“Preserving America’s Community Banks”

SPEECHES

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Conference of State Bank Supervisors

President and CEO Brandon Milhorn

Remarks

ICBA Capital Summit

May 14, 2025

Introduction

It is exciting to be here at the ICBA Capital Summit, and energizing to be in a room full of community bankers willing to come to Washington, D.C., and speak with policymakers about the importance of their banks to the U.S. economy.

Make no mistake, you are the fabric holding the foundation of our economy together.

Community banks hold about 11% of banking assets, but you make 37% of small loans to businesses and 63% of agricultural loans. 1

In one quarter of our counties, a community bank is the only physical banking presence.

But, sometimes it seems that leaders in Washington . . . whether they realize it or not . . . are pulling the thread on that community bank fabric, and it is slowly unraveling.

We have lost 2,000 community banks over the last decade, 2 and only 62 *de novo* community banks were formed over that same period. 3

Community banks continue to face rising personnel and technology costs, and succession planning is often a substantial impediment to the future of your institutions.

You have also faced years of significantly increased regulatory and supervisory burdens. 4 CSBS will soon publish research that confirms what *you already know* . . . our smallest banks shoulder a disproportionately high cost of compliance compared to larger institutions. 5

More recently, headwinds in the form of inflation, rapidly increasing interest rates, and other economic uncertainties have challenged your institutions.

Increased competition from nonbanks and difficulty accessing deposits and funding are ever present threats. 6

When community banks disappear, our communities suffer, particularly low-income households. 7 Larger regional banks and money-center banks simply cannot fill the gap left by community banks, and that means fewer financial options for consumers.

Challenges … and Opportunities

We absolutely must do better, but I am hopeful that change is on the horizon.

Leadership across the federal banking agencies 8 and in Congress 9 are taking notice of the challenges you face, and they are showing a real interest in helping. I have never heard a Secretary of the Treasury talk so passionately about community banks and the need for regulatory and supervisory reform. 10

Community banks that participated in our first quarter Community Bank Sentiment Index share my optimism. The CBSI reached its highest, most positive level since the survey began in 2019, driven largely by a strong belief that regulatory burdens would decrease. 11

Your success is especially important to CSBS and our members. States charter and supervise 79% of the nation's banks, most of which are community banks. 12 In addition to supervising the safety and soundness of financial institutions and protecting consumers, many state supervisors also have a mandate to promote economic growth. Given the role of community banks in local economies, you can quickly understand why the health of community banks is so important to state supervisors.

We cannot let this opportunity for reform pass us by. So, where do we start?

CSBS Community Banking Priorities

We can start by tailoring regulatory and supervisory requirements to the size, complexity, and risk profile of individual institutions. 13

Next, we can move away from process-driven, checklist-oriented supervision and focus on core financial risks.

When regulations are targeted at larger institutions, we must prevent "supervisory creep" that applies these requirements to community banks through supervisory expectations. 14

Arbitrary regulatory thresholds that prevent banks from growing with their communities and the overall economy should be abandoned. 15

The cost of imposing new requirements and reporting obligations must be weighed against real and articulable benefits.

Consider BSA/AML requirements. I am a former national security lawyer. Maintaining the financial system's integrity is paramount, and no one wants to catch terrorists and criminals more than me.

But, how much time and expense goes to BSA/AML reporting?

For the billions that financial institutions spend on BSA/AML compliance, 16 are national security and law enforcement officials seeing equivalent benefits? 17

It is incumbent on the federal government – who imposed these requirements on financial institutions – to periodically ensure that the BSA/AML framework continues to fulfill its primary purpose and that the costs of its reporting mandates are properly weighed against the benefits of the regime. 18

And this is true for all reporting requirements, such as CFPB's rule implementing the small business lending data rule from Dodd-Frank. 19 Are potential customers walking out the door when you ask for information based on outdated or overly intrusive rules? Are federal reporting requirements actually increasing cyber and privacy risks at your institutions? 20

Beyond BSA/AML and other reporting reforms, we should also reconsider our policies regarding bank mergers and *de novo* bank formation.

New entrants and beneficial exits are critical components of a healthy banking industry. These market activities support broader financial stability and help provide consumers with continued access to a variety of responsible financial products and services.

To support investments in new banks and new business models, CSBS has encouraged the federal banking agencies to remove unnecessary limits on *de novo* bank formation and beneficial mergers 21 and help foster innovation and non-traditional business models. 22 These reforms will allow banks – both existing and new – to better serve our communities and promote economic growth.

Which brings me to a topic I love discussing . . . financial services innovation.

