Ohio House Finance and Appropriations Committee

HB 374 - Proponent Testimony

18 November 2015

Chairman Smith, Vice Chair Schuring, Ranking Member Driehaus, and Members of the Finance and Appropriations Committee, my name is Dustin Holfinger, I am Vice President of State Government Relations for the Ohio Bankers League. On behalf of the FDIC insured banks and thrifts doing business in Ohio, thank you for allowing the OBL to weigh in as proponents for House Bill 374.

This legislation is the third prong of an overall collateral modernization effort in the state. It will facilitate the creation of a new, risk-based, framework intended to modernize and improve Ohio's collateral system, as other states across the country have done.

The effort is built around maintaining the strength of Ohio's public deposit system, with safety, access, competition and return at its core.

As I mentioned, the bill is an important piece to a broader modernization effort, the first two components of which were included in the recently passed budget bill.

This final piece would direct the Ohio Treasurer of State to engage relevant stakeholders in initiating a rule-making process to create a new, modern risk-based collateral system which will include several important criteria and benchmarks to protect taxpayer dollars and provide meaningful access and competition for public entities across the state.

The measure is necessary because Ohio's existing collateral system has not kept pace with the rapidly-changing, new economic realities and regulatory requirements for Ohio public entities and the banks that serve them. Moreover, new federal regulatory mandates are creating new rules, regulations and restrictions that taken together will ultimately add even more pressure on public entities across the state and make it much more challenging in the future for banks to serve public sector clients.

By updating the system, Ohio will ensure the state's governmental entities – of all sizes and complexity – continue to have access to numerous banking options to meet their unique financial needs.

Moreover, it will help our public entity partners better manage the costs of those services, both in terms of rates of return and fee structures, than they can achieve today and would otherwise be able to achieve in the future under the existing system for the constituents they serve.

By creating a modern, multi-factor, risk-based approach with active monitoring by Ohio's Treasurer of State on a system-wide basis for the first time as well as new, enhanced reporting by banks, Ohio will increase transparency, and in turn, provide stronger levels of safety, access, competition and return for Ohio's governmental entities. This approach reflects the realities of the heightened regulatory environment and more accurately matches collateral coverage to actual risk levels while maintaining the safety of public deposits. A risk-based model will also provide higher levels of transparency through consistent reporting of key metrics that more accurately measure potential risk to government entity funds.

By enacting a risk-based model, governmental entities (depositors) will maintain high levels of safety, while also achieving lower costs and higher rates of return, a critical balance in an environment in which public units of government are required to do more with less every day.

There is a sense of urgency since the next round of new, heighted capital requirements (LCR, or Liquidity Coverage Ratio), dictated federally as well as internationally, are set to take effect on January 1, 2016 that will make the public deposit business more costly for all institutions acting as public depositories.

The partnership between Ohio's public entities and its financial institutions has long been one that has strengthened the economic fabric of Ohio's 88 counties. To maintain that leadership and relationship, we are hopeful that this legislation, authorizing the rule-making and engagement of stakeholders, can move forward yet this year so that Ohio's public entities are not negatively impacted.

Ohio would not be the first state to consider this policy. At least 20 other states have already successfully implemented their own versions of this risk-based approach.

Thank you for your time and consideration; I will now answer any questions you have.