

TO RAISE THE CONSOLIDATED ASSETS THRESHOLD UNDER THE SMALL
BANK HOLDING COMPANY POLICY STATEMENT, AND FOR OTHER PUR-
POSES

MARCH 23, 2016.—Committed to the Committee of the Whole House on the State
of the Union and ordered to be printed

Mr. HENSARLING, from the Committee on Financial Services,
submitted the following

R E P O R T

together with

MINORITY VIEWS

[To accompany H.R. 3791]

[Including cost estimate of the Congressional Budget Office]

The Committee on Financial Services, to whom was referred the bill (H.R. 3791) to raise the consolidated assets threshold under the small bank holding company policy statement, and for other purposes, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

PURPOSE AND SUMMARY

Recognizing that small bank holding companies and small savings and loan holding companies face unique challenges with regard to capital formation, H.R. 3791 would require the Federal Reserve Board, within six months of the date of enactment, to apply its Small Bank Holding Company Policy Statement to bank and savings and loan holding companies with pro forma consolidated assets of less than \$5 billion. Qualifying institutions would be prohibited from engaging in any nonbanking activities involving significant leverage and may not have a significant amount of outstanding debt that is held by the general public. H.R. 3791 also amends Section 171 of the Dodd-Frank Wall Street Reform and Consumer Protection Act to clarify that the exemption it grants to small bank holding companies for minimum leverage and risk-based capital requirements must also be applied to qualifying savings and loan holding companies.

BACKGROUND AND NEED FOR LEGISLATION

To ensure that bank holding companies (BHCs) are able to serve as a source of strength for their insured depository subsidiaries, the Federal Reserve Board (Board) subjects them to consolidated, risk-based and leverage capital adequacy guidelines. As part of these guidelines, the Board generally discourages the use of debt by BHCs to finance the acquisition of banks or other companies; however, the Federal Reserve acknowledges that the transfer of ownership of small banks to small bank holding companies (SBHCs) often requires the use of acquisition debt. Accordingly, in 1980, the Board created an exemption for qualifying SBHCs from the BHC capital guidelines—the Small Bank Holding Company Policy Statement (hereinafter, “the Policy Statement”).¹

The Policy Statement permits the formation and expansion of SBHCs with debt levels that are higher than what would be permitted for larger BHCs. The original Policy Statement, issued in 1980, set the qualifying asset threshold at \$150 million. In 2006, the Board increased this threshold to \$500 million. On April 9, 2015, the Board issued a final rule to implement P.L. 113–250, which requires the Board to raise the Small Bank Holding Company Policy Statement threshold to \$1 billion.

In addition to mandatory consolidated assets of less than \$1 billion, a BHC seeking to qualify as a SBHC must not:

- (i) be engaged in significant nonbanking activities;
- (ii) conduct significant off-balance sheet activities (including securitization); or
- (iii) have a material amount of debt or equity securities outstanding (other than trust preferred securities) that are registered with the SEC.

Another benefit enjoyed by those subject to the Policy Statement is an exemption from Basel III capital requirements and Section 171 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Section 171 was designed to ensure that BHCs and large nonbank financial institutions “operate under capital standards at least as stringent as those applying to [insured] banks.”

As a consequence of Section 171, BHCs may no longer count trust preferred securities as Tier 1 capital. Trust preferred securities are a type of “hybrid capital instrument,” meaning that they have characteristics of both equity and debt. Before the Dodd-Frank Act was enacted, these securities were widely sold by BHCs that needed to raise capital. As a result of the Dodd-Frank Act, many BHCs have been required to replace their existing trust preferred securities with other forms of capital, such as common equity.

Under the Policy Statement, BHCs that qualify as SBHCs may use debt to finance up to 75 percent of the purchase price of an acquisition, but are subject to ongoing requirements and restrictions. First, organizations are not allowed to pay dividends if their debt-to-equity ratio exceeds 1:1. Second, the Federal Reserve expects that holding companies will retire all debt within 25 years and reduce debt to 30 percent or less of equity within 12 years of incurring the debt, to ensure that the higher leverage does not pose an undue burden on subsidiary depository institutions. Finally, the

¹ 12 C.F.R., Appendix C to Part 225.

