, and is that true? He assured me that it was, so when Tom used that same example, it just reiterated for me how aware of that folks in our position are.

So, you know, nationally there's been a lot of attention to modifying the call report. The FFIEC has recently instituted some guidelines, and as a first step in the process, E.G. mentioned the streamlining process of call
0210
reports.

One of the -- one of the things I think that our regulatory partners have always done a good job talking with us about is that our policies and procedures should match the risk profile of the organization, and we should spend more time focusing on concentrated risks to our organization.

It would seem to me that the risk Oregon Community Bank proposes to the FDIC insurance fund as a $225 million organization is different than a $25 billion organization based in New York City. Which is wonderful, but a little bit different, our organization versus those.

So streamlining the call report process and going to a quarterly streamlined report, as E.G. mentioned, is certainly something that we're in favor of.

I massively edited down my comments there. So we're good.

Moving on to real estate lending, Tom talked a little bit as well about appraisals.

0211

The next topic I'd like to discuss relates to the appraisals. As I mentioned earlier, our principal regulator is the Federal Reserve, and under their Real Estate and Appraisal Rules, which I believe is 12 CFR 208, Subpart E, we are required to adopt and maintain written procedures that establish limits and standards for extensions of credit secured by liens on or interest in real estate.

The policies must be consistent with safe and sound banking practices and must be reviewed and approved by the bank's board of directors, at least annually.

If there has not been a change in bank procedure or policy, or if the bank has not introduced new products or entered new geographic locations, I would recommend the removal of the annual board approval requirement. If there has been no change, there should be no need for board action.

With regard to real estate appraisals, this, too, is an area I believe regulators can bring meaningful relief for community banks like Oregon Community Bank.

0212

Generally, under the appraisal rules, an institution is required to obtain an appraisal to evaluate real property for consumer purpose loans under a quarter of a -- when the transaction is in excess of 250,000.

For consumer purpose loan transactions under 250,000, the institution is permitted to use an evaluation of the real property in lieu of an appraisal.

Respectfully, the long-standing threshold of 250,000 is too low. The current appraisal requirements impose unnecessary time and cost on both the bank and the consumer when other conservative, reliable evaluations may be utilized, such as a property assessment noted on a tax bill.

There are very oftentimes, continuing to talk about appraisals, when it is extremely difficult in parts of Wisconsin to get an appraisal completed in a timely fashion.

I know from speaking to my colleagues and staff at the Wisconsin Bankers Association that there are areas of our state where there may be only one servicer who

0213

provides appraisal services for large geographical territories. This individual may not have the expertise in appraising all types of properties.

Moreover, such servicers are significantly backlogged, that it can take several weeks, sometimes two months to receive a completed appraisal.

This can be true in more urban areas of the state as well. I continue to hear from my colleagues that servicers in many areas of Wisconsin are so overbooked that they have had to turn down an appraisal request, which leaves the institution and the consumer in a bind as the loan cannot be -- cannot proceed until a servicer becomes available.

Imagine the clients that we have had that have asked us to help them refinance their primary mortgage when rates are in a certain position, and we are unable to take care of them that day because there is not an appraiser that can go out to advance the process forward. There is no upside to that conversation for anyone.

0214

I believe there's an opportunity to provide helpful regulatory relief under the appraisal requirements without jeopardizing safety and soundness concerns of the agencies.

This could begin simply by raising

the threshold from $250,000 to something higher.

I would also recommend the agencies finalize the October 2010 Appraisal Independent Interim Rule. I appreciate the efforts of the Federal Reserve, who, at the time of issuing the Interim Rule, had the foresight to recognize the limited staffing resources of a creditor with assets under 250 million and created a rule which allows smaller creditors an alternative to complying with the independence requirement.

Oregon Community Bank is that bank. We have implemented the requirements of that Interim Rule bank at my bank. And I believe we have achieved appropriate independence as.

E.G. commented on CFPB. Let me just say something there. While I know the

0215

Bureau of Consumer Financial Protection, CFPB, now has rule-making authority over Reg Z which implements this October 10th Interim Rule, 2010 Interim Rule, and that CFPB is not part of this process, I would ask that each of the regulatory agencies do what you can to encourage CFPB to finalize this rule soon, as it would remove unnecessary uncertainty for me and many other community banks that made changes as a result of the Interim Rule.

So now I'm going to talk about a couple other parts that haven't been talked about yet.

So, finally, under the topic of banking operations, there are certain regulations I believe should be updated to provide helpful regulatory relief to banks without consumers.

The first is Regulation D. Since the repeal of Regulation Q under the Dodd-Frank Act, the limitation of what consumers may be eligible for a NOW account is antiquated. As a business customer are now eligible to have interest-bearing demand deposit accounts, the

0216

NOW account eligibility rule should be updated to allow any deposit customer the ability to have a negotiable on withdrawal request account.

Also, Reg D has long-standing requirements which limit certain types of withdrawals from a savings account to no more than six within a periodic statement cycle. Generally, a four-week period.

The regulation imposes the requirement that bank personnel monitor excess withdrawal activity and to ultimately change the account type from a savings account to a transaction account should the customer fail to comply with the requirement to the number -- to meet the number of certain types of withdrawals.

So that was all very exciting for all of you to hear me read. Now, imagine you are the customer who gets the phone call from the bank who tells you that you've taken out money too often from money market account -- or your savings account.

I appreciate the underlying

principles of Reg D and reserve requirements. However, given today's capital requirement and other safety and soundness protections, Regulation D withdrawal restrictions should be lifted to a more reasonable level than six -- six per periodic cycle. This change would alleviate some regulatory burden on my operational staff and provide customers with greater flexibility. The general public seems to feel this limitation is putative, and I would say the time has come to enhance it.

With regard to Reg CC, another long-standing regulation that all of us know well, funds availability, I strongly encourage the Federal Reserve and CFPB to finalize the outstanding proposal. The electronic check processing technology available today has made the processing of checks much more quick and efficient. The industry should use that to its advantage. Nonetheless, the efficiency and quickness needs to be balanced with the risks and costs finance institutions still bear due to the negotiation of counter checks -- counterfeit checks.

0218

Currently institutions are prohibited from classifying customers and checks when determining whether a hold should be placed on a particular deposit.

However, when finalizing the Reg CC proposal, the agencies need to consider this risk and -- consider this risk and loss when determining whether there should be a reduction in the safe harbor timing an institution may rely upon when placing an exemption hold on a deposit.

Additionally, in compliance examinations, examiners should be looking at patterns and practices of Reg CC violations, rather than citing a Reg CC violation for single -- single mistakes, such as a one-time teller mistake of providing the customer a case-by-case hold notice rather than an exception hold notice, when the exception hold notice was technically required under the regulation. Seems to me that providing a customer with a notice of hold and helping them understand what is happening is more important than the technicality of what the hold notice

0219

is titled.

Finally, while this may be a small point, Regulation S needs to be revised as the reverse -- reimbursement amounts for providing financial records are too low compared to the true cost to reproduce required records. I recommend the rates be increased to better reflect today's cost.

So, in conclusion, I sincerely appreciate the opportunity to participate in this distinguished panel and hope my comments in these meetings help move the issue of regulatory relief from one of conversation to one of action. I look forward to our continued discussion today, and I'm happy to answer any questions again. And I thank everybody by name that E.G. did, but I want to say a special thanks to Mark Medrano from the Federal Reserve

Bank of Chicago, who initially reached out to me related to participating today and also to Heather MacKinnon, our friend from Wisconsin Bankers Association, who helped me prepare for today's presentation. Thank you.

TONEY BLAND: Steve, thank you,

0220

and for all the panelists. We are at the comment portion of our panel. Let me ask the principals first.

COMPTROLLER THOMAS CURRY: Thank you, Toney.

I just wanted to follow up on the comments about the residential appraisal rule threshold.

Would you also recommend or what are your views on the current $1 million appraisal threshold for business loans? And do you see those as similar or different issues?

