Notes from the Ambassador Bank Vault **February 21, 2016**

Highlights From The Jones Walker Third Annual Financial Services Conference

"A house divided against itself cannot stand." Abraham Lincoln. We left the Jones Walker conference with the sense that major regulatory relief and tax reform could take longer to enact than we previously gauged due to political gridlock caused by major differences of opinion and the ongoing animosity between Democrats and Republicans. Although the political/regulatory environment is very important, bankers and investors also need to concentrate more on the impact (positive and negative) of technology, increased competition from nonbank financial companies, and the growing influence of the Millennial Generation.

- We attended the Third Annual Jones Walker Financial Services Conference in Washington, D.C. last week. The seminar, which included approximately 250 attendees, was geared to legislative and regulatory developments, which are likely to most affect community banks. There were numerous bankers and industry consultants with only a handful of buy- and sell-side analysts or investors in attendance.

- The speakers included Senator (R) Mike Crapo, second most senior Republican on the Senate Banking, Housing, and Urban Affairs Committee; Senator (D) Jon Tester, member of the Banking and Appropriations Committee; and Representative Blaine Luetkemeyer (R), member of the House Financial Services Committee.

- Sen. Crapo commented that the Senate Banking Committee will place a high degree of emphasis on reducing the regulatory and statutory burdens on small banks that lend in their local communities. The Committee is also expected to focus on specific changes to the Dodd-Frank Act, such as the Systemically Important Financial Institution ("SIFI") designation and the associated burdens/costs; the review of the Basel III Accord to better promote a healthy and growing economy; housing finance reform; and tax reform. Sen. Crapo noted that legislation needs to be broad-based, but regulators (appointed or to be appointed by President Trump in many instances) have discretion to effect specific changes.

- It was opined that the $50 billion SIFI designation could be modified, but Congress probably has little appetite to change the $10 billion asset threshold. Among other items mandated by the Dodd-Frank Act, institutions which exceed $10 billion are capped on fees it can charge retailers, face more extensive stress tests, and are directly regulated by the Consumer Finance Protection Board.

- Mounting cyber-security challenges affect financial institutions of all sizes as each organization has a responsibility to appropriately protect customers. This duty should be recognized as more than a response to regulators, but rather, as an essential part of the firm's self-interest. Both senior management and the Board of Directors need to be involved as cyber-attacks have become increasingly more sophisticated and harder to detect.

- A cyber-security industry consultant suggested that companies establish contingency plans regarding technology attacks in order to preserve reputational risk.

- The 2017 outlook for housing focused on the role of government-sponsored enterprises ("GSEs") and the need for affordable housing throughout the United States. Due to the heavy legislative calendar and wide differences in opinions, it appears unlikely that any legislative solution regarding the legal status of the GSEs will be decided in Congress this year.

- The housing market is fragmented and based on local demographics, but the economy and jobs will always have a high impact. The societal challenge is to help the relatively large percent (roughly 30%) of the population that earns around $35K a year to afford mortgage/rent payments and be able to "move up the economic ladder".

- The wildcard is the Millennial Generation's propensity to delay marriage and home ownership. At some point, this pent-up demand for housing will be realized. But, when?

- Non-bank financial companies, such as payment processors and online lenders, are a threat to gain market share. These companies are more lightly regulated and do not have the regulatory/compliance costs compared with banks.

- Rep. Luetkemeyer discussed the Trump pro-business policies, which should help small businesses. He also referred to the Consumer Financial Protection Bureau ("CFPB") as dangerous due to its organizational structure. That said, it always appears easier to create a bureaucracy in Washington, D.C. than it does to eliminate one. We opine that while the structure, leadership, and/or funding may change, the CFPB will remain in one form or another.

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