VIA ELECTRONIC DELIVERY

September 6, 2016

The Honorable Jason Furman, Ph.D.
Chairman
President's Council of Economic Advisors
1650 Pennsylvania Ave., NW
Washington, DC 20504

Dear Chairman Furman:

On behalf of the Texas Bankers Association, I am writing in response to the "Issue Brief" recently published by the Council of Economic Advisors concluding that community banks have remained "healthy" during the period subsequent to the enactment of the Dodd-Frank Act. Not only is this finding completely at odds with everyday experience, we are very disappointed that such an important study would be undertaken with what appears to be no request for input from the affected industry.

The Texas Bankers Association is the oldest and largest state banking association in the country and has represented the banking industry in Texas since 1885. Had we been presented the opportunity for input, we would have started with the fact that when the Dodd-Frank Act was passed in 2010, there were 626 FDIC-insured banking institutions in Texas. The most current number of Texas chartered banks and savings institutions is 472. This is a decline of 154 institutions (32%) in a state with one of the healthiest economies in the country.

During the same time period, there were no *de novo* charters granted in Texas by either federal or state bank regulatory authorities. The comparison of 154 institutions disappearing by merger versus zero new charters ought to be conclusory evidence that the business environment for community banking over the six years since adoption of the Dodd-Frank Act can hardly be described as "healthy."[1]

In addition, we have the following specific comments/questions regarding the Issue Brief:

1. What was the rationale for using 2009 dollars for purposes of defining the size of a community bank? On the surface, this would appear to have the effect of adding additional institutions at the top end of the comparative scale. Please

[1] On a nationwide basis, the concomitant numbers have been a loss of 1,708 community banks (22%) versus three new charters (ABA letter of Aug. 24, 2016).

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inform us as to whether or not this was the case and, if so, how many additional institutions were included as compared to using a $10 billion criteria based on current FDIC data.

2. We take major exception to the numerous instances where the Issue Brief appears to preclude banks with less than $100M in assets from its summary conclusions, e.g. "Many community banks - particularly those with assets between $100M and $10B - have continued to grow steadily."[2] This is the calculation context that was erroneously utilized in the 2014 FDIC study and which now appears to have been incorporated into this Issue Brief.[3]

   The number of Texas bank charters under $100M is 135 out of 472 or 28%. In other states, this ratio can be much higher. In Oklahoma, for example, there were, as of March 31, 2016, 211 banks chartered in that state; of these, there are 46 with less than $50M in total assets and another 51 between $50-$100M for a statewide total of 46%. What possible logic can there be for excluding the very essence of local community banks from a comparative study regarding the impact of overregulation on community banking?

3. Related to the above, we dispute the use of graph presentations in lieu of actual numbers for purposes of fairly presenting the aggravated trend lines applicable to community banks under $100M during the period *post* the Dodd-Frank Act. We request that you revise this Issue Brief with presentations of the actual performance data particularly with respect to asset growth (Figure 2a) and Market Share of Loans (Figure 3) rather than relying on less specific demonstration by charts.

4. Perhaps most glaringly, the Issue Brief contains no commentary on the increased cost of regulation across the entire industry and the impact of these additional costs on industry Return on Equity (ROE). This decline of approximately 25 to 35% in ROE over recent historical norms is directly tied to the implementation of the Dodd-Frank Act and is the reason most often cited by the officers and directors of smaller banks as the principal reason for seeking a merger partner.

Lastly we want to comment on an aspect of the Issue Brief in which we are in complete agreement and for which we commend your inclusion, namely:

> Community banks, especially very small ones serving rural areas, have faced increasing competition from the Farm Credit Associations (FCA) (Hogue, Morris, and Wilkinson 2015; Robbins 2009). FCA farm business debt market share increased from 25 percent in 1994 to 41 percent in 2015, per the CEA issue brief (p. 6.). In the view of the Texas Bankers Association, the proper function of the

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[2] P. 1; *see also* "In terms of branches per bank, the average number of full-service brick-and-mortar branch offices per community bank *with assets $100M–$10B* ticked up from 7.4 to 7.6 offices from 1994 to 2015." (At p. 7, *emphasis added*.)

[3] Federal Deposit Insurance Corporation, "Community Banks Remain Resilient Amid Industry Consolidation," *FDIC Quarterly* 8(2), (2014).

FCA is to be secondary and supplemental rather than preemptive of the private sector as evidenced in the foregoing paragraph.

We appreciate the opportunity to present these views and look forward to your specific response.

Sincerely,

J. Eric T. Sandberg, Jr.
President & CEO

JETS:gm