Federal Reserve requires that each depository institution subsidiary remain well-capitalized.

In a letter to the Committee dated December 7, 2015, the American Bankers Association stated its support for H.R. 3791, writing that:

This legislation facilitates the ability of community banks to issue debt and raise capital and thus increase their involvement in promoting the growth of their local economies. This is extremely important as regulators have proposed through other regulations to increase capital requirements significantly for both community banks and larger institutions in the coming years.

In a letter to the Committee dated December 7, 2015, the Independent Community Bankers of America stated its support for H.R. 3791, writing that:

[H.R. 3791] would provide additional capital for community banks to serve their customers and communities . . . [and would] allow community banks to better serve their local businesses and create new jobs.

HEARINGS

The Subcommittee on Financial Institutions and Consumer Credit did not hold hearings on H.R. 3791 in the 114th Congress. In the 113th Congress, on April 16, 2013, the Subcommittee held a hearing examining issues related to H.R. 3791's subject matter.

COMMITTEE CONSIDERATION

The Committee on Financial Services met in open session on December 8, 2015 and December 9, 2015, and ordered H.R. 3791 to be reported favorably to the House without amendment by a recorded vote of 33 yeas to 21 nays (recorded vote no. FC-77), a quorum being present.

COMMITTEE VOTES

Clause 3(b) of rule XIII of the Rules of the House of Representatives requires the Committee to list the record votes on the motion to report legislation and amendments thereto. The sole record vote in Committee was a motion by Chairman Hensarling to report the bill favorably to the House without amendment. That motion was agreed to by a recorded vote of 33 yeas to 21 nays (record vote no. FC-77), a quorum being present.

Record vote no. FC-77

Representative	Yea	Nay	Present	Representative	Yea	Nay	Present
Mr. Hensarling	X			Ms. Waters (CA)		X	
Mr. King (NY)	X			Mrs. Maloney (NY)		X	
Mr. Royce	X			Ms. Velázquez		X	
Mr. Lucas	X			Mr. Sherman		X	
Mr. Garrett	X			Mr. Meeks		X	
Mr. Neugebauer	X			Mr. Capuano		X	
Mr. McHenry				Mr. Hinojosa			
Mr. Pearce	X			Mr. Clay			
Mr. Posey	X			Mr. Lynch		X	
Mr. Fitzpatrick	X			Mr. David Scott (GA)		X	
Mr. Westmoreland				Mr. Al Green (TX)		X	
Mr. Luetkemeyer	X			Mr. Cleaver		X	
Mr. Huizenga (MI)	X			Ms. Moore			
Mr. Duffy	X			Mr. Ellison		X	
Mr. Hurt (VA)	X			Mr. Perlmutter			
Mr. Stivers	X			Mr. Himes		X	
Mr. Fincher	X			Mr. Carney		X	
Mr. Stutzman	X			Ms. Sewell (AL)		X	
Mr. Mulvaney	X			Mr. Foster		X	
Mr. Hultgren	X			Mr. Kildee		X	
Mr. Ross	X			Mr. Murphy (FL)		X	
Mr. Pittenger	X			Mr. Delaney	X		
Mrs. Wagner	X			Ms. Sinema		X	
Mr. Barr	X			Mrs. Beatty		X	
Mr. Rothfus	X			Mr. Heck (WA)		X	
Mr. Messer	X			Mr. Vargas		X	
Mr. Schweikert	X						
Mr. Guinta	X						
Mr. Tipton	X						
Mr. Williams	X						
Mr. Poliquin	X						
Mrs. Love	X						
Mr. Hill	X						
Mr. Emmer	X						

COMMITTEE OVERSIGHT FINDINGS

Pursuant to clause 3(c)(1) of rule XIII of the Rules of the House of Representatives, the findings and recommendations of the committee based on oversight activities under clause 2(b)(1) of rule X of the Rules of the House of Representatives, are incorporated in the descriptive portions of this report.

