Meeting Between Federal Reserve Staff and Representatives of the Iowa Bankers Association June 16, 2011

Participants: Maryann Hunter, Rick Watkins, Jim Michaels, Timothy Burniston, Nikita Pastor, Jennifer Gallagher, and Jon Hiratsuka (Federal Reserve staff)

Iowa Bankers Association Representatives: Arthur Bacci, Jeffrey Carnes, Bradley Davis, David Driskell, Charles Funk, Robert Gamble, Roger Hansen, Ronald Hansen, Robert Hartwig, John Henk, Charles Kennedy, Ellengray Kennedy, Bruce Kout, Howard Logan, Allison Lycke, John McGowan II, Rachel Nesheim, Walter Nesheim, Lynette Nielson, Sharon Presnall, Jay Randall, George Schneidermann, Michael Sherzan, John Sorensen, Tonia Taylor, Susan Whitson, Walter Witthoff, Timothy Wolf, and Ryan Zagone (American Bankers Association representative)

Summary: Representatives of the Iowa Bankers Association met with Federal Reserve staff to discuss implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). Association representatives generally raised concerns about the volume and complexity of new regulatory requirements under the act. They cited the resources and staff time that institutions spend on compliance issues and said that increasing compliance burdens may cause some community banks to exit certain kinds of businesses or reduce some lending. Association representatives also expressed concerns about the proposed rulemaking on debit card interchange fees and routing. The proposed cap on fees would result in significant lost revenue for banks, they said, adding that it fails to accurately reflect significant fraud-prevention and other costs associated with providing interchange services. On another matter, association members said that a regulatory exemption for rural and underserved areas was too narrowly drawn to benefit many small Iowa banks. The Association's written comments on these and other regulatory matters under the Dodd-Frank Act are attached.

Attachment

Iowa Bankers Association
Regulatory Compliance Issues
Capitol Visit – June 2011

(Comments related to Board rulemakings under the Dodd-Frank Act are provided below.)

- **REGULATORY RELIEF FOR COMMUNITY BANKS**
  Community banks are struggling with the overwhelming level of regulatory activity and are challenged to meet the compliance requirements by effective dates, while maintaining levels of compliance with existing regulations and carrying on safe and sound business practices to meet the financial needs of their communities. Community bank suffer from earnings pressure, in part from the additional resource allocation required to maintain compliance with ever evolving and increasing regulatory burden and from the loss of fee income related to regulatory and supervisory guidance limitations on overdraft income, and are increasingly concerned about further potential restrictions on fee-based income, such as caps on interchange income.

  To illustrate the regulatory burden, consider the mandatory compliance dates over the past 12 months:

7-1-2010	Reg. E – opt in to overdrafts created by ATM and one-time debit card transaction
7-1-2010	FACT Act – accuracy/ integrity of information furnished to credit reporting agencies
8-22-2010	Reg. Z – new format/content for credit card applications and periodic statements
8-22-2010	Reg. E – new disclosures on issuance of gift cards
10-1-2010	Reg. Z – escrow accounts for HOEPA and HPML mortgages on manufacture homes
10-1-2010	SAFE Act – mortgage loan originator registry, policies/procedures required
1-1-2011	Temporary unlimited deposit insurance replaces TAGP
1-1-2011	Reg. P – revised notice content and format
1-1-2011	Reg. Z – new notice on mortgage sale or transfer
1-1-2011	FACT Act risk based pricing disclosures
1-31-2011	Reg. E – disclosures for gift cards produced prior to 4-1-2010
1-31-2011	Reg. Z – revised tabular disclosure, interest rates and payment changes over time
4-1-2011	Reg. Z – mortgage loan originator compensation rules
4-1-2011	Reg. Z – appraisal independence rules
4-1-2011	Reg. Z – HPML thresholds for escrow on jumbo loans
5-1-2011	Garnishment rules for accounts containing federal benefit payments
7-29-2011	SAFE Act – deadline for initial registration of mortgage loan originators

  PROPOSALS

  Reg. II – debit card interchange fees and routing

  Reg. Z – comprehensive review and update; reverse mortgages and rescission (deferred to CFPB)

  FDIC insurance – required training for bank employees

  Regs. B & V – revision to adverse action notices to include disclosure of credit scores

  Reg. CC – revisions related to RCPC consolidation; new format/content for disclosures

  Reg. Z – new standards for “ability to repay” requirements; limitations on prepayment penalties

  Reg. Z – new escrow disclosure requirements; revised method for determining higher priced mortgage loans

  Reg. Q – repeal effective 7-21-2011; related rescission of FDIC Part 329

Reg. E – new disclosures for remittance transfers

The Dodd-Frank Act has already resulted in 2460+ pages of new and revised regulatory proposals with many more proposed regulations yet to come from the Consumer Financial Protection Bureau's implementation of additional Dodd-Frank Act provisions.

