



CBAI's Federal Legislative and Regulatory Policy Priorities

March 2025

The Community Bankers Association of Illinois (CBAI) supports fair competition for financial services, tiered regulations, the separation of banking and commerce, the dual banking system/charter choice, and financial innovation. CBAI opposes discrimination favoring certain financial service providers, banking industry consolidation, and systemic risk. Based on these guiding principles, CBAI has identified the following Federal Legislative and Regulatory Policy Priorities, which if implemented, will help community banks thrive and better serve their customers and communities.

Support Bank Regulators in Fulfilling Their Responsibilities Regarding Check Fraud, Including Reimbursement for Fraudulently Altered Returned Checks

CBAI's community banks continue to experience the pervasive and severe problem of check fraud including reimbursements for fraudulently altered checks drawn on their customers' accounts.

Our 2025 member survey results revealed –

- Over **ninety percent** have experienced the problem of fraudulent check returns.
- Sixty-five percent had difficulty being reimbursed for fraudulently altered checks by the largest financial institutions.
- The top three offending large banks that were the most difficult to work with were **Chase Bank, Bank of America, and Wells Fargo** – the same as last year.
- Forty-six percent saw an increase in the dollar amount of individual fraud return items while 15% said they stayed the same.
- When check fraud losses for 2024 were combined with the annual operating expenses for detecting, investigating and deterring fraud the average total cost was just short of \$100,000!

From the community banker perspective, the check fraud problem in the banking industry can be accurately identified as being caused by the nation's largest banks and credit unions, where fraudulent accounts are opened and fraudulent checks are deposited, which then clear back to many community

banks, harming them and their customers, in addition to undermining the public's confidence in the nation's banking and financial system.

CBAI strongly associates itself with Federal Reserve Governor Michelle Bowman's recent comments saying, "Fraud is perhaps the most consistent issue raised when I speak with bankers." Governor Bowman stated, "Efforts by regulators have been frustratingly slow to advance and seem to have done little to address the underlying root causes of this increase in fraud." Governor Bowman continued, "The need for a joint and coordinated solution [from different governmental agencies] does not excuse collective inaction." Bowman concluded by saying, "We are overdue for more assertive action to protect bank customers and the financial system."

Again, in a March 2025 letter to the Office of Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Federal Reserve Board, CBAI urged the regulators to fulfill their responsibilities to address this problem by initiating Joint Supervisory Guidance and ramping up their examination and enforcement against the largest financial institutions to ensure they are held accountable for their apparent safety and soundness and compliance failures.

Illinois community bankers are wondering if anyone is listening to their pleas and when will they start to see meaningful results in stopping check fraud from the regulators' engagement with the largest banks they regulate for safety and soundness.

Support Agriculture and Rural America – ACRE Act (H.R. 1822 and S. 838)

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. In the 119th Congress, CBAI strongly advocates for the passage of a multi-year Farm Bill that provides ample funding for commodity programs and rural broadband, maintains strong crop insurance products, approves higher USDA-guaranteed loan limits and a USDA Express program (loan approval in three days), and prevents the expansion of the Farm Credit System into non-farm lending activities and their exemption from the Dodd-Frank Act's Section 1071 small business data reporting requirements which bank agricultural lenders will be forced to comply with.

Community banks and their agricultural borrowers merit favorable tax treatment for interest on ag loans secured by ag property and primary residences in ag communities. The incentives created by this legislation will help sustain and strengthen ag lending by community banks by:

- Providing farmers, ranchers and rural homeowners with lower-cost credit;
- Allowing producers to improve their cashflow positions at a time of tremendous economic stress in the farm sector;
- Enabling family farmers to remain on their farms and ranches, preventing further consolidation within the farm sector; and
- Offering community banks flexibility to work with struggling family farmers and ranchers.

CBAI strongly supports including the bipartisan and bicameral Access to Credit for our Rural Economy Act (ACRE Act) (H.R. 1822 and S. 838) in the upcoming tax bill.

