

March 12, 2014

To: Members of the Committee on Financial Services

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

Re: ABA Views on H.R. 4167 and H.R. 2672

On behalf of the members of the American Bankers Association (ABA), I am writing to express our strong support for measures scheduled to be considered before the House Financial Services Committee on Thursday, March 13, 2014.

H.R. 4167, the Restoring Proven Financing for American Employers Act, introduced by Representative Andy Barr (R-KY), would amend the Bank Holding Company Act of 1956 to address certain unintended consequences for collateralized loan obligations (CLOs) caused under the final Volcker rule.

We support action by Congress that would address the potential for severe disruption in the market for CLOs that were offered before the regulators issued a final Volcker rule. The interests in CLOs held by banking organizations are different than the direct loans banks regularly make to corporate borrowers. It is not sensible to cause banks to lose value on their investments through precipitous sales unnecessary for safety and soundness reasons. We also support action by Congress that would permit banks to continue to invest in CLOs in a risk-appropriate way.

This legislation would do both of these things, and is consistent with the testimony we offered before the Committee in January regarding the Volcker rule. **We urge members to support passage of H.R. 4167.**

H.R. 2672, the Helping Expand Lending Practices in Rural Communities Act, introduced and amended by Representative Barr, would direct the Consumer Financial Protection Bureau (CFPB) to establish an application process under which a person who lives or does business in a state may apply to have an area designated as a rural area if it has not already been designated as such by the Bureau.

The Dodd-Frank Act provided the CFPB with discretionary authority to exempt certain loans from the qualified mortgage rule. The CFPB has exercised this authority to accommodate community banks that make short-term balloon loans as a means of hedging against interest rate risk. The exemption applies only if, during the preceding calendar year, the creditor extended more than 50 percent of its total covered transactions that provide for balloon payments in one or more counties designated by the Bureau as “rural” or “underserved.” Thus, the definition of rural and underserved is critical and can dramatically affect banks and the communities they serve.

The CFPB has struggled with an appropriate definition as there are dozens of different definitions of “rural” used for various federal government purposes. The CFPB’s original definition of rural—which the Bureau has appropriately put on hold—was far too narrow and was inconsistently applied and would have had a dramatic, negative impact on small lenders and communities.

The CFPB acknowledges the narrowness of its original definition of rural and the willingness of small portfolio lenders to serve borrowers with specialized needs, and the necessity for protection in order for these lenders to continue to make loans meeting these needs.

An appropriate exemption is critical to a bank's ability to meet their community's needs. The CFPB has wide discretion in defining "rural and underserved" and it should ensure that any future definition not exclude banks from offering deserving customers access to credit. H.R. 2672 would help to assure that whatever definition of rural is ultimately used by the CFPB, there would be an avenue to apply to the Bureau to extend the definition of rural in those inevitable cases where a county may have been inappropriately excluded. **We urge passage of H.R. 2672.**

There are other measures that the Committee will consider during the markup that are not specifically related to the banking industry. ABA does not take a formal position on those measures.

We appreciate the Committee taking our views into consideration.