Testimony of

J. Michael Radcliffe

Chairman and Chief Executive Officer
Community Financial Services Bank

On behalf of
Community Financial Services Bank

Before the
U.S. House of Representatives
Committee on Financial Services
Subcommittee on Financial Institutions

Hearing on

"Regulatory Overreach: The Price Tag on American Prosperity"

April 29, 2025
Washington, D.C.

P.O. Box 467, 221 West 5th
Benton, KY 42025
PH 270-527-4600
www.yourlifeyourbank.com

Introduction

Chairman Barr, Ranking Member Foster, and distinguished members of the Committee: Thank you for the opportunity to testify today about the challenges faced by community banks due to regulatory burden and overreach. My name is Michael Radcliffe, and I am proud to represent Community Financial Services Bank (CFSB). Founded in 1890, CFSB is a $1.3 billion institution with eight locations serving rural western Kentucky. As for my own background, I have been with CFSB for twenty-three years. I originally joined the bank as a credit analyst, and after a few years was given the opportunity to serve as the bank's Compliance Officer, a role I held for over a decade and which provided me with firsthand experience on today's topic.

For 135 years, CFSB has been a cornerstone of our community, providing access to credit, supporting small businesses, and fostering local economic growth. We also serve as one of our county's largest employers, with 246 team members and an annual payroll of over $14 million. However, the increasing regulatory burden is threatening the survival of institutions like ours, driving industry consolidation, and reducing the availability of community-focused financial services.

The Role of Community Banks

Community banks play a unique and irreplaceable role in our financial system. Institutions like CFSB specialize in relationship-based banking, allowing us to offer tailored solutions to meet the specific needs of individuals, small businesses, and farmers.

In many rural areas, community banks are the only financial institutions serving local residents. Our presence helps to stabilize these economies by providing loans, creating jobs, and fostering entrepreneurship. Without community banks, rural communities face diminished access to capital, which stifles growth and innovation.

Nationwide, community banks are responsible for nearly 60% of all small business loans and over 80% of bank agricultural lending. Despite their vital role, community banks hold just 13% of total banking assets, underscoring the efficiency and impact of their operations. However, their survival is increasingly jeopardized by the disproportionate effects of regulatory compliance.

Regulatory Burden and Overreach

Since the 2008 financial crisis, regulatory reforms have significantly increased compliance requirements across the banking sector. While these reforms were well-intentioned, aiming to prevent systemic risks, many of them are fundamentally ill-conceived and have placed an outsized burden on smaller institutions.

At CFSB, we spend over $632,000 annually on compliance staff and systems. This includes costs for training, reporting, auditing, and the implementation of technology required for the compliance function. Moreover, compliance with the Current Expected Credit Loss (CECL) standard alone costs us over $117,000 annually. For a community-focused institution, these resources could instead be invested in our local economy—helping families purchase homes, farmers acquire equipment, or small businesses expand.

The CFPB's 1071 Rule

Another regulatory challenge comes from the Consumer Financial Protection Bureau's (CFPB) 1071 Rule, which mandates detailed data collection and reporting on small business lending. While the rule aims to promote transparency and fair lending, it has unintended consequences for community banks and their borrowers. The requirements are administratively burdensome, adding significant complexity and cost to an already onerous compliance landscape. What started as 13 data points in Dodd-Frank ballooned into 81 data points in the final rule published by the CFPB.

In order to implement 1071 CFSB will have to hire a dedicated full-time team member as well as purchase a dedicated software product, which is in addition to programming changes made to our existing loan origination system and workflow software. The new data is required to be gathered on all commercial loan applications regardless of whether the loan is approved or denied. CFSB will be forced to absorb all of this cost. We do not and cannot charge an application fee to offset the cost, because no bank in our market charges one. The incremental expense will most likely result in higher loan processing fees for those borrowers whose loans *are* approved, which disproportionally increases the cost of credit for our small businesses. For those banks whose business models are more focused on consumer or residential lending, these regulatory costs will most likely result in their exit from the small business lending space because of their inability to cover the recurring expenses caused by this rule.