STEVE PEOTTER: I believe your -- thanks for the opportunity to answer the question.

In this -- from our perspective, from the state of Wisconsin, the million-dollar threshold that you referred to seems reasonable to us. We don't have difficulties meeting that requirement. Our clients seem reasonably reflect -- responsive to when those requests are made.

So as a general statement, I think the appraisal requirements on the residential

0221

side is more restrictive than commercial side.

E.G. McLAUGHLIN: Yes, I would agree with that also from United Community Bank's perspective. Probably the biggest thing on the commercial real estate appraisals is just finding somebody that's qualified to do it.

PEDRO BRYANT: I would say the same as well.

COMPTROLLER THOMAS CURRY: Thank you, Toney.

TONEY BLAND: Okay. Do we have any comments?

(No response.)

TONEY BLAND: Let me just ask just one question. I think we covered a lot of ground, and thank you for all the specific requirements.

Is there any regs or statutes, if they eliminate or change, you feel would have the biggest impact on reducing regulatory burden? Is there anything that jumps out at you that is very material, if that was addressed, you think would reduce the burden

0222

considerably for your institution.

TOM DOLSON: There is the proposal on the new HMDA filing requirements. You know, I may be getting ahead of myself here, but I do believe that that would be a significant undertaking because a lot of those data fields are not readily available within a bank's core system that it will trigger a bunch of additional tracking within the bank to maintain those data fields, make sure that there's accurate reporting, and due to the manual undertaking, I do believe that there will be a lot of inconsistencies among banks in -- in reporting on that data.

TONEY BLAND: Thanks, Tom.

PEDRO BRYANT: I would say FR-Y 11, 6, 8 if our quarterly basis, if there are no transactions with the holding company, I think that could be an annual report as well.

CHAIRMAN MARTIN GRUENBERG: Toney?

TONEY BLAND: Yes, Martin.

CHAIRMAN MARTIN GRUENBERG: I come back on one point that Mr. Dolson raised that struck a chord when he commented on the causes

0223

of bank failures. And, as you know, actually there have been over 500 bank failures as far as since 2008, and over 450 of them in failures of institutions with assets under a billion dollars.

And we -- our Inspector General has actually conducted two studies relating to the issue:

One, what were the causes of the bank failures, particularly for the community banks.

And, consistent with what Mr. Dolson said, the IG identified three key factors. One was concentrations of commercial real estate, particularly ADC lending.

Two, rapid growth in those concentrations. So not only the concentrations but the rapid accumulation of them.

And, three, and oftentimes reliance on volatile deposits. What's rather striking is that those are characteristics of the failed banks, not at the characteristics of the vast majority of community banks that got through this period in pretty good shape.

0224

We also asked the IG to do a review of institutions that had higher concentrations of commercial real estate but didn't encounter these difficulties. And, actually, there were substantial numbers of institutions that had accumulated higher levels of concentrations. What distinguished them was careful underwriting relating to those assets, and they generally were not accumulated in a short period of time. They were a stable part of business that had been gradually developed over time.

So I guess the lesson there, consistent with the point Mr. Dolson was making, it's not only concentrations. It's how it's done. And it goes to the supervisory issue of distinguishing between the two.

So I just wanted to take the opportunity to mention that because it was, I thought, a fair point that you made.

TOM DOLSON: Well, thank you, Chairman.

And I would add on to that. As I read through a lot of the studies, they -- a

0225

lot of times it can be painted with a broad brush to talk about construction, land development, commercial real estate, weak underwriting and growth and alternative funding and broker deposits. But the growth and the alternative funding tend to be common characteristics of banks that had issues, but those weren't the causes of the issues.

Funding your loans with broker deposits did not cause credit losses, the concentrations caused credit losses with weak underwriting and improper risk management to make sure that there -- to provide a situation where the bank did not have sufficient capital to cover that unmitigated risk.

And I appreciate your comments because that really is the basis of my comments here today is that we're building this reporting process that we hope is going to cover that. And I'm not sure that it necessarily is when you go back upstream towards the causes of those bank failures. So I do appreciate your comments.

TONEY BLAND: Pedro, Tom, E.G. and

0226

Steve, thank you for your preparation and also presentations today.

Will everyone please join me in thanking them.

(Applause.)

RAE-ANN MILLER: Thanks very much. We ended this one a little early. Can you please come back at -- why don't we make it 2:30.

(Recess taken)

RAE-ANN MILLER: Just real quickly, Governor Lael Brainard did not get a chance to read her remarks this morning, so we are going to take just a few minutes right now. And Governor Brainard?

GOVERNOR LAEL BRAINARD: Thank you.

Well, I guess I have the benefit now of having heard from three panels. So, hopefully, some of the issues that have been raised are things that all of us have been thinking about and working on together in the banking agencies. And I'll just touch a little bit on where we are in those discussions.

0227

In the Federal Reserve System, we view the review processes, the EGRPRA review, as a very timely opportunity to step back and to look for ways to reduce burden, particularly for smaller or less complex banks that don't pose risks to the system.

I was very pleased to participate, along with my fellow banking regulators, at the launch meeting in Los Angeles of this process. And I can tell you that since that time Federal Reserve staff from across the system, including, importantly, here in Chicago, have been hard at work evaluating all the comments that we're all receiving and identifying actions that will meaningfully reduce burden.

In some cases, where the agencies have authority and the benefit is straightforward, we have already started to take action.

In other cases, which may require interagency agreement and changes to rules, the process is going to take a little longer. And in still other cases we will have to look to Congress.

I can spend a few minutes just highlighting ten quick areas, some of which have been touched on here, that hold promise.

First, we have heard the requests to achieve a meaningful reduction in the burden associated with regulatory reporting, and that's why in early September the FFIEC agencies detailed steps that we're taking together to streamline and simplify regulatory reporting requirements.

As an initial step we are seeking comment on proposals to in part eliminate or revise several call report data items. And we are also evaluating the feasibility and merits of creating a streamlined version of the quarterly call report for community banks.

In parallel, the Federal Reserve board is conducting a separate review of the FR series of reports for holding companies.

Secondly, we have already taken action to expand the universe of small bank holding companies covered by the small bank holding company policy statement. Following congressional action, we amended our regulation

0229

to raise the total asset threshold for the policy statement's applicability from 500 million to a billion in total consolidated assets. And as a result of that change, more than 700 holding companies are now exempt from consolidated regulatory capital requirements which reduces both the cost of capital and reporting requirement.

Third: We have received, including today, numerous constructive comments on ways to implement the implement -- sorry, update the implementation of the Community Reinvestment Act to better reflect changes in the ways banking services are being provided and banks are interacting with their communities.

A few of the most common issues. And, again, I think we have heard some thoughtful comments here today:

Whether the definition of assessment areas should be revised because of changes in technology that allow banks to gather deposits and make loans far from their existing branches, and ATMs.

0230

Whether the asset thresholds that determine the examination methods for banks should be raised to lessen the regulatory burden on small banks.

And whether the performance tests should be revised to give more meaningful consideration to community development activities.

These are all important issues, and we are looking at a wide range of suggestions and options in this area, which means it will take us some time to work with the other agencies to see what is feasible and meaningful in this space.

Fourth: We've heard from many community bankers they would welcome guidance that would assist them in meeting their compliance obligations under the BSA/AML rules, the subject of the upcoming panel, and more cost-effective ways.

Accordingly, we are taking a careful look at options that might reduce exam frequency for lower risk banks, and also in options that might enable small banking

0231

institutions to share expert resources.

Fifth: We have been receiving comments regarding applications.

Last year the Federal Reserve started publishing a semiannual report that improves the transparency of the applications process by providing information on the applications that have been approved, denied and withdrawn and the length of time to review those. We are now looking at whether we can expedite that process, in part by delegating more to the reserve banks.