Fostering Community Bank Innovation

The financial services market is ripe for innovation, 23 and community banks must be part of this ongoing evolution.

Through the effective incorporation of new technologies, community banks can reach new depositors, cut operational costs, reduce the cost of financial products, and access previously underserved communities. These new products and services will help deepen the relationship-based business model of community banks.

But as it stands, our regulatory system does not incentivize innovation, and far too often, *it is the impediment*.

Third-party partnerships are critical for community bank innovation. Smaller banks often lack the budgets, personnel, and technological skills necessary to develop their own in-house tech stack. Core providers – which community banks depend on – are often more interested in cross-selling their own products than integrating new, competitive vendors into the operations of their bank customers.

Banks also face complex operational risks associated with third-party partnerships. A bank's board and management must have a clear understanding of how new technologies and services will fit within a bank's business model. They must commit time, resources, and personnel to these challenges, because the bank is on

the hook for regulatory compliance issues . . . and that area is fraught with difficulties.

Federal third-party risk management guidance is high-level and generalized. It lacks the operational specificity necessary for practical, day-to-day application. 24 Current guidance is often more like encountering a series of "Do Not Enter" signs than following a road map to success. The 17 formal enforcement actions related to third-party risk management since 2022 25 are evidence of the gap between guidance and reality, and increasingly we have seen banks abandon third-party relationships. 26

I often wonder whether this is not an area where public-private partnerships can help. I do not think the federal banking agencies will ever be able to regulate with the speed and agility necessary to keep pace with advances in technology. Maybe we do not even want them to try. Regulations and guidance that are dated by the time they are issued can actually impede innovation by picking winners and losers that would have been more effectively chosen by the market.

The FDIC explored the concept of a voluntary standard setting and certification organization with a request for information in 2020. 27 Acting Chairman Hill has indicated that he may revisit this concept. 28 And, since the FDIC's RFI, several private sector efforts have begun that could serve as the foundation for an effective public-private partnership. 29

Working in conjunction with state and federal supervisors and other stakeholders, a standard setting organization could focus on the most challenging operational components of third-party partnerships: due diligence, BSA/AML, model risk management, information sharing, and interoperability . . . the list goes on. These standards would provide guidance for vendors that want to build their technology to meet compliance obligations, and the voluntary certification process would provide a degree of trust for banks, supervisors, and customers. The standards could evolve with advances in technology.

If we truly want to foster innovation . . . to support a dynamic and competitive marketplace that provides consumers with responsible financial products . . . we must be willing to try new regulatory and supervisory approaches.

Distributed Ledger Technology

While we are discussing innovation, it probably makes sense to talk a little about legislation under consideration in Congress that would create a national framework for stablecoins. 30 In many ways, the framework under consideration would mirror the dual-banking system – with firms acquiring a state or federal authorization. The bills would establish regulatory standards that both state and federal stablecoin issuers must meet.

While CSBS supports a national framework that provides a sound foundation for stablecoins, we have expressed significant concerns with the bills now moving through Congress. 31 Stability born of sound financial guardrails and predictability that establishes consumer trust are key components for any stablecoin bill. We do not believe the current bills meet these objectives, and we appreciated ICBA's recent statement raising several shared concerns. 32

Instead of narrowly focusing on stablecoin issuance and payments, the legislation would authorize stablecoin issuers to engage in non-stablecoin-related activities . . . lending, market making, investments. 33 These additional activities add needless risk, and when juxtaposed against capital limitations in the bills, also exacerbate financial stability and run risks for the uninsured stablecoins.

More broadly, Congress must carefully consider the impact stablecoins could have on bank deposits. Those deposits fuel lending in our communities, and if there is a significant migration from community banks to stablecoin firms, an unintended consequence could be a reduction in lending for small businesses and farmers. Limitations on interest, yield, and other rewards and a narrow authorization tied expressly to stablecoin issuance and payments – along with the removal of the broad authorization to engage in "non-payment stablecoin activities" – could mitigate some of this risk.

Conclusion

Now – perhaps more than ever – we have an opportunity to reset the regulatory and supervisory environment for community banks . . . to eliminate unnecessary compliance and reporting burdens that drive your operating costs sky high . . . to foster innovation that will increase competition and help meet rising consumer expectations.

If we are successful, we can help reverse the trend that has led to the loss of so many community banks, and help encourage the flow of new capital, the creation of new business models, and the formation of new community banks.

We cannot wait another decade to make these changes. We must start now.

Your voice in Washington is vital, and your success is America's success.

Thank you.

