How excessive regulation is crushing Main Street

The Inside Story on the squeeze facing the nation's community banks

A Report Sponsored by the Independent Community Bankers of America

How Washington is Failing Main Street

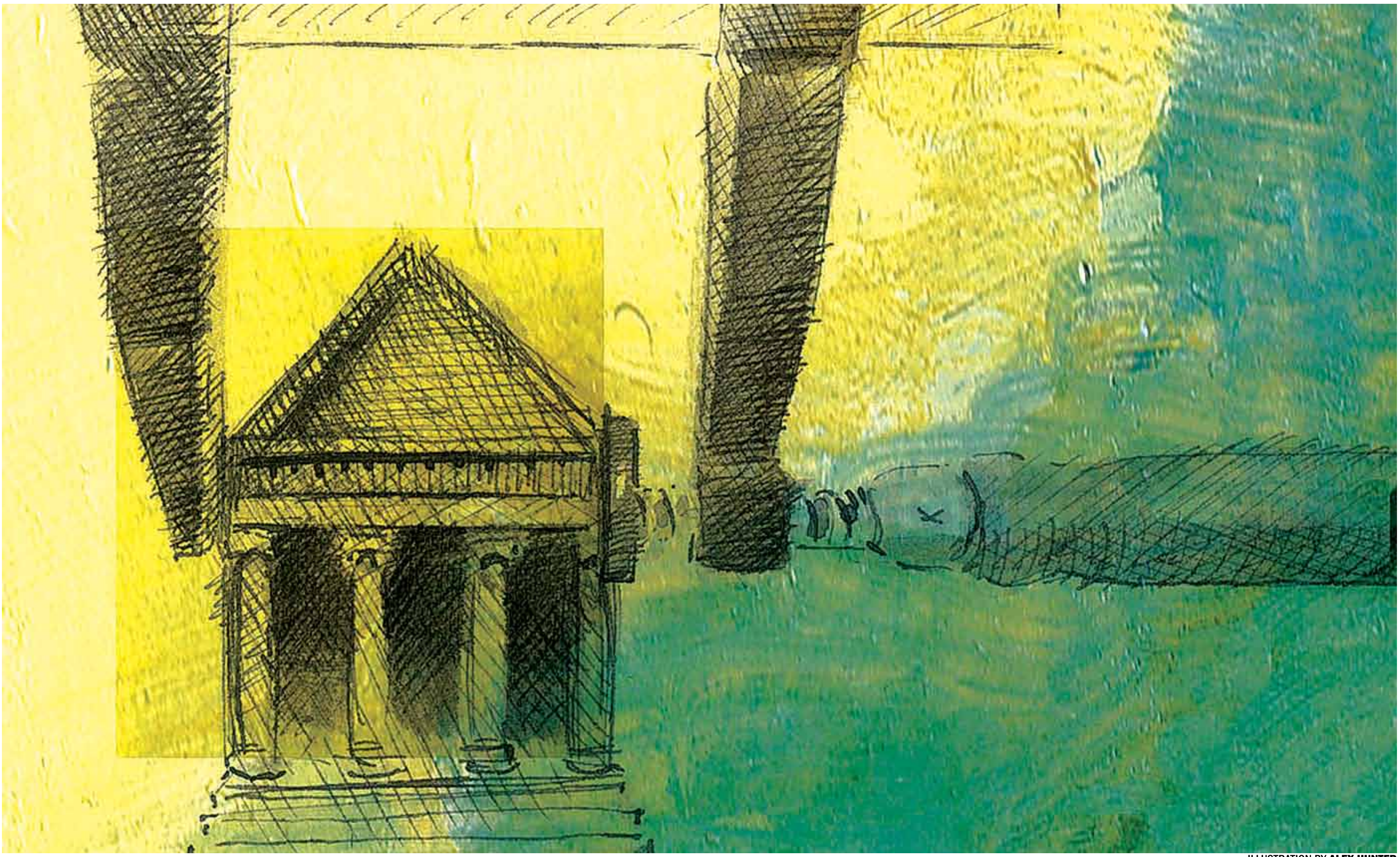

ILLUSTRATION BY **ALEX HUNTER**

By Camden R. Fine

Following repeated, and increasingly questionable, verbal assurances that Congress is working to limit the impact of excessive regulation on Americans, community bankers recently made it clear that lawmakers can't have it both ways. It is time for members of Congress to end the lip service and tell us the truth—are they with us or against us?

In a letter last week to all 535 congressional offices, the Independent Community Bankers of America promised to share a list of lawmakers cosponsoring our top-priority bills to the nation's community banks—which are present in every congressional district across the country. Members of Congress not on the list will be sorely missed.

Joining a handful of noncontroversial relief bills should be a no-brainer for anyone on Capitol Hill who wants to prevent government overreach from further disrupting locally based banking and economic growth. The problem goes back well before the 2008-09 financial crisis, a calamity that community banks did not cause. Since 2005, the sheer number of discrete regulatory requirements has increased by nearly 40 percent. However, Washington's response to the crisis has exacerbated overregulation with new rules on mortgage lending and capital standards that have restricted community bank lending and consumer access to credit. According to a new SNL survey, 35 percent of respondents said compliance costs have increased by at least 30 percent over the past five years.

This immense amount of added regulation, while often targeted at Wall Street megabanks, nevertheless has a tangible impact on community-based institutions and their customers. The Basel III rules originally intended for global institutions will tie up critically important capital in Main Street banks that would otherwise fuel local economic growth. Among other things, these capital regulations will effectively decrease community bank mortgage-servicing capacity by 90 percent, which is why more than 17,000 community bankers have signed a petition seeking an exemption.

The regulatory response also is reducing the services local institutions are able to offer. Roughly three-quarters of community bankers responding to an ICBA survey earlier this year reported that new mortgage regulations are keeping them from making more residential mortgage loans in their communities. Significant percentages of community banks are considering an exit from the residential mortgage market or are in the process of exiting the market. Additionally, a 2014 survey of small banks by George Mason University's Mercatus Center found that 90 percent of respondents said they are reconsidering their product and service offerings, such as residential mortgages and overdraft protection, due to the increased regulatory burden.

These data are directly supported by what Main Street lenders and borrowers are saying about the current environment. A March House Financial Services Committee hearing cited numerous stories of creditworthy individuals who were turned away because of inflexible new rules, including recently relocated doctors and teachers as well as small-business owners who can't meet income-documentation requirements.

In short, federal regulations are injuring the customers they are intended to protect. Partisan politics has frozen a bevy of non-controversial policies pending in Congress, such as relief from excessive mortgage rules, examination requirements and quarterly reporting mandates. That's why community bankers are calling for action instead of more talk. With more than 6,000 community banks holding $2.4 trillion in loans to consumers, small businesses and the agricultural community, there are plenty of reasons for Congress to work together to offer needed regulatory relief in any of the dozens of bills waiting for a vote on Capitol Hill. Congress should work together to ensure regulations don't keep these institutions—more than 2,700 of which are over 100 years old—from continuing to serve their hometown customers.

Camden R. Fine is President and CEO of the Independent Community Bankers of America.

Time to put some Main Street common sense into banking regulations

By Rep. Steve Stivers

One of the biggest problems with Big Government today is that it too often seeks to regulate with a one-size-fits-all approach. But, life on Main Street and reality in business are far more complex. The risk and the ability to absorb the cost of compliance are far greater for massive Wall Street banks than for small community banks. Yet most regulations in government today treat both the same.

These regulations have resulted in a crushing burden of duplicative and costly requirements on banks, while doing little to alleviate risk. Furthermore, the regulations also serve to sideline community bankers from their primary obligation, which is to provide loans and financial services to the families and business that fuel Main Street and job creation.

States are having a similar problem with agencies such as the Consumer Financial Protection Bureau, which ignore proven regulatory models in favor of one-size-fits-all rules. The result: Less access to credit for Main Street, more power for big government and less competition for Wall Street.

That is why I have worked with Members on the House Financial Services Committee to find legislative solutions that apply a risk-based approach to regulating the banking industry. There are a number of possible solutions and I want to work with my colleagues to find the right one for our economy -- one that allows banks to continue to serve their customers, while ensuring the safety and soundness of the American banking system.