Furthermore, many of our borrowers view the 1071 Rule as an intrusive breach of their privacy. These small businesses often value the close, confidential relationships they have with community banks like ours. Being required to disclose sensitive demographic and financial information as part of loan applications creates discomfort and erodes trust, potentially discouraging borrowers from seeking the credit they need to grow their businesses. In small towns like Benton, Kentucky (population 5,000), the publication of the 1071 data will allow small businesses to be identified even though the data is anonymized prior to publication. Not only will the data include loan amounts, interest rates, and fees for loans approved, but also reasons for denial if the loan is denied, breaching the privacy of our clients and violating their trust.

To that end I would like to thank the committee for passing H.R. 976, the 1071 Repeal to Protect Small Business Lending Act, earlier this month on April 2nd, as well as for its work on H.R. 941, the Small LENDER Act.

Examiner "Recommendations" Are De Facto Expectations

Compounding these challenges are the regulatory expectations communicated through bank exams regarding such things as capital levels. By regulation, a bank is considered "well capitalized" if it maintains a Tier-1 capital ratio of at least 6%. However, most banks in Kentucky carry far more capital than this threshold. The lowest Tier-1 ratio among Kentucky banks at the end of 2024 was 7.7%, and most institutions maintain ratios of 9% or higher. Most of these banks are not holding higher levels of capital voluntarily, rather it has been the result of informal guidance from field examiners during exams. Despite the definition of "well capitalized," regulators have communicated an implicit expectation to many of us that community banks will keep their Tier-1 ratio above 8 or 9%, even though the official standard does not mandate it, or risk being downgraded. This effectively shifts the goalposts, requiring community banks to tie up more capital than necessary and limiting their ability to deploy resources into the local economy.

A further example of informal regulation by examination came after the failure of Silicon Valley Bank in March 2023. In the aftermath it was determined that 89% of SVB's deposits had been uninsured, and liquidity immediately became a focus of most bank exams. CFSB's liquidity policies, procedures, and stress testing had all been reviewed by examiners just six months before SVB's collapse and had been deemed sufficient and acceptable for a bank our size. However, post-SVB at our next exam those very same policies and procedures were found to be deficient, and we were required to significantly alter stress testing assumptions and ensure we had enough collateralized borrowing capacity to cover our uninsured deposits. In stark contrast to Silicon Valley, CFSB's uninsured deposits totaled only 17.8%, and it is worth noting between the time of SVB's failure and CFSB's exam, no additional regulatory guidance around liquidity risk management had been issued. This 'one-size-fits-all' approach to issues such as this impose a significant and unwarranted burden on community banks.

Unlike larger banks, community banks lack the economies of scale to absorb these costs and administrative burdens. A $632,000 compliance bill might be a rounding error for a $2 trillion institution, but for us, it represents a significant portion of our annual budget.

Consequences of Regulatory Overreach

The consequences of excessive regulation are clear:

1. **Financial Strain**: Rising compliance costs make it difficult for community banks to compete with larger institutions that benefit from economies of scale.
2. **Industry Consolidation**: Many community banks are forced to merge or be acquired, reducing financial diversity.
3. **Loss of Local Services**: As consolidation occurs, rural and underserved areas lose access to the personalized financial services that only community banks can provide.

In Kentucky, the number of state-chartered banks has decreased from 109 in 2020 to just 98 by the end of 2024. This decline is emblematic of a national trend, where smaller institutions are being squeezed out of the market by the costs and complexities of regulatory compliance. According to the Kentucky Department of Financial Institutions, there has not been a new state banking charter issued in Kentucky since 2009. I would like to thank Chairman Barr for recognizing this issue by introducing H.R. 478, The Promoting New Bank Formation Act of 2025, and I would like to thank this committee for passing Chairman Barr's bill on April 2nd.

