Testimony of

Jim Reuter

On Behalf of the

American Bankers Association

Before the

Subcommittee on Financial Institutions and Monetary Policy

Of the

House Financial Services Committee

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Chairman Barr, Ranking Member Foster, and members of the subcommittee, thank you for the opportunity to offer testimony today about "Revamping and Revitalizing Banking in the 21st Century." I am CEO and President of FirstBank of Denver, Colorado. As a banker for over 35 years, this hearing could not be timelier given the changes underway in our industry. Today, I am pleased to speak on behalf of FirstBank and our 3,000 employees, as well as the American Bankers Association (ABA).[1]

Background: FirstBank

Founded in 1963, FirstBank has grown organically to more than 100 locations in Colorado, Arizona, and California. 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. In 2022, "Colorado Gives Day" raised over $53 million for more than 3,000 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. We partnered with a local organization to seed a fund with $1.5 million that will provide down payment assistance grants

[1] The American Bankers Association is the voice of the nation's $23.6 trillion banking industry, which is composed of small, regional, and large banks that together employ more than 2 million people, safeguard $19.4 trillion in deposits, and extend $12 trillion in loans.

for Black residents in our communities looking to buy a home. These are grants with no repayment and we have helped 150 applicants buy their first home with the program. We have also raised another $1.5M from other organizations for this fund to expand its reach, for a total of $3 million. We know home ownership is key to building wealth in our community, and 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, and over one-third of our work force identifies as race or ethnically diverse.

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.

Introduction: Banks Are a Source of Strength to our Economy and ABA's Blueprint for Growth

Banks were a source of strength to the country during the COVID-19 pandemic, providing critical financial support for the economy in a time of uncertainty and stress. 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. At FirstBank, we were proud to be the biggest Paycheck Protection Program lender in Colorado. We provided more than 13,000 PPP loans worth more than $1.5 billion to small businesses trying to survive the pandemic.

During those uncertain times, banks maintained near record capital levels despite the economic disruption, and, as they always do, absorbed a record flood of deposits as Americans looked to safeguard their finances.[2] We come to today's conversation with a healthy, robust banking industry continuing to meet the needs of all Americans. However, like many industries in this country, our industry continues to face challenges from uncertain economic and business conditions, and we hope that Congress and the regulatory agencies can help the industry remain strong and resilient going forward.

In its "Blueprint for Growth in 2023 and Beyond,"[3] ABA outlined several legislative and regulatory steps Congress, the Administration and other policymakers can take to help banks drive a healthy and inclusive economy, support a dynamic and innovative banking industry, and

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[2] 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 am proud of the support our employees provided to customers and communities during a difficult time. We also realize there is economic overhang from the pandemic, and many Americans are still struggling.

[3] See ABA Blueprint, https://www.aba.com/advocacy/what-we-stand-for/blueprint-for-growth

foster a competitive financial services market. My testimony will address these steps, along with several bills ABA has been asked to provide input on that are likely to be addressed by the Subcommittee this Congress.

I. Banks Drive a Healthy and Inclusive Economy

One of our ongoing priorities is addressing difficulties some might have in accessing the banking system.

Reduce the Number of Unbanked. ABA and its member banks continue to prioritize initiatives that promote financial inclusion. Thanks to these efforts, the rate of those without a bank account had fallen to its lowest recorded level of 4.5 percent in 2021, according to the FDIC. And we are pleased to see research from the Federal Reserve that indicates that the unbanked rate—while still too high—did not increase during the pandemic, thanks to banks providing a range of relief to customers alongside government assistance programs.

To further reduce the number of unbanked households, in 2019 ABA 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 increased by over ten times since our initiative launched: approximately 326 certified accounts are available at more than 40 percent of all branches nationwide in all 50 states, and the number continues to grow with more banks in the Bank On pipeline. Banks are also increasingly active in local Bank On coalitions, which help to connect banks with unbanked households through trusted community groups and government agencies. Bank On is just one of many voluntary industry initiatives expanding access to the banking system and the economic opportunities that come with a bank account.

