An Avalanche of Regulation

"As battle-scarred survivors of a financial crisis and deep recession, community bankers today confront a frustratingly slow recovery, stiff competition…and the responsibility of complying with new and existing regulations. Some observers have worried that these obstacles—particularly complying with regulations—may prove insurmountable."

– Ben Bernanke, October 2, 2013

A majority of small banks tend to have just **one compliance officer** who must understand and implement all the new regulations.

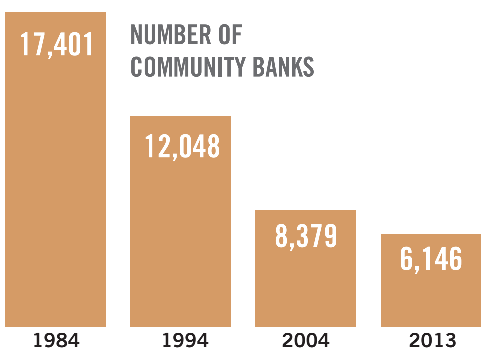
Source: ABA 2013 Bank Compliance Officer Survey

Each new regulation is hundreds of single-spaced, 3 column, 9-point font pages.

456 pages	Servicing Rules
408 pages	ATR/QM
313 pages	2013 HOEPA Rule
275 pages	Basel III
272 pages	Volcker Rule
248 pages	Remittance Rule
225 pages	Loan Originator Rules

Source: Number of Federal Register Pages

Heavy regulatory burden has helped fuel consolidation of community banks.



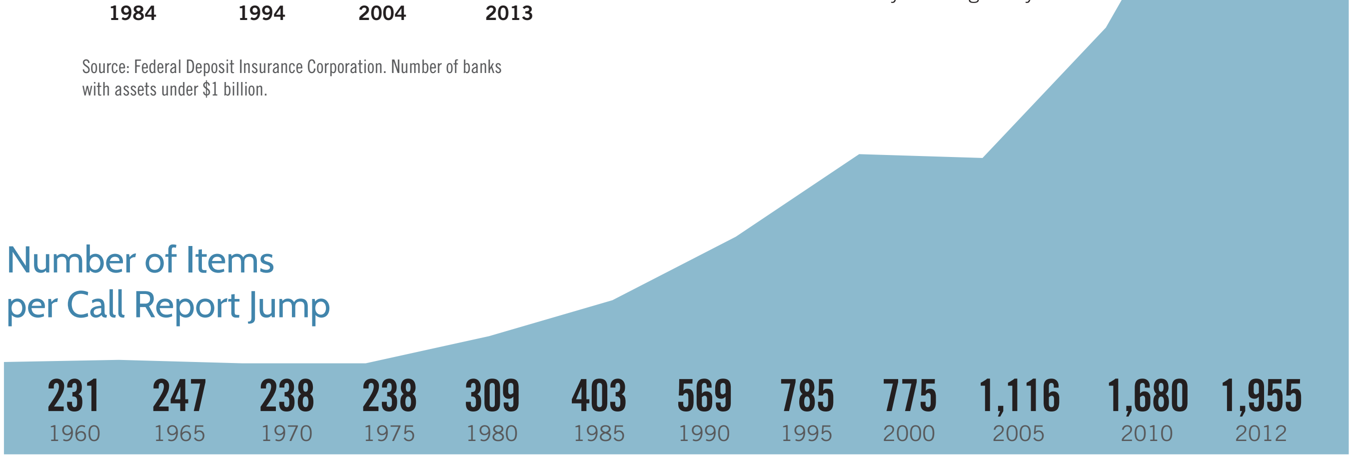
Source: Federal Deposit Insurance Corporation. Number of banks with assets under $1 billion.

1 in 5

"Almost one out of every five U.S. counties…have no other physical banking offices except those operated by community banks."

– FDIC Community Banking Study

Number of Items per Call Report Jump



Source: Call Report, Federal Financial Institutions Examination Council

40

For the median bank with just 40 employees, excessive regulation and costs are overwhelming.

BSA/AML

- **439 pages** in the FFIEC BSA/AML exam manual alone—not including the additional advisories and guidance issued
- **972,000 SARs filed** last year by depository institutions—these are in addition to the CTRs banks must file
- Program requirements are enormous and oversight is of a micromanagement structure

Registration of Municipal Advisors

- **Duplicative** registration for bank advisors to municipalities
- **332 pages** of final rules
- Additional 63 pages issued by MSRB of proposed rules

Durbin Amendment

- Capped the price of debit interchange fees
- A recent study estimated a **loss to consumers** of between $22 billion and $25 billion due to higher fees and lost services

Capital

- Basel III capital rule: **275 pages** requiring new risk weights—Not limited to international banks
- Comprehensive Capital Analysis and Review (CCAR)
- Economically constraining leverage capital requirements

Reg C

Home Mortgage Disclosure

Remittances

- **248 pages** issued by the CFPB
- Requires new costly disclosures—leading many to consider **dropping** this service for customers

Housing Reform

- **QM/Ability to Repay**, 408 pages
- **Loan Originator Rules**, 225 pages
- **HOEPA Rules**, 313 pages
- **Servicing Rules**, 456 pages

… and **more** to come

Dodd-Frank

- Charged federal financial regulators with writing and enforcing **398 new rules**
- 5,905 pages of proposed regulations with additional **7,708 pages of final rule**
- Requiring more than **60 million hours of paperwork** for compliance
- Only **half** of the way through mandated rules

CFPB's Reg F

Fair Debt Collection Practices Act

Managing the avalanche of new regulation has imposed tremendous costs for banks of all sizes, both in terms of dollars paid and services and products they are able to offer their customers. Ultimately, the cost of over-regulation will be felt by bank customers in the form of restricted credit and fewer services and products available.

