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**Opening Statement
Chairman Michael G. Oxley
Committee on Financial Services**

Subcommittee on Financial Institutions and Consumer Credit

**Hearing on “Cutting Through the Red Tape: Regulatory Relief for
America’s Community-Based Banks”
May 12, 2004**

Thank you, Chairman Bachus, for holding this hearing on relieving the regulatory burdens faced by America’s small community banks.

The economic vitality of Main Street, U.S.A. is critically dependent on the existence of a robust community banking sector capable of delivering financial products and services tailored to meet local needs. To cite just one example, small businesses, which are the primary engines of job creation in our economy, rely heavily upon community banks for their financing.

A recent study by economists at the Federal Reserve Bank of Dallas found that small banks – defined for purposes of the Fed study as holding assets of less than \$1 billion – account for some 37 percent of total bank lending to small businesses, even though those same banks control just 13 percent of total banking system assets.

For small banks to continue to serve their historic role as a financial lifeline for local communities, they must be free to operate in a regulatory environment that does not shackle them with overly burdensome requirements. That is why this Committee has – in each of the last two Congresses – made regulatory relief for the financial services industry one of our highest legislative priorities. Earlier this year, the House passed, by a vote of 392-25, comprehensive regulatory relief legislation that originated in this subcommittee.

The legislation, authored by the gentlelady from West Virginia, Mrs. Capito, and reflecting contributions from many Members of the Committee on both sides of the aisle, contained several provisions targeted at the small community banks that are the focus of today’s hearing, including measures to make it easier for such institutions to qualify for tax-favored treatment as Subchapter S or limited liability corporations.

While no companion bill has yet been introduced in the other body, I hope that we can get Mrs. Capito’s legislation to the President’s desk this year. Another bill that awaits Senate action – and that has enthusiastic support from community bankers across America – is Chairman Bachus’ deposit insurance reform legislation, which passed the House with more than 400 votes last year.

Community bankers know firsthand the role that a strong deposit insurance safety net plays in ensuring the stability of the banking system and in encouraging America's savers and depositors to entrust that system with their hard-earned dollars. I once again call upon our colleagues in the Senate to act on deposit insurance reform legislation this year.

All of us recognize that regulatory oversight intended to preserve the safety and soundness of our nation's banks and to protect consumers against abusive and unfair practices is essential, and no one is here to suggest that any of those basic safeguards be dismantled. Indeed, where necessary to confront pressing national challenges, this Committee has not hesitated to **increase** the regulatory burden on banks and other depository institutions, in areas such as terrorist financing, through the USA PATRIOT Act, and identity theft, in the recently enacted FACT Act.

In doing so, however, we have tried to be sensitive to the additional compliance burdens being placed on financial institutions, and have been particularly careful to avoid imposing "one-size-fits-all" regulatory approaches that fail to distinguish among institutions with vastly different risk profiles and business models. Simply put, it is both a misallocation of regulatory resources and a disservice to small banks and their customers to expect those institutions to bear the same compliance costs as large, multi-national banks with complex assets and huge transaction volumes.

Although it does not happen nearly often enough, recently, the Federal banking agencies took an important step toward relieving the regulatory burden on small banks, by proposing to increase the asset size limit for banks to qualify for streamlined Community Reinvestment Act (CRA) exams from \$250 million to \$500 million.

I commend Vice Chairman Reich and his fellow regulators for this long overdue update to CRA. I also urge them to consider incorporating in their final regulation the approach taken in legislation introduced by the gentleman from Texas, Mr. Hensarling, and other Members of this Committee, which would raise the small-bank exam threshold even further, to \$1 billion.

Thank you again, Chairman Bachus, for convening this important hearing. I look forward to the testimony of all of our witnesses.

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