My strong opposition on the wrong-headed Operation Choke Point is a perfect example. This was a federal regulatory crackdown imposed by the Administration with ideological, rather than consumer concerns in mind. The goal was to put certain industries out of business by imposing stifling regulatory burdens on the banks that served them. It was the ultimate example of regulatory overreach, imposing more harm than help for end consumers.

Our small community banks play an important role: Helping families achieve the American dream of homeownership, allowing small business owners obtain loans to start up and create jobs, and providing loans for farmers who feed America, just to name a few. While we've pushed Operation Chokepoint back into a box, I believe we need a broader solution to prevent such overreach in the future.

I believe it is time for Congress to create a safe harbor for state licensed businesses, such as small community banks, to free them from unnecessary, burdensome regulatory requirements from Uncle Sam when they are already operating in a safe and legal way at the state level.

This week Congress is marking up additional language designed to create a common sense approach to regulating small community banks and other financial institutions that help Main Street thrive. Meanwhile, Democrats in the Senate continue to block Banking Committee Chairman Richard Shelby's compromise bill, which contains vital community bank regulatory relief in

the aftermath of Dodd-Frank. While they insist on protecting every word of a five-year-old bill with many flaws, Main Street suffers.

It is time for the Congress and President Obama to come together and enact regulatory relief for Main Street.

Mr. Stivers is a Republican representing Ohio's 15th District in the U.S. House of Representatives and a member of the Financial Services Committee.

Consistent Security Standards Essential to Protecting Consumers

By Karen Thomas

As community banks continue to seek fair and equitable regulation, one area in need of greater consistency is how we protect against massive data breaches. Not a month goes by that we don't hear about a new retailer breach like the one most recently at photo vendors serving major retailers such as CVS and Costco. Capitol Hill must address our nation's lopsided system of security standards for payments system participants.

Banks, including community banks, already comply with a bevy of mandates under existing federal and state laws, regulations, and guidance. However, retailers and other parties that process or store consumer financial data are not subject to the same federal data security standards and oversight as financial institutions, which are laid out

in the Gramm-Leach-Bliley Act. These standards apply to the smallest church basement credit union and Main Street community bank—but not to multi-billion-dollar retailers.

To effectively guard against cyber threats and data breaches, Congress must ensure all participants in the payments system—including merchants—are required to play by the same set of rules. The Data Security Act of 2015 (H.R. 2205) would help, by establishing a scalable and flexible national data security and notification law in place of the current patchwork of state standards. It also would require any business that maintains sensitive information to protect the confidentiality and security of that information.

While the lightly regulated retail sector wields considerable power in Washington, that doesn't mean it should be off the hook for the breaches it incurs. Securing data at financial institutions is of limited value if it remains exposed elsewhere. Applying consistent standards to all system participants is crucial to truly protecting the sensitive information transmitted through our payments system. The financial services industry is working with Congress to find ways to better protect consumers—there is still a spot at the table for retailers to join the discussion.

Karen Thomas is Senior Executive Vice President for Government Relations and Public Policy of the Independent Community Bankers of America

Blaine Luetkemeyer:
A community banker inside Congress

By The Washington Times

Missouri Congressman Blaine Luetkemeyer is a champion for small bankers in Washington. And that's because he's been one of them.

Over his distinguished private career before arriving in Congress in 2008 to represent his home state of Missouri, Mr. Luetkemeyer spent 30 years working in the financial services industry as a state banking examiner and a community banker.

That experience, he says, gave him a keen understanding of the unprecedented burden that excessive government regulation can have on lending, financial services and access to money for everyday working Americans and small businesses.

He's taken that experience to Washington to champion regulatory relief and smarter policies to help keep community banks as an essential engine of economic development on Main Street.

As chairman of the House Financial Services Subcommittee on Housing and Insurance, Mr. Luetkemeyer helped lead the charge against Operation Chokepoint, an unprecedented regulatory assault by the Obama administration on certain industries, like gun makers, designed to cut off their access to financial services by imposing undue hardships on the banks that serviced them.

"I have seen firsthand the important role that local financial institutions play in helping families realize the American dream," he says. "We live in a world where banking is becoming more concentrated and lending is constrained.

"That is why it is important to provide some regulatory relief to the small, hometown institutions that have served our local communities well and did not contribute to the financial crisis of 2008."

For years, this Missouri Republican has championed legislation designed to reduce unnecessary or duplicative regulatory burdens on community bankers and other small lending institutions.

One of his highest priorities has been winning passage of H.R. 1233, the Community Lending Enhancement and Regulatory Relief Act, a bill that Mr. Luetkemeyer is sponsoring to relieve regulatory burdens on community-based financial institutions.

Among its many feature, the bill provides an exemption from the Gramm-Leach-Bliley Act's annual notice requirement for banks that have not changed privacy policies and only share personal information within the statutory exceptions. That provision alone is estimated to save small banks millions a year in mailing. The bill also would also lengthen the exam cycle for banks that are well managed.

The legislation also includes several provisions to increase home lending opportunities in small communities across America, such as changing the Qualified Mortgage (QM) safe harbor requirements to include loans originated and retained in portfolio for the life of the loan

Similarly, in July, the House passed Mr. Luetkemeyer's legislation, H.R. 432, that reduced duplicative regulatory burdens for advisers of Small Business Investment Companies (SBICs), which help arrange funding for mom-and-pop businesses all across America.

"There are 28 million small businesses in America, and bills like H.R. 432, reduce regulatory burdens so that long term investments can be made in our small businesses and communities," he explained earlier this month.

In March, he re-introduced legislation called the Systemic Risk Designation Improvement Act, which require government regulators to base their regulation of financial institutions on risk factors rather than arbitrary considerations like asset size.

"This legislation supports economic growth in the country because not only does it allow our community and regional banks to lend without certain burdens of lending, but it more closely bases the regulation of financial institutions on risk rather than arbitrary asset size," he explained at the time. "After decades of being in the community banking and insurance businesses, I know firsthand the importance of creating standards that account for risk and the varying structures of small, mid-size, and large financial institutions.

Finally, as chairman of the House Financial Services Subcommittee on Housing and Insurance, Mr. Luetkemeyer helped lead the charge against Operation Chokepoint, an unprecedented regulatory assault by the Obama administration on certain industries, like gun makers, designed to cut off their access to financial services by imposing undue hardships on the banks that serviced them.

While the FDIC, the Justice Department and other regulatory agencies eventually apologized for the operation, Mr. Luetkemeyer wanted to make sure the program, or anything like it, could not be revived ever again.

So earlier this year he sponsored an amendment to the annual Commerce, Justice, and Science appropriations legislation prohibiting the expenditure of federal funds on Chokepoint-like activities. The amendment passed the House in June.

"My colleagues and I will continue to ensure DOJ and FDIC enforcement actions are focused on actual threats and risks and not politics and ideology as we continue to move forward with the fight to end this illegal program once and for all," he explained at the time.

Regulators need to experience the burden of their compliance mandates

By Chris Cole

Are community banks overregulated?

I recently asked that question to a panel of top-level regulators representing the three federal banking agencies at the Independent Community Bankers of America's 2015 convention.

Their answers were so ambivalent that I came away convinced that the agencies really don't think community banks are overburdened by rules. While they endorse a tiered regulatory scheme, in which regulation is based on the risk and complexity of banking institutions, they do not believe that regulation has reached a point that endangers the continued existence of community banking.

From the industry's perspective, this stance is unbelievable. Numerous independent studies have shown that community banks are struggling because of regulatory burdens.

The Independent Community Bankers of America found in its own recently released Community Bank Lending Survey that nearly three-quarters of 519 community bank respondents said regulatory burdens are preventing them from making more residential mortgage loans. The survey also found that significant percentages of community banks are considering exiting mortgage lending or are already in the process of doing so.

A separate 2014 joint study by the Federal Reserve and Conference of State Bank Supervisors confirmed that community banks face rising compliance costs as they devote more time and personnel to navigating regulations and pay more for the services of third-party vendors.

