



One Mission. Community Banks.®

May 13, 2019

Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington D.C. 20551

Regarding: Advanced Notice of Proposed Rulemaking – Regulation D - Reserve Requirements of Depository Institutions – Document Number R-1652 and RIN 7100-AF40

Dear Ms. Misback:

The Community Bankers Association of Illinois (“CBAI”), which proudly represents 310 Illinois community banks, over half of which are members of the Chicago or St. Louis Federal Reserve Banks, appreciates the opportunity to provide our observations and recommendations regarding the Board of Governors of the Federal Reserve System’s (“Board”) Advance Notice of Proposed Rulemaking (“ANPR” or “Proposal”) requesting comments on whether it should propose amendments to its Regulation D to lower the rate of interest paid on excess balances maintained at Federal Reserve Banks (“Reserve Banks”) by eligible institutions that hold a very large proportion of their assets in the form of balances at Reserve Banks.

CBAI is dedicated to exclusively representing the interests of Illinois community banks and thrifts through effective advocacy, outstanding education, and high quality products. CBAI members hold more than \$70 billion in assets, operate 860 locations statewide, and lend to consumers, small businesses, and agriculture. For more information, please visit

www.cbai.com.

CBAI acknowledges that section 204.10 of Regulation D specifies the types of balances on which interest may be paid, the interest rates applicable to those balances, and the method for calculating interest. Reserve Banks may pay interest on balances that are maintained to satisfy an institution's reserve balance requirement, and also may pay interest on balances that are in excess of the required reserves. The current rate of interest is 2.40%.

In the Proposal, the Board highlights recent developments in chartering activity that include firms that have sought to establish state charters ("Pass-Through Investment Entities" or "PTIEs") with a narrowly focused business model that involves taking deposits from institutional investors and investing the proceeds in Reserve Banks' balances - earning a small interest rate spread. These institutions would not be subject to the same capital and other prudential requirements as other federally regulated banks.

CBAI is a strong proponent of the community banking business model. The importance and success of community banks and their business model is unquestioned, and is characterized by gathering deposits and lending within local communities – not by highly specialized or unsafe/unsound financial behavior, abusing the financial system or risking potential taxpayer-funded bailouts.

We support fair competition for financial services. Unfortunately, community banks are being forced to compete on an unlevel playing field that favors tax-exempt credit unions and Farm Credit System lenders (which are supported by their "cheerleader" regulators), and many others.

CBAI also supports reasonable innovation within financial services. Community banks must evolve along with all financial service providers to remain relevant to consumer, but these other financial service providers (i.e., PTIEs, Industrial Loan Companies ("ILCs") fintechs and the OCC's Special Purpose National Bank ("SPNB") charters) must be subject to the same regulations and supervision as community banks.

In addition, CBAI supports financial stability which is characterized by a large and strong community banking sector, and oppose the concentration of financial assets in a small number of too-big-to-fail banks and financial firms.

Applying our beliefs to the ANPR, CBAI recommends the Board promulgate an amendment to Regulation D that supports the use and interest payment levels on required and excess reserve

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balances from traditional financial institutions (e.g., community banks). All institutions which are eligible to invest and earn interest on Reserve Balances must be subject to the same roust regulation and supervision as community banks; and no “eligible institution” should be permitted to benefit from an unfair competitive advantage, further the concentration banking assets, or potentially destabilize the financial system - which could damage the traditional community banking business model, our financial system, the economy and American taxpayers.

Thank you for considering our thoughts and recommendations on this important matter. If you have any questions or require any additional information, please contact me at davids@cba.org or (847) 909-8341.

Sincerely,

/s/

David G. Schroeder
Senior Vice President
Federal Governmental Relations