Testimony of

Jim Reuter

On Behalf of the

American Bankers Association

Before the

Consumer Protection and Financial Institutions Subcommittee

Of the

House Financial Services Committee

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Chairman Perlmutter, Ranking Member Luetkemeyer and members of the subcommittee, thank you for the opportunity to offer testimony today about the "Future of Banking: How Consolidation, Nonbank Competition, and Technology are Reshaping the Banking System." As a banker for over 34 years, this hearing could not be timelier given the changes underway in our industry. I am pleased today to speak not only on behalf of FirstBank and our 3,000 employees, but also on behalf of the American Bankers Association, which represents banks of all sizes and charters in every corner of the country, and the two million women and men who work at those banks and serve your constituents every day.

Founded in 1963, FirstBank has grown organically to more than 100 locations in Colorado and Arizona. We provide banking services to individual and business customers, and we are currently the largest bank headquartered in Colorado. We compete every day against banks and nonbanks, including credit unions. While our business is banking, everyone who works at FirstBank understands that our commitment to the communities we serve goes well beyond that. My bank, like many around the country, goes the extra mile in ways that many may not know. At FirstBank, our 300 bank officers sit on two to three nonprofit boards *each*, bringing support and leadership to hundreds of nonprofits in Colorado and Arizona. Ten years ago, we started a 24-hour online giving program to support nonprofits with a goal of raising $1 million dollars in 24 hours. In year one, we raised $8 million. Last year, when nonprofits were being stressed like never before, "Colorado Gives Day" raised over $50 million for more than 2,000 nonprofits in just 24 hours—showing that our "Banking for Good" tagline is more than mere words.

We also operate a multicultural banking center supporting more than 30 languages and cultures to ensure we meet the needs of all communities in our trade areas. In May 2021 we partnered with a local organization to seed a fund with $1 million that will provide down payment assistance grants for Black residents in our communities looking to buy a home. We know the level of Black homeownership in our markets is not on par with that of other members of our community, and we are putting our money and effort forward to change this outcome. I am also proud of the diversity of our team where more than half of our management positions are held by women leaders.

In addition to our commitment to the community, we are also an innovative bank offering mobile banking before many others and being the fourth bank in the nation to launch the Zelle person-to-person payment network. Our motto is to meet customers where, when and how they want to be met. That coupled with our "Banking for Good" mission is what has enabled FirstBank to be a successful community bank.

Banking: A Source of Strength to our Economy

Before we look to the future of banking, I'd like to reflect for a moment on the present and recent past. As top regulators such as Federal Reserve Chairman Jerome Powell and FDIC Chairman Jelena McWilliams have noted on multiple occasions, banks have been a source of strength to the country during the COVID-19 pandemic, providing critical financial support for the economy. America's banks took extraordinary steps to prioritize the health and safety of bank employees and customers, while ensuring that the banking system remained fully open and operational. Banks have maintained near record capital levels throughout the crisis despite the economic disruption. We have also absorbed a record flood of deposits as Americans relied on banks to safeguard their finances during these uncertain times as they always do.

Working in partnership with the federal government, banks delivered 70 percent of Paycheck Protection Program loans amounting to $800 billion—supporting tens of millions of jobs along the way. Banks also facilitated the electronic delivery of $654 billion in Economic Impact Payments, providing a critical link for consumers to access needed federal stimulus funds quickly and safely. At FirstBank, we were the number-one bank in Colorado for PPP loans, originating more than 20,000 loans that helped save over 120,000 jobs in our state. Like other bank CEOs around the country, I'm proud of the support our employees provided to customers and communities during a difficult time. We also realize the ongoing pandemic is not over, and many Americans are still struggling.

In response, ABA, alongside its member banks around the country, continues to prioritize initiatives that promote financial inclusion. Thanks to the efforts of banks and other stakeholders, the rate of those without a bank account had fallen to its lowest recorded level of 5 percent before the pandemic, according to the FDIC. And we're pleased to see research from the Federal Reserve that indicates that the unbanked rate—while still too high—has remained steady during the pandemic as banks have provided a range of relief to customers alongside government assistance programs. To further reduce the number of unbanked, ABA last year encouraged every bank in the country to offer a safe, low-fee Bank On-certified account designed expressly for those who have not previously been banked or who have exited the banking system. Banks across the country have answered that call, and the number of accounts has more than tripled since our initiative launched just under a year ago: approximately 150 certified accounts are available at nearly half of all branches nationwide in all 50 states, and the number continues to grow with more banks in the Bank On pipeline. Bank On is just one of many industry initiatives intended to expand access to the banking system and the economic opportunities that come with a bank account.

