2015

Economic Growth and Regulatory Paperwork Reduction Act

OUTREACH MEETING

Federal Reserve Board ■ Federal Deposit Insurance Corporation ■ Office of the Comptroller of the Currency

Chicago, Illinois
October 19, 2015

The Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA) requires the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency (the Agencies) to request comments identifying areas of their regulations that are outdated, unnecessary, or unduly burdensome. The Agencies have begun publishing a series of four Federal Register notices that provide an opportunity to comment on their regulations through Regulations.gov. Today's outreach meeting is an additional way the Agencies are requesting comments.

You may use this space below to provide written comments to the Agencies. Comments received, including attachments and other supporting materials, as well as any business or personal information you provide, such as your name and address, email address, or phone number, are part of the public record and subject to public disclosure. Therefore, please do not include any information with your comment or supporting materials that you consider confidential or inappropriate for public disclosure.

Name: H. STEWART FITZ GIBBON III

Organization: WAYNE SAVINGS COMMUNITY BANK

Address or other contact information: 151 N. MARKET ST, WOOSTER, OH 44691
330-264-5767, STEWARTFITZGIBBON@WAYNESAVINGS.COM

Comments:

SEE ATTACHED

EGRPRA Statement
Federal Reserve Bank of Chicago
October 19, 2015

H. Stewart Fitz Gibbon III
President and CEO
Wayne Savings Community Bank
Wooster, Ohio
$421MM, 11 branches, 113 staff, rural NE Ohio, FDIC/ODFI regulated

Thank you for the opportunity to contribute to today's discussion on the review of regulations. I applaud the regulators and my fellow bankers for engaging in this important process. As noted by other commenters, I recognize the predicament of the regulators in terms of making changes to regulations codified in law. As bankers and regulators, we all have a further obligation to address our concerns to our federal and state legislators in order to effect needed updates to regulations established by legislation.

As a community banker, I can attest to the increasing amount of regulatory burden faced by smaller banks. The challenge, which my colleagues and I hope to help address today, is to move beyond the rhetoric of regulatory burden to specific examples that can be addressed through either regulatory or legislative action.

Community Banking Mission. I won't try to get into the discussion of how one defines a community bank. I know that the regulatory community is spending time on this issue. My working definition is a bank headquartered in or in close proximity to the communities that it serves. Our mission is very simply to serve our communities. We provide consumer, residential mortgage and commercial credit and deposit products, mainly to retail consumers and small businesses that don't get attention from larger institutions. To the extent that our time is redirected into regulatory compliance instead of to the provision of credit and services to our communities, our communities suffer.

Indexing. As a general theme, dollar amount thresholds for compliance obligations, such as the CTR threshold of $10,000 set in the 1970's, need to be at least periodically re-evaluated for reasonability or indexed for inflation. By one estimate, today's CTR threshold would be $62,000. The impact of this lack of indexing is staggering. In 2014, my institution filed 211 CTR forms. All but 2 were below $62,000. The failure to index thresholds imposes an ever increasing compliance cost on the banks, which in turn if reflected in diminished services or higher costs that that end up being borne by customers or shareholders.

Cost Benefit Analysis. As we all know, capital is the basic building block of banking. It's the "C" in CAMELS. In order to attract capital to the industry and to retain it in the industry, we must produce a competitive return, which is the "E" in CAMELS. What does regulatory burden mean in this equation? The cost of regulatory burden depresses earnings both directly through added direct costs of people and technology. More importantly, regulatory burden depresses earnings through the redirection of board and management time from serving customers. It has often been said by examiners that thus and such will only take another five minutes of time. While often true for each instance, it is the cumulative effect of hundreds or thousands of these five minute obligations that results in regulatory burden.

