BEFORE THE HOUSE FINANCIAL INSTITUTIONS COMMITTEE

House Bill 150 Proponent Testimony

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 proponent testimony on House Bill 150. My name is Don Boyd and I am State Government Relations Director and Legislative Counsel for the Ohio Bankers League.

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 serves 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.

Introduction

I would like to begin by thanking Rep. Merrin for introducing this important legislation and beginning this conversation on the Financial Institutions Tax (FIT). I will provide a brief overview of the legislation and some comments but want to also leave enough time for the bankers in attendance today to discuss the real potential impact of the HB 150 on their institutions and the communities they serve. Three main pieces of this legislation cover many aspects of the banking industry. First, the FIT cap removes a disincentive for banks to build and maintain capital, especially smaller institutions and mutuals who need to hold higher capital levels as a buffer against an economic downturn. Second, the bill aids de novo, or new, bank formation by ensuring the prospective institution is not taxed on capital prior to being fully operation and deploying any capital in the form of loans or otherwise. Lastly, the bill would reduce the tax rate paid by all banks on the first $200 million in capital which would have a significant positive impact on smaller banks and local economies across Ohio.

FIT General Information

Some of this will be a review from the OBL introductory testimony I gave a few weeks ago. However, I want to reiterate that, one of the most important concepts get across early is the fact that the basis for this tax is capital, not earnings. So, when we talk about highly capitalized banks, by definition, we are talking about some of the safest and soundest institutions – something everyone in the room today no doubt agrees we should encourage.

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

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

FIT Cap

Currently, the FIT is paid on all of a bank's equity capital, which includes all tier one capital plus a few other items. Stated more simply, if you take all of a bank's assets minus all liabilities, what is left is the capital that a bank is taxed on. For regulatory and other purposes, this is typically discussed as a percentage, or capital in relation to assets. For community banks, current regulatory guidelines state that eight percent capital is adequately capitalized, and ten percent capital is well capitalized.

HB 150 would remove a disincentive for banks to build and maintain capital by not applying the FIT to capital in excess of a fourteen percent ratio, well above that which is required to be considered well capitalized. This would greatly help some of the smallest, safest, and sound institutions operating in Ohio today. You will hear from bankers later regarding the impact this would have on their institutions and the importance of building and maintaining capital.

De Novo Formation

HB 150 also provides help to newly formed banks, known as de novo banks in the industry. Currently, as previously stated, banks are taxed on capital. When banks are first formed, there is a period where the institution is building the requisite amount of capital prior to becoming fully operational and deploying the capital for business purposes. During this time, the bank likely has no income. Thus, the bank is one hundred percent capital at this point and the FIT is applied to the de novo bank's entire amount.

HB 150 addresses this issue by providing a three-year window where a de novo bank would not be required to pay the FIT. Therefore, the bank would be able to build capital without being taxed prior to utilizing the capital. Over the past decade, there has only been on new bank formed. Anything that can be done to incentivize bank formation should be considered since there would not be a significant revenue reduction, as there are not many new banks being created, and any de novo bank started would eventually become a taxpaying entity.

A further piece of HB 150 would limit the amount the Division of Financial Institutions (DFI) can charge for a de novo application fee for a state charter bank so that it does not exceed the fee charged federally by the Office of the Comptroller of the Currency (OCC) to charter a federal bank. Currently, there is no fee charged by the OCC to charter a federal bank and the fee charged by DFI for a state-chartered bank is $10,000. Based on conversations with DFI after introduction of HB 150, this issue may be able to be addressed through the Ohio Banking Commission rather than through a statute change. We have a great working relationship with DFI and appreciate all of the hard work that they do. As such, we at the OBL are open to having the discussion of whether that may be a better venue to address this issue rather than in the Revised Code.

FIT Rate Reduction

Lastly, HB 150 would reduce the FIT rate for the $0 to $200 million in capital tier from eight mils, 0.8%, to four mils, 0.4%, over two years. It would go from eight mils to six mils in tax year 2020 and then to four mils in 2021 which, in effect, merges the bottom tier and middle tier so that $0 to $1.3 billion is taxed at a rate of four mils.

The savings from these changes would have a drastic effect on smaller banks throughout the state and could have a multiplier effect in communities. For every dollar saved, many times more can be loaned out in the community having a ripple effect on the overall Buckeye economy.

For these reasons we urge your favorable consideration of HB 150. Thank you for your time and I would be happy to try to answer any questions.