Anecdotal evidence about overregulation and its impact on is almost overwhelming. Just last month, David Williams, chairman of Centennial Bank in Lubbock, Texas, told the House Financial Services Committee that community bank regulation is injuring the customers it is intended to protect by cutting access to credit.

At the past two Economic Growth and Regulatory Paperwork Reduction Act outreach meetings hosted by regulators, banker after banker testified about how regulation is forcing the community banking industry to consolidate. This of course has a tangible impact on local consumers and communities nationwide — particularly when consolidation is very rapid and mergers take place between community banks and non-community banks.

But banking regulators seem to think the industry is exaggerating the impact of regulation. The prudential regulators and the Consumer Financial Protection Bureau downplay the impact of their ever-expanding regulatory requirements on community banks, even though their rules place a disproportionate burden on the smallest institutions.

Last year's Federal Deposit Insurance Corp.'s study on community bank consolidation was silent on the impact of the regulatory environment on the shrinking number of community banks. If community banks have to consolidate to deal with regulation, that is not necessarily a bad trend, regulators seem to say.

Banking regulators will never conclude that regulation is actually hurting the industry until they study the issue and come to that conclusion on their own. Independent studies and anecdotal evidence will not convince them.

The best time to conduct the study would be now as part of the review going on by the EGRPRA process, which requires the banking agencies to determine if their regulation is "unduly burdensome." A comprehensive on-site survey of the community banking industry — conducted by a team of regulators who would interview community bankers to determine the bank's direct and indirect compliance cost — could conclusively prove to the regulators the impact that regulation is having on the industry.

The FDIC tried such a study as part of its 2012 Community Bank Study survey, but ended up only interviewing nine community bankers. With such a limited sample, the FDIC's Division of Insurance and Research was unable come up with any firm conclusions concerning the costs of regulatory compliance. In 2013, the Federal Reserve Bank of Minneapolis tried to quantify the costs of additional regulation on community banks based on additional staffing costs. But it too only came up with limited results.

The agencies should expand on these approaches and, as part of their EGRPRA process, conduct a comprehensive study of the overall impact of regulation on community banking. Then they will begin to understand what the industry already knows: that overregulation harms not only community banks but also the consumers and communities that regulators intend to protect.

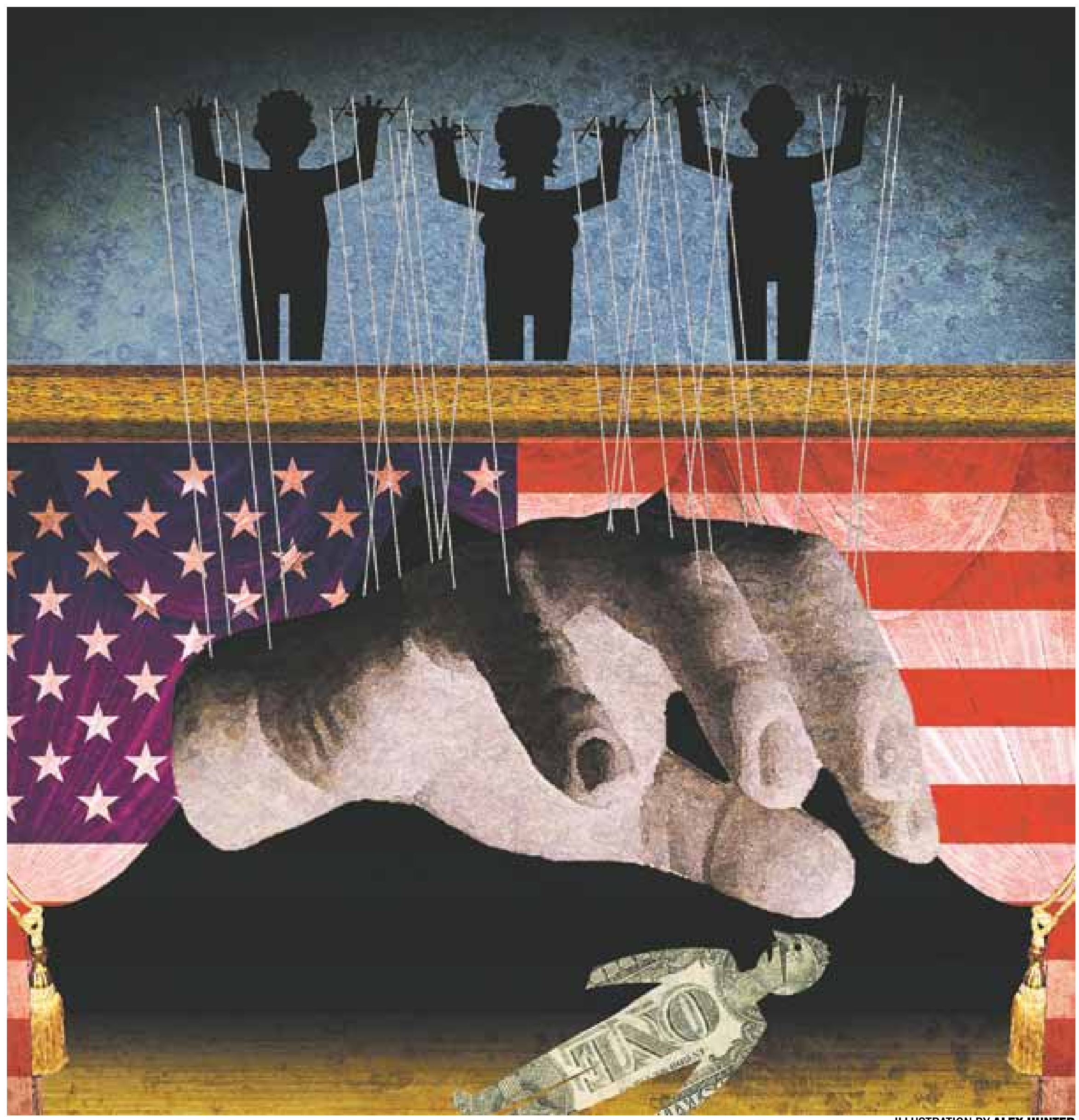

ILLUSTRATION BY **ALEX HUNTER**

Christopher Cole is Executive Vice President and Senior Regulatory Counsel of the Independent Community Bankers of America. This op-ed first appeared in American Banker.

A Main Street banker's perspective on excessive federal regulation

By Preston Kennedy

I am the President and CEO of the Bank of Zachary in Zachary, La., and earlier this year I got the opportunity to tell Congress a little bit about the hidden cost of federal regulations and how these costs impact small business and economic growth on Main Street.

The Bank of Zachary was founded in 1904 and today is a $200 million institution with deep roots in the Louisiana communities we serve. With three offices and 46 employees, we are a small business and we lend to other small businesses and small business owners.

We are locally owned and make decisions locally. Thus we are relationship lenders, as opposed to transactional lenders, and our customer relationships span generations. We rely on direct, personal knowledge of the borrower, local economic conditions, and other "soft data" to underwrite customized loans and other services tailored to the unique characteristics of our customers and communities. This is our competitive advantage over larger banks. We are a part of the fabric of our community.

Our story is the story of the more than 6,000 community banks scattered across this great country. Though we hold less than 20 percent of U.S. banking industry assets, we service a disproportionate market share of small business loans – 55 percent – supporting a sector responsible for more job creation than any other. We provide small business credit in good times as well as challenging times. We don't walk away from our small business customers when the economy tightens. Instead, we provide the financial bridge to help them weather the hard times and to prosper in the good times.

This type of small business lending cannot be duplicated by a bank based outside the community. As a recent study by Harvard University's Kennedy School noted: "In certain lending markets, the technologies larger institutions can deploy have not yet been proven as effective substitutes for the skills, knowledge, and interpersonal competencies of many traditional banks."

My concern is that this extraordinary engine of small business growth is threatened by an exponential growth of regulation in recent years. Compliance has become a major distraction for community bank managers. Any community banker will tell you that their job has fundamentally shifted from lending and serving customers to struggling to stay on top of ever-changing rules and guidance.