We have also heard comments about possibly broadening the measure of the degree of competition in a banking market to include the activities of Internet banks. That would reduce the market shares of other banks and the measures of local market concentration, which may in turn help community banks in rural areas in particular.

Sixth: We have heard the requirement to obtain an appraisal on small dollar real estate loans is a significant burden, particularly in rural areas, and we --

0232

again, we've heard today on the panel that we were just listening to.

As you know, we have under FIRREA currently a threshold that does not require the use of a state-certified or state-licensed appraiser for federally related transactions of $250,000 or less or real-estate-secured business loans of one million or less.

The agencies adopted those dollar thresholds in 1994. Given the passage of time and changes in the condition of real estate markets it's only natural that we should review the current thresholds. We need to assess, of course, whether the thresholds appropriately address collateral and credit risk and are reasonably balanced against the cost and time to obtain an appraisal, particularly in rural markets where fewer appraisers may be available as we just heard.

Seventh: We have heard the question whether the Federal Reserve can exempt small financial institutions from meeting the revised capital requirements. As you all know, based on the crisis experience, bank capital

0233

requirements have been significantly revised to make them more risk sensitive and to raise the quality and the quantity of capital.

Some smaller institutions have indicated that the degree of categorization of risks, the recordkeeping and systems changes and the increased record are generating significantly increased compliance costs that are not commensurate with their risk profile.

For smaller and less community banks, the benefit from this increased risk sensitivity may be outweighed by the burden of increased complexity and a commensurate improvement in safety and soundness of the institution may be achievable by holding a higher cushion of capital measured against a simpler definition of assets. We're currently looking at options there.

Eighth: One item that I would consider worthy of congressional consideration in the EGRPRA context would be the stress test currently performed by smaller regional lenders or those between 10 billion and 50 billion in assets.

0234

It might be worthwhile to examine the prudential benefits, the additional insights gained by us as supervisors, as well as by the bank's senior managers from the stress test as against the opportunity costs in terms of compliance, measures and the allocation of management and examination resources.

Ninth: We are also examining whether there may be scope to extend examination cycles, which we also heard about there today, for community banks with lower risk profiles.

And in some areas we have already taken action. For example, we recently revised our consumer compliance examination frequency policy to lengthen the time frame between on-site consumer compliance and CRA examinations for lower risk community banks with less than $1 billion in total consolidated assets.

Another item to evaluate includes potentially increasing the number of healthy, well-managed community institutions that could

0235

qualify for an 18-month cycle by raising the threshold from 500 -- from its $500 million level.

And, finally, EGRPRA may provide a good opportunity to reevaluate whether community banks should be subject to the Volcker Rule. Exempting banks with less than $10 billion in assets from this requirement might significantly help reduce burden on smaller institutions that are unlikely to pose a risk to the system.

So I think you will see a lot of overlap between the list that we together are working on and the comments that we've heard here today. That list is by no means meant to be comprehensive. It's merely suggestive, and so as we move to the last panel, please continue to give us ideas, both on those areas, but also additional areas that we may not yet have on our list. Thank you.

RAE-ANN MILLER: Thank you very much. Can I ask the last panel to come to the table.

And our moderator for the last

0236

panel will be Jim Watkins, and Jim is the senior deputy director of division of risk management supervision at the FDIC.

* * *

FOURTH PANEL: BANKER DISCUSSION

* * *

JAMES WATKINS, Senior Deputy

Director, Division of Risk Management Supervision, Federal Deposit Insurance Corporation (Moderator);

DAVID FINDLAY, President and CEO, Lake City Bank, Warsaw, Indiana;

CHARIE ZANCK, Vice Chairman and CEO, American Community Bank & Trust, Woodstock, Illinois;

H. STEWART FITZ GIBBON, III, President and CEO, Wayne Savings Bank, Wooster, Ohio;

TODD GRAYSON, President and CEO, South Central Bank, Chicago, Illinois.

JAMES WATKINS: Thank you Rae-Ann, and I'm delighted to introduce our fourth and final panel today where we will explore the important topics of securities relating to

0237

registered transfer agents, money laundering, such as the Bank Secrecy Act compliance and reports of crime and suspected crimes, issues of safety and soundness. This includes several areas of industry activities will be covered here. And rules of procedure and regulations, including Uniform Rules of Practice and Procedure, resolution of receivership rules, recordkeeping requirements for qualified financial contracts and restrictions on sale of assets by the FDIC.

These topics are covered -- 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 in successfully leading banks and navigating regulatory requirements and bank operations.

Let me first introduce our panel members.

Stewart Gibbon is the president and CEO of Wayne Savings Community bank in Wooster, Ohio. The bank was founded as Wayne

0238

Building and Loan Company in 1899.

Today this bank is a state chartered savings and loan association with 420 million in assets and 11 branches serving a rural five-county area in northeast Ohio.

He's followed by Charie Zanck. She's the CEO of American Community Bank & Trust in Woodstock, Illinois. She has been serving as CEO since the bank was founded in 2000, which was developed as a retail bank located in the Chicago suburbs of Woodstock. The bank has grown to 485 million in assets and has four locations.

Then we have Todd Grayson. He's president of South Central Bank here in Chicago. It's a national bank, and the bank has 260 million in assets and is a federally chartered community bank with five offices on the south and west side of Chicago. The bank specializes in home improvement lending and is a preferred lender with the Small Business Administration.

And, finally, he will be followed by David Findlay. He's the president and CEO

0239

of Lakeland Financial Corporation and Lakeland City Bank in Warsaw, Indiana. This is a $3.6 billion publicly traded bank holding company. And the bank operates 46 offices located throughout the northern and central Indiana. Lake City Bank is a member of the Federal Reserve System and has been a state chartered bank since 1872.

Thank you for taking time to be here today, and the biographies of the panelists are included in the information packages in today's program.

Each panel member will address issues on one or more topics. And we encourage any follow-up or clarifying questions after the initial comments from all the panel members. We are hopeful to have time to solicit comments from the audience as well. Now, if we could begin. Stewart? Thank you.

H. STEWART FITZ GIBBON, III: Thank you, Jim, and thank you Rae-Ann for moderating. Thank you, our principals, for taking the time. It's a long day of listening, so it's much appreciated.

0240

Thank you for the opportunity to contribute to today's discussion on the review of regulations. I applaud the regulators and my fellow bankers for engaging in this important process.

As noted by other commenters, I recognize the predicament of the regulators in terms of making changes to regulations codified in law. As bankers and regulators we all have a further obligation to address our concerns to our federal and state legislators in order to effect needed updates to regulations established by legislation.

As a community banker, I can attest to the increasing amount of regulatory burden faced by smaller banks. The challenge which my colleagues and I hope to address today is to move beyond the rhetoric of regulatory burden to specific examples that can be addressed through either regulatory or legislative action.

A couple of general themes first:

The community banking mission. I won't try to get into the discussion of how one

0241

defines a community bank, although we had several great comments on that this morning from our regulators. And I know that a lot of time is being spent. It's really more one of type of business as opposed to size.

But my working definition is a bank headquartered in or in close proximity to the communities that it serves. Our mission is, very simply, to serve our communities.

We provide consumer, residential mortgage and commercial credit and deposit products mainly to retail consumers and small businesses that don't get attention from larger institutions. To the extent that our time is redirected into regulatory compliance, instead of to the provision of credit and services to our communities, our communities suffer.

Another general theme is indexing. As a general theme dollar-amount thresholds for compliance obligations, such as the CTR threshold of $10,000 set back in the 1970s, need to be at least periodically reevaluated for reasonability or indexed for inflation.

By one estimate today's CTR

0242

threshold would be $62,000 if indexed for inflation. The impact of this lack of indexing is staggering. In 2014 my institution filed 211 CTR forms. All but two of them were below $62,000. The failure to index thresholds imposes an ever increasing compliance cost on banks, which, in turn, is reflected in diminished services or higher costs that end up being borne by customers or shareholders.

