



Please Support Community Bank Priorities

November 2019

On behalf of the 310 community banks represented by the Community Bankers Association of Illinois (CBAI), we urge your support for our positions on these important issues facing Illinois community banks.

Oppose Credit Union Acquisitions of Community Banks

Support Additional Meaningful Regulatory Relief for Community Banks

Support Community Banks and the Federal Reserve in Implementing the FedNow (Real-Time Payments) Service

Support the Upcoming Modernizing the Community Reinvestment Act (CRA)

Support Agriculture and Rural America

Support the Community Bank Position on the Farm Credit System and Oppose its Expansion of Powers

CBAI and Illinois community bankers are hopeful that the 116th Congress will pass additional long-overdue, well-deserved and meaningful regulatory relief for community banks and that regulators will be supportive and encourage community banks in rulemaking. Community banks continue to suffocate under an unprecedented regulatory burden, much of which is designed to reign-in the bad behavior of the largest banks and financial firms. Complying with this burden is diverting resources away from serving customers and communities and towards compliance

review and documentation. For the health of our Nation's financial system, now is the time for additional meaningful Congressional and regulatory action to benefit community banks.

Oppose Credit Union Acquisitions of Community Banks

Credit union acquisitions of community banks is a recent disturbing trend that negatively impacts all taxpayers. Every credit union purchase of a community bank diminishes tax revenues and further solidifies this publicly subsidized sector of the financial services industry. The congressional Joint Committee on Taxation last year estimated the federal cost of the credit union industry's tax exemption is roughly \$10 billion through 2022 – an annual cost to taxpayers of nearly \$2 billion and rising. This loss of tax revenue from credit unions harms local schools, hospitals, county roads, and other important infrastructure projects that are necessary to sustain local communities.

The inequity of these acquisitions is compounded by the fact that credit unions are not subject to the same of regulations that community banks face, including Community Reinvestment Act (CRA) which encourages financial institutions to meet the needs of low- and moderate-income communities. In fact, a recent Federal Financial Analytics report noted that credit unions increasingly serve middle- and upper- income households, have figured prominently in reports of predatory lending, and benefit from less stringent safety-and-soundness regulations.

Also, the independent Tax Foundation reported that the credit union tax exemption cannot be justified on the grounds of sound tax policy and its repeal would make the tax code more equitable. These findings challenge the very reasons behind the credit union tax exemption. Credit Unions have long-since abandoned their founding mission of serving individuals of modest means and with a common bond, and they are supported in their expansionist agenda by their cheerleader regulator – the National Credit Union Administration (NCUA).

The acquisition of community banks by credit unions should prompt Congress to act - now. This is an existential threat to community banks and the communities they serve. CBAI urges the House Ways & Means Committee to hold a hearing on the credit union tax exemption (there has not been a hearing on this matter since 2005) and for the House Financial Services Committee and the Senate Banking Committee to hold hearings on banking industry consolidation (where the acquisition of community banks by credit unions would be addressed).

Support Additional Meaningful Regulatory Relief for Community Banks

While community bankers were greatly encouraged by the passage of the Economic Growth, Regulatory Relief, and Consumer Protection Act (S.2155), more needs to be accomplished to reverse the trend of losing one community bank a day to consolidation, which when combined

with an increased concentration of banking assets in the largest banks and non-banks, poses a pernicious threat to our financial system and economy.

CBAI urges Illinois members of Congress to co-sponsor, and encourage leadership to pass, this legislation which will provide additional regulatory relief for community banks.

H.R. 1872/S.1641 – Enhancing Credit Opportunities in Rural America Act of 2019 (ECORA) –

This legislation provides that interest earned on loans secured by agricultural real estate would not be taxable and also provides similar relief on loans secured by rural single-family homes that are the principal residence of the borrower in towns with a population of less than 2,500. This legislation gives lenders more flexibility to work with farmers, ranchers and rural homeowners, as well as helping to level the competitive playing field for community banks by providing similar tax benefits which are already enjoyed by other lenders in rural communities.

S. 1233 – Community Bank Access to Capital –

This legislation helps banks raise much-needed capital by exempting publicly held community banks with less than \$5 billion in assets from the Sarbanes-Oxley Act's internal control attestation requirements, exempt community banks with less than \$5 billion in assets from the FDIC's annual report on financial condition and management, and revise the SEC definitions of "accredited" and "non-accredited" investors to attract new investors.