Every aspect of community banking is subject to new regulation, but the impact is especially severe in the area of mortgage lending. Banks need more scale to accommodate the increasing expense of compliance, which includes hiring, training, software, and other costs.

I believe this increase in regulatory burden has contributed significantly to the loss of 1,342 community bank charters in the U.S. since 2010. The number of banks with assets below $100 million shrunk by 32 percent, while the number of banks with assets between $100 million and $1 billion fell by 11 percent.

A financial landscape with fewer, larger banks will reduce access to credit for small businesses.

The good news is that there are readily available legislative solutions to this pending crisis. Working with community bankers from across the nation, the Independent Community Bankers of America developed its Plan for Prosperity, a platform of legislative recommendations that will provide meaningful relief for community banks and allow them to thrive by doing what they do best – serving and growing their communities.

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Each provision was crafted to preserve and strengthen consumer protections and safety and soundness. And while it contains nearly 40 separate legislative recommendations, they are organized around three pillars:

· Relief from mortgage regulation to promote lending;

· Improved access to capital to sustain community bank independence;

· Reforming oversight and examination practices to better target the true sources of risk.

Beyond the industry's own plans, we also are encouraged by legislation introduced in the Senate and the House.

For instance, the Community Lending Enhancement and Regulatory (CLEAR) Relief Act of 2015 introduced by Sens. Jerry Moran and Jon Tester in the Senate and Rep. Blaine Luetkemeyer in the House, advances three priority provisions of Plan for Prosperity: qualified mortgage status and an escrow exemption for any mortgage held in portfolio by a community bank with less than $10 billion in assets, and relief from the SOX 404(b) internal control assessment mandate for community banks with less than $1 billion in assets.

The Community Bank Access to Capital Act, introduced by Rep. Scott Garrett in the House and Sen. Mike Rounds in the Senate, would exempt banks with assets of $50 billion or less from the Basel III regulatory capital rule, which was originally intended to apply only to large, internationally active banks. It also would exempt community banks with assets of less than $1 billion from internal control attestation requirements.

The Financial Institutions Examination Fairness and Reform Act, introduced by Sens. Moran and Joe Manchin and Reps. Lynn Westmoreland (R-Ga.) and Carolyn Maloney (D-N.Y.), would go a long way toward improving the oppressive examination environment imposed on community bankers by creating a workable appeals process.

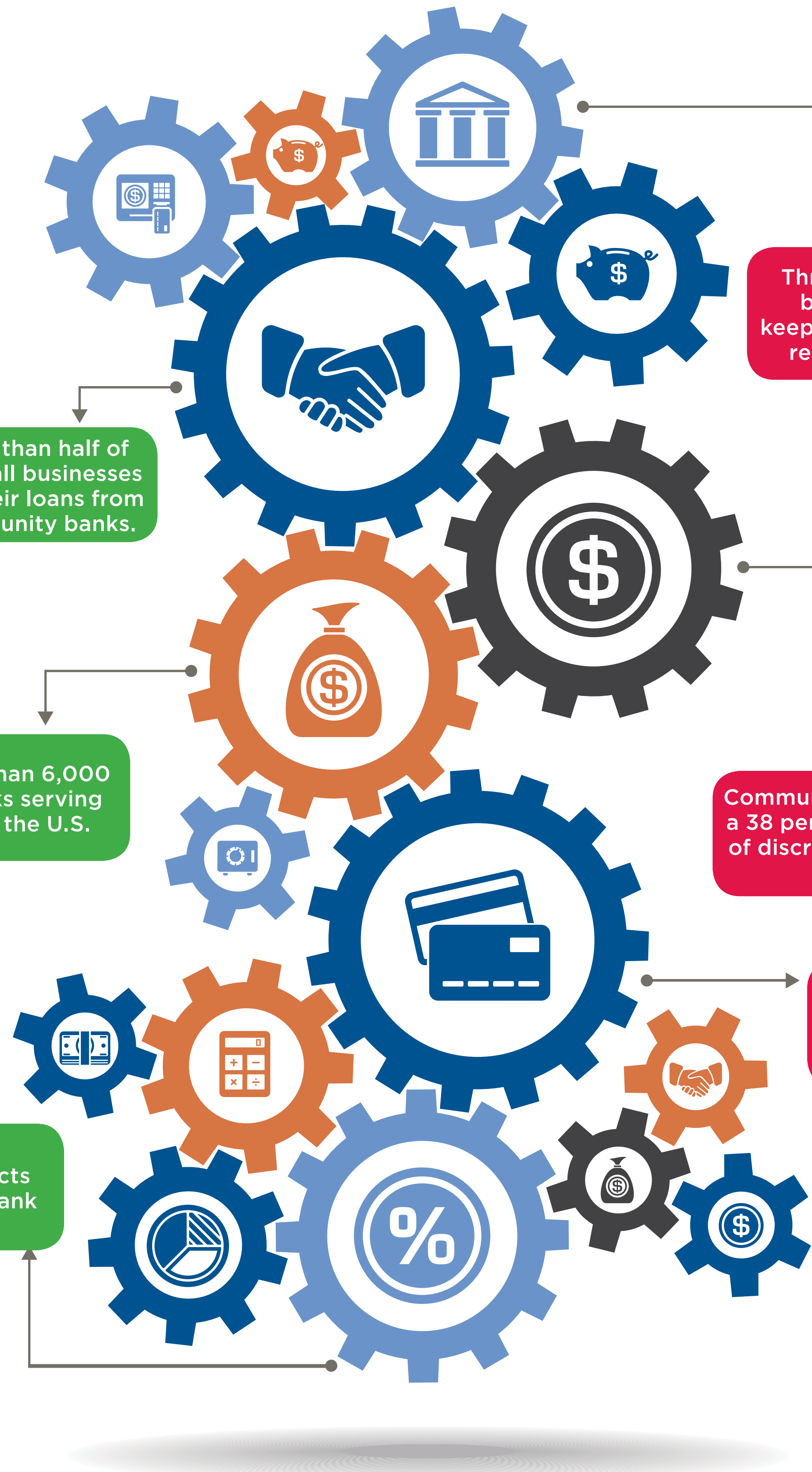
And legislation introduced by Sens. Moran and Heidi Heitkamp in the Senate and Rep. Luetkemeyer in the House would eliminate redundant mailings of annual privacy notices when a financial institution's privacy policy has not changed. This unproductive expense for community banks that could be better directed toward serving consumers. A similar bill introduced in the 113th Congress garnered a broad list of 75 bipartisan cosponsors in the Senate.

The need for a legislative solution is urgent. The sharply increasing resource demands placed on community banks by regulation and examination and the destructive impact they have on small business lending threatens an important pillar of our economy. I'm encouraged that Congress has lent us a listening ear and look forward to working with lawmakers to craft common sense solutions for Main Street.

Preston Kennedy is President and CEO of Bank of Zachary in Zachary, La.

Community Bankers are the engine of Main Street

But excessive regulation is choking their ability to help small business



Removing community bank barriers essential for growth

By David H. Baris

Regulatory red tape has inhibited the formation of new community banks, the hometown institutions that have been the cornerstone of our nation's financial system for more than a century. With our economic recovery advancing at a frustratingly slow pace in many communities, Washington can support local growth by encouraging the formation of more of these community-based institutions.

Federal regulations have created unreasonable barriers to forming new community banks and have brought new-bank formation to an 80-year low. The Federal Deposit Insurance Corp. has approved just two applications for new federal banking charters, known as de novos, since 2009. From 2000 to 2007, on the other hand, the FDIC approved an average of 159 applications for new banks each year.

While the economic stagnation itself contributes to fewer de novo bank applications, a recent study by the Federal Reserve Bank of Richmond found that regulatory costs, which have increased in recent years due to a financial crisis caused by the very largest banks, also play a key role. Further, community bankers themselves report that FDIC policies and practices are inhibiting the formation of de novo institutions. Apparently, would-be applicants are overwhelmed by the uncertainty of approval and processing of their applications, ultimately deciding not to subject themselves to those uncertainties.

