ICBA
Independent Community
Bankers of America®

April 18, 2022

Rohit Chopra
Director, Consumer Financial Protection Bureau
1700 G Street, NW
Washington, DC 20552

Dear Director Chopra:

On behalf of the Independent Community Bankers of America ("ICBA")[1] and community banks across America with nearly 50,000 locations, I write to share our views on the Consumer Financial Protection Bureau's ("CFPB") recent announcement via a March 10 blog[2] that CFPB will begin actively focusing on financial issues facing rural America. The CFPB's blog states CFPB will focus on "rural banking deserts, discriminatory and predatory agricultural credit, and manufactured housing."

Since the majority of all community banks are located in rural (non-metro) areas, ICBA has had a long-standing interest in policies that promote healthy rural economies nurtured by the activities of healthy community banks.

While ICBA was not one of the groups invited to share our concerns regarding rural America, we do have a number of observations and recommendations which we believe would boost rural

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[1] The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. ICBA is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education, and high-quality products and services. With nearly 50,000 locations nationwide, community banks constitute 99 percent of all banks, employ more than 700,000 Americans and are the only physical banking presence in one in three U.S. counties. Holding more than $5.8 trillion in assets, over $4.8 trillion in deposits, and more than $3.5 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers' dreams in communities throughout America. For more information visit ICBA's website at www.icba.org

[2] New effort focused on financial issues facing rural communities, March 10, 2022, https://www.consumerfinance.gov/about-us/blog/new-effort-focused-on-financial-issues-facing-rural-communities/

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economic activity, promote job growth and small business development and stimulate greater access to rural housing.

ICBA appreciates certain comments made in the CFPB's blog. Certainly, larger economic trends are affecting the financial resilience of rural families. We agree that bank consolidation can result in the loss or reduction of local, on-the-ground knowledge of how rural communities operate, which can cause banking relationships to disappear or credit to diminish significantly if there are no other community banks or bank branches present.

These points underscore the importance of laws and regulations that support the ability of community banks to serve rural America. The CFPB seemingly suggests access to financing is the main ingredient to solving the problems cited by the agency. While financing is certainly a key factor to enhancing rural economic growth, a number of other factors help determine rural prosperity, including population densities, geographic barriers, existence of scenic amenities, access to quality education and health care, transportation, housing, and broadband access.

Crucial to economic success or failure in rural areas is the degree to which the federal government imposes regulatory burdens that restrict investments, job growth, innovation, and competition in key rural sectors. Adding significant new tax and regulatory burdens upon the banking and rural sector also further exacerbates the decline of rural businesses and their ability to access low-cost credit. Further, the spike in inflation witnessed in the last twelve months, rising to levels not seen in the past forty years, is imposing a stranglehold around the neck of rural Americans, and must be dealt with quickly. Addressing these issues is necessary to address the CFPB's stated concerns.

Regarding specific issues raised by the CFPB, ICBA's research reveals the vital role community banks play in supporting rural communities while addressing these issues, as outlined below.

BANKING DESERTS

Branch consolidation is concentrated among the largest banks while community banks are proportionally maintaining more bank branches than larger banks.

- For the past three years, community banks have consistently been the only banking presence within one out of every three U.S. counties.[3]

[3] Data extracted from FDIC Summary of Deposits (SOD) 2011 to 2021 and USDA ERS Urban/Rural Classifications identifying community bank branches per year.

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- Over the past ten years, large banks have reduced their national branch presence by 20 percent. During the same time, community banks have operated between four to five bank branches per every large bank branch within mostly rural areas[4].

- According to remarks by a recent Federal Reserve Board official, the average number of community banks per rural market was remarkably stable over a recent twenty-year period at about four, while the average number of large banks per rural market has been 1.4.[5]

- To the degree there has been a reduction in the number of community bank branches, a key reason for branch consolidation stems from regulators imposing increased regulatory compliance burdens on community banks, driving more bank mergers, while at the same time, federal banking regulators have shown little interest in reducing regulatory burdens.