Another general theme is cost-benefit analysis. As we all know, capital is the basic building block of banking. It's the C in CAMELs. In order to attract capital to the industry and to retain it in the industry, we must produce a competitive return, which is the E in CAMELs.

Where does regulatory burden fit in this equation? The cost of regulatory burden depresses earnings both directly through added direct costs of people in technology.

More importantly, regulatory burden depresses earnings through the redirection of board and management time from serving customers. It has often been said by

0243

examiners that thus and such will only take another five minutes of time. While often true for each instance, it is the cumulative effect of hundreds or thousands of these five-minute obligations that results in regulatory burden.

My next general theme is so-called best practices. Believe it or not, I am not -- I one of those bankers -- believe it or not I am one of those bankers who see an exam as an opportunity to learn from examiners based on their experience with a wide variety of institutions.

However, for my community bank in the wake of Dodd-Frank, examiners often propose so-called best practices that come from the requirements imposed on larger institutions.

The best practices often end up being treated essentially as requirements.

I return here to the Bank Secrecy Act. A best practice is to replace a typical manual process in a small community bank in a low-risk market with an automated system. Implementation of an automated system is expensive in terms of money and staff time. In

0244

my institution's case, we are being asked to spend over $125,000 on a system and an additional amount to hire another dedicated compliance person to oversee the conversion and run the new system going forward. As noted above, given our 211 annual CTR filings, this cost seems excessive relative to the benefit gained.

My next topic are third-party audits and reviews. An increasing area of concern is the requirement imposed by examiners for third-party reviews of an increasing number of hot-button topics where management is deemed to not be sufficiently experienced or independent. These are hard-dollar costs spent to engage firms for audits or reviews, such as IT, BSA, appraisals, GLBA, et cetera.

Returning again to BSA, we were required by our examiners to have an outsourced third-party audit of our BSA program, which added another direct expense of about $10,000 annually to our internal audit program.

It was also suggested that we send our BSA officer to CAMS certification training.

0245

Upon investigation, this is an expensive program in terms of time and training dollars that seems oriented toward larger, internationally active institutions.

Our BSA has already completed the ICBA certification for BSA/AML, so this additional certification, while appropriate at some advanced level, seems again to be out of proportion to the transaction volume and risk profile of our institution.

Next, as has been said many times, is on the topic of appraisals. Related to the above comment on third-party reviews, the regulatory appraisal and review requirements seem to contradict common sense.

We are asked to hire expert independent appraisers to value properties. We then either have to have enough expertise on our staff to independently review, parentheses, second guess, the expert independent appraiser or we have to hire a second independent appraiser to validate the work of the original appraiser.

In any case, we have added layers

0246

of cost that is borne by the customer and the bank, and in a small market we create professional conflict amongst the appraisers to have one another check each other's work.

Next up is HMDA LAR. No one can argue the importance of Fair Lending. However, as is my theme today, the compliance cost of a zero tolerance environment for any element of an ever-expanding HMDA LAR dataset seem to be outweighing the benefits.

In our particular case, our compliance examiner recommended a 100-percent file review for HMDA LAR to ensure the required hundred-percent accuracy. So in addition to one loan closer checking another closer's data, followed by the department manager rechecking the data before it is entered in the system, we now have a member of our risk manager department also reviewing the data. With two of the three layers of data review happening within our residential lending department, there's a direct loss of development of credit opportunities for our communities.

Next is FS-ISAC, everybody's topic

0247

of cyber security, and it does keep me up at night as well. Once again, no one can argue the importance of cyber security in today's digital world. The idea of FS-ISAC also can't be argued. And this was a rare case where regulators all said that banks must join. And so we did at a very reasonable cost. However, once again, the real cost is in time. I have five people subscribed to FS-ISAC, from myself to demonstrate executive leadership, to our CRO/ISO, our chief information officer, his technical person and our security officer.

The reality, given the scope of FS-ISAC, is that our small bank is being bombarded with massive volumes of e-mails. I've worked the filtering down to where I get about a hundred e-mails each day, and I still have to spend time identifying which messages contain issues that might be relevant to our operation. My four colleagues are each doing the same. And our goal is that amongst the five of us we will capture the relevant information. Filtering is a necessary solution here, and I have to compliment the FDIC for

0248

already doing some of this with its CIG alerts through FDICconnect. One or two a month is a lot easier to deal with than a hundred a day. Two items real quick, and then I'll stop.

CRA, since a lot has been said on this, the point that I would want to make is that as an intermediate small institution in a rural market, we are asked to identify investment opportunities that are rare, if nonexistent, in our communities. The criteria for small institutions would seem to be much more relevant. So my suggestion, along the lines of what Governor Brainard just said, is to consider changing those small bank CRA limits to align them by market or business model instead of by asset size.

And then last, but not least, I'll chime in on call reports, that, as Governor Hoenig of the FDIC has said repeatedly, there seems to be an opportunity here for simplification by business model and risk-taking as opposed to asset size. So with that I will stop, Jim, and thank you, again, for the opportunity to offer comment.

0249

JAMES WATKINS: Thank you. Charie?

CHARIE ZANCK: Thank you, Jim, and thank you so much for allowing us to speak today.

Along with my colleagues, I, too, appreciate the opportunity to participate in this important discussion at a time when we continue to see a sluggish recovery in our national economy.

Regardless of whether or not one believes there's a correlation between regulation and economic growth, there's no question that regulation by definition is intended to control, restrain and limit certain activities. And that the more than 8,000 pages of new banking regulations introduced over the past five years are having an impact.

The large body of rules and requirements in effect today should prompt a more frequent review than every 10 years with an ongoing effort to measure and understand the consequences of these regulations as well. The willingness to not only adjust, but to also

0250

eliminate those regulations that are no longer relevant or more harmful than helpful would being to provide meaningful relief.

As we work together on this initiative keeping in mind how these requirements affect our ability to serve our customers will most likely lead us to the best solutions.

I will attempt to provide some general comments and specific examples of areas in need of attention. And, unfortunately, while I hope there will be no redundancy, I'm afraid at this stage in the EGRPRA process and this time of day, I'm afraid there may well be.

In general, there are many thresholds and dollar limits embedded in regulations that are in dire need of updating. The currency TR threshold of $10,000 has not been changed since BSA was adopted in the 1970s. Of the 502 CTR reports our bank filed over the last four years, only 19 exceeded the inflation-adjusted threshold of $62,000. This change would only affect the number of reports being filed, however, and does not consider the

0251

use and necessity of the information being collected or how all of this data is being protected by FinCEN.

While bankers understand the purpose of the fight against terrorist financing, money laundering and other financial crimes, it is important that the required reporting is not form over substance in generating paperwork and that the legitimate activity of law-abiding citizens is not arbitrarily included in the massive amount of reporting.

While financial institutions should report possible suspicious transactions to the appropriate authorities, we should not be expected to serve as law enforcement in evaluating all forms of human behavior and account activity.

For example, sending bankers out to sleuth local businesses to determine whether or not there's an ATM on the premises, and, then, should one be found, having to question the business owner about all of the details of ownership, contracts, cash delivery and

0252

handling, activity and deposits is not something bankers should have to do.

BSA and AML expectations and reporting requirements should be revisited to ensure that our limited bank resources are being used effectively and efficiently to deter financial crimes.

The Community Reinvestment Act requires that a certain percentage of business loans be made to entities with revenues less than $1 million. Regulators use different indices to determine compliance, and this percentage ranges from 55 to 75 percent of total loans, which is challenging for many banks. The largest banks are able to satisfy this requirement with the use of proprietary business credit cards which most other banks don't generally offer because of the complex nature and the inherent risk of this product. This $1 million limit has not been changed since 1977, when CRA was enacted, and would be about $5.5 million today after adjusting for inflation.

This threshold should be brought

0253

current and adjusted annually for inflation going forward.