Adding to this imbalance is the implicit advantage of "too big to fail" banks. These institutions benefit from an implied 100% FDIC insurance coverage on all deposits, as the federal government has repeatedly demonstrated an unwillingness to allow their failure. This perception of guaranteed backing gives large banks an unfair competitive edge, attracting depositors and amplifying systemic risk.

Broader Impacts of Industry Consolidation

The decline of community banks has significant consequences for our financial system and the communities we serve:

1. **Reduced Access to Credit**: Community banks are often the only lenders willing to serve small businesses, farmers, and low-income families. Without us, many of these borrowers face higher costs or are excluded from the financial system altogether.
2. **Reduced Competition**: As the number of financial institutions continues to dwindle, there is less competition, especially in rural areas that may already have limited options. Fewer choices in the marketplace along with the current regulatory burden results in increased costs to consumers and small businesses.
3. **Economic Decline in Rural Areas**: The closure of a community bank often leads to economic stagnation in rural areas. Businesses lose access to capital, residents lose access to services, and communities lose a trusted partner in development.

Broader Implications for Financial Resilience

The loss of community banks also reduces financial diversity and resilience. A healthy financial system requires a mix of large, medium, and small institutions, each serving different market segments. When small banks disappear, the system becomes less competitive, less dynamic, and more vulnerable to shocks, leading to fewer choices and higher costs for families and small businesses.

Recommendations for Reform

To address these challenges, I respectfully urge the Committee to consider the following policy solutions:

1. **Scaling Regulations**: Implement a tiered regulatory framework that tailors compliance requirements to the size and complexity of institutions. This approach recognizes that community banks do not pose the same systemic risks as large, interconnected institutions.
2. **Regulatory Relief**: Simplify reporting requirements and provide exemptions for community banks from certain rules designed for larger institutions.
3. **Encourage Innovation**: Support community banks in adopting new technologies to streamline compliance and improve customer service.
4. **Proportional Oversight**: Adopt practices from other jurisdictions that balance oversight with market diversity, ensuring that regulations enhance stability without stifling competition.

Implementing a tiered regulatory framework is critical to addressing the disproportionate burden that community banks face under the current system. Such a framework would tailor compliance requirements to the size, risk profile, and complexity of each institution, acknowledging the fundamental differences between small, relationship-based community banks and large, interconnected financial institutions.

Under the existing "one-size-fits-all" regulatory regime, community banks are often held to the same standards as multinational banks with trillions in assets. This approach disregards the minimal systemic risk posed by community banks and places an undue burden on their operations. A tiered framework would ensure that the regulations align with the scale of potential risks and operational capacities of different types of banks.

Benefits of a Tiered Framework

1. **Enhanced Proportionality:** Community banks like CFSB, which hold just 13% of total banking assets nationwide, would benefit from scaled-down compliance requirements that match their limited risk exposure. For example, stress-testing and capital adequacy

requirements could be adjusted to reflect the unique nature of community banks, avoiding unnecessary resource allocation.

2. **Resource Optimization:** By reducing the complexity of compliance for smaller institutions, a tiered framework would free up financial and human capital. These resources could instead be redirected to core banking functions, such as lending to small businesses, farmers, and first-time homebuyers.
3. **Regulatory Clarity and Consistency:** A tiered system would help eliminate the aforementioned ambiguity and inconsistency in regulatory expectations, particularly during examinations. Clear, size-appropriate standards would reduce the subjective interpretations that currently lead to uneven enforcement.
4. **Preservation of Market Diversity:** By easing the compliance burden on smaller institutions, a tiered framework would slow the trend of industry consolidation, preserving the essential role community banks play in fostering competition, innovation, and economic stability.

Support for Hearing Legislation

The principles for reform outlined above are embodied in a number of the bills before the committee today. I'm pleased to offer my support for the following bills.

The TAILOR Act of 2025 (Rep. Loudermilk)

This bill would promote tiered regulation of the banking industry, which is critical to deterring further consolidation and preserving a competitive financial services industry.