Support Responsible Regulation of Digital Assets – Cryptocurrency, Central Bank Digital Currency (CBDC), Stablecoins and Decentralized Finance (DeFi)

Cryptocurrency is digital money that is encrypted and maintained by a decentralized system using cryptography which is kept on a public ledger and with no central authority that maintains its value. **CBDC** is a digital token of a country's official currency that is issued and regulated by that nation's central bank, and which is backed by the full faith and credit of the issuing government. **Stablecoins** are a hybrid between crypto and CBDC as they are collateralized to provide security and peg their value to an external reference asset to supposedly achieve price stability. **DeFi** or decentralized finance is a financial technology based on a secure distributed ledger similar to those used by cryptocurrencies which challenges a centralized financial system by removing them from financial transactions.

Digital assets are critical building blocks of DeFi. The risks posed by these services are enormous, as well as the consequences for monetary policy, our financial system, and the banking industry. They also pose threats to the privacy and security of consumers and small businesses. Of great concern, is that there is no comprehensive regulatory regime responsible for this rapidly growing and far-reaching sector which combines elements of currency, payments and investments, and there is insufficient transparency and a lack of accountability in this ecosystem. The urgency for responsible regulations of digital assets is evident with the Administration and a number of its agency leaders' favorable comments and the increasing popularity of this segment of the financial services industry.

Policymakers must collaborate in the development and implementation of a comprehensive approach to ensure a consistent federal regulatory framework that does not permit DeFi to offer "shadow" financial services without being subject to the same regulations as community banks and deny nonbank stablecoin issuers access to a Federal Reserve Master Account, both of which would threaten the essential and highly successful business model of responsible community banks.

Financial innovation presents community banks with both challenges and opportunities that they are rising to meet. Policymakers should assist community banks to prepare for this new and evolving era, not pose unreasonable requirements for them, and not give others any competitive advantages over community banks by subjecting them to fewer regulatory requirements.

Support De Novo Community Bank Formation, the Dual Banking System, and Charter Choice.

Newly chartered (de novo) community banks are vitally important to maintaining a strong, growing, evolving and vibrant banking profession in the face of continued banking industry consolidation.

Tragically, new bank formations came to a screeching halt after the Great Financial Crisis. From 2000 to 2009, there was an average of 132 de novos per year. That number plummeted to six per year from 2010 to 2022. In 2022, there were 14 newly chartered banks, but that number shrank to nine in 2023.

The FDIC has periodically tried to get back on the right track, but the daunting regulatory approval process and unreasonable capital-raising hurdles remain significant deterrents. Community banks should not have to prove that they are “failure proof” to be approved for FDIC insurance and a state or national banking charter.

CBAI strongly associates itself with the comments of Federal Reserve Governor Michelle Bowman, who in mid-February 2025, said, “De novo formation has essentially stagnated ...” Governor Bowman continued, “We should consider whether the applications process itself has become an unnecessary impediment to de novo formation.” Further, “A few steps like developing specialized [regulatory] expertise, streamlining the applications process, and improving transparency can yield significant improvements.”

Governor Bowman correctly concluded that “[we] should also be comfortable with the uncertainty that accompanies ANY new business, including the risk that some de novos will not succeed. The cost of eliminating failure of de novo banks – or really ANY bank – at ANY time – is simply too great.” (emphasis added).

CBAI is greatly encouraged by the statement of Travis Hill, upon his becoming acting chairman of the FDIC, and regarding the matters that he expects the FDIC to focus on, including, to “Encourage more de novo activity so there is a healthy pipeline of new entrants in the banking sector.”

CBAI is ready to assist the FDIC, and the other banking regulators, to make this “focus” a “reality” and supports H.R. 478 and S. 113 – The Prompting New Bank Formation Act.

Hand in hand with renewed de novo bank formation is the importance of maintaining **the dual banking system**, which has served our nation well for more than 150 years. CBAI’s longstanding position is that community banks should be able to choose a state or federal banking charter that best fits their unique and/or preferred business model.