Adoption of Internet and mobile banking, the growth in shadow banking and Fintech companies and the commoditization of consumer products have materially changed the landscape for consumer credit over the last 40 years. Creditworthy consumers have brought access to credit from all sources all over the country, and credit cards have replaced the traditional small loans bank used to make when I was a young banker. Borrowers are no longer limited by geography. Imposing these types of artificial restrictions on community banks actually creates a concentration of credit which may cause safety and soundness issues in times of economic stress. Banks should be able to provide credit outside of their immediate communities.

Mobile banking is quickly and dramatically changing our industry, and the six-transaction limit found in Regulation D is no longer practical or reasonable as a consumer's use of mobile and on-line has

0254

replaced traditional teller transactions. This, too, deserves consideration and review in light of current practice and products.

Brokered CDs are in and of themselves not evil. Both reciprocal and nonreciprocal CDs are valuable tools for community banks. As interest rates begin to rise and borrowers scramble to fix loan rates and extend maturities, longer term brokered CDs provide an opportunity to match maturities and lock in spreads. Depository trust corporation CDs offer a stable interest risk-management tool and an alternative to rate swaps.

CDRs, reciprocal CDs, allow us to work with our local municipalities and school districts without having to pledge securities in our investment portfolios.

In 2008 we were managing our bank with an 8 percent -- a 9 percent, excuse me, liquidity ratio. And today that number is 17 percent. Used for the right reasons, brokered deposits are excellent risk management and liquidity tools, and we should be free to use them as such without penalty.

0255

Regarding safety and soundness examinations I support the current system as it relate to an 18-month cycle. I believe that having regulators on-site interacting with our bankers, management and board is critically important in fostering a relationship of mutual respect that promotes dialogue and understanding on both sides. Moving the examination process completely off site would not serve either of us well. Personally, I've always viewed our regulators as a valuable resource and partner and feel an obligation as the CEO to promote that attitude throughout our bank. We often solicit feedback from our regulators about contemplated changes or new products, and we are intentionally proactive in sharing general information and any problems or issues we may discover. FDIC examiners we have come to know over the years have been tough when necessary but fair, reasonable in support of, which is due in no small part to the fact that they know our bank and understand how we think.

One comment relative to

0256

examinations would be to note that recommendations and best practice items and reports have become perfect examples of regulatory creep. These often introduce procedures and activities generally designed for much larger banks into the community banking arena or they accommodate a general tendency to pile on new requirements. While it is true that some level of regulation is necessary, it is equally true ill-founded and excessive regulation is destructive. The notion that banks are too intrusive and difficult to do business with resonates with consumers and is the new mantra of the exploding Fintech industry.

New demographics and the extensive adoption of technology are forever changing our business, and at a time when we should be innovating, redesigning and investing in new initiatives to better serve our customers, we are instead dealing with the ever increasing cost of regulatory compliance.

Regardless of whether or not the decrease in the number of banks and the

0257

exponential unchecked growth in shadow banking and Fintech since the introduction of Dodd-Frank are unintended consequences or the result of an agenda, they are very real.

I am hopeful that this second round of EGRPRA will cause a serious review of banking regulations as they exist today and result in fundamental, meaningful change to help system this tide. Thank you for the opportunity.

JAMES WATKINS: Todd?

TODD GRAYSON: Okay. I'm not -- I've changed my mind a couple times today, so I'm not going to really read directly from the script. I've got an outline, I've got a script, I've got some scribbles. I am here.

First I would like to thank everyone for inviting me. I want to thank all the bankers. I want to thank the principals. I would have wished the CFPB were here and maybe some Congressional aides, because I understand that some of the things you would like to even change, along with us, are out of your hands.

0258

So -- well, my name is Todd Grayson. I'm from South Central Bank here, just down on Roosevelt Road, my office just south of the Loop. We have offices west of the Loop and in some of the neighborhoods just in the south and west sides of Chicago.

As stated earlier, we do commercial lending, a lot of the small businesses here in Chicago, including SBA lending. We, for a long time, have been a home improvement lender, including FHA Title 1 loans, which most people probably don't know what that is, the original FHA program from the 1930s, where you can improve houses, not just buy houses. And we have a nice mix of other residential products and other commercial products.

So I'm going to try to -- I was going to write all about Halloween and how regulations get creepy and they sneak up on you and all that, but I'm going to skip that.

But let me start with the first item -- and I also want to thank the advocates and the community groups. You guys are

0259

passionate. It's understandable why you're passionate. Just to give you an idea, I'm not just a banker. I happen to be a special needs father, so I advocate for my son. Matter of fact, I just won a little battle with my school this morning while I was listening, so I understand you want to do the right thing. And bankers are people too.

So -- but, you know, one of the interesting things is -- so let me start first with these dollar amounts. I know you guys can't do anything directly with CTRs. It's either the FFIEC or it's Congress. But, you know, $10,000, way back in 1970 and even 1986, when that number was put out there, as we've -- several people have said, it's about $62,000 today.

Well, if you look at a car, you can buy a two-year old Chevy, small Chevy for about $10,000 or you can get a fully loaded Cadillac or Beamer or something for -- in the 60s or you can send a kid to college for $62,000 all in.

The idea of the type of

0260

transactions that were looked at for $10,000 are not the ones being looked at today. I had a discussion on the sidelines of a soccer game this weekend with another parent, and they said, But, you know, they just caught the next

Congressman. And I said, Yeah, and they caught a governor with his wife. I don't think that was the purpose of the 10,000 -- of -- we all care about terrorism. You got to follow the money. We all care about drugs and all the horrible things that go on. We all care about -- I'm a W-2 guy. I don't want people not paying their taxes. So we don't want -- but we eliminated approximately -- let me see if I can find the number here -- over 40 cash-based customers, such as grocery stores and other businesses, from needing CTRs, people we have known for a while, we followed all the rules, and we still filed over 600 CTRs last year.

I've got less than 50 employees. I've got a BSA officer, I have a compliance officer, I have an assistant BSA officer. You've got to have a hundred percent perfect.

0261

That's crazy. You know, we got, you know, we do a pretty darn good job, and we want to be perfect, but we know that you're regulating -- you need a hundred percent accuracy because you're regulating for other people. Just like flood and just like HMDA. But the numbers got to change a little bit because it's hard. And, honestly, I don't know what the FFIEC does with all the $10,000 ones. I think the real crimes kind of get smothered, the bigger stuff, the 50 to $60,000 stuff. I'm not saying you go to $60,000. I'm saying maybe you raise it to 20 or 25,000.

And then appraisals, another dollar amount. 250,000 in 1989. I certainly appreciate FIRREA. I did Resolution Trust work, and the S&Ls back then in the day were getting their appraisals from the customers. We know that's not right.

But 250 today is approximately a little over $450,000 today. It doesn't make sense again. If we go in the secondary market, they're going to judge you need new appraisals, but if I've got a customer who has been paying,

0262

never missed a payment, still has good credit, why do I need to get another appraisal if he's at 260,000?

I know in past exams I've had issues with commercial appraisals, where I know you mentioned the million-dollar number. Well, I don't know if it's because we had really old appraisals or because had trouble paying, but we were kind of getting the feel that for commercial loans even 250 was the number we should be getting appraisals on. But this could have been, you know, 2009, 2010.

So then I go to a customer who's never missed a payment, owes me 260,000, which I've had, and I say, I got to get a new appraisal, and he's like, How much is an appraisal? $2,500 here in Chicago. Well, I might as well go shopping. And there's a lot of other banks in the Chicago area, and every time I need to get an appraisal I'm going to have a customer start shopping me even though I think I've given him good service? We try to give him good rates. We try to be a good bank.

Evaluations. There's not a whole

0263

lot difference between what's needed for an evaluation and an appraisal. An evaluation, yeah, I'm going to go out -- we don't want to lend money on anything, you know, not the $25,000 home improvement loans. But we don't want to go out there without seeing the property ourselves, making sure it's in good shape. But the evaluations you need to have comps. Well, there aren't a lot of comps many years. So if I want to -- in Chicago and Cook County, the tax value is so out of whack with reality it doesn't make any sense.

