



Financial Regulatory Reform: What It Means for Community Banks

As the full Senate begins debating and negotiating financial-regulatory-reform legislation, ICBA is strongly advocating for reforms to crack down on systemically dangerous financial firms and against proposals that create new burdens for community banks. The following are ICBA's positions on the Senate's key regulatory-reform proposals.

Eliminating Systemic Risks of Too-Big-to-Fail Financial Firms

- ICBA supports policies that address the overconcentration of the financial system and subject systemically dangerous firms to more rigorous regulations. The Senate regulatory-reform bill creates an orderly liquidation mechanism for the FDIC to unwind failing systemically dangerous companies. It will also charge the largest financial firms \$50 billion for an upfront fund that will be used to liquidate a firm should it fail.
- ICBA supports preserving the prefunded systemic-risk fund included in the bill and expanding it above \$50 billion. The House bill would create a \$150 billion fund.
- ***What It Means for Community Banks:*** *A more diverse financial system promotes competition, prevents risks to the financial system and creates a fairer system for the nation's community banks. These policies are essential to avoid future financial crises and help to equalize funding costs across the sector. It is clearly not in the public interest to have so much power and wealth concentrated in the hands of so few, giving them the ability to de-stabilize our entire economy.*

Expanding the Assessment Base to Adjust for Risk

- The FDIC should base its deposit-insurance assessment base on assets (minus tangible capital), not just domestic deposits, to ensure large firms shoulder their fair share of deposit-insurance premiums for the greater risk they pose to the system. This language was included in the House-passed version.
- Currently, the Senate version of the assessment base language would dilute the cost savings for community banks by basing the assessment on assets (minus tangible capital) plus long-term debt, which is held mostly by the largest banks giving them unfair deposit insurance cost savings. Unlike the House-passed bill, the Senate version would not statutorily require the change in the assessment base leaving it to the discretion of the FDIC.
- ***What It Means for Community Banks:*** *The House-passed regulatory-reform bill would permanently broaden the assessment base, which would return \$4.5 billion to the community bank sector over the next three years and help boost funds available for small business lending. ICBA supports the House-passed assessment language and will work to strengthen the language in the Senate bill.*

Consumer Financial Protection Bureau

- ICBA opposes the creation of a stand-alone consumer agency and continues to fight for effective input by prudential regulators in consumer rulemaking. We will continue working with Congress to ensure any new consumer protections focus on unregulated financial institutions, not community banks. Further, the examination and enforcement of consumer-protection laws should remain with a bank's primary regulator.
- ***What It Means for Community Banks:*** *Having prudential regulator input on consumer rules and focusing new consumer protections on unregulated financial firms and products would protect consumers and create a fairer financial system for community banks.*



Strengthen the Deposit-Concentration Cap

- The current 10-percent nationwide deposit-concentration cap has many loopholes and should be reduced or strengthened to control the growth of systemically dangerous institutions. The House financial-reform bill includes ICBA-promoted measures that would repeal the exclusion of thrift deposits from the 10 percent deposit-concentration cap.
- ICBA also favors stronger capital and liquidity requirements for the largest financial firms outlined in the Administration supported “Volcker Rule.”
- ***What It Means for Community Banks:*** *Closing this loophole would help prevent the continued growth and creation of dangerous too-big-to-fail financial institutions and the risks they pose to the nation’s financial system and economy.*

The Farm Credit System Exemptions

- The Senate bill includes provisions exempting Farm Credit System (FCS) institutions from the bill’s systemic-risk resolution authority, the proposed Consumer Financial Protection Bureau and, along with Farmer Mac, risk-retention requirements. ICBA opposes these FCS exemptions.
- ***What It Means for Community Banks:*** *These exemptions automatically grant FCS exemption from the risk retention requirements on loans sold to Farmer Mac whereas banks could face a risk retention requirement. The provisions also appear to allow the FCS’s regulator to determine FCS compliance with consumer laws (ex: TILA; RESPA, etc.) without any oversight by the FED as is currently the case.*

Regulatory Choice

- ICBA supports multiple regulators and charter choice for the nation’s financial institutions. Specifically, ICBA opposes the provision in the Senate bill that takes away the Federal Reserve’s supervision and regulatory authority over the more than 800 community banks that it currently regulates. ICBA also opposes legislative language in the bill that would eliminate any new thrift charters.
- ***What It Means for Community Banks:*** *The structure of our banking regulatory system will define the future of the banking industry. A system that has several federal banking agencies and the dual banking system provides needed checks and balances which promote consumer choice and a diverse and competitive financial system that is sensitive to financial institutions of various size and complexity. We need a Federal Reserve Bank that remains engaged with the broad, geographically diversified banking sector that is in touch with Main Street – we do not want a “Central Bank of Wall Street.”*

Interchange

- ICBA will strongly oppose any amendment that would impact the electronic payments system and debit/credit interchange. ICBA is opposed to any effort that would shift the cost of card acceptance onto consumers and community banks, or that would take choice away from consumers and put it in the hands of a few large retailers.
- ***What It Means for Community Banks:*** *The debit and credit card interchange system in our country is working well and provides tremendous benefit to American consumers. A healthy, interchange system allows community banks to offer a variety of products and services to their customers—both consumers and merchants—on the same competitive footing as large issuers with a national presence.*

Separation of Banking and Commerce

- The policy prohibiting affiliations between banks and non-financial commercial firms must be maintained, and the industrial-loan-company loophole allowing commercial ownership of banks should be closed. The Senate bill would not adequately close the ILC loophole by prohibiting new ILC charters. ICBA has long advocated for closing the ILC loophole.
- ***What It Means for Community Banks:*** *Mixing banking and commerce is bad public policy that produces a dangerous concentration of economic power and risk that is bad for Main Street and consumers.*