- The Congressional Research Service report[6] cited in CFPB's blog, however, states: "According to the FDIC, 'In all, community banks were almost three times more likely than noncommunity institutions to locate their offices in a nonmetro area in 2011 and were four times more likely to operate offices in rural counties … In 2011, there were 629 U.S. counties, with just over 6 million in population, where community banks operated offices, but where no noncommunity banking offices were present. Three-quarters of these counties were rural.'"

DISCRIMINATORY/PREDATORY LENDING

Community banks maintain credit to minorities/minority communities.[7]

[4] Ibid.

[5] *Trends in Urban and Rural Community Banks*, Remarks by Randal K. Quarles, Former Vice Chairman for Supervision, Board of Governors of the Federal Reserve System, "Community Banking in the 21st Century" Sixth Annual Community Banking Research and Policy Conference, Saint Louis, Missouri, October 4, 2018, Page 7.

[6] An Overview of Rural Credit Markets, Congressional Research Service, page 4, footnote 14.

[7] Sources: FDIC Summary of Deposits (SOD) Data (2016 to 2021), Census American Communities Survey (ACS) for Demographic Estimates per County, Paycheck Protection Program (PPP) Data, and 2020 Home Mortgage Disclosure Act (HMDA) Data.

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- For the past three years, community banks have maintained a presence within 93 percent of minority-majority communities including 96 percent of African American-majority communities as well as 98 percent of Hispanic American-majority communities.

- During the Paycheck Protection Program (PPP), community banks originated more than 40 percent of loans to minority small business borrowers, more than any other type of lender.

- For the past five years, community banks have originated many HMDA loans within LMI-Minority census tracts.

MANUFACTURED HOUSING

Community banks maintain lending to minority and low-to-moderate income borrowers and provide more financing for such loans than other lenders.

- In 2020, community banks made 97 percent of all low- and moderate-income (LMI) loans and 99 percent of all manufactured housing loans to minority borrowers.[8]

- In 2020, community banks originated an average of 99 percent of all manufactured housing loans per state and also an average of 95 percent of all manufactured housing loans per LMI county.[9]

Our research also uncovered that borrowers are more likely to favor community banks over other lenders. According to a 2021 American Consumer Satisfaction Index study, community banks had a satisfaction score that was four to five percentage points higher than large banks or credit unions.[10]

Further, during the stressful time of the Covid-19 crisis, according to the 2022 Federal Reserve Small Business Credit Survey, small banks were the most common source for PPP loans. Businesses applying for PPP loans most often sought credit from community banks over other

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[8] Data calculated from 2020 Home Mortgage Disclosure Act Data.

[9] Ibid.

[10] https://www.theacsi.org/industries/finance-and-insurance/banks/ and https://www.theacsi.org/industries/finance-and-insurance/credit-unions/

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types of lenders, choosing community banks 44 percent of time, large banks 39 percent and credit unions only five percent of the time.[11] Borrowers also gave community banks the highest satisfaction level among all other categories of lenders.[12]

ICBA RECOMMENDATIONS

ICBA has a number of recommendations to significantly address the concerns raised by the CFPB. A few of these are presented below. First, we believe the administration should strongly support passage of the bipartisan ECORA Act (Enhancing Credit Opportunities for Rural America Act) which has been introduced in both the House and Senate as H.R. 1977 and S. 2202.

The ECORA Act would provide community banks similar tax benefits as currently given to the Farm Credit System (FCS) and credit unions by exempting interest income to lenders from agricultural real estate loans and rural home loans in rural communities of up to 2,500 population. These benefits would allow community banks to provide lower interest rates on these loans, an especially important consideration in a rising interest rate environment.

ECORA would allow financially stressed farmers to qualify for land loans to retain, sustain and enhance their farming operations or begin a new farming operation. Producers with existing farm real estate loans would also benefit by refinancing their operations at a lower interest rate, saving these borrowers significant money.

ECORA will allow rural citizens in small towns to qualify for housing loans more easily. Currently, over 25 percent of rural mortgage borrowers pay 30 percent or more of their incomes toward their housing costs. ECORA would allow these and other rural mortgage borrowers to have lower monthly loan payments. Lower mortgage payments would help attract more people to smaller rural communities, thus increasing rural populations and job growth.