Inject Needed Capital into Communities. Congress and policymakers can grow the return on Bank On investments by supporting bank efforts to inject needed capital into rural and underserved communities. For example, we urge Congress to pass the following legislation:

- The soon to be introduced “Access to Credit for our Rural Economy Act” (ACRE), which provides greater access to credit for the rural economy by lowering the cost of credit for farmers and ranchers financing agricultural real estate, as well as rural homeowners seeking credit for housing in communities of 2,500 or less.
- The New Market Tax Credits Extension Act (H.R. 1321, 117th Congress), which would make the New Market Tax Credit program permanent. New Market Tax Credits are a vital tool to promote greater economic growth in economically distressed rural, urban, and tribal communities by stimulating the private investment needed to grow businesses and create jobs.
- The Affordable Housing Credit Improvement Act (H.R 2573, 117th Congress) and the Neighborhood Homes Investment Act (H.R. 2143, 117th Congress), which would enable the construction of an additional two million affordable homes over the next decade and generate equity investments to rehabilitate properties in distressed neighborhoods, respectively.

II. Initiatives to Support a Dynamic and Innovative Banking Industry.

ABA strongly supports legislation and other initiatives designed to support our dynamic and innovative banking industry. Key components of this effort should include the following:

Bank Consolidation and De Novo Formation**.** Bank consolidation is a long-term trend—in fact, it has been part of the conversation for as long as I have been in banking. ABA has noted that there are 4,087 fewer banks in the United States (4,746) than in 2005 (8,833), a precipitous 46.3 percent decline. Of the banks active today, only 55 were established after 2010. 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. As Federal Reserve Chair Powell has noted, consolidation can often preserve banks' ability to maintain services in rural and other areas where declining populations have made meeting fixed costs (compliance infrastructure, technology investments) especially challenging. 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.

To realize those objectives, the regulatory agencies and the Department of Justice should move forward with their plans to revise the current bank merger guidelines, which date from 1995. The data and information traditionally examined in assessing a proposed merger's competitive impact often fail to reflect the true competitive landscape in which the banks operate. Merger analysis should include financial services available in the market beyond just those delivered through bank branches, including online delivery of financial services (by banks, mortgage companies, and other online lenders), money-market funds, Farm Credit System institutions, thrift institutions, credit unions, and fintechs and other nonbank firms.

Beyond the pressures of technological transformation, bank consolidation has been accelerated by highly political appointments to regulatory agency leadership positions, which lead to large and counterproductive policy swings driven by electoral outcomes. These policy swings create uncertainty that discourages innovation and requires resources to be redirected to regulatory compliance and away from serving customers. Regulatory policy cannot be effective when it is so politicized that industry does not know what to expect or how long a policy will last. And this regulatory churn requires significant up-front and ongoing operational and compliance expenditures, which result in disproportionate returns to scale. To minimize these policy swings and to bring greater stability and balance to the CFPB, ABA urges Congress to establish a Senate-confirmed, bipartisan commission at the Bureau.

Similarly, the failure of regulators to respect congressionally defined grants of authority and to adhere to Administrative Procedure Act (APA) obligations when implementing statutory directives drives consolidation. The CFPB's publication of an "updated" UDAAP (Unfair, Deceptive, or Abusive Acts or Practices) exam manual that conflates two well-defined and distinct grants of statutory authority exemplifies these failures, but it is by no means the only example. Another example is the FDIC's announcement in an August 2022 Financial Institution

Letter (FIL) that charging nonsufficient funds (NSF) fees when an item is represented for payment against a negative balance in a consumer's account may constitute a violation of section 5 of the Federal Trade Commission (FTC) Act's prohibition on unfair or deceptive acts and practices. In both cases, the agencies announced consequential new regulatory expectations that were effective immediately without warning or the opportunity for public input that the rulemaking process provides.

We urge Congress to consider legislation that would limit the aggressive use of UDAAP authority, which creates uncertainty, discourages innovation, and raises compliance costs—particularly for community banks. Inevitably, consumers will have less choice of products and services and higher costs, without some clear and reasonable limits on UDAAP.