Additional legislative and regulatory relief includes the following:

- Modernize the Bank Secrecy Act (BSA) by raising the Currency Transaction Report (CTRs) threshold from \$10,000 to \$30,000, and the Suspicious Activity Report (SARs) thresholds from \$5,000 to \$10,000 – and indexing future increases to inflation on an annual basis. The current thresholds were established in 1970 and 1992 respectively, are significantly outdated and requires capturing many more transactions than were ever originally intended. Higher thresholds would produce more targeted and useful information for law enforcement and reduce the regulatory burden on community banks.
- Provide a meaningful exception to the statutory authority (Dodd-Frank Section 1071) for small business data collection. While community banks represent less than 20% of banking industry assets, they make 50% of the small business loans and 80% of agricultural loans. This obviously suggests that community banks treat their customers fairly and respectfully. The additional reporting is meant to facilitate the enforcement of fair lending laws in small business lending, which the data clearly suggests is not an issue at community banks. The regulatory burden of the additional analysis and reporting

requirement fall disproportionately hard on community banks that lack scale and compliance resources, and they should be provided with a meaningful exemption.

Support Community Banks and the Federal Reserve in Implementing the FedNow (Real-Time Payments) Service

CBAI congratulates the Federal Reserve on its recent decision to develop its FedNow (real-time payments) Service which affirms the important role the Fed has and must continue to play in the nation's payments system. This historic decision ensures bank choice, increased competition, the widest possible adoption (ubiquity), lower costs, essential checks and balances, beneficial and creative innovation, reduced concentrations in financial services, and crucial redundancy (no single point of failure) in times of crisis. There are no credible reasons why these same positive outcomes for community banks, consumers, small businesses, the financial system, our economy and American taxpayers will be achieved without the Fed's operating its FedNow Service.

CBAI urges the Fed to move quickly to implement the Service. The United States lags the world in payments system improvements. The Fed's competitor in real-time payments, The Clearing House (TCH), has already developed its own proprietary network. The Fed's slow implementation will extend the period needed for the Fed to recover the costs for developing its Service. In addition, community banks and their customers will be disadvantaged by not having access to a fair and equitable real-time payments system.

CBAI will continue to be engaged with the Federal Reserve on behalf of Illinois community banks, in helping to develop the FedNow Service to ensure that all participants have access to a real-time system on a fair and impartial basis. CBAI urges Congress to support the Fed against opposition from The Clearing House ("TCH"), its 25 large bank owners, the associations they control and their supporters in Congress. The mega banks endangered our financial system and the entire economy during the financial crisis and they cannot be given monopoly power over real-time payments.

Support the Upcoming Modernization of the Community Reinvestment Act (CRA)

CBAI and its member community bankers support the Community Reinvestment Act which was enacted by Congress in 1977 and intended to encourage depository institutions to meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods, consistent with safe and sound banking operations.

The CRA requires that each insured depository institution's record in helping meet the needs of its entire community be evaluated periodically. This record is taken into account when considering an institution's application for deposit facilities, mergers and acquisitions. CRA examinations are rightfully conducted by the banking regulator that is responsible for supervising its depository institutions: the Board of Governors of the Federal Reserve System ("FRB"), the Federal Deposit Insurance Corporation ("FDIC"), and the Office of the Comptroller of the Currency ("OCC").

CBAI believes that the CRA makes good business sense and benefits both banks and their communities. However, there is a need for this modernization effort which should highlight and retain parts of the Act, identify missed opportunities for additional credit, and reduce the regulatory burden on community banks.

Community banks have traditionally excelled in the performance of their CRA compliance and examinations. This high level of performance is indicative of the exemplary treatment of their customers and communities and not weak requirements or a flawed examination process that needs strengthening.

The OCC, FDIC and Federal Reserve have signaled they will be seeking comments on the proposed modernization of the CRA in late 2019 or early 2020. CBAI urges Congress to support the modernization of the CRA that does not impose any additional regulatory burden on community banks. CBAI also urges that all financial service providers be subject to the CRA to provide a complete picture of their performance in serving their communities. A modernization of the CRA that does not encompass credit unions and fintechs will be a sham.

Support Agriculture and Rural America

A vibrant rural economy is vital to America's prosperity. Community banks fund 80% of all agricultural loans and serve a crucial role in creating and sustaining rural economic prosperity. CBAI is committed to protecting agriculture and crop insurance programs from cuts or adverse changes that would harm farmer and ranchers.

Support Community Bank Position on the Farm Credit System and Oppose its Expansion of Powers

Farm Credit lenders have long-since strayed from their founding purposes, blatantly abusing their competitive advantages, and harming Illinois community banks. Farm Credit lenders are supported in their expansionist agenda by their own "cheerleader regulator", the Farm Credit Administration (FCA). CBAI urges Congress to convene joint committee hearings to investigate

the operations, supervision, risks and financial soundness of the Farm Credit System (FCS), and its increasingly harmful impact on rural community banks. A bicameral investigative hearing would inform the House and Senate financial services and banking committees respectively about the systemic importance and bailout risks of the FCS (which is operating outside of the purview of their committees) and inform the agricultural committees about the impact of the FCS (which is the 13th largest financial institution within their purview) on the financial system and particularly rural community banks.

CBAI continues to urge a highly productive 116th Congress with the passage of additional meaningful regulatory relief legislation to strengthen community banks and their communities.

Thank you very much for considering our positions on these important issues.

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