

Ohio Senate Finance and Appropriations Committee

SB 317 - Proponent Testimony

4 May 2016



Chairman Oelslager, Vice Chair Coley, Ranking Member Skindell and members of the Senate Finance 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, the OBL appreciates the opportunity to discuss with you today the importance of SB 317, a true modernization piece of legislation.

This is the first comprehensive piece of Ohio banking legislation in approximately 20 years and it has been considerably longer since Ohio laws governing the state's savings banks as well as savings and loans have been thoroughly updated. Senate Bill 317's goal is to help Ohio banks remain viable, competitive institutions and enable them to provide enhanced products and services, in a safe and sound manner, for Ohio bank customers and the communities served by Ohio institutions. One of the reasons that banking employment has remained strong in Ohio is because it is one of the few states that periodically does an extensive top-to-bottom banking code review. In order to maintain that level of strength, we must rely on the examinations of banks. Too often Ohio trains these examiners then they realize they can make more money doing the same thing at the federal level. An attempt to curb this attrition is pay parity with federal counterparts. This legislation will provide that the Superintendent of DFI set a salary schedule comparable with similar positions within the federal deposit insurance corporations (FDIC) that must ultimately be approved by the Banking Commission.

Among many other things, the bill would recognize a "universal" bank charter in Ohio. Currently three separate statutes independently govern commercial banks, savings and loan associations and savings banks. This causes unnecessary redundancy in some instances and a potential cause for conflict as bank and thrift business models have evolved. Merging these three chapters will offer more consistent oversight that will be easier to work with for all concerned and will have the practical impact of strengthening consumer protections. This will in turn save the Department of Commerce and the industry in training and development costs to comply with three separate sets of standards. Great care is being taken to preserve and strengthen the Ohio mutual charter - a unique financial institution where the institution is owned not by investors, but by its depositors and borrowers.

It is also focused on eliminating unnecessary regulatory duplication and burdens on Ohio banking organizations; streamlining regulatory governing boards; and decreasing regulatory overhead costs of examination and training for Ohio banks while also ensuring that future Division of Financial Institutions superintendents, and deputies, are properly qualified and have ample experience to properly lead the industry's regulatory body.

Recognizing recent profound changes in the industry and the way in which banking products and services are provided, the bill would update and modernize banking law in Ohio in a fashion that will help Ohio banks broaden their products and services while continuing to provide those services in a safe and sound manner. The bill provides enhanced operating simplicity and enhanced competitive opportunities for both stock and mutual organizations to the benefit of both institutions and their customers.

To encourage the formation of new institutions, the bill also provides for "shelf" regulatory approvals for de novo banks. This would streamline the process for potential new bank organizers, and is consistent with recent FDIC moves to make de novo bank formations more attractive nationally. Of note, there have only been three de novo banks formed nationwide since 2010, none in Ohio.

While the bill is over 400 pages, the impact of the legislation will be to significantly reduce and simplify Ohio's banking code to make it much shorter and more "user friendly," leading to a reduction of operating costs, increased competition and access to expanded products and services – all good things for Ohio banking customers.

The proposed legislation is an important step to help Ohio banks and their customers while recognizing changes in the industry and "right-sizing" regulation for institutions. The industry has certainly changed substantially in recent years and the way in which banking products and services are brought to market has also been revolutionized. This bill will help OBL members broaden their products and services while continuing to operate in a safe and sound manner.

Key Changes:

- Acknowledge the advent of electronic banking, amend R.C. 1101.16(D) to permit a person to make a deposit in that person's own account with a depository institution that lacks an Ohio branch by means of the internet or through electronic deposits provided that the deposits are not accepted by the institution in Ohio.
- To reduce redundant code sections, the legislations proposed to increase reliance on general corporate law as found in R.C. Chapter 1701, except where necessary for safety and soundness. For instance, boards of directors must have 5 members rather than the R.C. Chapter 1701 requirement of 3, which is also consistent with the Office of the Comptroller of the Currency's board requirements for national banks. R.C. 1101.03, 1103.11, and 1105.06.
- Expand the definition of "bank" to include savings and loan associations and savings banks whose ownership structure is represented by shares of stock. By expanding this definition, these institutions will be able to engage in broader bank lending limits and other bank functions.
- Address definitions, corporate governance, and other non-bank characteristics concerning mutually-owned thrifts. In order to eliminate inconsistencies between stock-owned banks and mutually-owned thrifts the legislation aims to replace the current chapters that govern thrifts, namely R.C. Chapters 1151 and 1161 and higher, with a new R.C. Chapter 1102 and/or 1104, as necessary. The remainder of the proposed amendments to Title 11 in Chapters 1107 through 1127 would likely apply uniformly to stock-owned and mutually-owned institutions.
- Add R.C. 1101.21, which provides that Chapters 1101 through 1127 are intended for the supervision and governance of state banks and trusts, including their subsidiaries and affiliates, and do not create a private right of action.