Many of these existing and proposed regulations restrict or reduce the ability for banks to lend, particularly to make residential mortgage loans. At a time when the Administration, the regulatory agencies, and Congress are encouraging banks to lend more – this plethora of new or expanded regulations is not helping the financial sector to recover. We remain very concerned that smaller institutions will consider exiting certain consumer related markets – pushing consumers back to the very lenders that created the financial crisis.

With these pending regulations, coupled with the new and revised regulations already implemented in 2010 and early 2011, community banks are at their breaking point. Prior to 2009, IBA typically responded to about 6,000 calls to its compliance hotline annually. In 2010 we fielded 11,560 calls/e-mails and in 2011 we are on pace to field at least as many calls/e-mails. This simply reflects the increasingly complex nature and volume of regulatory activity.

Most of our member banks do not have fulltime compliance staff or in-house legal counsel to review, analyze, and implement regulatory initiatives. It is important to recognize banks nationwide have an average of 34 employees and therefore, do not have the luxury of fulltime compliance specialists or in-house legal counsel. Rather, they rely heavily on staff acting in many capacities, trade associations and vendors for summaries, sample action plans and systems updates to stay in compliance.

- **Regulatory Activity**

  - **Proposed rules pending final action:**
    Urge agencies to establish staggered mandatory compliance dates when issuing final rules on outstanding proposals in order for banks and vendors to have sufficient time to make programming changes, adequately train staff and fully implement one final rule before having to tackle another.

    - **Also urge agencies** to allow adequate time in the development of new regulatory requirements or revisions to allow for consumer testing and careful consideration during the comment periods. Currently, so many proposals are being turned out very rapidly and comment periods are short. Industry participants simply don't have the time and resources to adequately review, analyze and comment on the proposal and its implications. As a result, proposals are finalized with unintended consequences, which then results in the agencies further revising the final rule or issuing additional clarifications…Such revisions to "final rules" after or just prior to mandatory compliance create unnecessary and burdensome expense for institutions from an implementation and operational perspective.

    - A mandate of the Dodd-Frank Act was to evaluate existing regulations and to ensure that new proposals and revisions are issued so as to avoid duplication or unnecessary disclosures. Yet proposals continue be issued that only add to the 60+ plus pages of disclosures, contracts and notices that are provided to a consumer at a residential real estate closing. Case in point, a recent proposal by the Fed requires home borrowers be provided with an additional disclosure prior to closing that explains the purpose and value of an escrow account and provides information related to the amount that will be deposited into the escrow account at the time of closing, as well as the amount that will be paid on a monthly basis into the escrow account. Home buyers already receive basic information related to their escrow accounts within three days of application via the Good Faith Estimate as well as information related to the amount to be deposited in the account and monthly payments via the initial escrow statement provided at closing. This additional disclosure requirement is clearly duplicative. Rather than provide yet another redundant disclosure to the overwhelmed home buyer, the Board should consider revising disclosures already in place to either include additional information they believe pertinent or rescind and replace current escrow disclosures with the revised notices.

- We remain very concerned that banks in rural communities may begin exiting certain consumer markets, particularly residential mortgage lending, or close/sell the institution.

    - It is important as regulations are proposed and revised that the agencies keep in mind that lending products (especially mortgage loans) cannot be carved out into a “one size fits all” manner. Our member banks offer a limited variety of in-house portfolio residential mortgage loan products including adjustable rate mortgage loans, balloon loans and fixed rate loans. Some of our members also originate long term fixed rate and ARM loans that are sold to secondary investors. The limited variety mortgage products offered by our members meet the unique needs of rural Iowa where housing prices are much lower. They are not high risk and are not abusively priced. Recent rule-making processes appear to assume all mortgage loans are a commodity and all borrowers are the same and do not take into account the unique nature of traditional community banks and the customers they serve.

- The proposed “carve-outs” in some proposed regulations provide very little if any relief for rural institutions.
    - DFA and FRB’s Interchange Rule: Congress and the Federal Reserve Board attempted to “exempt” institutions with assets under $10 billion from the provisions of the Act and regulation. The reality is that marketplace pressures will force smaller institutions to accept the lower mandated interchange rate restrictions.
    - FRB’s proposed exemption from definition of “qualified mortgage” for rural and underserved areas: Applying the proposed definition of “rural” will result in very few counties in Iowa actually meeting the definition of “rural.” Iowa consists of 99 counties; 20 of which have been designated as MSAs with an additional 15 designated as micropolitan areas. After applying the definition of “rural” only 16 counties meet the definition of rural because the remaining 48 counties either lie adjacent to an MSA or lie adjacent to a micropolitan and have at least one community with a population in excess of 2500. The entire state of Iowa has a total population of just over three million per the 2010 census (3,046,355) with the largest city’s population at 203,433 (Des Moines). It would seem Congress’ intent for regulatory relief was broader than reaching less than 20% of a state that has 55% (1,692,048) of its entire population in 20 MSAs. The definition of “rural and underserved” is far too narrow to benefit the small banks serving their communities.