PERFORMANCE GOALS AND OBJECTIVES

Pursuant to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, the Committee states that H.R. 3791 will promote the formation and expansion of small bank holding companies by raising the consolidated assets threshold under the Small Bank Holding Company Policy Statement from \$1 billion to \$5 billion.

NEW BUDGET AUTHORITY, ENTITLEMENT AUTHORITY, AND TAX
EXPENDITURES

In compliance with clause 3(c)(2) of rule XIII of the Rules of the House of Representatives, the Committee adopts as its own the estimate of new budget authority, entitlement authority, or tax expenditures or revenues contained in the cost estimate prepared by the Director of the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974.

COMMITTEE COST ESTIMATE

The Committee adopts as its own the cost estimate prepared by the Director of the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974.

CONGRESSIONAL BUDGET OFFICE ESTIMATES

Pursuant to clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, the following is the cost estimate provided by the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, February 12, 2016.

Hon. JEB HENSARLING,
*Chairman, Committee on Financial Services,
House of Representatives, Washington, DC.*

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 3791, a bill to raise the consolidated assets threshold under the small bank holding company policy statement, and for other purposes.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Sarah Puro.

Sincerely,

KEITH HALL.

Enclosure.

H.R. 3791—A bill to raise the consolidated assets threshold under the small bank holding company policy statement, and for other purposes

H.R. 3791 would require the Federal Reserve to expand its policy statement on the allowable debt levels of certain small bank holding companies (usually when their ownership is being transferred). Currently the policy statement applies to bank holding companies with less than \$1 billion in total consolidated assets. Under the bill, it would apply to bank holding companies with less than \$5 billion in such assets.

Generally, banks with higher debt levels are riskier and their defaults are more likely to incur direct spending costs through the Deposit Insurance Fund (DIF), which is administered by the Federal Deposit Insurance Corporation (FDIC). However, the Federal Reserve may choose not to apply the policy statement on allowable debt levels to any bank holding company, regardless of asset size, if appropriate supervision of the holding company requires such an action. CBO expects that the Federal Reserve would not allow bank holding companies to take on additional debt under this policy if that debt would jeopardize the solvency of the bank holding company and significantly increase the likelihood of failure. Further, because the Federal Reserve already supervises those small bank holding companies, CBO expects that any changes to its administrative costs would be insignificant. Administrative costs to the Federal Reserve are recorded in the budget as a change in revenues.

Because enacting H.R. 3791 could affect direct spending and revenues, pay-as-you-go procedures apply. However, CBO estimates that the net effects would be insignificant for each year. CBO estimates that enacting H.R. 3791 would not increase net direct spending or on-budget deficits by \$5 billion in any of the four consecutive 10-year periods beginning in 2027.

H.R. 3791 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would impose no costs on state, local, or tribal governments.

The CBO staff contacts for this estimate are Sarah Puro (for the FDIC) and Nathaniel Frentz (for the Federal Reserve). The estimate was approved by H. Samuel Papenfuss, Deputy Assistant Director for Budget Analysis.

FEDERAL MANDATES STATEMENT

The Committee adopts as its own the estimate of Federal mandates prepared by the Director of the Congressional Budget Office pursuant to section 423 of the Unfunded Mandates reform Act.

ADVISORY COMMITTEE STATEMENT

No advisory committees within the meaning of section 5(b) of the Federal Advisory Committee Act were created by this legislation.

APPLICABILITY TO LEGISLATIVE BRANCH

The Committee finds that the legislation does not relate to the terms and conditions of employment or access to public services or

accommodations within the meaning of section 102(b)(3) of the Congressional Accountability Act.

EARMARK IDENTIFICATION

H.R. 3791 does not contain any congressional earmarks, limited tax benefits, or limited tariff benefits as defined in clause 9 of rule XXI.

DUPLICATION OF FEDERAL PROGRAMS

Pursuant to section 3(g) of H. Res. 5, 114th Cong. (2015), the Committee states that no provision of H.R. 3791 establishes or reauthorizes a program of the Federal Government known to be duplicative of another Federal program, a program that was included in any report from the Government Accountability Office to Congress pursuant to section 21 of Public Law 111-139, or a program related to a program identified in the most recent Catalog of Federal Domestic Assistance.