A banking system with multi-agency federal regulators (the FDIC, OCC and the Federal Reserve) together with **charter choice** avoids a concentration of regulatory authority – through necessary checks and balances on the immense power of the regulators as well as improved rulemaking, as the benefit of each agency’s expertise and experience is brought to bear on complex issues.

Oppose Industrial Loan Companies (ILCs)

CBAI has consistently supported the long-standing American policy of prohibiting the mixing of banking and commerce, which ILCs represent. However, ILCs are permissible financial institutions.

ILCs are, nevertheless, the functional equivalent of full-service banks and should be properly regulated. The risk posed by ILCs is a regulatory loophole that allows their holding companies (which must serve as a *source of strength* to their ILCs) to escape consolidated federal supervision and regulation. Completely closing this loophole will be an important safeguard for consumers, the financial system, our economy, the Deposit Insurance Fund, and American taxpayers in times of economic stress.

Closing the loophole is particularly important now as large e-commerce, big data, social media and financial technology companies are eyeing ILC charters as a way to enter the banking industry (and enjoy its many benefits) without their holding companies being subject to consolidated federal supervision. These big commercial companies not only present significant safety and soundness concerns but also extend an ominous reach into individuals' economic lives with personal privacy and conflict of interest concerns.

Policymakers should not allow the mixing of banking and commerce and closing the ILC loophole will prevent harming the financial system and consumers.

Use Exercise Extreme Caution when Approving Special-Purpose Banking Charters at the State and National Level, Federal Reserve Master Accounts, and Access to the Nation's Payment System

Several state and federal banking regulators appear interested in issuing special-purpose banking charters to a variety of nonbanks and providing them with access to Federal Reserve Master Accounts and direct access to the nation's payment system.

CBAI's consistent position is that anyone who wants to act like a bank and enjoy its many benefits, needs to actually be a bank. These non-bank charter applicants must sufficiently prove that they are fully able and completely prepared to comply with all banking laws, rules and regulations, and they must be held to the same rigorous safety and soundness standards (including supervision, regulation **and** enforcement) that are currently being required of community banks and their bank holding companies.

These nonbanks cannot have all the advantages of being a bank and have access to a Fed Master Account and the payment system, with limited regulatory requirements, responsibility and liability. An unlevel playing field harms community banks and hinders their ability to serve their customers and communities.

That is **not** acceptable.

Support Additional Meaningful Regulatory Relief for Community Banks and Oppose Regulatory Overreach

The importance of community banks cannot be overstated, as they serve their customers and communities honestly and with respect and make approximately 60% of small business and 80% of agricultural loans, despite having less than 20% of total banking assets. Community banks operate with more than 50,000 locations in 600 counties; and in nearly one in three counties, a community bank is the only physical banking presence. CBAI joins the Independent Community Bankers of America (ICBA) in supporting a more efficient system of rules and regulations, unbiased laws governing the financial sector, a safer and secure business environment, and more efficient agricultural policies to support the nation's economic growth and development in all parts of the country.

Given the prior Administration and its agency leaders' aggressive regulatory agendas, CBAI is particularly concerned about regulatory overreach. Many new and significant rules were approved which individually presented incredible challenges for community banks. Regulators were seemingly acting without considering not only the individual but cumulative effect of their rulemaking and the crushing burden that it poses for community banks which are less likely to be able to comply with these many new requirements.

To the new Administration and agency leadership, CBAI urges robust congressional oversight of the regulators and a moratorium on new rules until the impact of the flood of existing rules can be thoroughly assessed to minimize the damage to community banks and the impact on their lending to consumers and small businesses.

CBAI supports H.R. 976 – The 1071 Repeal to Protect Small Business Lending Act, H.R. 941 – The Small LENDER Act, H.J. Res 50 and S.J. Res 18 – CRA resolution disapproving of the CFPB overdraft rule and increasing the reporting thresholds for CTRs to \$10,000 and for SARs to \$30,000.

