



November 2, 2015

To: Members of the House Financial Services Committee

From: James Ballentine, Executive Vice President, Congressional Relations & Political Affairs

Re: ABA's Views on Bills Scheduled for Committee Markup – Tuesday, November 3, 2015

On behalf of the members of the American Bankers Association, I am writing to share our views on a number of bills scheduled for consideration before the House Financial Services Committee on Tuesday, November 3, 2015.

H.R. 1660, the Federal Savings Association Charter Flexibility Act, a bipartisan bill introduced by Representatives Keith Rothfus (R-PA) and Jim Himes (D-CT), would implement a proposal offered by the Comptroller of the Currency (OCC) to provide greater flexibility to both mutual and stock thrift institutions chartered under the Home Owners Loan Act (HOLA).

The proposal adds a new section to HOLA that would give federal savings associations the flexibility to exercise national bank powers without changing their charters. Because the OCC already supervises both charters, it has the experience and the expertise necessary to ensure that a federal savings association exercising this flexibility operates safely and soundly.

Increasingly, taxpaying federal savings associations seeking to engage in additional activities to serve their communities are unable to do so because they are constrained by the current limits in HOLA. Under existing law, a federal savings association must convert to a bank charter to implement a strategic decision to engage in commercial or consumer lending to a greater extent than is permitted by HOLA. However, particularly for smaller institutions, charter conversions can be time-consuming and burdensome. Federal mutual savings associations face especially hard choices since they must convert to the stock form of organization before they can convert their charter. H.R. 1660 would provide a more efficient and less expensive way for these institutions to adapt and change to meet the needs of their customers and communities. **ABA supports H.R. 1660 and urges bipartisan support for this legislation.**

Although not on the Committee schedule, we also urge the committee to consider H.R. 1661, the Mutual Bank Capital Opportunity Act. This equally important proposal would provide taxpaying mutual institutions with a new investment tool to raise tier one capital. Such a tool is essential for mutual institutions, which have no shareholders and are limited to retained earnings to increase capital levels – a slow process that requires long-term planning. Boosting earnings is challenging in most times, but especially so in the current environment with increased expenses resulting from the Dodd-Frank Act. The Mutual Capital Certificate will assist with capital raising efforts, as mutuals grow to meet the needs of their communities. We hope the committee will consider this legislation in the near future.

H.R. 1309, the Systemic Risk Designation Improvement Act of 2015, a bipartisan measure introduced by House Financial Services Housing and Insurance Subcommittee Chairman Blaine Luetkemeyer (R-MO), along with Representatives Steve Stivers (R-OH), Roger Williams (R-TX), Patrick Murphy (D-FL), Terri Sewell (D-AL), David Scott (D-GA) and Krysten Sinema (D-AZ), eliminates the automatic designation of financial institutions as “systemically important” solely based on asset size.

This legislation, which has the support of 112 members, would remove this regulatory short cut and require the Financial Stability Oversight Council to establish a process, similar to its process for non-banks, to formally designate individual financial institutions as “systemically important” based on a variety of factors, including complexity, scale, interconnectedness and mix of activities.

Since the enactment of the Dodd-Frank Act and its statutory size thresholds, banking regulators have relied heavily on the asset size of financial institutions, creating regulatory “cliffs” whereby all institutions over a certain size are regulated and supervised the same. We have seen this not only with regulations implementing Dodd-Frank, but more broadly in all areas of prudential supervision. Although size-only regulation may be a simple short cut means of supervising financial institutions, it is inappropriate and needlessly burdensome for many financial institutions with noncomplex operations and business models, thereby increasing costs and reducing products and services available to bank customers.

ABA believes strongly that the most effective and value-added supervision regime is one that is risk-based and individually tailored, taking into account a wide-variety factors including size, business model, complexity of operations, the nature of its charter, and other factors relevant to the risk of its activities, products, and services.

H.R. 1309 is the first meaningful step to allow banking regulators to review institutions appropriately and not solely based on size. **We urge the Committee to support H.R. 1309.**

The Committee will also consider H. R. 2209, which will require the Federal banking agencies to treat certain municipal obligations as level 2A liquid assets, under the Liquidity Coverage Ratio (LCR). ABA has long argued that the high quality nature of municipal securities should be recognized under the LCR and that discouraging bank investment in municipal securities would make funding for state and local entities more expensive and difficult. Additionally, we welcome the expansion of the LCR’s definition of “high quality liquid assets.” Allowing a more diverse set of assets will strengthen the credibility of the LCR by ensuring that the definition of HQLA incorporates the significant variety of liquidity sources that banks have safely relied upon in the past.

While we are certainly supportive of this legislation, it is our desire for the legislation to go further to address the LCR’s adverse treatment of municipalities by requiring the Federal banking agencies to exclude municipal deposits from the LCR calculation. Banks are required to collateralize municipal deposits under state law, which in effect creates a double buffer and makes the deposits prohibitively expensive for banks. **We thank the sponsors of H.R. 2209 and urge the Committee to support its passage.**

The Committee will also consider other measures that call for enhanced oversight and greater transparency. Although ABA does not have a formal position on these measures, we thank the Committee for bringing these oversight measures before the Committee.