A new factor driving the decrease in the number of banks is the continuing credit union tax subsidy which credit unions are increasingly using to acquire tax-paying banks in unprecedented numbers. Since 2018, there have been more than 56 deals announced 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 is important to note that these deals are 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.

Legislation to Encourage Formation of De Novo Banks. ABA believes that consolidation could be tempered by robust de novo bank creation, and our industry has always welcomed competition. New entrants into any industry are a sign of growth and economic opportunity, bringing new vitality to the industry and to the people and communities that they serve. Additionally, new banks stimulate new and enhanced competitive products and services for businesses and consumers, which translates into greater economic activity and growth in local communities.

That is why we support legislation sponsored by Chairman Barr, the Promoting Access to Capital in Underbanked Communities Act (H.R. 758), which would establish a three-year phase-in period for new banks to comply with federal capital standards, among other provisions designed to promote de novo formation. By facilitating the formation of new banks in urban and rural areas, this legislation expands banking access for both individuals and small- and medium-sized businesses. The bill would unlock economic opportunity, growth, and investment in communities most in need, while also promoting competition. The temporary regulatory adjustments provided in this bill are a reasonable step to encourage de novo formation of banks that will be well-equipped to serve and respond to the pressing banking and financial needs of their local communities.

ABA also supported legislation by Rep. Auchincloss (D-MA), the Promoting New and Diverse Depository Institutions Act (H.R. 4590), which is bipartisan legislation reported by the Committee and passed the House last Congress. The bill encourages the formation of de novo minority depository institutions and CDFIs and includes a provision that indirectly references rural banking by ensuring a bank branch in geographical areas without one.

Bank Growth and Technological Innovation. Banking is a healthy, diverse, and highly competitive industry that helps to propel the U.S. economy every day. Despite consolidation, bank employment has held steady over time at over 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 $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[4], most 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, consumers increasingly rely on digital channels to access banking services. More than two-out-of-five (43.5%) American households used mobile channels as their primary method of accessing bank accounts in 2021, according to the FDIC, up 28.4 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, and we open 25 percent of our new consumer accounts online.

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. Bank-led innovations in payments and other core services keep America's banking system safe and state-of-the-art.

Promote Parity in the Regulation and Supervision of Banks and Nonbanks. 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" charters at the federal or state-level 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. They want to have the advantages of being a bank, but not be subjected to the Bank Holding Company Act. They want a seat at the dinner table but

[4] See ABA Banking Journal, https://bankingjournal.aba.com/2021/04/the-real-story-on-bank-branch-closures/

without having to eat their vegetables. History tells us that having participants in the same system subject to different oversight frameworks will end badly.

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.

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 business to keep their data safe, compared to just 11 percent who said the same for nonbank payment providers. Sixty-one percent of Americans say they prefer to receive financial services from a bank versus just 15 percent who said they would prefer to bank with the financial services division of a technology company.

Like-Kind Regulation. Policymakers can help maintain a nimble and competitive financial services sector by applying like-kind regulation to like-kind activity and by eliminating regulatory inefficiencies, which disproportionately affect small banks and contribute to banking services migrating outside the regulated industry.

We urge Congress and regulators to take the following actions to ensure there is a level playing field for banks, especially smaller banks:

- Digital Asset Regulation**.** Bring stablecoins inside the banking regulatory perimeter, and require equivalent capital, liquidity, and consumer protection standards across all stablecoin providers. Ensure banks are not disincentivized relative to nonbank providers and have the regulatory clarity they need to custody digital assets.

- Small Business Lending**.** Extend supervisory authority over nonbank small business lenders and urge the CFPB to streamline its small business lending data collection and reporting rule by requiring only congressionally mandated data points. The Promoting Fair Lending to Small Businesses Act (H.R. 7351, 117th Congress) would ensure equivalent oversight of all small business lenders.

- CRA**.** Apply the Community Reinvestment Act (CRA) to nonbank lenders – including credit unions – and urge banking regulators to simplify the CRA modernization proposal. Doing so would minimize regulatory inefficiencies while also expanding lending to underserved communities and ensuring all financial services providers are prioritizing service to low-to-moderate-income borrowers.

