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Rebeca Romero Rainey, President and CEO

June 11, 2024

The Honorable Michael Hsu  
Acting Comptroller of the Currency  
Office of the Comptroller of the Currency  
400 7th Street SW, Suite 3E-218,  
Washington, DC 20219

The Honorable Martin Gruenberg  
Chairman  
Federal Deposit Insurance Corporation  
550 17th Street NW  
Washington, DC 20429

The Honorable Michael Barr  
Vice Chair for Supervision  
Board of Governors of the Federal Reserve  
System  
20th Street and Constitution Avenue NW  
Washington, DC 20551

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

**Re: How Well-Intended Policies Hamper Small Business Lending and Undermine Relationship Banking**

Dear Sirs:

On behalf of this country's community banks and as the President and CEO of the Independent Community Bankers of America ("ICBA"), I would like to draw your attention to the critical issues highlighted in our recent report, "Finding Balance: How Well-Intended Policies Hamper Small Business Lending and Undermine Relationship Banking," which details how never-ending and ever-increasing regulations are adversely impacting community banks and the relationships they have with millions of their small businesses customers.

Community banks are the backbone of local economies, playing a unique and vital role in the U.S. financial system. Their simpler organizational structures, focus on traditional banking activities, and deep community involvement distinguish them from larger financial institutions. Community banks leverage close relationships with their customers to provide flexible products and services tailored to local needs, especially in small business lending.

**Impact of Regulation on Community Banks**

Despite their pivotal role, community banks face an increasingly challenging regulatory environment. According to ICBA's recent survey, nearly three-quarters of community banks identified regulatory burden as a top challenge. The compliance costs associated with these regulations divert substantial

resources from productive uses, such as expanding small business lending and community investments. For example, compliance costs for some community banks are expected to exceed \$450,000 in the first five years of Section 1071 implementation, which is significantly higher than the CFPB's estimate for "low" and "middle complexity" institutions.

## **Consolidation Due to Regulatory Pressure**

The escalating regulatory burden has led to a concerning trend: the consolidation of community banks. Increased regulatory costs disproportionately affect smaller banks, compelling many to merge with larger institutions to achieve economies of scale and regulatory compliance. This consolidation reduces the number of community banks, which, in turn, diminishes competition and the availability of personalized banking services that community banks uniquely provide.

## **Impact on Small Businesses**

Community banks are crucial for small businesses, providing a disproportionate share of small business loans compared to their larger counterparts. The symbiotic relationship between community banks and small businesses fosters local economic growth. However, the growing regulatory burden hampers this relationship. Over 90% of community bank respondents noted that the regulatory environment today is more challenging than it was five years ago, primarily due to the need to allocate more staff time to compliance or hire external entities for compliance assistance.

Nearly 9 in 10 small-business owners said they partner with community banks because they offer or customize products and services unique to small-business needs, understand the local community, understand small businesses, or have a personal relationship with their business. Yet, as a perverse outcome, increased regulation is making it more difficult to offer the customized products that 90 percent of small business value. For example, 60 percent of respondent bankers indicated that the Section 1071 rule will limit their banks' ability to tailor loans for small businesses.

## **Specific Regulatory Challenges**

Several recent regulatory developments have intensified these challenges. Key among them are:

- **Section 1071 of the Dodd-Frank Act:** This section mandates extensive data collection and reporting requirements for small business lending, which are particularly burdensome for community banks.
- **Revisions to the Community Reinvestment Act (CRA):** While intended to ensure fair lending practices, these revisions impose additional compliance costs that strain the limited resources of community banks.

## **Recommendations for Regulatory Relief**

To mitigate these adverse effects, we urge your agencies to consider the following recommendations:

1. **Exempt community banks from certain compliance requirements** under Section 1071 and the revised CRA regulations.
2. **Right-size data collection requirements** to reflect the operational capacities of community banks.
3. **Enhance regulatory flexibility** by tailoring rules to the size and complexity of institutions, ensuring that community banks are not unduly burdened by regulations designed for larger entities.

By implementing these measures, your agencies can help sustain the vital role of community banks in local economies, foster competition, and enhance the availability of financial services to small businesses and communities that depend on them.

Thank you for considering these recommendations. We look forward to working with your agencies to create a more balanced regulatory environment that supports the unique contributions of community banks.

Sincerely,

/s/

Rebeca Romero Rainey  
President and CEO  
Independent Community Bankers of America