DISCLOSURE OF DIRECTED RULEMAKING

Pursuant to section 3(i) of H. Res. 5, 114th Cong. (2015), the Committee states that H.R. 3791 contains one directed rulemaking.

SECTION-BY-SECTION ANALYSIS OF THE LEGISLATION

Section 1. Changes required to small bank holding company policy statement on assessment of financial aid and managerial factors

This section requires the Board of Governors of the Federal Reserve System to revise the Small Bank Holding Company Policy Statement to provide that bank holding companies and savings and loan holding companies shall be subject to such Policy Statement if they have pro forma consolidated assets of less than \$5 billion. This section also exempts such financial institutions from the Dodd-Frank Act's leverage and risk-based capital requirements if the institution is subject to the Policy Statement.

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, and existing law in which no change is proposed is shown in roman):

DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT

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TITLE I—FINANCIAL STABILITY

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Subtitle C—Additional Board of Governors Authority for Certain Nonbank Financial Companies and Bank Holding Companies

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SEC. 171. LEVERAGE AND RISK-BASED CAPITAL REQUIREMENTS.

(a) **DEFINITIONS.**—For purposes of this section, the following definitions shall apply:

(1) **GENERALLY APPLICABLE LEVERAGE CAPITAL REQUIREMENTS.**—The term “generally applicable leverage capital requirements” means—

(A) the minimum ratios of tier 1 capital to average total assets, as established by the appropriate Federal banking agencies to apply to insured depository institutions under the prompt corrective action regulations implementing section 38 of the Federal Deposit Insurance Act, regardless of total consolidated asset size or foreign financial exposure; and

(B) includes the regulatory capital components in the numerator of that capital requirement, average total assets in the denominator of that capital requirement, and the required ratio of the numerator to the denominator.

(2) **GENERALLY APPLICABLE RISK-BASED CAPITAL REQUIREMENTS.**—The term “generally applicable risk-based capital requirements” means—

(A) the risk-based capital requirements, as established by the appropriate Federal banking agencies to apply to insured depository institutions under the prompt corrective action regulations implementing section 38 of the Federal Deposit Insurance Act, regardless of total consolidated asset size or foreign financial exposure; and

(B) includes the regulatory capital components in the numerator of those capital requirements, the risk-weighted assets in the denominator of those capital requirements, and the required ratio of the numerator to the denominator.

(3) **DEFINITION OF DEPOSITORY INSTITUTION HOLDING COMPANY.**—The term “depository institution holding company” means a bank holding company or a savings and loan holding company (as those terms are defined in section 3 of the Federal Deposit Insurance Act) that is organized in the United States, including any bank or savings and loan holding company that is owned or controlled by a foreign organization, but does not include the foreign organization.

(4) **BUSINESS OF INSURANCE.**—The term “business of insurance” has the same meaning as in section 1002(3).

(5) **PERSON REGULATED BY A STATE INSURANCE REGULATOR.**—The term “person regulated by a State insurance regulator” has the same meaning as in section 1002(22).

(6) **REGULATED FOREIGN SUBSIDIARY AND REGULATED FOREIGN AFFILIATE.**—The terms “regulated foreign subsidiary” and “regulated foreign affiliate” mean a person engaged in the business of insurance in a foreign country that is regulated by a

foreign insurance regulatory authority that is a member of the International Association of Insurance Supervisors or other comparable foreign insurance regulatory authority as determined by the Board of Governors following consultation with the State insurance regulators, including the lead State insurance commissioner (or similar State official) of the insurance holding company system as determined by the procedures within the Financial Analysis Handbook adopted by the National Association of Insurance Commissioners, where the person, or its principal United States insurance affiliate, has its principal place of business or is domiciled, but only to the extent that—

(A) such person acts in its capacity as a regulated insurance entity; and

(B) the Board of Governors does not determine that the capital requirements in a specific foreign jurisdiction are inadequate.