So if you're going to look at appraisals, which I appreciate I think you can, because I don't think you have to go to the Hill for that. If you can, one, raise the minimums. Two, lighten up the evaluations, because what I end up doing is I end up spending $500 with an evaluation company because I don't have time to go look for all the comps myself. I know the number is kind of garbage. I'll be honest with you. I know that

I have enough equity for my loan. You know, I know the property is worth between 750 and a

0264

million dollars. I could get one evaluation company, because they don't really look at the details, might come in at a half million, might come in at a million-and-a-half. It doesn't really matter. I have a safe loan, but I've got to spend the money. Or the customer has to spend the money, which, when you're getting an evaluation, you're kind of eating it a little bit.

Another issue is a lot of these mortgage rules, which I know is not you, we have these home improvement loans. The escrow rules, which I know is kind of set with Congress, our bank is not located in low and mod. We lend a lot low and mod because of the type product we have. We're not located in a rural. So that means, because my rates are a couple percent higher, they're in the high single digits, if somebody, a senior -- I was telling my father-in-law this last night while we were not paying attention to the Cub game any more, I said, You've paid your mortgage off. If I want to make a home improvement loan to you, I would have to get an escrow. Now,

0265

are you going to want to pay $400 a month in escrows when your loan payment is only $250 for a 10-year loan? What he would probably do instead is put it on a credit card or get a reverse mortgage, and we all know that the rates on those are higher.

So I'm speaking to Congress. I, you know, because I don't think you guys can do anything about it. So I'm making less home improvement loans. We were getting a lot of home improvement loans from contractors. Well, if I can't do first liens, if I have to either do unsecured or a second, they're not showing me the business any more. My volume has dropped. And it's restricting credit from seniors or other people who have paid off their loan.

So, forgive me, I think I hit most

of my main points. I just want to -- while you got me here, I want to hit some of the other ones.

HMDA. I know that the number of fields were just increased. HMDA used to be a full-time job because we had to have a hundred

0266

perfect, and when we were taking thousands of home improvement applications every year to make it perfect I had a full-time person doing HMDA. While our volume's down, she's down to half time on HMDA, half time doing other stuff. It's probably going back to a full time.

I know about the nonbank business lenders, and I -- and it's horrible. I was learning a lot about it this summer at an SBA meeting. We've got to do something. That's where the CFPB, I thought, was supposed to be regulating the nonbanks, the shadow banks. But I want to point out that if we increase the data collection for people -- we try very hard to be a good lender and lend everywhere to everybody, it's more cost for us. It's more fields. I got to train more people.

Just give you an example of cost:

I like TRID. I like -- in the long run I think it'll be the right thing. I spent $8,000 on home improvement software improvements. My first mortgage software, which was costing me $2,000 a year, they want $6,000 a year, because they're changing their

0267

software. It was recommended on CNBC because more people are doing on-line stuff. The stock is doing better because of TRID. And I found another software which I think is a good software for 4,000 a year. That's for a good regulation. That's costing me thousands of dollars. So every single little thing costs a little bit of money and it adds up.

You mentioned the brokered CDs, the reciprocal. We have a lot of good customers. They need those brokered CDs, those reciprocal. That shouldn't count against us as hot money because there's banks that are too big to fail, and I compete against Chase and

Bank of America and all the other big banks around here, and they'll say, If I want to keep a million dollars with you, I think you're a safe bank. You guys are good guys. But, you know, if I don't have the insurance, I'm going to go to the bank that's too big to fail.

So -- and one other final point on de novos. I know there haven't been any de novos. There are less -- I'm also -- I was the last chairman of the Community Bankers of

0268

Illinois. There are a lot less community banks out there than there were before. The reason we can actually exist and do all this stuff with all this regulation, all these software, is because we have vendors who can provide it. We have core vendors. We have those mortgage people. We can't develop all our own software ourselves. We have people for internet banking. For on-line banking. We have been digital forever and a day. We need those vendors. There's less banks. That means those vendors, in order for them to exist, have to raise our costs. That makes regulatory costs higher. That means more banks throw in the towel. That means -- you get into a spiral. You see where I'm going.

So anyways, I've spoken longer than I thought. I thank you for listening and being here.

JAMES WATKINS: Thank you, thank you, Todd. David?

DAVID FINDLAY: Leave it for a guy from the south side of Chicago to just say it like it is. Todd's theme that he just finished

0269

on is an important one, though, that I think that I would start with, and it goes back to the role of community banks in our world.

Chairman Gruenberg started his comments with two observations that I wrote down. The first one is the importance that community banks play in our communities and economy today.

And I think what you've heard today from this panel and the predecessor panel of bankers is that at least this group of bankers believes they exist to serve our communities. They exist to take care of our neighbors, our friends, our relatives, the people we see at church. And that's true of every bank that's been represented here today. And so if there's any question as to whether the veracity and commitment of community banks is there, don't doubt for a second that it isn't.

I worry, too, in this kind of forum that the leadership of our regulatory agencies could look at us and say, These community bankers. They just love to complain

0270

about how tough their life is today and how it's so hard for them to comply with the myriad of regulations that exist in our world. And I had a bit of an epiphany on that topic last week, when we had a conference call, the five of us, to prepare for this discussion. And as we went down the line and Stewart spoke and Todd spoke and Rae-Ann was on the line, thankfully, I was asked to speak last because I wasn't sure what the heck they were talking about. Because they were talking about in-the-weeds regulatory and compliance things that I, as the CEO of a $3.7 billion bank, don't have to live with every day. And so as I contemplated these comments, I really looked and said, Well, first of all, why am I here? Because it's very rare that I'm the largest bank in any room of bankers. And at 3.7 billion, apparently that's the case by a billion-and-a-half or so. And so, I said where do my opinion or my thoughts matter on this? And so what I've tried to do is go out last week after that call, when I wasn't prepared, and talk to everybody that actually runs the

0271

business units in our bank.

And to give a little bit perspective on Lake City Bank, it's helpful to put in context.

We have been around, Jim pointed out, for 143 years. The name "Lake City Bank" was on the door when the place opened, and it still is today. We have never done a full bank acquisition. We've grown from a billion 15 years ago to 3.7 billion today, all through organic growth, de novo branch activity and expanding in new communities in northern and central Indiana. We're in South Bend, Fort Wayne, Elkhart, Warsaw, our hometown and Indianapolis, where we have been for the last five years. So we are in some larger, by Indiana standards, metropolitan markets.

We are intensely a commercial lender. 90 percent of our loan portfolio is true commercial with the biggest majority of that being C&I. We have 46 branches. About half of those are in rural communities. They're the genesis of the bank. The bank started in a small town, rural Indiana. We've,

0272

over the last 20 -- 25 years, expanded into larger community, "larger" being South Bend and Fort Wayne and now Indianapolis.

And so we've got this unique mix of sophisticated commercial lending, where 90 percent of our portfolio is, but a truly rural and urban funding mix. So we have got a very diverse client base that exists in those markets.

I think that context is helpful because it might define me, at 3.7 billion, as not being the traditional community bank who has been before you today. And I will tell you that's not the case at all. We can't claim, except in Warsaw, Indiana, to be the local bank. But we can claim to being the community bank where we operate.

We still live by the principals of "Know your customer." And you can get to a critical mass and still to do that.

I think the other thing is we talk about the regulatory risks that we have here in our world. They may be real, but they also may be perceived. We, as a community bank sector,

0273

you know, in some respects we live in fear of what we don't really understand and what we don't really know. And that's where the complexity of the regulations comes into play. I have a general counsel and chief risk officer, and she has a staff of seven full-time compliance risk management officers. Therefore, we, as executive management, should be sheltered from it. But they are on the front end of all of our peers here today, understanding the complexities of the regulations and dealing with them, and we have no less challenges with them. We just have more bodies to throw at them because of the critical mass we have.