Support the Community Bank Position on Credit Unions and Oppose Their Expanded Powers

Credit unions have long since strayed from their founding purposes, weaponizing their competitive advantages, and are virtually indistinguishable from tax-paying community banks. The National Credit Union Administration (NCUA), the “cheerleader regulator” of credit unions, fully supports their expansionist agenda by virtually dissolving the field of membership limitations. This misguided support, combined with permissive oversight, has allowed the credit union industry to grow at an alarming rate. Much of this growth is a blatant end-around Congressional intent for credit unions to serve individuals of modest means and with a common bond. Credit union expansion must not only be halted – it must be reversed.

Credit union acquisitions of community banks are a disturbing abuse of the tax code, which also exacerbates consolidation among financial institutions, negatively impacts all taxpayers, and reduces consumer choice. In 2021, a troubling milestone passed, with more than 100 taxpaying banks being acquired by credit unions. There were an additional 22 acquisitions in 2024. Every credit union purchase

of a community bank diminishes tax revenues and further solidifies this publicly subsidized sector of the financial services industry. The lost tax revenue harms local schools, hospitals and other 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 regulations as community banks, including (with a minor number of exceptions) the Community Reinvestment Act (CRA), which encourages banks to meet the needs of low- and moderate-income communities.

These acquisitions prompt us to ask – If tax-paying community banks are so similar to tax-exempt credit unions that banks can be acquired and incorporated into credit unions, then what is the real difference between them? If there is a difference, then the acquisitions should not take place. If there is no difference, then either credit unions should pay taxes or community banks should be tax-exempt.

This blatant and continued discrimination against community banks must end. Congress has avoided taking sides on credit union issues but not taking a position, unfortunately, benefits credit unions to the detriment of community banks. There are incremental options available to begin to address this inequity.

For example, allow tax credits or deductions for community banks' lending to small businesses, farmers and ranchers, homebuyers and low- and middle-income individuals, and in LTM areas. Tax the largest credit unions – those over \$1 billion in assets. Tax the exorbitant credit unions' marketing expenditures (i.e., stadium naming rights), unreasonable executive salaries, and lavish buildings. Allow states to tax federal credit unions, and tax credit union acquisitions of community banks with an "exit fee" equal to 10% of the value of the acquired bank's assets or liabilities (whichever is greater). Congress should also convene hearings on the credit union tax exemption and financial service industry consolidation where these issues can be explored and addressed.

This escalation of credit unions weaponizing their tax exemption should prompt Congress to realize that "Something's Wrong!" and act - NOW. This continuing abuse is an existential threat to community banks and the communities they serve.

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

The Farm Credit System (FCS) has long since strayed from its founding purpose, weaponizing its competitive advantages against community banks. The FCS is supported in its expansionist agenda by its "cheerleader regulator," the Farm Credit Administration (FCA).

With \$544.5 billion in assets as of (year-end 2024), the FCS is effectively the sixth largest bank in the country – undoubtedly, a systemically important financial institution (SIFI). Yet, the FCS operates outside of safety and soundness supervision and examination by the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency. In addition, the FCS is not subject to Congressional oversight by the U.S. House Financial Services and the U.S. Senate Banking committees. Also, the FCS is not accountable for compliance with the same rules and regulations as

banks, including the Community Reinvestment Act (CRA), and is seeking an exemption from the Section 1071 small business data reporting requirements which bank lenders would be subject to.

The FCS is the only government-sponsored entity (GSE) that competes directly with community banks. Its lenders leverage their tax and funding advantages as a GSE to steal away many of the best agriculture loans from community banks, which is contrary to their mission of serving young and beginning farmers and ranchers. This blatant and continued discrimination against community banks must end, the FCS competitive advantages must be reined in, and the playing field must be leveled for community banks.

March 17, 2025