(7) CAPACITY AS A REGULATED INSURANCE ENTITY.—The term “capacity as a regulated insurance entity”—

(A) includes any action or activity undertaken by a person regulated by a State insurance regulator or a regulated foreign subsidiary or regulated foreign affiliate of such person, as those actions relate to the provision of insurance, or other activities necessary to engage in the business of insurance; and

(B) does not include any action or activity, including any financial activity, that is not regulated by a State insurance regulator or a foreign agency or authority and subject to State insurance capital requirements or, in the case of a regulated foreign subsidiary or regulated foreign affiliate, capital requirements imposed by a foreign insurance regulatory authority.

(b) MINIMUM CAPITAL REQUIREMENTS.—

(1) MINIMUM LEVERAGE CAPITAL REQUIREMENTS.—The appropriate Federal banking agencies shall establish minimum leverage capital requirements on a consolidated basis for insured depository institutions, depository institution holding companies, and nonbank financial companies supervised by the Board of Governors. The minimum leverage capital requirements established under this paragraph shall not be less than the generally applicable leverage capital requirements, which shall serve as a floor for any capital requirements that the agency may require, nor quantitatively lower than the generally applicable leverage capital requirements that were in effect for insured depository institutions as of the date of enactment of this Act.

(2) MINIMUM RISK-BASED CAPITAL REQUIREMENTS.—The appropriate Federal banking agencies shall establish minimum risk-based capital requirements on a consolidated basis for insured depository institutions, depository institution holding companies, and nonbank financial companies supervised by the Board of Governors. The minimum risk-based capital requirements established under this paragraph shall not be less than the generally applicable risk-based capital requirements, which shall serve as a floor for any capital requirements that the

agency may require, nor quantitatively lower than the generally applicable risk-based capital requirements that were in effect for insured depository institutions as of the date of enactment of this Act.

(3) INVESTMENTS IN FINANCIAL SUBSIDIARIES.—For purposes of this section, investments in financial subsidiaries that insured depository institutions are required to deduct from regulatory capital under section 5136A of the Revised Statutes of the United States or section 46(a)(2) of the Federal Deposit Insurance Act need not be deducted from regulatory capital by depository institution holding companies or nonbank financial companies supervised by the Board of Governors, unless such capital deduction is required by the Board of Governors or the primary financial regulatory agency in the case of nonbank financial companies supervised by the Board of Governors.

(4) EFFECTIVE DATES AND PHASE-IN PERIODS.—

(A) DEBT OR EQUITY INSTRUMENTS ON OR AFTER MAY 19, 2010.—For debt or equity instruments issued on or after May 19, 2010, by depository institution holding companies or by nonbank financial companies supervised by the Board of Governors, this section shall be deemed to have become effective as of May 19, 2010.

(B) DEBT OR EQUITY INSTRUMENTS ISSUED BEFORE MAY 19, 2010.—For debt or equity instruments issued before May 19, 2010, by depository institution holding companies or by nonbank financial companies supervised by the Board of Governors, any regulatory capital deductions required under this section shall be phased in incrementally over a period of 3 years, with the phase-in period to begin on January 1, 2013, except as set forth in subparagraph (C).

(C) DEBT OR EQUITY INSTRUMENTS OF SMALLER INSTITUTIONS.—For debt or equity instruments issued before May 19, 2010, by depository institution holding companies with total consolidated assets of less than \$15,000,000,000 as of December 31, 2009, and by organizations that were mutual holding companies on May 19, 2010, the capital deductions that would be required for other institutions under this section are not required as a result of this section.

(D) DEPOSITORY INSTITUTION HOLDING COMPANIES NOT PREVIOUSLY SUPERVISED BY THE BOARD OF GOVERNORS.—For any depository institution holding company that was not supervised by the Board of Governors as of May 19, 2010, the requirements of this section, except as set forth in subparagraphs (A) and (B), shall be effective 5 years after the date of enactment of this Act.

