Statement of Congressman Scott Tipton
October 6, 2015
On the Floor of the U.S. House of Representatives
On the Small Bank Exam Cycle Reform Act (H.R. 1553)

Community banks are a crucial source of credit for many across the nation, but these banks are currently facing an ever-increasing regulatory burden they can no longer shoulder. These misguided regulations are resulting in devastating impacts on small banks, forcing consolidation or failure and stifling the creation of new banks in communities that need access to credit. In rural areas such as my district in western Colorado, often times the *only* access to credit for small businesses is a community bank. Unfortunately, rising compliance costs and complicated regulatory requirements have dried up bank credit for those that need it most.

For these reasons I introduced, along with Representative Lacy Clay and Representative Barr, the Small Bank Exam Cycle Reform Act, a targeted relief effort designed to allow additional well-managed financial institutions to qualify for an 18-month exam cycle. Full-scope, on-site examinations of insured depository institutions are a rigorous event for banks of all sizes, especially small banks that may not have dedicated compliance staff. These examinations require significant preparation leading up to the examination as well as attention to the on-site examiner during the exam itself. Whereas larger banks can absorb the work hours and compliance costs associated with these on-site examinations, community banks, much smaller institutions, do not have the economy of scale to deflect the burden. However, a longer exam cycle permits well-run community banks to focus their time and resources on the surrounding community, rather than the exam process, opening up opportunities for sustainable economic growth in towns across the United States.

The Small Bank Exam Cycle Reform Act amends the Federal Deposit Insurance Act to increase the qualifying asset threshold from $500 million to $1 billion for small banks. This relief measure is only for well-managed community banks that did not cause the financial crisis - but are now living with the regulatory blowback. As part of the examination process, financial regulators rate financial institutions on several criteria, including safety and soundness, and their compliance with legal and regulatory requirements. To qualify for the 18 month exam cycle, an institution must have earned an “outstanding” or “good” rating on their most recent examination. Only smaller, well-rated banks – those which pose little risk – can qualify for extended exam cycles.

The banking regulators also support an increase in the qualifying asset threshold. In February, the Office of the Comptroller of the Currency sent draft legislative ideas for regulatory relief to the House Financial Services Committee, including a proposal that is the framework for HR 1553. The Comptroller of the Currency, Thomas Curry, publicly stated such a change would reduce burdens on well-managed community institutions. It was also applauded by the FDIC and OCC during Committee hearings earlier this spring. Not only will this legislation provide relief for community banks, it will allow bank examiners to focus their resources working with banks that need the additional attention or present supervisory concerns.

This bipartisan legislation enjoys the support of the American Bankers Association, the Independent Community Bankers Association, the Conference of State Bank Supervisors, the Small Business and Entrepreneurship Council, as well as 19 bipartisan cosponsors. The legislation was also voted out of the Financial Services Committee with a unanimous 58 to 0 vote.

Congress last raised the threshold for outstanding-rated institutions in 2006 and granted agencies discretion to increase the threshold for good-rated institutions in 2007. It is time again to raise the threshold in statute so these small banks can continue to serve their important purpose in our communities: providing capital for small business growth and banking products for their local community.

Thank you and I yield back.