To sum up, we come to today's conversation with a healthy, robust banking industry ready to meet the needs of all Americans. But like all businesses in this country, both large and small, banks face challenges. As a resilient industry we are working to overcome those challenges and position ourselves to remain relevant well into the future.

Consolidation Is Likely to Continue

Bank consolidation is a long-term trend—in fact, it's been part of the conversation for as long as I've been in banking. Whereas we had 17,886 banks in 1984, we have 4,951 today. The rate of consolidation picked up after the financial crisis when the numbers of de novo banks formed to replace banks that had been merged or acquired slowed substantially.

We expect consolidation to continue for a variety of reasons. Principally, the need for scale is a reality: banks at every level of the asset ladder are seeking scale to invest in the ongoing digital transformation that has been reshaping our industry for the past three decades. Each bank must develop its own strategy to navigate this challenge. At FirstBank, our strategy has been to focus on organic growth without significant M&A, but other banks are taking different approaches. The primary drivers for whatever strategy banks choose are to drive growth and remain competitive while continuing to serve their communities.

Beyond the pressures of technological transformation, bank consolidation has likely been accelerated by certain policy decisions, including regulatory rules that require significant up-front and ongoing expenditures and result in disproportionate returns to scale. A new factor driving the decrease in the number of banks is the continuing credit union tax subsidy which credit unions are using to acquire tax-paying banks in unprecedented numbers. From 2018 through 2020, there have been more than 28 announced deals in which credit unions have acquired community banks. Credit unions' tax exemption allows them to pay above market for banks—a recent acquisition in Georgia saw the credit union pay an 80 percent premium—which may artificially increase the rate at which banks feel obliged to sell. It's important to note that these deals are essentially subsidized by taxpayers. We urge lawmakers to examine this troubling trend and carefully consider whether Congress really intended for credit unions to use their federal tax exemption to buy up tax paying banks.

In a healthy economic and regulatory environment, consolidation will be tempered by a robust pace of de novo bank creation. We are pleased that this committee recently approved ABA-supported legislation H.R. 4590, the Promoting New and Diverse Depository Institutions Act, which requires federal banking regulators to conduct a study about the challenges faced by proposed depository institutions, including proposed minority institutions, seeking de novo depository charters. We've been pleased to see signs of life in the de novo sector in the past few years. It is worth noting that much of the investment in the financial sector over the past two decades has gone into nonbank fintech firms. We believe this is due in part to differential regulatory treatment that has in many cases led investors to believe that nonbanks will be more profitable and have a higher growth potential than banks over time.

Despite bank consolidation, banking is still a healthy, diverse and highly competitive industry that helps to propel the U.S. economy every day. Bank employment has held steady over time at two million women and men. Even though traditional teller positions and paperwork-heavy jobs in loan processing have declined, banks have hired new armies of technologists, cybersecurity experts, developers and data analysts. At FirstBank, for example, we have more than 400 people in our information technology unit, up from 250 five years ago. A fair number of those started as tellers or in other junior positions at the bank and were promoted from within in keeping with our corporate culture. In addition, our annual spend in IT has increased from $53 million a year in 2017 to over $110 million.

Through a potent blend of technological innovation and in-person branches, banks continue to provide service to virtually all U.S. communities. According to ABA research, the vast majority of U.S. households live near a wide selection of bank branches—with the average American living within commuting distance of 25 branch locations. Technological innovation has also rapidly transformed the way Americans bank. Today, Americans increasingly rely on digital channels to access banking services. More than a third (34 percent) of American households used mobile channels as their primary method of accessing bank accounts in 2019, according to the FDIC, up 18.4 percentage points from 2017. At FirstBank, almost 90 percent of our accounts are enrolled for mobile banking, with the average customer logging in 17 times per month.

Customers recognize and appreciate bank investments in improving digital access, with 84 percent "strongly" or "somewhat" agreeing that innovation and technology improvements by banks are making it easier for all Americans to access financial services.

Nonbanks and Banks Likely to Converge on Level Ground

Meanwhile, as the banking industry consolidates, many of banks' fiercest competitors have emerged outside the regulated banking space. Banks face a range of competitors and disruptors in the financial marketplace, including tax-advantaged lenders like credit unions and the Farm Credit System, monoline fintech firms, nonbank payment providers and decentralized finance technologies like cryptocurrency. Today, banks are even competing with large technology firms.