(E) CERTAIN BANK HOLDING COMPANY SUBSIDIARIES OF FOREIGN BANKING ORGANIZATIONS.—For bank holding company subsidiaries of foreign banking organizations that have relied on Supervision and Regulation Letter SR-01-1 issued by the Board of Governors (as in effect on May 19, 2010), the requirements of this section, except as set forth in subparagraph (A), shall be effective 5 years after the date of enactment of this Act.

(5) EXCEPTIONS.—This section shall not apply to—

(A) debt or equity instruments issued to the United States or any agency or instrumentality thereof pursuant to the Emergency Economic Stabilization Act of 2008, and prior to October 4, 2010;

(B) any Federal home loan bank; or

[(C) any bank holding company or savings and loan holding company having less than \$1,000,000,000 in total consolidated assets that complies with the requirements of the Small Bank Holding Company Policy Statement on Assessment of Financial and Managerial Factors of the Board of Governors (12 CFR part 225 appendix C), as the requirements of such Policy Statement are amended pursuant to section 1 of an Act entitled “To enhance the ability of community financial institutions to foster economic growth and serve their communities, boost small businesses, increase individual savings, and for other purposes”.]

(C) any bank holding company or savings and loan holding company that is subject to the application of the Small Bank Holding Company Policy Statement on Assessment of Financial and Managerial Factors of the Board of Governors (12 C.F.R. part 225—appendix C).

(6) STUDY AND REPORT ON SMALL INSTITUTION ACCESS TO CAPITAL.—

(A) STUDY REQUIRED.—The Comptroller General of the United States, after consultation with the Federal banking agencies, shall conduct a study of access to capital by smaller insured depository institutions.

(B) SCOPE.—For purposes of this study required by subparagraph (A), the term “smaller insured depository institution” means an insured depository institution with total consolidated assets of \$5,000,000,000 or less.

(C) REPORT TO CONGRESS.—Not later than 18 months after the date of enactment of this Act, the Comptroller General of the United States shall submit to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives a report summarizing the results of the study conducted under subparagraph (A), together with any recommendations for legislative or regulatory action that would enhance the access to capital of smaller insured depository institutions, in a manner that is consistent with safe and sound banking operations.

(7) CAPITAL REQUIREMENTS TO ADDRESS ACTIVITIES THAT POSE RISKS TO THE FINANCIAL SYSTEM.—

(A) IN GENERAL.—Subject to the recommendations of the Council, in accordance with section 120, the Federal banking agencies shall develop capital requirements applicable to insured depository institutions, depository institution holding companies, and nonbank financial companies supervised by the Board of Governors that address the risks that the activities of such institutions pose, not only to the institution engaging in the activity, but to other public and private stakeholders in the event of adverse performance, disruption, or failure of the institution or the activity.

(B) CONTENT.—Such rules shall address, at a minimum, the risks arising from—

(i) significant volumes of activity in derivatives, securitized products purchased and sold, financial guarantees purchased and sold, securities borrowing and lending, and repurchase agreements and reverse repurchase agreements;

(ii) concentrations in assets for which the values presented in financial reports are based on models rather than historical cost or prices deriving from deep and liquid 2-way markets; and

(iii) concentrations in market share for any activity that would substantially disrupt financial markets if the institution is forced to unexpectedly cease the activity.

(c) CLARIFICATION.—

(1) IN GENERAL.—In establishing the minimum leverage capital requirements and minimum risk-based capital requirements on a consolidated basis for a depository institution holding company or a nonbank financial company supervised by the Board of Governors as required under paragraphs (1) and (2) of subsection (b), the appropriate Federal banking agencies shall not be required to include, for any purpose of this section (including in any determination of consolidation), a person regulated by a State insurance regulator or a regulated foreign subsidiary or a regulated foreign affiliate of such person engaged in the business of insurance, to the extent that such person acts in its capacity as a regulated insurance entity.

(2) RULE OF CONSTRUCTION ON BOARD'S AUTHORITY.—This subsection shall not be construed to prohibit, modify, limit, or otherwise supersede any other provision of Federal law that provides the Board of Governors authority to issue regulations and orders relating to capital requirements for depository institution holding companies or nonbank financial companies supervised by the Board of Governors.

