Commonwealth of Kentucky
Public Protection Cabinet

Department of Financial Institutions

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Easing of Federal Regulations May Help Community Banks

New Reform Law Could Alleviate High Costs of Compliance

FRANKFORT, Ky. (June 12, 2018) – The Department of Financial Institutions (DFI) applauds U.S. Senate Bill 2155, the "Economic Growth, Regulatory Relief and Consumer Protection Act," which provides much needed regulatory relief to the financial services industry in Kentucky.

The Federal Reserve Bank of St. Louis (Fed) just released a report on compliance costs that estimates the smallest community banks in Kentucky dedicate an equivalent of 20 percent of their workforce to comply with regulations that govern how they operate. Larger community banks–with assets between $1 billion and $10 billion–may be dedicating an equivalent of 10 percent of their workforce. For all community banks currently headquartered in the state, the collective cost is estimated to exceed $100 million annually.[1]

Community bankers voiced concerns about regulatory costs in interviews conducted by DFI to supplement the national survey results. They said costs were highest for complying with federal requirements including the Bank Secrecy Act, overdraft rules and mortgage rules enacted under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

U.S. Rep. Andy Barr and U.S. Senate Majority Leader Mitch McConnell have advocated for regulatory relief from the Dodd-Frank Act to help community banks and financial institutions in Kentucky. On May 24, President Donald Trump signed targeted reforms of the Dodd-Frank Act into law that reduced burdensome requirements on community banks and nonbank financial institutions.

The following are a few of the ways Senate Bill 2155's provisions will help Kentucky's financial services industry:

- Designates all mortgages held in portfolio as Qualified Mortgages for banks with $10 billion or less in total assets;

- Offers relief from appraisal requirements for mortgages less than $400,000;
- Raises eligibility for the 18-month examination cycle for financial institutions between $1-3 billion in assets;
- Removes the waiting period requirement in TILA/RESPA mortgage disclosures if the consumer receives a second offer of credit with a lower rate;
- Offers a transitional licensing period for mortgage loan originators who are changing employers;
- Allows credit unions to make loans for nonprimary residences; and
- Requires a simplified capital calculation for financial institutions with total assets of $10 billion or less.

"This is significant regulatory relief for community banks, credit unions and other financial institutions operating in the Commonwealth of Kentucky," said DFI Commissioner Charles Vice. "The Department appreciates the work that Congressman Barr and Majority Leader McConnell have put forth to get this regulatory relief bill passed."

The community bank survey, interviews with Kentucky bankers and the Fed report on compliance costs are all available at www.communitybanking.org.

1 – Fed researchers calculated these cost estimates using the responses of more than 500 community bankers to a national survey conducted by the Conference of State Bank Supervisors (CSBS) in 2015, 2016 and 2017. DFI is a member of CSBS and administered the survey statewide. A community bank is defined as having less than $10 billion in total assets. A nationally-determined percentage was applied to operating expenses at community banks in Kentucky to estimate statewide dollar costs of compliance. The number of full-time equivalent employees devoted to compliance was estimated by applying the same percentage to state-level data on bank personnel expenses.

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DFI, http://kfi.ky.gov, is an agency in the Public Protection Cabinet. For more than 100 years, it has supervised the financial services industry by examining, chartering, licensing and registering various financial institutions, securities firms and professionals operating in Kentucky. DFI's mission is to serve Kentucky residents and protect their financial interests by maintaining a stable financial industry, continuing effective and efficient regulatory oversight, promoting consumer confidence, and encouraging economic opportunities.