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Floor Situation | Summary | Background | Cost | Staff Contact

H.R. 1553, Small Bank Exam Cycle Reform Act of 2015

FLOOR SITUATION

On Tuesday, October 6, 2015, the House will consider H.R. 1553, the Small Bank Exam Cycle Reform Act of 2015, under suspension of the rules. H.R. 1553 was introduced on March 23, 2015 by Rep. Scott Tipton (R-CO) and was referred to the Committee on Financial Services, which ordered the bill reported by a vote of 58 to 0 on July 29, 2015.

SUMMARY

H.R. 1553 amends the Federal Deposit Insurance Act to ease small bank compliance costs by allowing federal banking regulators to reduce on-site bank examination requirements to once every 18 months, rather than once every 12 months for well-capitalized, well-managed banks with outstanding or good composite ratings and assets up to $1 billion. Under current law, banks with assets less than $500 million are generally eligible for on-site examinations once every 18-months.[1]

BACKGROUND

The Federal Deposit Insurance Corporation (FDIC) conducts bank examinations in an effort to ensure public confidence in the banking system and to protect the Deposit Insurance Fund, which insures individual banking deposits up to $250,000 against bank failure. On-site examinations by federal banking regulators help ensure the stability of insured depository institutions by identifying undue risks and weak risk management practices.

Examination activities center on evaluating an institution's capital, assets, management, earnings, liquidity, and sensitivity to market risk. According to the Committee, for small, well-capitalized, well-managed institutions, the risk to the Deposit Insurance Fund is relatively low, which is why Congress permits such institutions to be examined on an 18-month cycle rather than the standard 12-month cycle, provided that they are not currently subject to an enforcement proceeding and has not recently had a change in control.

[1] 12 U.S.C. 1820(d), Paragraph (4) & (10)

Currently, there are between 500 and 600 institutions which could be eligible for a reduction in the frequency of their on-site bank examinations under the bill.[2] Bank asset size is not the only determinate for frequency of examination, so ultimately some banks may not qualify for reduced examination requirements.[3]

According to the bill sponsor, "[the] increased regulatory compliance burdens have taken vital resources away from [small banks] running their business operations and providing services to consumers. This legislation takes a commonsense step to reduce that heavy regulatory burden by allowing additional well-managed community banks [. . .] to take advantage of a longer bank examination cycle. Under my bill, as many as 676 more banks around the nation would be eligible for an 18-month exam cycle, instead of the current 12-month cycle, allowing these well-run institutions to spend more time focusing on their respective communities."[4]

COST

The Congressional Budget Office (CBO) estimates that the net effects of enacting H.R. 1553 would be insignificant.

STAFF CONTACT

For questions or further information please contact John Huston with the House Republican Policy Committee by email or at 6-5539.

[2] See FDIC-- Statistics on Depository Institutions Report

[3] For other factors that are permitted to be taken into account when determining eligibility for on-site examination frequency, see 12 U.S.C. 1820(d).

[4] See Rep. Scott Tipton Press Release, "Tipton Introduces Bill to Ease Regulatory Burden on Community Banks," March 24, 2015.