From: Holst, Brian
To: Comments
Subject: [EXTERNAL MESSAGE] RIN 3064-AG15
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[redacted]

I am the chief internal auditor and compliance officer for a holding company of three locally owned banks with locations throughout small communities in eastern Iowa. I appreciate the opportunity to comment on the FDIC's proposal to update various asset-size regulations and index them for future increases. Our three banks have asset sizes of approximately $420, $450, and $730 million. Each bank has fewer than one hundred employees. Two of our banks stand to benefit from the FDIC's proposal both now and in the near future while the third will see benefit in the future as well. Because our banks are Iowa-state chartered and are required by state code to complete annual financial audits, we would not see significant benefit from the proposed asset-threshold adjustments for external audits on banks that is currently set at $500 million. However, we would see benefit from several other aspects of the thresholds increases.

In regard to Questions 8 and 9 and the advantages of increasing the Part 363 thresholds, we expect that our $730 million asset bank will cross the $1 billion threshold within the next five years. To perform the currently required additional control audits of financial reporting, we anticipate following conversations with our external audit firm that we would need to hire an additional employee with control-auditing experience. In addition, we would expect to hire a consultant to help us refine our control procedures and corresponding auditing for at least one year prior to crossing the $1 billion threshold. These ongoing and one-time costs do not result in any significant benefit to the bank nor to the Deposit Insurance Fund but do reduce the amount of capital that our largest bank can deploy in our communities. Further, our regulatory compliance and audit functions reside within one department. The specialized audit functions required by Part 363 would likely force us to break this department into two separate operating functions and may further require additional personnel hiring, resulting in yet more cost, while resulting in some loss of expertise with our current staff being assigned to only one department going forward.

To further answer Questions 8 and 10, the FDIC's comments in its proposal note that "experience has demonstrated that smaller community institutions, particularly those in rural areas, have had difficulty complying with the audit committee composition requirements. Specifically, these institutions frequently report that it is increasingly difficult to attract and retain individuals who are willing and capable of serving as a member of an audit committee, thereby making compliance with the audit committee composition requirements of part 363 challenging." Our $450 million bank is likely to cross the $500 million threshold in less than two years. We have had ongoing internal discussions attempting to identify "competent outside directors" who are also "independent of management" per Part 363 in our operating footprint. It is often difficult to identify such qualified persons who have not performed consulting, legal, or other professional services for our institution. While moving the $500 million requirement to $1 billion will have negligible financial effects for this bank, it will ease the burden of finding qualified members as defined by Part 363 to join the bank's

audit committee.
In response to Question 22, I am supportive of using the CPI-W to adjust the asset thresholds given CPI-W's use in various other regulatory adjustments. However, as the proposal states, "Using growth in the size of the banking industry to adjust thresholds in FDIC regulations would account for growth trends that are specific to the banking industry and may be better correlated with the characteristics of banks that affect the costs and benefits of particular regulations." Using assets of institutions covered by FDIC insurance would be a more appropriate and better measure of the risks to the financial system. As shown by the FDIC's statistics in the proposal, the CPI-W increase over the last 30 years has lagged the increase in FDIC-insured assets. Using CPI-W would, over time, result in more smaller banks who represent negligible risk to the insurance fund being covered by Part 363 requirements than would be appropriate based on their representative risk to the insurance fund and overall banking industry. If the goal of this update to Part 363 is to deploy assets in the most efficient way to reduce risk to the financial system, basing future threshold increases on the growth of banking industry assets is the most appropriate mechanism to use.
In response to Questions 24 and 26, I am supportive of having the Part 363 thresholds adjust every two years as proposed. A two-year adjustment period will allow banks that are approaching an adjustment threshold time to prepare for the additional requirements of crossing that asset threshold. Basing the changes on threshold milestones would create more uncertainty for banks approaching an asset-size threshold as to the future timing of their potential crossing of the threshold and consequently would not be as beneficial as changing every two years.
Finally, in response to the FDIC's request for comment on which additional regulatory thresholds should be updated and indexed, I would make these comments. While it would require coordination with the other prudential regulators, the Community Reinvestment Act intermediate-small bank threshold should be adjusted to at least the $600 million amount proposed under the recently rescinded CRA update, and preferably higher such as the $1 billion contemplated by the Part 363 proposal. Our three banks all are currently defined as intermediate-small banks and consequently spend a significant amount of time tracking bank investment, donation, lending, and volunteer activity. These are all activities the banks would be engaged in regardless of their CRA asset size given that we are operating within our small communities and want to foster growth in the communities that the banks and our employees are within. Instead, we spend hundreds of hours every exam cycle collating lists of our existing activities and compiling reasons why those activities allow us to meet the intermediate-small definition of "satisfactory." The fact that our communities' residents allow our banks to continue growing despite headwinds from digital-only competitors and regulatory expenses evidences that they feel we are at least "satisfactory." Resetting the intermediate-small bank threshold to at $600 million, preferably $1 billion, the latter keeping it in lockstep with the Part 363 update, would do much to allow us to reinvest our assets further in our communities rather than justify our existing activities.
Thank You.
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