Before I give a couple specific examples, I'd also want to point out that we actually had both the Chicago Fed and Indiana Department of Financial Institutions safety and soundness compliance examination teams in our boardroom last Tuesday, as we just completed both of those. The results of those -- I can't tell you what they were, but they were -- very favorable meeting, a very positive meeting.

0274

But seven years ago we were an organization -- I guess eight years ago, that had an MOU in compliance, when we were about 2 billion, and that came from our good friends at the Chicago Fed. And what we did in our compliance world, again, because we had the critical mass at that time, was we pushed compliance down into the business units. We didn't make compliance a department's problems. We made compliance an institutional problem. We made it part of what we do day in and day out, and we could afford to do that because we had the resources and the capital base available to do it. I think that is one difference I've noted between the organizations that spoke today and our bank at a slightly larger size.

I think as a lender -- then I say, Well, so what's this all mean? As a lender what we're finding increasingly more the case, we can't do what our customers want us to do as a lender.

The best example of that would be one that we've self-identified as we came out of the compliance exam last month. And that's

0275

that we are seeing more and more incidents of a business owner or principals in the business coming to us for a personal loan but they want the accommodation and the convenience of what we do on the commercial side for them:

Short documentation, lack of disclosure, speed. We're constantly told that -- and like Todd, we certainly compete with other regional and local banks, but our competition is JPMorgan, Wells, Fifth Third, Key Bank, PNC, and, like I said, the big players. We are constantly told, The big banks can do that for us. They can turn around an accommodation loan very quickly with simple documentation and not all this disclosure junk that you're telling us we got to look at. And we go -- we don't know how they're doing that. I mean, and having once been a big banker, I don't even know how they're doing it. But somehow they've constructed an approach to this business owner who wants an accommodation loan for a quick time -- a short term loan on the purchase of a second home or a vehicle, whatever, we can't turn those because we have

0276

to worry about compliance.

Another one. And Stewart and Todd spoke to the HMDA and LAR issues. And it's funny, either I wasn't listening earlier today or TRID has not really come up until Todd mentioned it in his comments.

TRID has taken us from a 50- to 60-page mortgage closing packet 10 years ago to a 200-page closing document today. I couldn't even understand what was in the 50 to 60 page one, let alone the 200 page one. And yet we're, in the interest of more disclosure, giving more documentation, more complex information to our borrowers who don't really understand it. And they just want the loan. And if you're a community bank, like everybody's who's presented here today, we probably take the time to talk to our customer about what's in that packet. We did it

10 years ago, and we do it today. We're not getting anywhere quicker or more educated with our borrowers with the requirements of TRID and what's coming down the pipeline.

And I'd reiterate what Todd and

0277

others have said. I understand the CFPB is not part of this process, but I would encourage you all to make sure that we don't wait 10 years for them to be a part of it, because I think one of the things that everybody at this table and everybody that's spoken today is afraid of is it is a great unknown. I mean the CFPB, for us community banks, is kind of like a Martian. You hear they exist, but you've never seen them. And we're going to see them -- we all believe we're going to see them some day.

So the -- I won't go into the detail of what -- I think you've probably heard over and over again about CTRs, appraisal requirements, HMDA and LAR. All those issues come into play.

The Durbin Amendment. Nobody asked us to talked about that, but the Durbin Amendment is a pretty transformational amendment that has hurt every one of the bankers that presented today. We've also seen lower interchange income as a result of it. And I doubt any of us as consumers have seen lower prices at Walmart because of it. We've

0278

seen lower NSF fee income. Our NSF fee income is 25 percent below where it was five years ago, and the bank's 30 percent bigger. Those are hard things for us as community banks to make up somewhere else in the balance sheet or income statement. One of the earlier presenters talked about the simplicity of their business: Take deposits, make loans and sell something in between. That's what almost everybody in this room has done today as a business model.

So the second comment that Chairman Gruenberg said was this is the fifth of sixth meetings. And in that light I will stop my comments there because we probably haven't found anything else that you haven't heard in the first five.

(Laughter.)

But we do appreciate your willingness to listen to us as community bankers. As a partner of the Chicago Fed, we appreciate the Fed hosting us here today as well. So thank you.

JAMES WATKINS: Thank you.

0279

And we're available for any questions from the principals. Tom?

COMPTROLLER THOMAS CURRY: Thank you, Jim. Todd was preemptive and answered my question about the threshold for commercial appraisals.

Stewart, I mean, you mentioned as well. Do you see any need to raise the $1 million threshold?

H. STEWART FITZ GIBBON, III: No. I think the million dollars for commercial probably makes sense, but the 250 for residential definitely seems -- if you think about the conforming loan limit for the GSEs, if you indexed it probably to somewhere in the 400 would make a lot more sense.

COMPTROLLER THOMAS CURRY: Thank you. If I could --

CHARIE ZANCK: I would argue, however, that if it takes 10 years for the next adjustment, then perhaps now would be a good time to take it to two.

DAVID FINDLAY: But my observation would be that the million dollars is too low.

0280

CHARIE ZANCK: I agree.

DAVID FINDLAY: We operate, again, you know, what we as define major big markets, South Bend and Fort Wayne and Indy, our commercial borrowers are so bothered by the frequency and the cost of commercial appraisals. And, again, we have the benefit of what did we do to fix part of that problem? We hired two licensed commercial appraisers to be on our commercial appraisal staff to help out on the CRE side. A million dollars is not much of a commercial building, manufacturing or otherwise.

H. STEWART FITZ GIBBON, III: Not here.

COMPTROLLER THOMAS CURRY: Thank you.

CHAIRMAN MARTIN GRUENBERG: Just to comment on the point that Mr. Findlay made on the CFPB, I mean it's a statutory matter. They're just not part of the EGRPRA process. I think you may be aware under their own statute they do have a requirement to do their own review of the regulations and rules that they

issue. And I would note that the CFPB is also a member of the FFIEC, the Federal Financial Institution Examination Council, and in that capacity Rich Cordray, you know, is fully aware of the EGRPRA process that we've been pursuing.

DAVID FINDLAY: I would just tell you, though, much like we view our partnership with the Indiana Department of Financial Institutions and the Chicago Federal Reserve Bank as oversight agencies of ours, we know that there's this thing called the CFPB drifting out there that influences the actions taken as part of our regulatory process. And we sure would like to know them. And we sure would like to be exposed to them more than we would through the FFIEC.

CHAIRMAN MARTIN GRUENBERG: And I guess what I would gratuitously comment, although they certainly do rule-makings that impact you, the examinations pursuant to the rules for institutions under 10 billion, as you know, are done by the bank regulators. But the rules are issued by the CFPB. And I think Rich Cordray, who also happens to be a member of our

board, so -- would agree that you on your own or as part of your state association or industry association really should actively engage with the CFPB as you do with us. I actually think that's quite important for the benefit of their process as well as ours. So I would encourage you to do that.

SECRETARY BRYAN SCHNEIDER: Concerning the Durbin Amendment, do you see any way to tweak that or is repeal in its entirety the only solution or?

DAVID FINDLAY: Todd, why don't you answer that one.

TODD GRAYSON: Well, I don't think it's going to change. You know, it's one of those -- I wish -- you know, it doesn't affect us quite as much because being in the city, we don't have as many -- we have more commercial customers or we don't have quite as much retail business. But I will tell you as chairman of the Community Bankers last year, that was a top, top item because the banks downstate, that's very important income to them. And I actually, being from Illinois, stood behind

0283

Mr. Durbin and spoke for a minute about it. And he was -- he just started talking about chips, and he just talked about, you know, because I was saying how, you know, you have revenue, and everybody's talking about the revenue side, but they're not talking about the expenses. They're not talking about the fraud risk. They're not talking about when my wife swipes her Visa card in the gas station and a month later we get two charges from Columbus, Georgia at the Walmart for $400 in gift cards. Now, granted that's a -- that was a credit card, because I've learned not to use -- and we even tell our customers, Don't use your debit cards if you can use your credit card, because the debit card ends up going back on the individual or the bank that issued it.