Reg V

Fair Credit Reporting

Liquidity

- Proposals do not fit U.S. markets and banks
- Small banks held to internationally active bank standards

Reg B

Equal Credit Opportunity

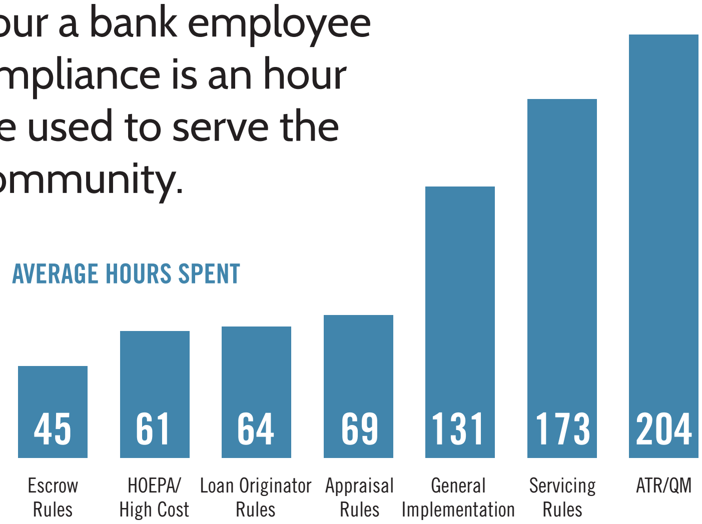
Derivatives Rules

- Too few banks are treated as "end users"
- **Cost to small banks: about $600 million**

What's Being Said:

- A $70 million bank in Kansas has dedicated 3.5 of 25 employees to compliance-related tasks. This means **15% of the bank's employees focus just on red tape.**
- Of community banks, **6%** report having **discontinued residential lending** following DFA, with an additional **9% anticipating exiting** the mortgage business.
- Federal Reserve Governor Elizabeth Duke noted that "hiring one additional employee would **reduce the return on assets by 23 basis points** for the median bank in the group of smallest banks, those with total assets of $50 million or less. To put this estimate in perspective, such a decline could cause about **13 percent of the banks of that size to go from profitable to unprofitable."**
- A Texas community bank originated 1,296 mortgages in 2009 with a total mortgage staff of 18. In 2012, the bank originated 1,080 mortgage loans with a total mortgage staff of 25—due to **increased compliance burden.**
- **18%** of banks subject to the remittance rule **plan to stop offering remittance services altogether** while 42% plan on increasing fees to cover additional compliance costs.
- A regional bank operating in the Midwest spent **$20 million** on FinCEN's BSA/AML regulation alone.

Every extra hour a bank employee spends on compliance is an hour that cannot be used to serve the bank's local community.



Source: Average results of 10 ABA member banks for the year 2013

More Regulation = Fewer Products

new products

Many banks have **decided not to launch** a new product, delivery channel, or enter a new market due to expected increased regulatory costs/risks, while nearly an additional third are **holding off** on these decisions to determine the regulatory impact.

27% Cancelled	31% Holding Off	42% No Change

44% Reduced current consumer financial products or services due to compliance regulatory burden.

78% In addition, 78% of banks have said they will or may need to change their nature, mix and volume of mortgage products in response to regulatory changes.

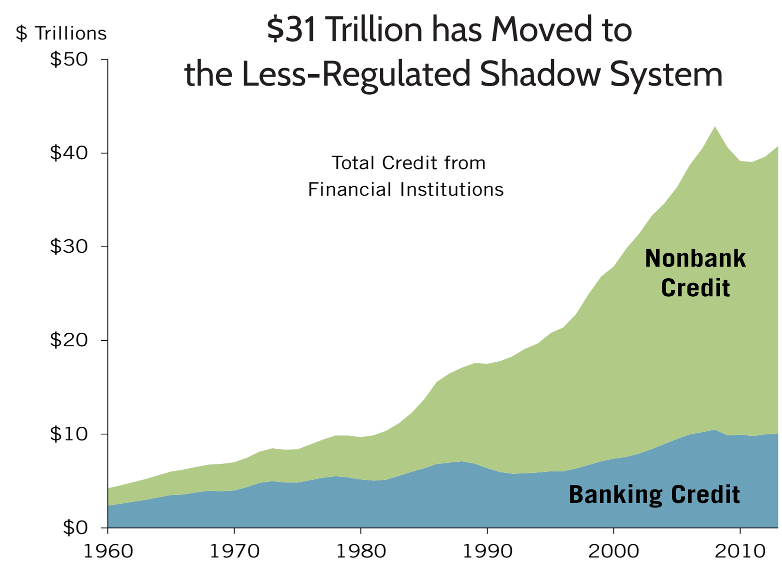
Source: ABA 2013 Bank Compliance Officer Survey

Excessive Rules on Banks Push Business to Less Regulated Shadow System

3x Market share of non-bank mortgage servicers has nearly tripled in 3 years

2011	2012	2013
6%	9%	17%

Source: "Mortgage Market Gets Reshuffled," *The Wall Street Journal*, March 9, 2014. Includes the 30 largest servicers in data.



Source: Federal Reserve and Bureau of Labor Statistics. Inflation Adjusted, Base = 2013.

take **action** now

The Avalanche of Regulations has Become Overwhelming

"Policymakers should take action to promote the strength and resurgence of America's banks—large, medium, and small—for the benefit of the customers and communities that rely upon them."

– Frank Keating, ABA President and CEO

American Bankers Association