Despite this aggressive competition, only banks offer the full financial services "bundle" of insured deposits that fund consumer and commercial loans, paired with access to the payments system. With this product bundle comes a robust set of consumer protections and regulatory supervision. Banks are subject to safety and soundness supervision, regulatory capital and liquidity requirements, consumer protection rules, and affirmative obligations to demonstrate their service to their local areas via the Community Reinvestment Act.

Many nonbank competitors have business models that rely on a kind of regulatory arbitrage in which they can offer one or several aspects of the banking bundle while avoiding the full banking regulatory framework. We see this clearly in the rise of payments charters or "special purpose national bank charters" that would aim to provide payments system access to companies that—because they do not hold insured deposits or do not lend—would not be subject to the same regulations as banks. In essence, they want a seat at the dinner table but without having to eat their vegetables.

We believe there should be a high bar for access to the payments system. Twenty years ago, in the days after the 9/11 attacks, we learned just how critical regulated institutions are to payments. At that time, check clearing—managed by the Federal Reserve Banks—involved checks being shipped across the country via overnight airmail delivery. With U.S. airspace closed for several days and checks unable to be processed, the Fed provided credit on checks on their usual availability schedule. This was only possible because the Fed supervised the parties participating in the check clearing system and knew they would have sufficient liquidity to cover the checks. In short, supervision and high standards built up trust. We should remember that principle today as the Fed considers what entities may access our modern digital payments system.

Speaking of trust, consumers trust banks and the products they provide. According to Morning Consult research commissioned by ABA, nearly half of Americans trust banks more than any other company to keep their data safe, compared to just 12 percent who said the same for nonbank payment providers. Fifty-six percent of Americans say they prefer to receive financial services from a bank versus just 17 percent who said they would prefer to bank with the financial services division of a technology company.

Cryptocurrencies like bitcoin were designed explicitly to disrupt the banking business model and disintermediate them—allowing for "trustless" finance. Ironically, consumers trust banks *so much* that when they want to access crypto, they would rather do so through their banks. The fintech firm NYDIG surveyed bitcoin holders and found that 81 percent of them would move their bitcoin to a bank if it offered secure storage.

One reason consumers trust banks is that they know their personal data is secure. Banks are subject to robust privacy requirements via the Gramm-Leach-Bliley Act. Nonbank fintechs are not subject to the same requirements—and they may not have the same incentive to protect customer data. In fact, access to consumer transaction data may be the very reason large tech companies are interested in the payments space. Consistent national standards for safeguarding consumer data will help maintain Americans' trust in the payments system. The stringent rules for banks should be applied to others looking to offer bank-like services.

The same goes for compliance with our consumer protection laws. While nonbank fintechs are generally covered by the same consumer protection laws and regulations as banks, too many are not examined by the CFPB to ensure compliance on an ongoing basis. For retail consumers, that's a big hole in the consumer protection umbrella, and one they cannot see. Experience demonstrates that consumer protection laws and regulations must be enforced in a fair and comparable way if there is to be any hope that the legal and regulatory obligations are observed.

The CFPB is writing rules to implement section 1071 of the Dodd Frank Act, which will require both banks and nonbank fintech lenders to submit data on lending to women and minority-owned small businesses. While banks will be closely supervised for compliance, fintech lenders will not. That's why ABA recommends that Congress give the CFPB authority to supervise nonbank commercial lenders for compliance with the small business lending data collection once the rules have been finalized.

Similarly, ABA has repeatedly urged the CFPB to exercise its existing authority to establish a supervisory program for nonbank consumer installment lenders and for data aggregators. Dodd-Frank Act Section 1024 authorizes the bureau to define the "larger participants" in a particular market for consumer financial products or services that will be subject to regular examination to the bureau. Establishing accountability across all providers of comparable financial products and services is a fundamental mission of the bureau. Congress should call on the CFPB to write these larger participant rules and begin examining these fintechs so the bureau can better monitor—and react to—risk to consumers in the rapidly evolving marketplace.

Ultimately, we believe the banking bundle continues to offer durable and exceptional value both to consumers and to the institutions that provide it. All else being equal—policymakers should treat nonbanks that want to engage in financial activities the same way they would treat banks—we expect to see growing bank-fintech convergence over time. As nonbank fintech companies have grown, many have realized the benefits of the banking bundle and have sought to acquire banks, like Lending Club, or charter their own banks, like Square. Meanwhile, banks of all sizes have acquired fintechs to plug innovative technology into their stacks and access top talent.

