Testimony of

Robert R. Hill, Jr.

On behalf of the

Mid-Size Bank Coalition of America

before the

Committee on Banking, Housing, and Urban Affairs

of the

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Chairman Crapo, Ranking Member Brown and members of the Committee, I am Robert Hill, CEO of South State Corporation, which is the holding company of South State Bank. South State, founded in 1933, is headquartered in Columbia, South Carolina, and serves communities in South Carolina, North Carolina and Georgia. In January of this year, our bank passed the $10 billion in assets threshold, which subjects South State to unduly burdensome requirements under the Dodd-Frank Act. In light of this experience, I appreciate the opportunity to present the views of the Mid-Size Bank Coalition of America (MBCA) on the significant compliance burden placed on mid-size banks as a result of Dodd-Frank.

The MBCA is the voice of 78 mid-size banks in the United States with headquarters in 29 states. MBCA member banks are primarily between $10 billion and $50 billion in asset size, average less than $20 billion, and serve customers and communities through more than 10,000 branches in all 50 states, the District of Columbia and three U.S. territories. Mid-size banks most often are the largest, local bank serving communities, many for more than a century.

Unlike the largest banks in the country, for whom lending is largely automated, mid-size banks are run by people who are focused on establishing long-term relationships with our communities and our customers on a daily basis. As a result, we are able to use actual knowledge of our customers and base our credit decisions on intangible factors, such as character and local economic conditions. We have also made the necessary risk and compliance investments that support our business models, which are uniformly based on stable deposit funding, revenues driven by traditional banking activities well-understood by bank management and regulators and limited or no trading operations or market-making activity. In sum, mid-sized banks have prudent business models that contribute to economic growth and support financial stability. To the extent restraints can be reduced, mid-sized banks can provide even more credit and support to small businesses and Main Street.

Under Dodd-Frank, crossing the $10 billion in assets threshold has harsh implications for mid-size banks. When banks cross $10 billion, they are considered mid-sized institutions — a designation that introduces an enhanced supervisory approach from regulators. These banks can expect more frequent compliance requirements, which may include full-scope examinations coupled with regular, targeted reviews. In connection with these additional burdens, mid-size banks must allocate further resources to compliance, from business units to senior management and the board of directors.

The imposition of these demands does not benefit the public in any appreciable way. These requirements drain resources of mid-size banks, and less money is thus available to provide credit to individuals and small businesses in our communities. For example, as a result of this threshold, South State incurs costs over $20 million per year.

In April of this year, the MBCA submitted a letter to the Chairman and Ranking Member urging the Committee to revisit the $10 billion number, an arbitrary figure that does not meaningfully capture systemic risk. In addition to the unfair consequences of using this number that already exists, the MBCA is deeply concerned the figure could become the default threshold for even more rules and regulations in the future.

The MBCA's highest priority would be to eliminate the $10 billion threshold and replace the number with an activities-based standard, which would focus regulation more closely on systemic risk, or, at a minimum, to raise the threshold to an appropriate level. The key sections of Dodd-Frank, which will need to be amended in this regard, are Sections 165, 1025, 1026 and 1075.

As an example, Section 165 imposes a mandatory stress testing burden on banks between $10 billion and $50 billion, known as the Dodd-Frank Annual Stress Test (DFAST). Former Federal Reserve Governor Daniel Tarullo testified before Congress that such testing is not necessary, and, in fact, it is actually a burden on the regulators with no commensurate regulatory benefit. As CEO of an institution that recently passed the $10 billion threshold, I can personally attest to the significant compliance burden that follows and the cost that it entails.

Independent Bank of Texas, an MBCA member bank with assets of just under $10 billion, estimates the cost of implementing the mandatory stress testing required under Section 165, in the event it crosses the $10 billion threshold, would be $5-6 million in the year of implementation and $2-3 million per year thereafter. Independent Bank has stated they will have to add a team of three to four people to manage this process.

All of this cost would be for something Governor Tarullo has testified provides <u>no</u> regulatory benefit. In addition, the current regulatory regime imposed by Section 165 forces mid-size banks to divert capital away from the products we offer and the lending that drives growth and development in our communities. The MBCA believes freeing mid-size banks from the unreasonable burdens posed by Section 165 should be one of your highest priorities.

To this end, we applaud Senators Moran, Tester and Heitkamp for sponsoring S. 1139, the Main Street Regulatory Fairness Act, which would remove the DFAST mandate currently imposed on banks between $10 billion and $50 billion in assets. As Senator Tester noted, "This bill cuts red tape and makes it easier for Main Street lenders to invest in entrepreneurs, families buying their first home and parents sending their kids to college."

The MBCA also applauds Senators Tester and Moran for introducing the CLEAR Relief Act of 2017, which would provide the Qualified Mortgage protections to loans originated and held in portfolio by banks under $10 billion. The MBCA, however, strongly urges the Committee, as it moves this legislation forward, to not limit this important relief to banks under $10 billion. The rationale for the Qualified Mortgage protections relates to the fact the banks

with the status are holding the mortgage loans in portfolio. It has nothing to do with the size of the institution holding the mortgage. Using the arbitrary $10 billion figure once again reinforces this number with no rational basis.

In our market, we have a lot of retirees, who do not have jobs. As a result, they do not meet the QM status requirements. If we are keeping the mortgages on our books, we believe we should be given QM status. Otherwise, it is not just the bank that is impacted, but our consumers are unfairly limited in their choices.

Former House Financial Services Chairman Barney Frank, one of the principal authors of Dodd-Frank, has testified that he supports giving a safe harbor status on loans where the lender retains the risk by holding the loan in portfolio. A loan made by a bank and held to maturity is the strongest possible statement of confidence in the ability of the borrower to repay regardless of the size of the bank.

We have only raised two examples where the $10 billion figure currently imposes — or may impose — an unnecessary burden on mid-sized banks. But there are a variety of thresholds that need to be eliminated, replaced by an activities-based standard or, at a minimum, raised substantially to capture systemic risk. This is not simply about fairness to mid-size banks. It is fundamental to growing our economy.

Recently, the MBCA asked its member banks to submit examples from their customers of specific, real-world customer impacts from the current regulatory system. The examples received included everything from mortgages rejected because of the ability to repay/qualified mortgages requirement to business loans not made. These examples have one thing in common – the absence of economic activity due to unnecessary regulatory requirements, which results in limited to no job creation and growth.

As Main Street banks, we support a regulatory regime that encourages prudent behavior and protects our customers. But we also need common sense regulation that does not unnecessarily impose burdens and impede the banking services communities need to create jobs and drive economic growth — and this, in our view, requires a move away from the Dodd-Frank $10 billion regulatory threshold. I am happy to answer any questions the Committee may have, and again appreciate the opportunity the Committee has given the MBCA to express its views.