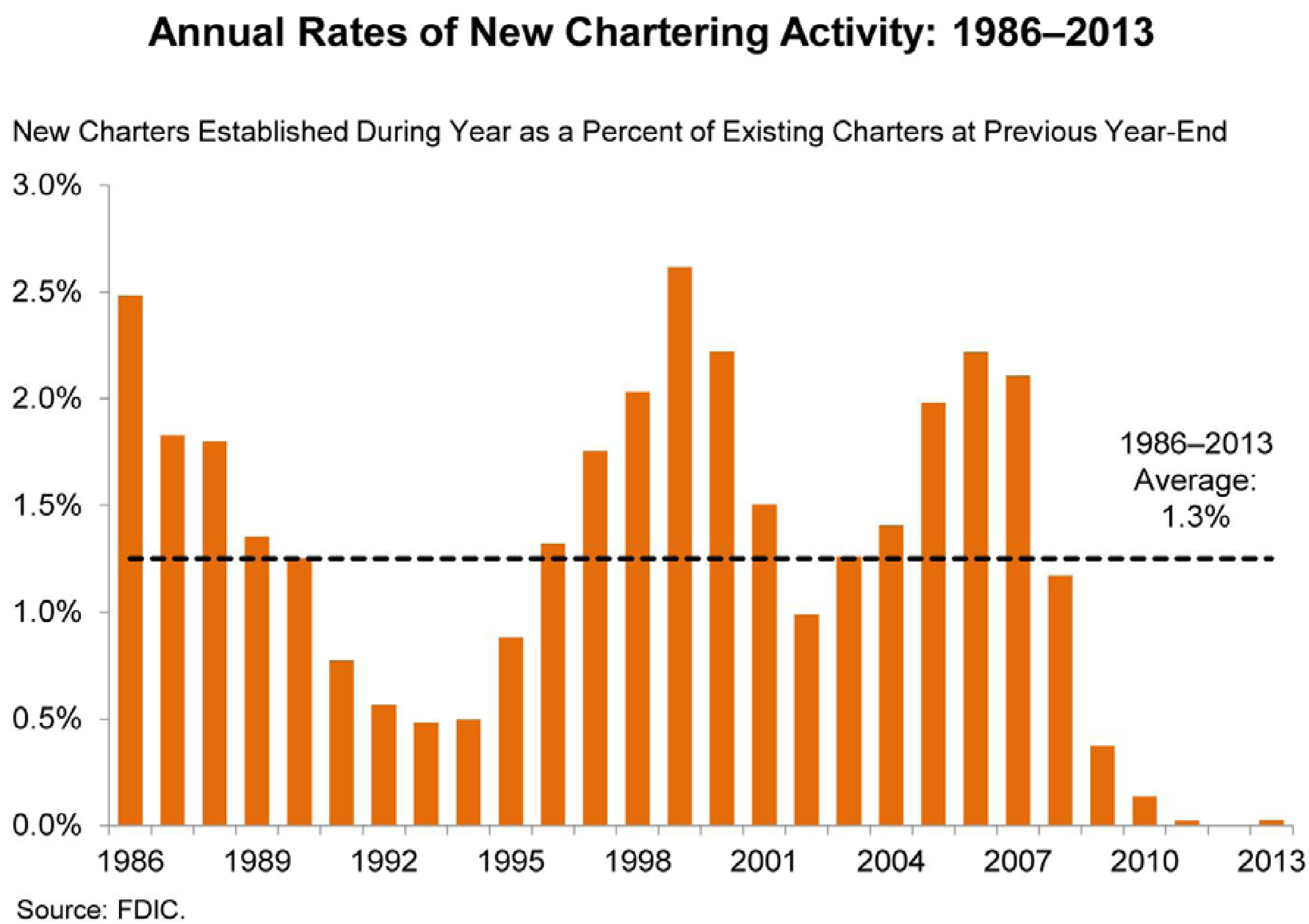
New bank formation increases the availability of credit to small businesses and households, helping to drive local economies. As the only physical banking presence in nearly one in five U.S. counties, community banks are critical sources of financing in communities that are not served by large and regional institutions. And they punch above their weight class, providing more than 50 percent of the nation's small-business loans. Further, as locally owned institutions, community banks are held accountable by the friends and neighbors they serve and do not engage in the kinds of risky Wall Street practices that fueled the recent financial crisis.

The answer to the current dearth of bank applicants is more flexible regulatory policies that are tailored to the risk profiles and business plans of both new bank applicants and existing community banks. Regulators must institute a flexible and tailored supervisory policy, with capital standards, exam schedules and other supervisory requirements based on the risk profile and business plan of the applicant and not on a standard policy that applies to all applicants.

The good news is that Washington has made progress, with the FDIC last fall responding to the industry's concerns with guidance designed to make life easier for applicants and to provide transparency to the application process. Basically, the FDIC now requires de novo applicants to submit upfront capital and business plans for the first three years of operation, instead of the first seven.

This is a great start, but we need to monitor the implementation of this policy to ensure it is having its intended effect and to determine whether further changes are necessary. More broadly, we need to continue working to reduce the excessive regulatory burden on local financial institutions that is stunting economic growth. To truly ensure a recovery from the Wall Street financial crisis in cities, suburbs and small towns across the country, Washington must allow community banks to do their part.

David H. Baris is President of the American Association of Bank Directors



Small business owners victimized by Operation Choke Point decry government overreach

By Maggie Ybarra
THE WASHINGTON TIMES

Allison Deguisne, the owner of a small chain of Westshore Cash and Loan, says she will stop running the two-shop operation by the end of the month, and she blames federal government regulators.

Ms. Deguisne can't find creditors to help keep her California-based payday loan business afloat.

The struggling entrepreneur tried to maintain her flailing company after Wells Fargo choked off her line of credit. She said she approached numerous bankers in search of financial support who told her on more than one occasion: "We don't do business with people like you."

Now, she is giving up on her small-business venture.

"My retirement is gone. I have nothing to sell of the business," she said. "My retirement and my child's education fund."

Ms. Deguisne was one of several victims of a government-run program dubbed Operation Choke Point who went to Capitol Hill on Tuesday to describe how they have lost their livelihoods because their industry was placed on a high risk-list by the Federal Deposit Insurance Corp. Banks interpreted that listing as a warning not to do business with such enterprises, lest they be charged with racketeering, joint liability and other accessory offenses.

Some of Tuesday's witnesses were gun shop owners, other payday lenders and one person who sold tobacco. All of them now are struggling to make it to their next paychecks.

Operation Choke Point, a multiagency task force run out of the Department of Justice, initially was designed to combat corruption by investigating the connections that banks maintain with companies considered to be at high risk for money laundering.

Business owners, who say they are victims of government overreach, have dark tales about how they were forced to eat through their savings to salvage their companies or, in worst-case scenarios, sell their shops.

Rep. Sean P. Duffy, Wisconsin Republican and chairman of the Financial Services subcommittee on oversight and investigations, convened the meeting of victims to demonstrate the personal effects of what he calls "the greatest government overreach that no one is talking about" and to question the FDIC chairman about the program.

Mr. Duffy described the program as "clever" but "un-American."

After Choke Point was exposed last year, the FDIC retracted the high-risk list.

FDIC Chairman Martin Gruenberg said during the Tuesday hearing on Choke Point that some banks appear to have misinterpreted regulatory guidance. That misinterpretation led them to bar entire categories of businesses from using bank services.

In January, the FDIC issued a letter saying all banks should examine their customer relationships on a case-by-case basis and not by industry operational risk.

The government agency followed the action with a memorandum to its supervisory staff requiring that examiners put into writing their recommendation to terminate an account, which the financial institution must review before the account is ended.

Still, that's not enough to satisfy some lawmakers and business owners who have been affected by the program.

Rep. Blaine Luetkemeyer, Missouri Republican, is moving forward with a bill he introduced in the last legislative session aimed at cementing the FDIC's rule into law and to ensure that other financial institutions such as the Consumer Financial Protection Bureau and the Federal Reserve, which were also part of Operation Choke Point, commit to similar steps.