Data Breach and Data Privacy. 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 (GLBA). 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.

We understand that the Subcommittee may consider at least two separate bills in this space and here are our thoughts on this legislation.

The Consumer Information Notification Requirement Act (H.R. 9588) (117^{th} Congress), which includes broad preemption of state data protection and notification laws. The regulators are required to establish breach notification standards under the GLBA. The federal banking agencies have already issued breach notification standards under the GLBA for banks, but some agencies that already have rules may update them, and other agencies that do not have standards in place will have to prescribe rules (e.g., SEC, CFTC, FTC). However, unlike many bills in this area it does not mandate that the agencies direct entities to report data breach incidents within a specific period (e.g., 36 or 72 hours, etc.).

ABA is supportive of this legislation but also encourages Congress to ensure that strong notification and data privacy safeguards are put in place through other legislation for those not already covered by federal standards.

Draft Legislation on Financial Data Privacy. The draft would amend Title V of the Gramm-Leach-Bliley Act (GLBA), rather than replacing it with a new privacy law. We understand that one intent behind the draft is to ensure that financial data aggregators are subject to the GLBA (and add additional limitations on those entities).

In particular, the draft would amend the GLBA to add the types of privacy rights that have evolved since the GLBA was initially adopted more than 20 years ago. For example, the draft would add new privacy rights to the GLBA that are like certain of the privacy rights that we have seen adopted in recent state privacy laws (*e.g.*, the California Consumer Privacy Act). The draft would amend the GLBA to provide a financial institution's customer with, for example, a right to access and delete certain information that the financial institution maintains about the individual. Importantly (and potentially most significantly), the draft would add a meaningful preemption provision to the GLBA to ensure that the GLBA provides the nationwide standard for financial institutions with respect to the handling of nonpublic personal information.

ABA supports several aspects of the draft, including, for example, the addition of meaningful preemption and additional clarity about the application of the GLBA to data aggregators. Nonetheless, we have real concerns with certain of the provisions of the June 2022 draft that we are hopeful will be addressed in revised language before the bill is marked up. At least one critical area, specifically, enforcement, is in brackets. In our view, the GLBA's existing enforcement structure that is limited to the prudential regulatory agencies should be preserved. Enforcement authority should not be given either to state Attorneys General or through private rights of action (PRA), which would lead to class action lawsuits that could bankrupt a smaller bank even for minor, technical violations.

If the Committee decides to move forward on data privacy legislation that modernizes the GLBA, among other things, the Committee should:

- Include comprehensive preemption of state law;

- Preserve the GLBA's administrative enforcement structure by the prudential regulatory agencies and not subject banks to enforcement by state Attorneys General or add a private right of action (PRA); and
- Implement any new privacy rights in a thoughtful manner to ensure that those rights do not impair or interrupt the legitimate operation of financial institutions and the financial system, impose undue compliance burdens on banks and provide real value to consumers, like the thoughtful approach taken by Congress when the GLBA was initially adopted (*e.g.*, Congress recognized that financial institutions must disclose nonpublic personal information to nonaffiliated third parties to, for example, process transactions and prevent fraud).

Nonbanks and 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 ongoing compliance. For retail consumers, that is 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.

By the end of the first quarter of 2023, the CFPB is expected to finalize 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 and data integrity, fintech lenders will not. That is 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, data aggregators, and data users. 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 by 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.

ABA most recently reiterated this call as part of its comments responding to the CFPB's rulemaking process to implement Dodd-Frank Section 1033. Any regulation creating a framework around personal financial data rights simply will not work without CFPB supervision of data aggregators and nonbanks. Otherwise, consumers could find themselves harmed due to uneven privacy and security protections, and businesses that play by the rules would be at a competitive disadvantage.

Policymakers should treat nonbanks that want to engage in financial activities the same way they would treat banks. 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.

In that regard, Congress should be wary of passing legislation that creates an unlevel playing field that can harm consumers and the banking industry. In our view, such legislation is unnecessary, and nonbanks should be subject to the same rules as banks. Congress and policymakers should provide a level playing field that regulates activities, not charters, and minimizes opportunities for regulatory arbitrage.