"Best Practices." Believe it or not, I am one of those bankers who see an exam as an opportunity to learn from examiners based on their experience with a wide variety of institutions. However, for my community bank, in the wake of Dodd-Frank, examiners often propose so-called "best practices" that come from the requirements imposed on larger institutions. The "best practices" often end up being treated essentially as requirements. I return here to the Bank Secrecy Act. A "best practice" is to replace a typical manual process in a small community bank in a low risk market with an automated system. Implementation of an automated system is expensive in terms of money and staff time. In my institution's case, we are being asked to spend over $125,000 on a system and an additional amount to hire another dedicated compliance person to oversee the conversion and run the new system going forward. As noted above, given our 211 annual CTR filings, this cost seems excessive relative to the benefit gained.

Third Party Audits and Reviews. An increasing area of concern is the requirement imposed by examiners for third party reviews of an increasing number of "hot button" topics, where management is deemed to not be sufficiently experienced or independent. These are hard dollar costs spent to engage firms for audits or reviews such as IT, BSA, Appraisals, GLBA, etc. Returning again to BSA, we were required by our examiners to have an outsourced, third party audit of our BSA program, which added direct expense of about $10,000 annually to our internal audit program. It was also suggested that we send our BSA Officer to CAMS certification training. Upon investigation, this is an expensive program in terms of time and training dollars that seemed oriented toward larger internationally active institutions. Our BSA officer has already completed the ICBA's certification program for BSA/AML, so this additional certification, while appropriate at some advanced level, seems again to be out of proportion to the transaction volume and risk profile of our institution.

Appraisals. Related to the above comment on third party reviews, the regulatory appraisal and review requirements seem to contradict common sense. We are asked to hire expert independent appraisers to value properties. We then have to either have enough expertise on our staffs to independently review (second guess) the expert independent appraiser, or we have to hire a second independent appraiser to validate the work of the original appraiser. In any case, we have added layers of cost that is borne by the customer and the bank, and in a small market, we create professional conflict among the appraisers by have one check another's work.

HMDA/LAR. No one can argue the importance of fair lending. However, as is my theme today, the compliance costs of a zero tolerance environment for any element of an ever expanding HMDA/LAR data set seem to be outweighing the benefits. In our particular case, our compliance examiner recommended a 100% file review for HMDA/LAR to ensure the required 100% accuracy. So, in addition to one loan closer checking another closer's data, followed by the department manager re-checking the data before it is entered into the system, we now have to have a member of our risk management department also review the data. With two of the three layers of data review happening within our residential lending department, there is a direct loss of development of credit opportunities for our communities.

FS-ISAC. Once again, no one can argue the importance of cybersecurity in today's digital world. The idea of FS-ISAC also can't be argued, and this was a rare case where regulators all said that banks must join. And so we did, at a very reasonable cost. However, once again, the real cost is in time. I have five people subscribed to FS-ISAC, from myself to demonstrate executive leadership, to our CRO/ISO, our CIO, his technical person on the network side and our security officer. The reality, given the scope of FS-ISAC, is that our small bank is being bombarded with massive volumes of emails. I've worked the filtering down to where I get about 100 emails each day, and I still have to spend time identifying which messages contain issues that might be relevant to our operation. My four colleagues are each doing the same, and our goal is that amongst the five us of, we will capture the relevant information. Filtering is a necessary solution here, and the FDIC is already doing this with its CIG alerts through FDIConnect.

CRA. I won't comment too much on this since it was the subject for another panel, but the current asset size designations for CRA examination are problematic. As an intermediate small institution in a rural market, we are asked to identify investment opportunities that are rare, if non-existent in our communities. The criteria for small institutions would seem to be much more relevant, so my suggestion would be to consider assigning CRA designations by market or business model instead of asset size.

Call Reports. Last, but not least, and partly because this was a subject for another panel, is a reduction in the call report requirements for non-complex banks. Size isn't really a relevant measure of risk taking, as FDIC Vice Chair Hoenig has very eloquently made clear. Similar to my indexing comment above, levels should be set regarding certain types of activities and maintained relative to the nature of the industry, to focus reporting requirements on those institutions posing the greatest risk to the insurance fund or the financial system as a whole. A simpler call report for non-complex institutions would represent a significant reduction in regulatory compliance cost.

Thank you again for the opportunity to offer comment as part of the EGRPRA process.