Mike Shuetz, owner of Hawkins Guns, said he was livid after federal regulators swooped in and told his primary bank that they had to close his account because he dealt in guns. Clamping down on small-business owners who sell guns endangers the right of a man or woman to buy a weapon to learn to hunt or shoot for sport or defend his home, Mr. Shuetz said.

"It's a sad day in America when our administration doesn't respect the rights of Americans," he said.

U.S. Consumer Coalition, an organization that protects the rights of consumers to purchase goods and services, is spearheading a public campaign against Operation Choke Point.

"We're going to push back," he said during a Capitol Hill press conference before the panel's hearing. "We're going to ask questions."

Brennan Appel, owner of Global Hookah, said the program has had a significant impact on his business. The businessman said he was blindsided when Bank of America gave him two weeks to find a new home for his business and personal accounts. He said he was able to find a safe haven with Wells Fargo but remained concerned about the credibility of the banking system.

"Basically, you can't believe the banking system anymore. You have to have accounts in multiple banks," he said. "You have to have a backup plan. You can't put all your eggs in one basket. You have to separate your payroll processing. So everything has to be separated, and you have to have a plan B."

Wells Fargo spokeswoman Jennifer Langan told The Washington Times that the bank "can't comment on a specific customer due to customer privacy reasons."

Bank of America did not return requests for comment.

Dawn Loyd, vice president of Advance Cash in Tennessee, said one of her eight cash and loan stores was hurt by the operation when the Bank of Tennessee demanded that the store's accounts be closed.

Ms. Loyd said she is trying to open accounts with banks in other cities but has had no luck, so her chain is down to seven stores.

Ms. Desguisne expressed regret over not having a backup plan.

"If I had known, I probably would have gone out and tried to get bank accounts other than the one," she said.

Now, the disgruntled small-business owners are, at the very least, hoping to find some middle ground. Small businesses should have access to secondary creditors should their primary banks cancel their accounts in keeping with the federal program, they said.

"If we're high-risk, put us under a microscope," Ms. Desguisne said. "But give us the ability to stay in business."

Mr. Shuetz said he disagreed with the potential of finding any middle ground if the program's anti-corruption tactics continue to prevent a small-business owner from making a living.

"It's all or nothing," he said of the program. "You're violating the Constitution, so stop that immediately. There's already laws in place to regulate businesses and the banking industry. We don't need to create new things in order to do that."

Rep. Sean P. Duffy, R-Wis., chairman of the House Financial Services subcommittee on oversight and investigations, convened a hearing this spring on Operation Choke Point victims to demonstrate the personal effects of what he calls "the greatest government overreach that no one is talking about." Source: AP

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Making the case for Main Street

America's regulatory system unjustly favors the megabanks

By Camden R. Fine

By its very definition, the word "justice" equates with rightfulness and justness of ground or reason. That's why the too-big-to-fail regulatory debate leaves me perplexed and concerned about the well being of this great nation.

If we are a country built upon liberty and justice for all, why is our economic and regulatory system so unjustly tilted in favor of too-big-to-fail financial institutions led by too-big-to-jail management teams? Why is our economic system operating on the mantra of "another day, another fine"? How is that right? How is that just? How is that American?

Take for instance the foreign-exchange fines that were handed out in May to JPMorgan Chase, Citigroup, Barclays, UBS and Royal Bank of Scotland, all of which pled guilty to criminal charges that they acted in concert to manipulate international interest rates and foreign currency exchange. Over the span of several years, these banks bilked billions of dollars from unsuspecting companies, international investors and individuals by altering rates in their favor.

And as we know all too well, this isn't the first time these banks have had problems with the law. Both JP Morgan and Citibank have been held liable for mortgage securities fraud. JP Morgan has also been involved in 'London Whale' trading, the robo-signing scandal, electricity market manipulation, and municipal bond trading fraud. For UBS, this was the third criminal settlement in six years.

And the result? Fines. According to recent estimates, the nation's largest financial institutions have accumulated more than $150 billion in bank fines and penalties since the financial crisis.

But is this enough to stop Wall Street's wrongful, unjust doing? If history is any guide, the answer is a definitive no.

This is simply another government slap on the wrist for the Wall Street megabanks, and just another business expense on their financial statements. When will the government realize that fines don't work for these financial behemoths and their managements? Fines are nothing more than a necessary cost of doing business.

This is wrong and needs to stop.

ILLUSTRATION BY **LINAS GARSYS**

By contrast, community banks — homegrown banks that are embedded in their communities during good times and bad — lending, serving and supporting the economic backbone that drives local small business, agriculture and consumer financial stability — are being suffocated by regulations and regulatory scrutiny that's choking the life out of Main Street.

Take for instance the phone call I received from the $45 million asset community bank with eight full time employees in a town of less than 2,000 citizens who told me his bank has been swarming with regulatory examiners for weeks on end, pouncing on any minor error or small misstep they can find. Or the $83 million dollar asset community bank that had its 16 officers and directors dragged to court, and their assets seized for "poor judgment" in approving loans. How often do you see Wall Street too-big-to-fail officers and directors dragged into court for using "poor judgment"? Never. Even when pleading criminally guilty.

Community bankers aren't asking for easy treatment, they just want to be treated fairly and justly. If we continue down this path of special deals for Wall Street financial moguls, we better be ready for the frightening consequences that will almost certainly lead us to our next financial crisis.

America deserves better. America deserves a system where Main Street and its citizens are allowed to thrive and aren't suffocated by a misguided regulatory regime that allows their community's primary source of capital to deteriorate.

In contrast to the relatively new phenomenon of too-big-to-fail megabanks, community banking in the United States is a system that has worked for centuries. It is a system that is unique to the global financial structure and has helped make our country's economy the envy of the world. If community banks don't do right by their customers, they fail. They aren't propped up by taxpayers. It's the very essence of a free market system — a key principle of the liberty upon which America was founded.

I challenge America's lawmakers and regulators to do what's right and to hold Wall Street to the same laws and regulations as Main Street. Only then will we truly have an economic and regulatory system that is built upon liberty and justice for all.

Camden R. Fine is President and CEO of the Independent Community Bankers of America.

End run by the credit unions

They're trying to avoid their mandated unique role

By THE WASHINGTON TIMES

George Stigler won the 1982 Nobel Prize in Economics for work that changed forever the way economists look at government regulation of business and industry. Before Mr. Stigler, a colleague of Milton Friedman in the Chicago school of economics, the economists and politicians accepted the argument that government regulatory agencies, established to protect the public from abuse, accomplished exactly that. After Mr. Stigler's groundbreaking work, that sentiment was shared not so much.

The Stigler effect sprang from an article he published in 1971, demonstrating how regulatory bodies like the old Interstate Commerce Commission, the Food and Drug Administration, the Securities and Exchange Commission, and others failed. Economists realized that such agencies were "captured" by the interests of the very industries they were to regulate.

In recent years, regulatory capture has been obvious in ham-handed attempts of the Securities and Exchange Commission to protect Goldman-Sachs, the way the Food and Drug Administration works in concert with pharmaceutical companies to protect them from competition and even by the municipal taxicab commission in the nation's capital to protect cabbies from having to compete with Uber. Regulators are always eager to hop in bed with the regulated. Both the regulators and the regulated make themselves mutually comfortable in the mutual assessment that they're smarter than everybody else, and feel safer working in the dark.

One late example of how this happy scheme works is the attempt by the National Credit Union Administration to help the credit unions it regulates compete with banks in ways that Congress has consistently prohibited. Some of the things they do can make them look like banks, but credit unions are not banks. Credit unions are exempt, for one important example, from some of the taxes banks must pay.

The National Credit Union Administration now proposes to expand the ability of credit unions to make risky large loans by raising limits imposed by Congress to prevent abuse of their special status. The most aggressive credit unions want to compete with community banks, whose practices are not now within the purview of the regulators.

If this attempt succeeds, the credit unions will, like other captured regulatory agencies, be enabled to work not in the interests of the public, but to advance the interests of the credit unions with whom they share that comfortable bed.