(3) RULE OF CONSTRUCTION ON ACCOUNTING PRINCIPLES.—

(A) IN GENERAL.—A depository institution holding company or nonbank financial company supervised by the Board of Governors of the Federal Reserve that is also a person regulated by a State insurance regulator that is engaged in the business of insurance that files financial statements with a State insurance regulator or the National Association of Insurance Commissioners utilizing only Statutory Accounting Principles in accordance with State law, shall not be required by the Board under the authority of this section or the authority of the Home Owners' Loan Act to prepare such financial statements in accordance with Generally Accepted Accounting Principles.

(B) PRESERVATION OF AUTHORITY.—Nothing in subparagraph (A) shall limit the authority of the Board under any other applicable provision of law to conduct any regulatory or supervisory activity of a depository institution holding company or non-bank financial company supervised by the Board of Governors, including the collection or reporting of any information on an entity or group-wide basis. Nothing

in this paragraph shall excuse the Board from its obligations to comply with section 161(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (12 U.S.C. 5361(a)) and section 10(b)(2) of the Home Owners' Loan Act (12 U.S.C. 1467a(b)(2)), as appropriate.

* * * * *

MINORITY VIEWS

In the 113th Congress Democrats and Republicans worked together on a bipartisan bill that provided relief to approximately 4,900 community banks by doubling the asset threshold for the Fed's Small Bank Holding Company Statement from \$500 million in assets to \$1 billion in assets.

In the 114th Congress, less than one year since President Obama signed that change into law, Republicans are undermining bipartisan compromise by increasing by five-fold the regulatory cap that both parties so recently agreed to double. This would mean a Small Bank Holding Company Policy Statement threshold that is ten times what it was just a year ago.

The Minority worked with regulators and others in Congress last year to evaluate what number to best set a new threshold, and there are a number of reasons that we came to agreement on \$1 billion in consolidated assets.

The primary purpose of the Small Bank Holding Company Policy Statement is to make it easier for small, community banks to purchase other small institutions. Many Members have claimed that community banks are disappearing every day, and included among that statistic are banks which have merged or been bought by other institutions. The Minority wants to ensure that communities retain access to local banks. Setting the threshold at \$1 billion makes it more likely that if a bank is acquired, it will be by an institution that has similar roots in the community, that will know the community's needs, and that will best serve the community's consumers and small businesses.

However, we are very concerned that a bank with a \$5 billion footprint would not provide the same kind of personal service a smaller institution might, and are further concerned that raising the threshold could encourage aggressive growth at a firm that is more concerned with its bottom line than the concerns of the communities it serves.

Another important matter of size is that institutions over \$1 billion in assets have better access to raising funds in the capital markets—and many of us on both sides of the aisle have recently worked to pass legislation making sure these banks and thrifts have easier access to the capital markets.

Secondly, many community banks failed during the crisis because they became overleveraged. While it is appropriate to allow banks to fail that make bad decisions, we must remember that when a community bank fails it has an enormous impact on the consumers and small businesses it served, and also drains the Deposit Insurance Fund. Congress has a duty to ensure that banks are prudently run and that the Deposit Insurance Fund is not put at unnecessary risk. Allowing institutions with as much as \$5 billion in assets to operate under a lowered set of capital standards

and with fewer reports to regulators put communities and the Deposit Insurance Fund at higher risk.

Setting the threshold at \$1 billion was the prudent balance between acceptable risk and allowing most community banks to benefit from the economies of scale a merger or acquisition provides. Multiplying that threshold five times over, less than one year after the threshold has already been doubled, is reckless.

In order to ensure we have a stable banking system especially in our rural and underserved communities, we must more carefully consider the impact of so quickly eliminating capital standards for a large swath of bank holding companies. In order to ensure our communities remain well served by access to affordable banking services, we must more carefully consider the impact of incentivizing further concentration.

For these reasons, the Minority opposes H.R. 3791.

MAXINE WATERS.
JOYCE BEATTY.
JUAN VARGAS.
KEITH ELLISON.