Implementation of the Corporate Transparency Act. ABA has long supported efforts to modernize the current anti-money laundering/countering the financing of terrorism (AML/CFT) regime and has sought to make the Bank Secrecy Act (BSA) regime more risk focused, effective, and efficient. We encouraged Congress to enact legislation—the Corporate Transparency Act (CTA) as part of the Anti-Money Laundering Act of 2020 (AMLA)—establishing a registry (the Registry), which will be a database of information on the beneficial owners of certain legal entities formed or registered in the United States.

While a database of beneficial ownership data is designed to provide a resource for law enforcement, we believe an equally important objective is to provide a mechanism for financial institutions to verify beneficial ownership information, which will alleviate some of the burdens associated with the 2016 Customer Due Diligence rule (CDD rule) as well as use the information for customer due diligence. However, we are concerned that the regulations FinCEN is promulgating to establish the Registry are inconsistent with the intent of Congress in enacting the CTA and AMLA.[5] We believe that FinCEN's Notice of Proposed Rulemaking (NPRM)[6] governing how FinCEN will regulate access by authorized recipients to the beneficial ownership information (BOI) within the Registry does not meet Congress' goal of eliminating duplicative reporting requirements and reducing unnecessary regulatory costs and burdens.

The NPRM creates a framework in which banks' access to the Registry will be so limited that it will effectively be useless. The NPRM would create significant redundancies and inefficiencies within banks' AML/CFT compliance programs. Indeed, the NPRM will not enhance banks' CDD processes, but instead impose additional compliance costs, resulting in an inefficient allocation of resources across bank AML compliance programs. ABA intends to raise these concerns as in written comments as part of the rulemaking process and offer specific recommendations to make the Registry more useful to banks and reduce any unnecessary or duplicative burdens to ensure the efficiency of the process, as required by Congress in the implementing legislation.

III. Initiatives to Foster a Competitive Financial Services Market.

We as an industry have continued to invest in innovative technology and partner with startups to deliver the latest digital tools. It has 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 innovative digital services, and we expect

[5] See House Congressional Record from December 8, 2020, https://www.congress.gov/116/crec/2020/12/08/CREC-2020-12-08-pt1-PgH6919-3.pdf

[6] Published Proposal: 87 Federal Register 77404; December 16, 2022, https://www.federalregister.gov/documents/2022/12/16/2022-27031/beneficial-ownership-information-access-and-safeguards-and-use-of-fincen-identifiers-for-entities

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. FirstBank was a Zelle early adopter, and in 2022 we had over 8 million Zelle transactions. I have served on the Fed's Faster Payments Task Force, and FirstBank was an early adopter of the Clearing House's RTP (Real Time Payments) network for real-time payments (RTP). 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 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 inhibit innovation. 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 (United States Postal Service) 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. These approaches would centralize financial decisions in Washington and put at risk the financial inclusion enhancements we have 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.

Government oversight of the financial services sector is critical to maintaining a safe and sound banking system, but direct government intervention in banking—whether through price controls, unevenly applied subsidies, or direct competition with private companies—distorts the financial services marketplace and can create unintended consequences. ABA strongly urges Congress, regulatory agencies, and policymakers to:

<u>Interchange</u>. Oppose price controls on interchange, which merely transfer wealth from bank customers to a handful of large merchants, with minimal benefit to small businesses.

<u>Credit Unions</u>**.** Scrutinize whether credit unions are meeting their statutory objective of serving low-to-moderate-income communities in a robust, demonstrable way that justifies their preferential tax treatment over community banks.

<u>Environmental, Social and Governance (ESG) Mandates</u>**.** Protect banks' freedom to make their own lending, investing and other business decisions. We should not let political agendas get between banks and the communities they serve.

<u>Regulation and Disclosure</u>. Policymakers should not go beyond their mandate or repurpose their mission to achieve political ends. Disclosure requirements that seek to curtail lending or investment to certain sectors like the fossil fuel industry by making it overly burdensome and costly should be resisted.

Conclusion

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 am 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 am eager to see what they will accomplish.

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