The lending restrictions were established by Congress to help the credit unions keep in mind that they were designed to serve customers with the common bond of modest means. Multi-billion-dollar credit unions can operate tax-free. Such institutions are unique among federally insured depositories by their exemption from regulations, such as the Community Reinvestment Act which Congress imposed to protect communities from lending discrimination. The economist George Stigler could have predicted this, and only Congress can stop it if it summons the will to do so.

Doing the Right Thing is in the Community Bank DNA

ILLUSTRATION BY **LINAS GARSYS**

By Camden R. Fine

I am humbled and grateful to represent the nation's community banks, an industry that has made its mark through honest dealing, community involvement and personalized customer service.

A few months ago, I read an article that reminded me just how great it is to be in a community-minded industry like community banking. According to this report, the Dutch Banking Association is requiring its 90,000 members to recite an oath pledging to act honorably and lawfully. Those who fail to live up to the oath could face fines, blacklisting or suspensions.

While I appreciate the Dutch Banking Association's commitment to principle, requiring members to pledge to do the right thing is completely alien to ICBA and community banks. And the reason for that is simple: community banks don't have to take an oath to do what's right. They live the oath every day. As a community banker myself for 20 years, I can tell you that honesty, integrity and good conduct are part of the job—the DNA—of community banking.

It's simple. Community bankers have to do right by their customers because they answer to them every day inside and outside the bank—at Little League games, PTA meetings and church breakfasts. As members of their local communities, community bankers are in the business of putting their customers first, of doing the right thing.

There's an old saying: "There's no right way to do the wrong thing." Community bankers know the difference between right and wrong because doing the right thing is part of what makes them community bankers. In the community banking industry, your word is your bond.

I thank the nation's community banks for continuing to maintain our industry's high standards and for allowing me to continue working for the good guys. While there's still much work to be done in Washington, ICBA will continue doing everything it can to support the community banking industry. That is my pledge to you.

Camden R. Fine is President and CEO of the Independent Community Bankers of America.

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Millennials Are the Future for Community Banks

By Chris Lorence

Forget what you think you know about Generation Y. The nation's Millennials—the biggest and most diverse generation of customers in our nation's history—account for more than $1 trillion in annual purchasing power. And according to ICBA's 2014 American Millennials and Banking Study, this generation is a great fit for community banks.

This is a generation raised amid the Wall Street financial crisis, plagued by large amounts of student loan debt, and so risk-averse that more than 60 percent don't have a credit card. It should come as no surprise that they are looking for financial institutions that are locally owned and can help achieve their entrepreneurial dreams.

According to our survey, locally owned and operated banks are the first choice of all Americans for a business loan or other funding. Further, being a locally operated banking institution is almost twice as important to Americans as being a national or international banking institution. Now isn't that something? Community banks with less than $10 billion in assets make more than half of all small business loans, and that is what sets Main Street apart from Wall Street.

Some business-focused Millennials intend to start their small businesses within the next two years. In fact, more than 40 percent are very interested in starting their own business at some point in their lifetime, and almost a quarter currently earn part of their income from a business they started or have a stake in.

The Millennial generation is also hungry for financial education. They want to be more financially literate, and the nation's community banks are an excellent resource to quench this thirst for knowledge. This generation is beginning to take the reins of their careers and financial wellbeing, and now is the time for community bankers to become their trusted entrepreneurial advisors.

Millennials are unique and belong with their local, one-of-a-kind community bank. This generation is ready to become community banks' newest customers, and it is time for community banks and Millennials to work together to meet the financial needs of this generation and help local communities thrive.

Chris Lorence is Executive Vice President and Chief Marketing Officer of the Independent Community Bankers of America.

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Accounting Standards Next in Long Line of Cookie-Cutter Regulations

By Camden R. Fine

You've heard the old line that an elephant is a mouse built to government specifications? We're all familiar with how government spending tends to grow rather than shrink. An equally troubling tendency perhaps even more familiar to community banks is the way governments often apply a cookie-cutter approach to their policies.

Regulations are inherently rigid and often fail to account for the unique circumstances of individuals and businesses. That often means a one-size-fits-all approach to a community banking model based on individual relationships and one-on-one service. Think Basel III—a capital framework designed for global financial institutions that nevertheless applies uniform standards on Main Street community banks.

While ICBA and community bankers have given everything they've got on Capitol Hill and at the regulatory agencies to institute a system of tiered regulation based on size and risk, a radical change to financial accounting due out as soon as this year threatens to deal yet another blow to locally based banking.

The Financial Accounting Standards Board is expected to release its updated accounting standards on credit losses in the fourth quarter. These new standards would require complex modeling and compel banks to recognize losses much earlier than necessary in the credit-loss cycle, penalizing community banks for investing in loans and securities.

What does this mean for community banks and their customers? For one, it will mean fewer loans. Currently, community banks don't make an allowance for loan losses unless they have evidence that they'll incur a default. Under the FASB's "expected loss" model, banks would instead take a hit the moment they make a loan. Not only would banks have to recognize a loss on day one, but the proposal requires complex and expensive modeling tools that will inhibit the ability of local banks to make localized financial decisions. The Office of the Comptroller of the Currency estimates that the proposal will increase loan-loss reserves by an average of 30 to 50 percent.

WARNING:

Overregulation is suffocating Community Banks and Main Street America!

Further, this plan will only add to the regulatory burdens overwhelming the community banking industry. Forecasting inputs used to predict potential loan losses will never be strong enough to satisfy the scrutiny of bank examiners. There will always be another rock to look under as examiners try to ensure a more precise model. So what we have is an approach to loan losses that is at once expensive, burdensome, time consuming—and yet never enough to satisfy examiners. Bottom line, this proposal is a double whammy of decreased lending and increased regulatory scrutiny for community banks and the customers they serve.

But there is one other saying that this whole deal brings to mind, which is that you should never try to out-stubborn a cat.

Community bankers are a stubborn lot and aren't about to back down from this radical policy change. It's why we've come up with an alternative proposal for institutions with less than $10 billion in assets that bases loan-loss provisions on historical losses for similar assets. It's why we've met repeatedly with the FASB, including several times at the board's headquarters in Norwalk, Conn. And it's why nearly 5,000 community bankers signed a petition advocating ICBA's simpler approach.

Our nation's hometown banks have fought and clawed so they can continue serving their communities amid a raft of new regulatory burdens. We're not about to let yet another cookie-cutter government regulation take hold without a fight.

Camden R. Fine is the President and CEO of the Independent Community Bankers of America.

Let's Cut Call Report Paperwork Down to Size

By Terry J. Jorde

Regulatory paperwork continues to occupy far too many community bank resources that could be dedicated to improving local communities, and the problem is only getting worse. A new ICBA survey spotlights the tangible impact of one of the more onerous burdens that is only getting heavier—the quarterly call report.

While regulators are proposing to yet again expand call report requirements for all banks, ICBA's new survey details the impact of existing reporting rules.

The 2014 ICBA Community Bank Call Report Burden Survey found that the annual cost of preparing the call report has increased for 86 percent of respondents over the past 10 years. Meanwhile, the total hours dedicated to preparing the call report increased for 73 percent of respondents. Further, one in three survey respondents said the number of employees involved in call report preparation has increased, with more than 60 percent saying they have at least two employees who prepare their report.

Why the increasing time and expense? Here's a reason—the call report has grown from 18 pages in 1986 to 29 pages in 2003 to nearly 80 pages today! The instructions alone are 630 pages, and regulators are considering padding that with another 57. In fact, the call report—which community banks have to submit every 65 business days—has more pages than the typical U.S. community bank has employees.

