CSBS Supports Legislation Providing Relief for Community Banks

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Original Letter [PDF]

The Honorable Mike Crapo Chairman
Senate Committee on Banking, Housing, and Urban Affairs
534 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Crapo:

On behalf of the Conference of State Bank Supervisors (CSBS), I am writing in support of S. 2155, the Economic Growth, Regulatory Relief, and Consumer Protection Act legislation that will provide greatly needed relief for community banks. We appreciate the leadership of you and other members of the Senate Banking Committee on this issue.

About CSBS

CSBS is the nationwide organization of banking regulators from all 50 states, American Samoa, the District of Columbia, Guam, Puerto Rico and the U.S. Virgin Islands. The mission of CSBS is to support the leadership role of state banking supervisors in advancing the state banking system, ensuring safety and soundness, promoting economic growth and consumer protection, and fostering innovative state regulation of the financial services industry.

State regulators charter and supervise 78 percent of all banks in the United States. In addition, state regulators license and supervise a variety of non-depository financial services. CSBS, on behalf of state regulators, also operates the Nationwide Multistate Licensing System to license and register those engaged in mortgage, money transmission, consumer finance, debt collection, and other non-depository financial services industries.

Community Bank Relief

Community banks are essential to the U.S. financial system and economy. The defining characteristic of a community bank is its relationship-lending business model – one that relies on the bank's knowledge of its local market, citizens and economic conditions. Relationship lending and community banking are critical to local economic development. For example, community banks account for only 13 percent of the banking industry's assets but provide 43 percent of all small loans to farms and businesses, thus playing an outsized role in lending to America's small businesses.

Community banks have been weighed down by the cumulative effect of post-crisis regulatory reforms, which inadvertently prevent them from delivering innovative and flexible services and products to their customers. S. 2155 would help correct this imbalance and provide meaningful relief to community banks.

CSBS thanks Chairman Crapo for including two key provisions very important to state regulators:

Capital Simplification

The legislation requires federal banking regulators to establish a "community bank leverage ratio," defined as a tangible leverage ratio between 8 percent and 10 percent. Qualifying community banks – those with less than $10 billion in total consolidated assets that have not been disqualified based on their risk profile – will meet the "community bank leverage ratio" in lieu of the current minimum leverage and risk-based capital requirements.

We thank Chairman Crapo for requiring federal banking regulators to consult and notify state regulators during this process. State regulators charter and supervise 78 percent of U.S. banks, and it is vital that we are integrated into the capital simplification process.

Transitional Licensing

The legislation provides 120-day temporary authority to operate as a state-licensed mortgage loan originator for individuals who are: 1) a registered loan originator who becomes employed by a state-licensed mortgage company, or 2) a state-licensed loan originator who becomes employed by a state-licensed mortgage company in a different state.

We praise the bipartisanship behind including language that expands liability protection to state regulators who will be responsible for oversight of these new transitional mortgage loan originators.

State regulators would like to highlight just a few additional provisions of S. 2155 that would help community banks foster economic growth:

Mortgage Lending

The legislation provides qualified mortgage status for loans held in portfolio by banks with assets of $10 billion or less, which will encourage community banks to lend more to prospective homebuyers. State regulators developed this concept several years ago and have long advocated for this provision. When a community bank makes a mortgage and holds that loan in portfolio, the interests of the bank and the borrower are inherently aligned, and lenders retain 100 percent of the risk of default. As such, lenders that retain the full risk of a borrower's default should be presumed to have made a good-faith effort of determining repayment ability.

Appraisal Relief

The legislation exempts mortgages of $400,000 or less in rural areas from appraisal requirements if the originator is unable to find a state certified or state licensed appraiser to perform an appraisal after a good faith effort to do so. State regulators support this provision.

State supervisors continue to observe the delays that a lack of credentialed appraisers impose on the home purchase process, particularly in rural and underserved markets. Several factors influence the ongoing shortage, including: appraisal regulation thresholds, educational requirements for licensed and certified appraisers, and a lack of clarity regarding options for relief. This provision will help rural Americans in the homebuying process.

Reciprocal Deposits

Both community banks and their communities benefit from reciprocal deposit networks that allow local financial institutions to maintain relationships with large depositors in their markets. The proposed changes in S. 2155 appropriately recognize reciprocal deposits as a stable source of deposit funding.

Volcker Relief

The legislation exempts banks with assets of $10 billion or less from the Volcker rule. State regulators support this provision. Even though most community banks do not engage in proprietary trading, the Volcker rule may limit their ability to legitimately hedge risk.

Conclusion

State regulators support S. 2155 and urge its quick passage. The bill provides needed relief for community banks and includes a number of provisions that will help state regulators better supervise both banks and non-banks.

Thank you for leadership on this issue and your engagement with state regulators throughout the legislative process.

Sincerely,

John Ryan
President and CEO

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