Testimony of David P. Reyher

before the

U. S. Senate Committee on Small Business and Entrepreneurship

Reducing the Burden of Federal Regulations on Community Banks and Small Businesses

Good afternoon. My name is David (Dave) P. Reyher, and I currently serve as President of Colorado East Bank and Trust. I am here today to provide testimony on the negative effects that excessive federal regulation is having on the access to credit for consumers and small businesses served by community banks.

Colorado East Bank and Trust originated in the early 1990's through the purchase of an existing Bank Charter that was comprised of two small banks in separate communities in rural Southeastern Colorado. Today, the bank is comprised of 19 locations, 17 of which are located in Colorado and two in Western Kansas. Our footprint covers essentially the greater part of rural Eastern Colorado with locations in Pueblo, Colorado Springs, and the Greeley area, along with locations in two small rural communities in the mountains of Central Colorado (Buena Vista and Fairplay). As of quarter end March 31, 2015, the asset size of our bank ended at just over $780,000,000.00. Within these locations, we have 225 employees.

Colorado East Bank and Trust was founded and operates under the "Community Bank Model", which is probably best stated by one of the bank's six core values; "Provide quality products and services at a fair price, maintain local decision making and superior service to demonstrate our commitment to our communities and customer base".

Those of us that live and work in small communities, including all of the 225 employees mentioned above, realize that the local community bank is a major part of the economic engine that drives and helps these small communities to survive. Our 225 employees have a vested interest in schools, churches, community functions, volunteer and community service organizations located within these communities. For this reason our employees live that core value mentioned above every day. The community bank model serves banks like ours best because before it became a part of “Enhanced Due Diligence”, we actually knew our customers quite well.

We knew that each customer was unique in not only their finances, but also their level of sophistication in operating their businesses as well as their personal finances. With this knowledge came the ability to custom tailor products and services unique to that customer; to be a true community banker.

A recent KPMG survey of 100 Bank CEO’s and other senior executives of regional and community banks provides some candid perspectives and insights of the hefty regulatory demands now faced by community banks. Some of those results are as follows:

- When asked which of the following are the most significant growth barriers facing your bank over the next 12 months, 32% indicated that regulatory and legislative pressures are the most significant barriers, while lack of credit-worthy borrowers came in at only 8%.

- 37% of the banks surveyed indicated that they will be spending significant amount of capital on the regulatory control environment.

- When asked about the percentage of total operating costs driven by regulatory compliance requirements, 45% indicated it was between 5 and 10%, and 33% indicated that it was between 11 and 20%.

A similar survey conducted by the Independent Community Bankers of America was sent to 6,500 banks nationwide. Of these surveys sent, 519 CEO’s and senior executives sent responses that begin to point to the issue of how the increased regulatory burden is affecting credit availability. Some of those results are shown below:

- Of the lenders that are active in Consumer Lending (Residential First Lien Mortgage Loans, Consumer Lending, Multi-Family Residential Loans, and Junior Lien Residential Loans, HELOC's), 9% indicated they were active in these markets currently but are considering an exit.

- Of the respondents that are exiting the line of business mentioned above, the exit strategy involves a passive exit; not making new loans.

- When asked the factors preventing them from making more loans, in the category of Residential Mortgage lending, 73% indicated the regulatory burdens of new rules and requirements was preventing them from making more loans.

There are two clear conclusions to the results of these surveys:

1. Lenders are leaving markets because of the regulatory risk of needing to comply with all of the new rules and regulations and the severe consequences of non-compliance which includes civil money penalties, regulatory consent orders, and in extreme cases potential closure of the bank. The CFPB provides Rural Exceptions to some of the burdensome regulations, but these do not adequately protect small banks, and even with the most recent proposals for easing these rules, it doesn't go far enough. Unfortunately, individuals that reside in smaller, rural communities have fewer and fewer options available to them when their bank no longer offers products and services as a result of the regulatory risks.

2. The rules and regulations meant to provide protection to customers have done exactly the opposite and in some cases have had very negative effects on customers. Obtaining credit for long term, solid customers used to take an hour or so to consummate for simpler loans, and a week or two for more complex deals. Today, simple loans take a day and a half and more complex deals to the same customer will, at best, take 30 days, and in most cases take up to 60 days to consummate. Further, the blame for the delay in "getting the deal done" does not end up with the bureaucrats and rule makers, but instead with the banker sitting across the desk from the disgruntled customer.

Sadly, as a result of the increased regulatory scrutiny of our industry the new regulations have brought to the table, we are slowly seeing a “commoditization” of the products and services we can offer to our customers. Gone are the days of taking care of our customers on a personal, one-on-one basis. This cookie cutter approach to lending in particular has led to less credit being available not only in smaller communities, but to small businesses and consumers nationwide.

Thank you for the opportunity to be a part of this hearing today, and I would be happy to answer any questions.