Thank you Chairman Barr and members of this committee for the opportunity to testify.

The Kentucky Bankers Association (KBA) represents one hundred and fifty-one member banks serving customers across the Commonwealth, from our largest cities to our smallest rural towns. Our members employ thousands of Kentuckians and turn billions of dollars in local deposits into loans for the families, farms, and small businesses in the communities they serve. In many of those communities, the local bank has been a trusted partner for generations. On behalf of our members, I would first like to thank you for your hard work in the bipartisan passage of H.R. 6955, the Main Street Capital Access Act.

This legislation includes many provisions that our Association has long supported, such as measures to spur new bank formation, tailor bank regulation, index key asset thresholds to keep pace with inflation, promote greater transparency and fairness in supervision, encourage healthy merger activity, ensure regulatory accountability, and other important issues. These common-sense reforms would promote economic growth in communities across the country through the promotion of a robust, dynamic banking industry and the effective intermediation of credit for individuals, families, and businesses of all sizes.

Community banks play a vital role in the economic health of the communities they serve, and incentivizing the creation of new banks is critical to promoting a robust, diverse banking industry nationwide. Yet bank consolidation is a long-term trend, in fact, there are 4,555 fewer banks in the U.S. now than in 2005. At the same time, community banks operate under a regulatory framework that too often fails to account for their size, risk profile, and business model. In addition to easing regulatory burdens on community banks, the bill would facilitate the formation of new banks in urban and rural areas. The Main Street Capital Access Act would be an important step toward expanding banking access for both individuals and small- and medium-sized businesses while allowing community banks to focus on serving their customers.

Equally important, this legislation would advance common-sense regulatory tailoring by aligning prudential regulation and supervision with banks' capital structure, risk profile, complexity, activities, business model, and size, while indexing key regulatory thresholds so that such tailoring remains meaningful over time. Indexing is a low-cost, high-impact, and durable reform that improves transparency, reduces arbitrary burden, and allows regulators to focus on actual risk.

The bill would also promote fair and transparent supervision by strengthening removal of reputational risk as a component of bank supervision, improving the process for institutions to appeal supervisory determinations, and ensuring a prompt review of Material Supervisory Determinations, all of which are important steps that contribute to the long-term health of the banking industry. The KBA likewise supports the bill's provisions that would ensure greater accountability and transparency at the federal banking agencies and their rulemaking authority and impact. In testimony and other communications with Congress and policymakers, we have shared our member banks' concerns about the cumulative impact of uncoordinated regulatory initiatives and the misuse of regulatory guidance by the regulatory agencies.

Regulation is not inherently bad; it is inherently necessary. For example, the CAMELS rating (Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk) are a critical tool for evaluating the safety and soundness of our financial institutions. However, subjective and inconsistent ratings make the rating system unreliable and unclear. These inconsistencies lead to disparity in the system and bankers attempting to achieve the highest ratings frustrated without having explicit, clearly designated goals. As a former banker, and bank lawyer, I could never delineate the reason why one bank would get a “one” versus a “two” on the “M” in CAMELS for Management when the two institutions otherwise looked nearly identical. The Main Street Capital Access Act will create a framework of fairness, consistency, and accountability in the CAMELS rating systems and others that will no longer leave bankers wondering the difference between a “1” or “2” and regulators accountable for their evaluations.

Furthermore, reputational risk promulgated by prudential regulators as part of “Operation Choke Point” created a great diversion from the very objective of financial regulation. As stated in the Main Street Capital Access Act, the primary objective of financial regulation and supervision by the Federal banking agencies is to promote safety and soundness of depository institutions, create equal opportunity to financial services regardless of political ideology and the freedom for financial service providers to choose their customers based on economic principles, free from political influence. By eliminating reputational risk as a part of the examination process, consumers will maintain their confidence in the banking system and feel free to exercise their political freedoms without risk of reprisal from prudential regulators. As we celebrate our nation's 250th anniversary, it is appropriate that we uphold those principles our nation was founded on by protecting political freedom while providing access to credit as the First Bank of the United States did in 1791.

The Main Street Capital Access Act is the most comprehensive banking bill we have seen in well over a decade, and it would ensure that communities in our Commonwealth and our country can continue to thrive for generations to come while maintaining the integrity of our financial system. The Kentucky Bankers Association and its member banks thank you in passing this necessary and appropriate bipartisan legislation.

I would also be remiss not to thank you, Mr. Chairman, and the members of this committee for your work on the 21st Century ROAD to Housing Act, which passed the House and Senate with broad bipartisan support and is now law. As Zack Worsham can tell you, this is the most comprehensive bicameral housing and banking legislation passed in years. We were particularly pleased that the final package included a series of meaningful community bank reforms, including improved treatment of reciprocal and custodial deposits and provisions to promote de novo bank formation.

These reforms come at an important time for Kentucky. The KBA and its member banks are working closely with our housing partners, prudential regulators, and others to address the Commonwealth's housing shortage, which is estimated at approximately two hundred and fifty thousand homes. The 21st Century ROAD to Housing Act gives our banks and housing partners additional tools to expand housing supply and help fill that gap.

The Main Street Capital Access Act and the 21st Century ROAD to Housing Act compliment each other. Figures show that overburdensome regulations add over one hundred thousand dollars to the purchase price of a home. Likewise, overburdensome regulations create significant costs for banks. These costs ultimately increase the cost of credit. These two bills, in the aggregate, would substantially decrease the costs of housing while increasing access to credit, a combination that could substantially address our nationwide housing crisis. To be clear, regulation in and of itself is not inherently bad. It is a necessary component of ensuring the stability of our housing and financial systems. However, regulation must be tailored and indexed, commensurate with risk, to address appropriate risk profile. In combination, these two bills ensure a regulatory framework that allows banks to serve their communities, new housing to be created, and that all consumers interests are considered ensuring stability in our financial and housing systems while creating access for all consumers in a safe and sound manner.

We thank you Chairman Barr and members of this committee for all your efforts to aid Kentucky's community banks, our banking ecosystem and our housing partners to allow our banks to continue to serve our communities in our Commonwealth and our country as we have for centuries.