You know, the credit cards, the merchants have some fraud responsibility. Now I know all that's changing with the chips and who's got what technology and ATMs. But I just don't -- I don't see that being a real high priority these days.

DAVID FINDLAY: In some respects I

0284

expect the genie's out of the bottle on this, but, as Todd points out, fraud losses are increasing significantly for us, and it's interesting to hear Todd say, I tell clients to use their credit card, not their debit card. We have a rewards-based checking product at the core of our business that was built around the idea that interchange income would come from those debit card swipes. And, therefore, we could have a free checking account with a higher interest rate paid on it. And post-Durbin that hasn't been such a great product but it's still there. And yet our fraud losses are up dramatically, particularly year over year, so, you know, I don't know that we're going to put that genie back in that bottle, but it certainly has been a painful process for all of us.

JAMES WATKINS: So perhaps we could take a question or two from the audience if there's any?

It would be helpful if you could introduce yourself as well.

AUDIENCE MEMBER DAVID SCHROEDER:

0285

Hello. My name is David Schroeder. I'm with the Community Bankers Association of Illinois, and I want to thank you, again, for the opportunity to make a brief statement at this time regarding de novo or newly chartered banks.

We truly need newly chartered community banks to maintain a strong, growing, evolving and vibrant banking profession. Quite honestly, we respectfully disagree with the small number of de novo community bank formations during and since the financial crisis compared to an average of 170 charters a year during the previous two decades. Even in the depths of the S&L crisis, when 1800 banks and savings institutions failed, an average of 196 de novos were formed annually.

In our opinion the current regulatory and supervisory policy for de novos is far too restrictive, harmful for community banking, the financial system and our economy. And we strongly encourage a significant change in the current regulatory policy and position regarding de novo banks. Thank you very much.

MR. WATKINS: Thank you. Is there another question?

AUDIENCE MEMBER TIM BERGAN: Good afternoon. My name is Tim Bergan. I'm legal counsel and chief compliance officer for Cornerstone National Bank & Trust Company, northwest suburbs of Chicago, about $450 million bank. Very good bankers. Good history of serving the community needs.

I have two kind of suggestions I would like to make. The first I would call minimize the number of moving parts.

The second is that I would suggest you check the nongovernmental regulatory creep.

So going to the first one, minimizing the number of moving parts, let's talk about TRID, the burden is great but it's exacerbated by complexity. So in TRID, we have a loan estimate and a closing disclosure, and a business day is defined differently for each.

Why? If you want to give something of benefit to the consumers instead of defining a business day, say, instead of three business days, five calendar days. Clear

for them. Clear for us. Eliminate that complexity. Eliminate -- minimize the number of moving parts.

The challenge to the regulators is managing your very professional, talented staff on regulation, law and supervision to come together to find a solution that is simpler to accomplish the same result. That's the first one.

Second one is the -- check the continual nongovernmental compliance creep. It's similar to the comments made earlier about best practices in the exam reports. It's now becoming best practices in the auditors' reports. We're a $450 million bank, and I think, if I count correctly, this year we'll have 10 or 11 different external audits in a 12-month period. Each of them comes with a mission to find out if we're doing things correctly and well and properly.

But also with that comes the business incentive for them to find things for us to fix. And when you put in some -- when they put in best practices on top of the
0288
regulatory best practices, they have created for us an additional compliance burden, because, at some point, the regulators going to say, Well, they told you to do these best practices the last three years and you didn't do them.

So my point is:

Instead of making great best practices an enforcement tool, treat them as a learning tool for bankers and regulators together and don't ding us if we don't adopt the best practices.

That's my comments. Thank you.

RAE-ANN MILLER: Thank you.

Jim, I think the fourth panel is done now, so I was going to excuse you as we move into the comment period. Is that all right with you?

CHAIRMAN MARTIN GRUENBERG: Yes. Could I just make a final comment?

(Applause.)

CHAIRMAN MARTIN GRUENBERG: I wanted just to thank this panel and all the panel we have had today because they really
0289
have been outstanding.

PRESIDENT CHARLES EVANS: Very helpful.

RAE-ANN MILLER: Agree with that.

So now we're going to move into just the general comment phase. If anybody else has another comment, please step up to the mic, and we'll certainly take any comments you might have on any topic.

And, again, please, identify yourself.

AUDIENCE MEMBER JUSTIN SLACK: Hello. My name's Justin Slack, and I'm a real estate appraiser. I have my flak jacket on.

(Laughter.)

Actually, I do work for a bank. I

work for an FDIC regulated bank out in Seattle, but I'm here today representing the government relations committee for the Appraisal Institute.

So I just wanted to, you know, respond to some of the comments I heard today about the threshold, the appraisal threshold, and the use of evaluations. And I think the de

0290

minimis, you know, there needs to be more education because there's a lot of that practice goes on now, the use of evaluations including rural areas, but a lot of banks don't understand that. We've acquired some small banks that they didn't -- you know, they've used those, but they didn't know what that number was or it's not the value of the property. It's the transaction values, the million dollars, not that it's a million-dollar property, so if there's one thing that I could, you know, offer up, would be to maybe, you know, continue to educate the regulated institutions on the use of the de minimis and when you can use an appraisal, because if you raise the threshold now, you're still not going to be able to not have an appraisal or an evaluation at least what it maybe, you know, what it sounds like. So it's just letting them know what they can and can't use. So thank you very much.

RAE-ANN MILLER: Come up.

DAVID REILING: David Reiling with Sunrise Banks.

0291

I know I had a chance to speak earlier today, but I felt I used my time.

Simply my comments are around brokered deposits, and I know it's been talked about a lot, so I went back into Sunrise to do some analytics in regards to both core and brokered deposits as they're defined today.

And, quite simply, the result of that analysis was we didn't really find any difference in that volatility.

As a result, I think the interpretation of deposits as brokered without contemplating that underlying behavior or risk does contemplate that there's excess regulatory burden or cost in that particular case.

And, specifically, as it pertains to reciprocal deposits, those deposits for us demonstrated very stable repetitive relationship characteristics, much like the quote/unquote "core" would be.

As a CDFI bank, Sunrise, we often attract deposits from socially motivated depositors and institutions across the country due to the fact that our low income communities

0292

just don't have enough deposit liquidity to service their credit needs.

So I -- Charie's comment:

We do so occasionally use brokered deposits as an asset liability tool, so there is, I think, a positive use for those types of deposits.

In addition to that, I would just go on, and the analysis of our prepaid card portfolio, again, our portfolio is skewed more towards a low balance/high transaction un- and underbank type of consumer, but those characteristics mirror basically our checking account activity that we have in the core bank as well, and so I know those are interpreted as brokered as well.

So just a case in point relative to brokered deposits both on the reciprocal side as well as on the prepaid. So thank you.

RAE-ANN MILLER: Anyone else?

(No response.)

All right. Thank you very much. I guess we can adjourn. And we appreciate all your participation. Thank you very much.

0293

CHAIRMAN MARTIN GRUENBERG: Thanks to everyone.

(Applause.)

(Ending time noted: 3:42 p.m.)

CERTIFICATE

OF

CERTIFIED SHORTHAND REPORTER

I, CYNTHIA J. CONFORTI, a Certified Shorthand Reporter of the State of Illinois, and Notary Public in County of Cook, do hereby certify that I reported in shorthand the proceedings had at the hearing aforesaid, and that the foregoing is a true, complete and correct transcript of the proceedings of said hearing as appears from my stenographic notes so taken and transcribed under my personal direction.

IN WITNESS WHEREOF, I do hereunto set my hand at Chicago, Illinois, this 27th day of October, 2015.

CYNTHIA J. CONFORTI, CSR, CRR
License No. 084-003064