

July 13, 2015

To: Members of the House of Representatives

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

Re: ABA Support for H.R. 1334, H.R. 1408 and H.R. 1529

On behalf of the members of the American Bankers Association (ABA), I am writing to express our strong support for three banking related measures that are scheduled for consideration on the House suspension calendar on Tuesday, July 14.

H.R. 1334, the Holding Company Registration Threshold Equalization Act, introduced by Representatives Steve Womack (R-AR), Jim Himes (D-CT), Ann Wagner (R-MO) and John Delaney (D-MD), would extend to savings and loan holding companies (SLHCs) the Securities and Exchange Commission shareholder registration and deregistration thresholds enacted under the JOBS Act.

The JOBS Act did not expressly extend the new shareholder thresholds to savings and loan holding companies (SLHCs) as defined by the Home Owners Loan Act. However, Congress did not intend to treat SLHCs differently from bank and bank holding companies. H.R. 1334 would correct this oversight and extend the shareholder registration and deregistration requirements to SLHCs.

This bill passed the House Financial Services Committee on May 20, 2015 by a vote of 60-0 and passed the full House last Congress by an overwhelming vote of 417-4. We urge the members to once again pass this legislation.

In addition, the House will consider H.R. 1408, the Community Bank Mortgage Servicing Asset Capital Requirements Act of 2015 introduced by Representatives Ed Perlmutter (D-CO) and Blaine Luetkemeyer (R-MO). This ABA supported legislation would defer implementation of the Basel III rules on mortgage servicing assets (“MSAs”) until the impact of the new rules can be studied and alternatives explored.

Many banks that make mortgage loans also engage in servicing, which primarily consists of collecting mortgage payments and forwarding them to the “owner” of the loan; collecting insurance and tax payments; and addressing problems such as late payments, delinquencies, and defaults. Banks commonly sell mortgage loans into the secondary market but retain the right to service the loan (called “servicing retained”). This strategy is an important way for banks to maintain valuable connections with their customers, while managing interest rate risk by selling long-term credit assets.

Banks are retaining less mortgage servicing due to Basel III's unfavorable capital treatment of MSAs. As a result, Basel III is unintentionally increasing the concentration of servicing held by less regulated, non-bank firms such as mortgage companies, REITs, hedge funds, and private equity firms that are not subject to the new capital restrictions. The long-term relationships that banks and their customers have established should not be penalized by Basel III's punitive capital treatment of MSAs.

Banks should be encouraged to service the loans that they make to their customers. This legislation stops the negative effects until the impact can be fully examined. The bill does not apply to the large international banks that Basel III was meant to address.

H.R. 1408 passed the House Financial Services Committee on March 26 by a strong bipartisan vote of 49-9. ABA urges strong support for this legislation.

The House will also consider H.R. 1529, the Community Institution Mortgage Relief Act of 2015, introduced by Representatives Brad Sherman (D-CA) and Blaine Luetkemeyer (R-MO). This bipartisan legislation, which passed the House Financial Services Committee by a vote of 48-10, would exempt from the escrow requirements imposed under the Dodd/Frank Act loans held by small creditors with less than \$10 billion in assets. ABA supports the legislation's expansion of the Consumer Financial Protection Bureau's (CFPB) "small servicer" exemption to include servicers that annually service 20,000 or fewer mortgage loans. These important exemptions recognize the strong history of small institutions in providing high-quality mortgage servicing, even with limited staff and resources of smaller institutions.

Given their track record, small servicers should be incentivized to continue to service mortgage loans. Unfortunately, existing regulations are having the opposite effect. The existing escrow rules have the potential to drive small creditors from the mortgage market because it is difficult, if not impossible, for them to provide escrow services in a cost effective manner. Further, imposing escrow requirements often runs counter to customer preference as many mortgage customers prefer to pay tax and insurance bills on their own and not establish escrow accounts. Without the exemptions provided in this legislation, customers of smaller institutions will face higher costs to offset the cost of compliance for a service which they do not in some cases even want. Worse, some customers will face fewer credit choices as small local lenders choose to exit the mortgage market rather than incur the added staffing and technical expenses of adding escrow services. This is an important piece of legislation and ABA urges the House to pass H.R. 1529.