ICBA has also been a strong proponent of maintaining and enhancing the farm bill's rural safety net, particularly through the farm, housing and rural development guaranteed loan programs. In the case of farm lending programs, which will be addressed in the writing of the 2023 farm bill, we urged a slight, but important, increase in the size of guaranteed farm operating and ownership programs to a threshold of $2.5 million.

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[11] Federal Reserve Banks 2022 Report on Employer Firms, Small Business Credit Survey, page 11. https://www.fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/2021/2022-sbcs-employer-firms-report
[12] Ibid, page 22.

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Not only would this assist current family farmers with their financing needs, but higher loan limits would also allow young, beginning, and small farmers as well as minority and socially disadvantaged farmers, to acquire enough capital to start their own farming operations or increase the size of their operations to more sustainable acreages.

Further, if the new farm bill provides financing to resolve "heirs property" legal questions to assist producers who have inherited land without a clear title or documented legal ownership, these funds need to be directly or indirectly accessible by community bank borrowers.

CFPB's blog suggested some individuals support the Community Reinvestment Act (CRA) particularly in rural banking deserts located in persistent poverty counties, which CFPB states are overwhelmingly rural. There are no efforts to eliminate CRA, however, ICBA notes that credit unions do not comply with CRA requirements. If CFPB views the CRA as extremely important, then the CFPB should certainly be urging the administration to mandate CRA requirements be imposed upon credit unions.

We also urge the CFPB to consider the very negative impact the credit union industry is having on consolidation and competition trends in rural America as they leverage their unjustified tax exemptions for the purchase of community banks. Recently, the purchase by multibillion dollar credit unions of smaller community banks has driven bank industry consolidation, an issue of concern expressed in the CFPB blog. This harmful trend, which has now caused the loss of over 100 community banks, is a consequence of credit unions leveraging their tax benefits to inflate the purchase prices of community banks above book value, combined with their regulator's (NCUA) permissive and self-serving industry favoritism.

Similarly, the FCS uses its government-derived privileges as a government sponsored enterprise (GSE) to offer predatory pricing of its loans to the financially strongest borrowers at below market rates, thus destabilizing community bank lending portfolios, distorting local lending markets and driving community banks out of agricultural lending, leading to bank consolidation. The FCS's abusive tactic of undercutting market pricing to obtain the best loans jeopardizes the viability of many community banks and the economic strength of the thousands of rural communities they serve. Most of the dollar volume for FCS's loans are made to the largest farm borrowers. Smaller FCS loans of less than $250,000 accounted for only 10 percent of System lending as of December 31, 2021.[13] Meanwhile, the FCS's effective tax rate is only 2.3 percent.[14]

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[13] Federal Farm Credit Banks Funding Corporation's 2021 Annual Information Statement, page 57. https://www.farmcreditfunding.com/ffcb_live/serve/public/pressre/finin/report.pdf?assetId=434855
[14] Ibid, page 49.

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As President Biden's recent Executive Order ("Promoting Competition in the American Economy") notes: "*Excessive consolidation raises costs for consumers, restricts credit for small businesses, and harms low-income communities (italics added)*."[15] Credit union purchases of banks and FCS predatory lending must be viewed from this perspective.

ICBA would welcome a conversation with the CFPB to further discuss how to facilitate solutions that will better the lives of rural Americans. We also invite CFPB staff to meet, either in-person or online, with ICBA's Agriculture-Rural America Committee, which consists of approximately twenty-five community bankers from rural communities across America.

Please contact mark.scanlan@icba.org or lilly.thomas@icba.org to discuss how we can further this discussion at your earliest convenience.

Sincerely,

/s/

Rebeca Romero Rainey
President & CEO

[15] FACT SHEET: Executive Order on Promoting Competition in the American Economy, July 9, 2021, page 13, https://www.whitehouse.gov/briefing-room/statements-releases/2021/07/09/fact-sheet-executive-order-on-promoting-competition-in-the-american-economy/

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