Proposal: 1741(AG 11) Reg Q - Regulatory Capital Rule: Emergency Capital Investment Program

Description:

Comment ID: 138105

From: PriorityOne Bank, Robert J. Barnes

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Subject: Reg Q; Regulatory Capital Rule: Emergency Capital Investment Program

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Comments:

NONCONFIDENTIAL // EXTERNAL

To Whom it May Concern:

I'm the President & CEO of a CDFI bank located in rural Mississippi. My bank, PriorityOne Bank, is a Community Development Financial Institution (CDFI) serving low- and-moderate-income communities here in Mississippi since 1905. Communities like ours have been unproportionally impacted by business closures and job losses, which in turn, threaten housing, health and food security for residents. Banks like mine provide affordable capital and assistance to businesses and residents to help in rebuilding. These CDFI Fund appropriations are well-targeted and will provide CDFIs and Minority Depository Institutions (MDIs) with resources to help small businesses and others rebuild their local economies.
CDFI banks have already responded mightily during this crisis. CDFI banks like mine were active lenders under the Paycheck Protection Program (PPP) and made loans to the smallest businesses. We have been working with borrowers on payment deferrals, loan restructures, and other forms of assistance to help them manage and survive the economic crisis. Over the past 25 years, CDFIs have proven to be one of the Federal government's best market-based strategies for leveraging large amounts of private dollars to restore economic vitality in underserved markets.
My Board of Directors, Senior Management and I are very excited about the ECIP since it will allow us to ramp up lending and to reach even more customers and non-customers and hopefully help bring in more of the unbanked and underbanked.
My Board of Directors recently approved for us to apply for the maximum amount of funds we can get thru the ECIP. But the problem we are having right now is that we are a Subchapter S corporation and the funds we would get would be in the form of Subordinated Debt, not Perpetual Preferred Stock. CDFI C Corporations have an advantage over S Corps due to the fact that as S Corps the way the ECIP bill is written now S Corps have to count any Sub Debt from the Treasury as debt at the holding company, C Corps don't have to count any ECIP funds as debt. With the Federal Reserve's rules/regulations in regards to Debt to Equity & Double Leverage Ratios, my bank and other Sub S banks would only be able to request ECIP funds in the form of Sub Debt from the Treasury at just a fraction of what we actually qualify for due to the Federal Reserve's rules. The amount we could get from ECIP wouldn't make the impact that we and other S Corps want to make. Additionally, the current rules regarding a 15 year maturity (and only 10 year full capital treatment) put S Corps at a tremendous disadvantage versus C Corps who get perpetual capital through the program.
Using current Federal Reserve's regulations, we would only be able to receive Sub Debt of approximately 2% of our assets instead of the ECIP rules of up to 15%. This is the difference in us not being able to lend invest literally multi-millions in so many underserved markets and communities that are majority poor, unbanked, underbanked and majority minority.
I ask and strongly encourage the Fed to consider the following recommendations:

Thant any/all ECIP Sub Debt be excluded 100% from the Fed's rules/regulations related to Debt to Equity and Double Leverage Ratios just as TARP and SBLF were.

That this Subordinated Debt MUST have a maturity date of at least 30 years instead of 15 years for Sub Debt, just as Trust Preferred Securities used to be. Even better 40 years, 50 years or perpetual would be preferred. Make this as permanent capital as possible.

The more Sub Debt S Corps can get and the more permanent the capital is, the more we can deploy and the more the ECIP will be utilized. And leveraging 10 to 1, these funds would be transformational for the markets we serve! C Corp banks will be paying an annual dividend on their preferred shares just as Sub S banks will on Sub Debt. So the only difference in Sub Debt vs Preferred Shares is in the names of the two.

Rural America, minorities and the working poor have been hurt more than others by Covid -19 and these ECIP funds will be a game changer for CDFI/MDI banks! Lastly, I'm not sure of the exact number of CDFI/MDI banks that are Sub S, but I know a large amount are. I know the Fed wants the ECIP funds utilized, but as it stands, very few if any Sub S banks will be able to take advantage of these ECIP funds and put them to work in the communities they are designed for.

Thank you for your time and I again implore you to work on these topics. I'd love to have a conversation with anyone who would be willing to listen to me.

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