BEFORE THE HOUSE FINANCIAL INSTITUTIONS COMMITTEE

INTRODUCTOR PRESENTATION

Tuesday, March 26, 2019

Chair Jordan, Vice Chair Hillyer, Ranking Member Smith, and members of the House Financial Institutions committee, thank you for the opportunity to provide an overview of the Ohio Bankers League and quick discussion of our members. My name is Don Boyd and I am State Government Relations Director and Legislative Counsel for the OBL.

The Ohio Bankers League is the state's leading trade association for the Ohio banking industry—and is Ohio's only organization focused on meeting the needs of all banks and thrifts in the Buckeye State. For more than 125 years, the OBL has been the voice of the Ohio banking industry fostering a cooperation that has made it one of the strongest and most reputable financial trade associations in the Country.

By linking banks, bankers, and industry experts—and by pooling their intellectual and capital resources—the OBL services as a powerful creator of knowledge and collective resources. The non-profit association is comprised of nearly 200 FDIC-insured financial institutions including commercial banks, savings banks, and savings and loan associations ranging in size from just over $14 million in assets to more than $2.5 trillion.

In short, our goal is to help provide you the information necessary to make informed decisions on our complex issues.

As it stands today, I am proud to share that Ohio has one of the strongest banking industries in the country. It is diverse in both size and structure as well as having locations peppered across our great state. With 182 banks headquartered in Ohio, we have one of the largest concentrations in the country. There are also around 40 other banks headquartered outside of Ohio doing business here. Thus, there are numerous options to meet the deposit and lending needs of you and your constituents. These banks range in size from $14 million in assets, which is tiny, Equitable Savings Bank in Cadiz, to J.P. Morgan Chase with $3 trillion in assets. The OBL represents both institutions and everything in between.

Most of our members are $250 million in assets or less and, on average, employ a couple dozen of your constituents through just a few locations. Building off that, the banking industry in Ohio is a significant employer, with over 65,000 Ohioans working at banks. These are typically good-paying jobs with good benefits throughout Ohio's small towns and all of the metro areas in the state. Countless other Ohioans rely on a healthy, vibrant banking industry to support other industries such as auditors, accountants, attorneys, examiners, and many others.

A common question has to do with consolidation within the industry. Though it is occurring, it has not been as rapid as that found in most other states. That speaks to the strength of Ohio's banking industry because many can continue to operate successfully as independent banks.

Though most acquisitions have been between Ohio community banks buying one another, an increasing number over the past half dozen years have been by community banks based in neighboring states purchasing Ohio headquartered banks. That speaks to the strength of Ohio's economy and the great communities that you serve.

Interestingly, just in the past year, Ohio's first new bank started since the recession – referred to as a de novo bank – is getting up and running in Bexley and Upper Arlington. The OBL is aware of another handful interested in forming around the state.

In terms of bank structure, banks can be chartered at the state or the federal level. These days, this is all comes down to a business decision. There was a time when there were significantly different powers granted to one versus the other. People commonly refer to a large regional bank as a "national bank." But it is important to note those terms are not synonymous. It certainly could be a national bank, but it doesn't have to be. For example, Fifth Third is the 26th largest bank in the country, yet it has a state charter. Thus, making it the largest state-chartered bank in the country.

Structurally, banks can also be chartered as a commercial bank or a thrift, which could take the form of a savings and loan association or savings bank. Interestingly, last session's bank modernization legislation enacted by the General Assembly and signed into law merged these three separate sections of law into a new single "unified" charter that streamlined the Ohio revised code and leveraged the strengths of the different charters. The differences of those charters used to be important distinctions and customers would use banks and thrifts in different ways. Yet, over time, those differences in most instances have largely gone away.

One more important structural characteristic is over ownership. A bank can be a stock or mutual institution. The key point to keep in mind is that a mutual institution is nearly identical to a credit union, yet a key difference is that mutual banks pay all the taxes other banks do.

I was not originally planning on touching on bank taxation today but, given that a bill dealing with the Financial Institutions Tax (or FIT) was assigned to this committee earlier today, I thought it best to at least provide a brief overview. In 2012, the way banks are taxed was reformed to reallocate the dollars within the industry. Previously, banks were subject to the corporate franchise tax. The reform was revenue neutral to the State of Ohio. Generally speaking, larger institutions pay a little more; smaller institutions pay a little less.

One thing to get across early is the fact that the basis for the tax is capital, not earnings. If we were to draw an analogy to the personal taxes we all pay, it would be as if you would pay tax on the amount of money you had accumulated in savings instead of being taxed on your income. So, when we talk about highly capitalized banks, by definition, we are talking about some of the safest & soundest institutions around.

The banking industry agreed to using capital as the basis for the tax in an effort to provide the State with more predictable tax revenue that was not as susceptible to an economic downturn. Bank earnings are typically more volatile than capital during an economic recession. This was certainly true during the last recession.

As for the structure, the FIT is divided into three tiers. The first tier is from $0 to $200 million in capital and is taxed at eight mils, 80 basis points, or 0.8%. The second tier is from $200 million to $1.3 billion in capital and is taxed at four mils, 40 basis points, or 0.4%. Finally, Tier three is capital over $1.3 billion and is taxed at two and a half mils, 25 basis points, or 0.25%.

Banks paying only in Tier 1 represent the smallest financial institutions in the state (in terms of size). These institutions all have less than $200 million in total capital. Tax liability for this tier in the 2017 tax year was $74.2 million.

The next group, those banks paying in Tier 2 and Tier 3, represents 24 institutions that have between $200 million and $1.3 billion in total capital. Their tax is calculated at eight mils on the first $200 million in total capital **plus** four mils on capital over $200 million up to $1.3 billion. Tax liability for this tier in the 2017 tax year was $59 million.

The last group (Tier 1) represents the largest institutions in the State of Ohio. There are 10 institutions in this group that have in excess of $1.3 billion in total capital. Their tax is calculated at eight mils on the first $200 million in total capital **plus** four mils on capital over $200 million up to $1.3 billion **plus** two and a half mils on capital greater than $1.3 billion. Tax liability for this tier in the 2017 tax year was $100.1 million.

There is additional information in the handouts distributed today but thank you for your time and service on this committee and I would be happy to try to answer any questions at this time.