- 1

  FFIEC, Central Data Repository.

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  In 2014, there were more than 6,100 community banks. At the end of 2024, there were about 4,050. FDIC, BankFind Suite.

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  FFIEC, National Information Center; *see also* Testimony of Arkansas State Bank Department Commissioner Susannah Marshall, "Make Community Banking Great Again," Hearing Before the U.S. House Committee on Financial Services, 119th Cong. (Feb. 5, 2025).

- 4

  Id. ("In 2024 alone, the federal banking agencies proposed or finalized more than 30 rules totaling more than 4,000 pages." (citing CSBS Board Chair Charlie Clark, *Opening Remarks by CSBS Chair Charlie Clark at the 2024 Community Banking Research Conference*, St. Louis (Oct. 2, 2024)).

- 5

  Using data from both the CSBS Annual Survey of Community Banks from the past 10 years and bank Call Reports, our research will show that smaller banks consistently attribute between 11%–15.5% of their personnel expenses to regulatory compliance, compared to 5.6%–9.6% reported by larger institutions. The annual personnel compliance cost difference between the smallest and largest banks ranged from 3.8%–8.2%, all of which were statistically significant differences. Moreover, beyond personnel expenses,

statistically significant compliance cost burdens were also attributed to other expense categories, including data processing, accounting and auditing, and consulting.

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  In 2024, 89% of community bankers cited government regulation as the highest external risk they face, tying for first with the rising cost of funds. The share of community bankers listing regulation as an "extremely important" or "very important" risk has risen consistently over the last few years, up from 81% in the 2023 CSBS Annual Survey and from 77% in the 2022 survey. *See* CSBS, *2024 CSBS Annual Survey of Community Banks*, Presented at the 12th Annual Community Banking Research Conference (Oct. 2-3, 2024). Community banks responding to the Third Quarter 2024 Community Bank Sentiment Index survey noted government regulation, cyber threats, and the cost/availability of labor among their top concerns. *See* CSBS, *Community Bank Sentiment Index* (Oct. 8, 2024); *see also* Marshall Testimony, *supra* note 3.

- 7

  See Erik J. Mayer, *Big Banks, Household Credit Access, and Intergenerational Economic Mobility*, 59 J. of Fin. & Quant. Analysis, 2933 (Sept. 2024).

- 8

  See FRB Governor Michelle Bowman, *Bank Regulation in 2025 and Beyond* (Feb. 5, 2025); FDIC Acting Chairman Travis Hill, *Charting a New Course: Preliminary Thoughts on FDIC Policy Issues* (Jan. 10, 2025).

- 9

  Rep. French Hill's Banking Principles – "Make Community Banking Great Again" (Nov. 14, 2024).

- 10

  Treasury Secretary Scott Bessent, Remarks at the Economic Club of New York (March 6, 2025).

- 11

  The 2025 Q1 CBSI was 129, a positive reading and record high. The regulatory burden component, at 130, is above the neutral level of 100 for the first time in the survey's history and also had the greatest quarterly improvement, gaining 30 points from the 2024 Q4 survey. *See* CSBS, *Community Bank Sentiment Index* (Apr. 8, 2025).

- 12

  As of 12/31/24, there were 3,273 state-chartered community banks out of 3,551 state-chartered banks. CSBS uses the FDIC's research definition to classify institutions as community banks. That definition takes into account an institution's size, geographic footprint, business model, and other characteristics. *See* FDIC, *Community Banking Study, Appendix A: Study Definitions* (Dec. 2020).

- 13

  Supra note 8.

- 14

  See Clark Opening Remarks, *supra* note 4.

- 15

  A significant number of regulations have static thresholds that do not keep pace with economic or industry growth. For example, the $10 billion CFPB supervision threshold was established in 2010, and independent audit, internal control attestations, and reporting requirements in 12 C.F.R. Part 363 have not been updated since 1993 or 2005. *See* Marshall Testimony, *supra* note 3; *see also* Congressional Research Service, *Over the Line: Asset Thresholds in Bank Regulation* (May 3, 2021); CSBS, Letter Re: *Executive Order 14219 – Modification of Outdated, Burdensome Community Bank Regulatory Thresholds* (May 12, 2025).

- 16

  Industry estimates suggest that U.S. financial institutions spent $59 billion on BSA/AML compliance in 2023. *See* Forrester Consulting, *True Cost of Financial Crime Compliance Study, 2023: United States and Canada* (Nov. 2023).