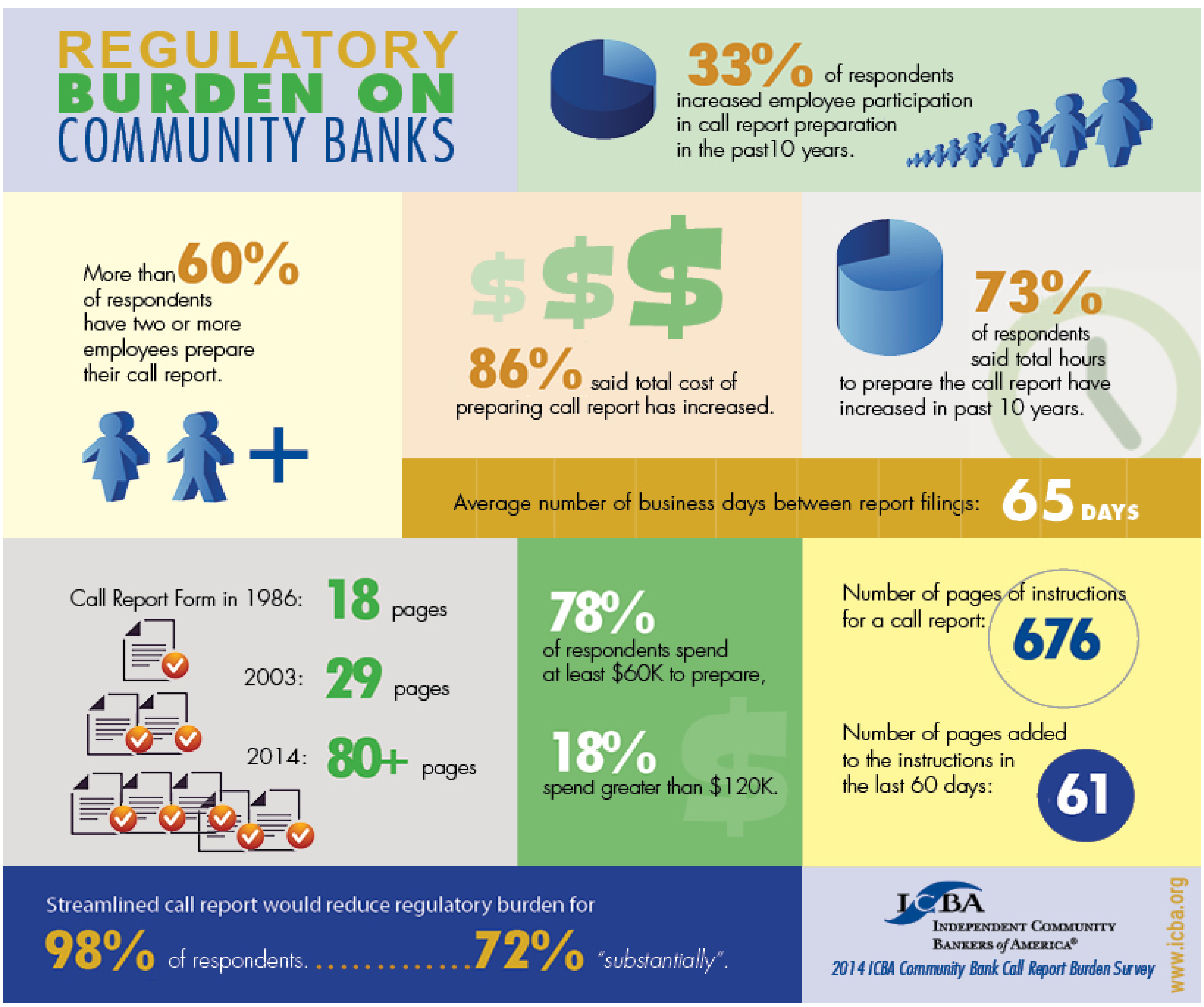
Make no mistake—the additional staff time and resources that community banks devote to the call report are resources that cannot be used to expand our economy. That is why ICBA is proposing a simpler and more streamlined approach for smaller and less complex banks.

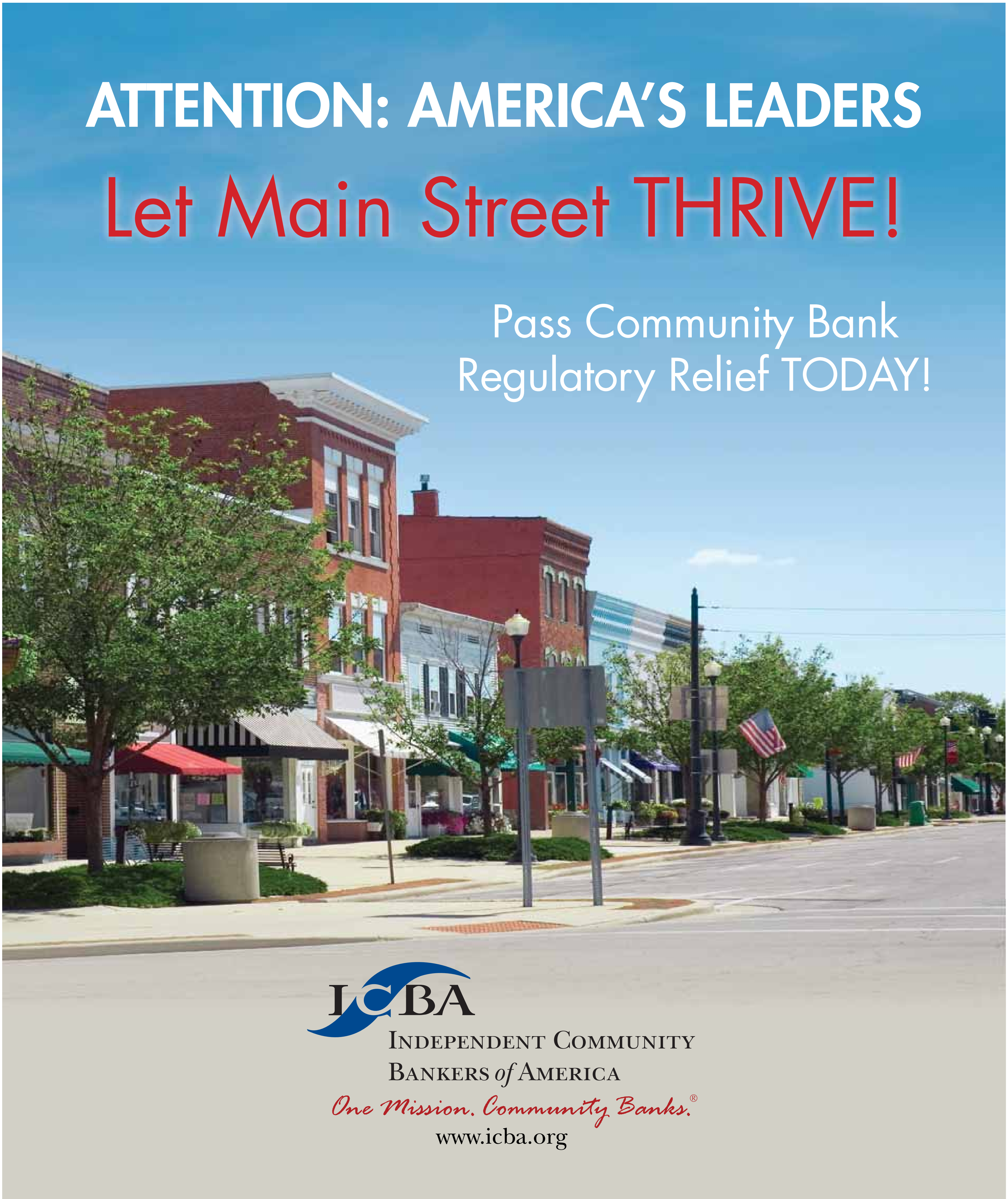
Instead of continuing to add to the paperwork overload, we propose that regulators allow highly rated, well-capitalized community banks to file a short-form call report twice per year. This report would cover the first and third quarters of the year, with community banks continuing to submit the usual long-form call report during the second and fourth quarters.

Think it will help? Community bankers sure do. According to our call report survey, 98 percent of respondents said the short-form call report would reduce their regulatory burden, and 72 percent said the reduction would be substantial.

Look, enough is enough. The truth is that new regulatory burdens detract from the ability of community banks to serve their communities. Instead of tying up local institutions in knots of red tape, let's free their hand and allow them to promote the sustainable economic growth our nation desperately needs.

Terry J. Jorde is Senior Executive Vice President and Chief of Staff of the Independent Community Bankers of America

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