The TAILOR Act would promote tiered regulation by requiring the federal financial regulatory agencies to tailor rules and regulations based on the risk profile and business model of affected institutions in order to limit the regulatory impact to smaller banks, including cost, human resource allocation, and other burdens. The opportunity for certain community banks to file a short-form call report in the first and third quarters will allow them to direct more resources to community lending without depriving regulators of the information they need to monitor risk. In addition, the bill includes a seven-year look-back provision, which would sweep in some of the most burdensome regulations on the books, as well as measures to ensure agency accountability. Tailoring or tiering regulations ultimately benefits consumers by promoting a competitive financial services landscape and ensuring that community banks have flexibility to meet their credit needs.

The FDIC Board Accountability Act (Rep. Huizenga)
This discussion draft would reform and strengthen the FDIC Board by requiring the appointment of a member with experience in small depository institutions.

In 2015, Congress reformed the Federal Reserve Board of Governors by requiring the appointment of an individual with community banking experience, a position ultimately filled by Governor Michelle Bowman, who has been an exemplary advocate for our industry and for tiered regulation. I strongly support a similar requirement for the FDIC Board and expect that it would yield a similar benefit in promoting appropriately tiered regulation.

Twelve-year term limits for Board members would ensure fresh perspectives are brought to industry regulation.

The Homebuyers Privacy Protection Act (H.R. 2808, Reps. John Rose and Ritchie Torres)
As a mortgage lender, I strongly support this legislation to help protect the financial privacy of my mortgage applicants. The "trigger leads" nuisance hits close to home. Just last week as I was preparing this statement, a neighbor and customer texted me a screenshot of a TEXT message he received from a trigger lead company, which included a link to a report about his mortgage with CFSB! He was clearly annoyed by this invasion of his privacy.

H.R. 2808 would amend the Fair Credit Reporting Act to prohibit a credit reporting agency from selling "trigger leads" when a consumer applies for a residential mortgage unless the consumer has opted into the creation and sale of such leads or if certain exceptions apply: the recipient of the trigger lead has originated or services the consumer's current mortgage or is an insured depository institution that holds a current account for the consumer.

Today, consumers, including my neighbor, are inundated with unwanted and invasive solicitations after they apply for a mortgage, yet the current process for a consumer to opt out is confusing and does not take effect immediately. As a result, consumers may believe that their accounts have been hacked. A mortgage application should not be public information. H.R. 2808 would give consumers more control over their private financial information and shield them from unwanted solicitations.

The Tailored Regulatory Updates for Supervisory Testing Act of 2025 (TRUST Act of 2025)

This discussion draft raises the consolidated asset threshold from $3 billion to $10 billion for banks to qualify for an 18-month examination cycle. A higher threshold for well capitalized and well managed banks that pose no systemic risk is safe and sensible reform that would allow more community banks to direct more resources toward serving their customers and communities.

The Supervisory Modifications for Appropriate Risk-based Testing Act of 2025 (SMART Act of 2025)

This discussion draft provides well-managed and well capitalized financial institutions under $10 billion in assets with regulatory relief, such as alternating limited-scope examinations and a combined safety-and-soundness exam and consumer compliance exam. Similar to the TRUST, I believe these exam reforms are safe and would provide significant relief.

Enactment of the above bills would go a long way toward reforming our financial regulatory system in a way that strengthens community bank so that they can better serve their local communities.

Conclusion

Community Financial Services Bank and other community banks are not just financial institutions; we are lifelines for the communities we serve. The increasing regulatory burden threatens to extinguish this vital part of our financial ecosystem, leaving rural and underserved areas without access to essential services.

I urge this Committee to act decisively to preserve the diversity, resilience, and local focus of our financial system. With thoughtful reforms, we can ensure that community banks continue to thrive and support the economic foundations of America.

Thank you for your time and attention. I look forward to your questions.