Should policymakers provide a level playing field that regulates activities, not charters, and minimizes opportunities for regulatory arbitrage, we expect this convergence will continue as the value of the banking bundle becomes ever clearer.

Technology and the Future of Banking

To fuel banks' aggressive competition, we as an industry have continued to invest in cutting-edge technology and partner with startups to deliver the latest digital tools. It's become a truism to say that COVID-19 has only accelerated an ongoing digital transformation that has already affected the way all of us do business, but it certainly remains true. Banks will continue to provide cutting-edge digital services, and we expect that many banks will continue to maintain in-person footprints to serve all clients in the way they prefer.

One of the most important aspects of this transformation is the investments we as an industry are making in new core infrastructure—the underlying ledger technology that all banks need to operate. While banks report that the large core technology providers have stepped up their game, there is an array of innovative cores, many of which are offering cloud-based solutions that support digital acceleration and rapid product deployment.

At FirstBank, we are piloting a new core designed by Finxact. It uses the latest cloud technology and positions us for real-time transactions and for future competition with all comers, and it builds on our commitment to innovation. We, like other banks, are leading the development of instant payments solutions. As a Zelle early adopter, we now see almost 7 million instant Zelle transactions per year. I've served on the Fed's Faster Payments Task Force, and FirstBank was also an early adopter of the Clearing House's RTP network for real-time payments. We are also piloting the Federal Reserve's FedNow system, which will follow RTP as a real-time payment option in the coming years.

ABA believes that the most innovative technology will continue to come from private-sector leadership. Real-time payments were available through banking industry innovation long before they will be available through a government-developed solution.

This history is why we firmly oppose efforts to create direct consumer accounts at the Federal Reserve (known as "FedAccounts") or to revamp the U.S. Postal Service to become a consumer bank. There is no reason to expect that either FedAccounts or postal banking would accelerate innovation, and many believe they would ultimately inhibit innovation. The last time I checked, the Federal Reserve already has significant responsibilities overseeing the nation's economy and regulating the banking sector. Asking it also to manage every American's bank account—effectively destroying the banking system that has served the nation well for so long—would be a tragic mistake that could do real damage to the U.S. economy.

Likewise, after the operational problems of the past two years and its philosophy of cutting costs by cutting services, the Post Office does not appear well-positioned to deliver banking services. I doubt Americans would like to see their banking access go away one or more business days per week, as USPS has proposed for first-class mail delivery.

Similarly, we have seen increased focus on whether the U.S. should issue a central bank digital currency. The debate on Central Bank Digital Currency (CBDC)is not about whether we should issue a "digital dollar," as the dollar is largely digital today. The question is whether consumers should be able to hold a direct liability of the central bank.

Proponents of CBDC are driven by laudable goals that include financial inclusion and innovation. Unfortunately, CBDC is not a single proposal and refers instead to a wide range of proposals with varied potential designs, each with specific costs and benefits. The policy debate today too often ignores the tradeoffs required to achieve any one of these desired outcomes if they are achievable at all. Importantly, all CBDC designs would take the money currently held on bank balance sheets and place it directly on that of the Federal Reserve. Given the severity of these tradeoffs, we do not currently see the use case for a CBDC in the United States.

If implemented, all these ideas would drain deposits out of private-sector banks and undermine the value banks deliver to consumers through convenient funds access and loans to support local economic growth. Ultimately, these approaches would centralize financial decisions in Washington and put at risk the financial inclusion enhancements we've seen over the past several years. Policymakers should instead promote solutions like Bank On accounts, which welcome all consumers into the regulated banking system and help to build a solid foundation for economic growth.

Conclusion

We believe that the future calls for banks of all sizes to remain at the center of consumers' and businesses' financial lives and to continue to provide the lifeblood of the U.S. economy. Despite challenges, we believe the future of banking is bright, provided the policy environment continues to support growth and closes gaps that promote regulatory arbitrage and put the financial system and consumers at risk.

At FirstBank, we hire 50 management trainees per year who will rise in the ranks over their careers. As I look at these millennial and Generation Z professionals, I'm optimistic about the future of our industry. I see their extraordinary excitement about the things we do for our communities. They want to make a difference, and they know that working at a bank gives them that opportunity. I'm eager to see what they will accomplish.

Thank you for the opportunity to testify. I look forward to answering your questions.