



One South Main Street • P.O. Box 1270
Mount Vernon, OH 43050 -1270
740.399.5120 • 800.837.5266
Fax: 740.399.5296 • Cell: 740.501.5911
E-mail: VSant@FirstKnox.com

April 28, 2017

House Financial Institutions, Housing and Urban Development Committee
House Bill 67 – Opponent Testimony

Chairman Dever and Committee Members,

I am the president of First-Knox National Bank, a division of The Park National Bank. Park National is a group of 11 community banks that provides financial services across Ohio. With approximately 5.3 billion currently on loan to our customers, lending and servicing credit drives a large proportion of our business. We want our customers to operate their businesses and stay in good standing on their loans. Accordingly, the decision of whether and when to exercise cognovit rights, where the law and our agreements allow, is not taken lightly. I write to you concerning House Bill 67 because, if adopted, the amendment to Revised Code 2323.13 will limit our bank's cognovit rights in meaningful ways that will impact our relationships with commercial borrowers and affect our ability to conduct responsible banking.

House Bill 67 provides that banks may obtain cognovit judgement against commercial borrowers only in events of monetary default or in settlement of litigation. In limiting cognovit rights, the proposed amendment precludes banks from using this tool in important situations, such as the following:

- **Fraudulent Applications.** When banks discover that a borrower has provided fraudulent information, the borrower may not be past due on payment, but it may be clear that the borrower no longer has the income reported at application to cover the debt. Without cognovit rights, a customer's disincentive for dishonesty when applying for a loan is lessened, and it may be years before the bank is paid or may obtain and satisfy a judgment against the borrower. In the meantime, the borrower's collateral may sit, often unprotected, and therefore at risk of loss or decreasing value.
- **Broken Covenants.** Similarly, banks routinely become aware of broken loan covenants, negative financial trends, or collateral that a borrower has sold out of trust. A borrower may be making payments, but the original terms of the loan have been breached and, to be responsible, the bank may need to take action to control the situation before more collateral disappears, becomes compromised, or deteriorates.
- **Suspicious Activity.** If a customer is current on payment, and at the same time is not reporting income, Bank Secrecy Act (BSA) dictates that the bank must file Suspicious Activity Reports and must investigate and request explanation from the customer as to why this is so. One of the tools banks leverage to comply with this requirement, to obtain information from their customers, is the possibility that cognovit rights may be invoked. Without this leverage, customers with suspicious activity may remain elusive, and the bank's BSA compliance is compromised.

- Consumer Responsibility. Last, but not least, there are times that banks become aware of issues which not only put our banking interests in jeopardy, but also the interests of others. Consumers in the process of purchasing items from borrowers with troubled credit, including houses, equipment, or vehicles, may pay the bill and not receive clean title as bargained. We have seen consumers pay for items only to find that they were not to receive title at all. By asserting cognovit rights, banks may protect consumers in these scenarios.

We oppose House Bill 67 and ask that you do the same. When a lending relationship is troubled, banks evaluate all of the tools that are available to address the issue. The ability to move quickly to resolve a loan allows the bank to mitigate its risk and exposure and control expenses. This, in turn, results in an increase in the availability of funds that can be loaned to our customers at competitive rates. In lending money, banks take financial risks. When our bank invokes the cognovit remedy, we do so responsibly and because we need to. The proposed bill will restrict the bank's options and will hinder our ability to resolve situations in an expedient, efficient, and effective manner.

Thank you for your consideration.

Sincerely,



Vickie A Sant