- 17

  A 2024 GAO report found that law enforcement accessed only 5.4% of CTRs filed between 2014 and 2023. *See* U.S. Government Accountability Office, *Currency Transaction Reports: Improvements Could Reduce Filer Burden While Still Providing Useful Information to Law Enforcement* (Dec. 2024).

- 18

  Quantifying the benefits of the BSA/AML framework is complicated by the lack of transparency associated with the program. While some opaqueness is understandably necessary to protect ongoing intelligence and law enforcement investigations, it increases the burden of proof rightly placed on the federal government to revisit the cost-benefit determinations associated with the significant BSA/AML reporting obligations imposed on all financial institutions.

- 19

  See P.L. 111-203, Title X, Subtitle G, § 1071 (codified at 15 U.S.C. § 1691c-2); *see also* CFPB, Final Rule, *Small Business Lending Under the Equal Credit Opportunity Act (Regulation B)*, 88 Fed. Reg. 35150 (May 31, 2023); CSBS, Comment Letter Re: *Proposed Rulemaking: Small Business Lending Data Collection Under the Equal Credit Opportunity Act (Regulation B)* (Jan. 6, 2022).

- 20

  See Marshall Testimony, *supra* note 3.

- 21

  See CSBS, Letter Re: *House Financial Services Hearing: "Enhancing Competition: Shaping the Future of Bank Mergers and De Novo Formation"* (May 14, 2025); *see also* CSBS, Comment Letter Re: *Proposed Rescission and Reinstatement of Statement of Policy* (Apr. 9, 2025).

- 22

See Brandon Milhorn, *Keynote Remarks at the 2025 Fintech Conference: Bank-Fintech Partnerships | Distributed Ledger Technology | Regulation and Fintech Innovation*, Federal Reserve Bank of San Francisco (Apr. 4, 2025).

- 23

  Id.

- 24

  Id. ("What we hear most often [from banks] is the need for targeted, risk-based, operational guidance. Guidance that provides a roadmap for the types of relationships banks want to start – deposit taking, lending, custody, or payments.").

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  See list of enforcement actions taken against state and federally chartered banks by regulators, including the FDIC, OCC, Federal Reserve Board, Arkansas State Bank Department, New York Department of Financial Services, and Ohio Department of Commerce Division of Financial Institutions.

- 26

  See, e.g., Miriam Cross, "Five Star to Phase Out its Banking-as-a-Service Program in 2025," *American Banker* (Sept. 17, 2024).

- 27

  FDIC, Request for Information, *Request for Information on Standard Setting and Voluntary Certification for Models and Third-Party Providers of Technology and Other Services*, 85 Fed. Reg. 44890 (Jul. 24, 2020).

- 28

  See Hill, *supra* note 8.

- 29

  See Alloy Labs, *Alloy Labs Members Move to Standardize BaaS* (May 10, 2022); *see also* "Coalition for Financial Ecosystem Standards (CFES) Launches to Develop Industry Standards for Nonbanks Participating in Financial Services," *Business Wire* (Oct. 1, 2024).

- 30

  he STABLE Act of 2025 (H.R. 2392) is a bipartisan bill led by primary cosponsors Reps. Bryan Steil (R-WI), French Hill (R-AR), and Ritchie Torres (D-NY). The GENIUS Act of 2025 (S. 1582) is a bipartisan bill led by primary cosponsors Sens. Bill Hagerty (R-TN), Tim Scott (R-SC), Kirsten Gillibrand (D-NY), Cynthia Lummis (R-WY), and Angela Alsobrooks (D-MD).

- 31

*See*CSBS letter to House Financial Services Chairman French Hill and Ranking Member Maxine Waters (D-CA) on the STABLE Act (April 1, 2025); CSBS letter to Senate Banking Committee Chairman Tim Scott and Ranking Member Elizabeth Warren (D-MA) on the GENIUS Act (March 11, 2025).

- 32

  ICBA, Press Release, *ICBA Urges Lawmakers to Ensure Community Bank Concerns Are Addressed in GENIUS Act Before Any Senate Vote* (May 8, 2025).

- 33

  See GENIUS Act of 2025, S. 1582, Sec. 4(a)(7)(B) (May 5, 2025) ("Nothing in subparagraph (A) shall limit a permitted payment stablecoin issuer from engaging in non-payment stablecoin activities that are authorized by the primary Federal payment stablecoin regulator or the State payment stablecoin regulator…."); *see also* STABLE Act of 2025, H.R. 2392, Sec. 4(a)(8)(G) (May 6, 2025) ("A permitted payment stablecoin issuer may only . . . undertake such non-payment stablecoin activities that are allowed by the primary Federal payment stablecoin regulator.").

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