**TESTIMONY OF JIM R. PURCELL,
CHAIRMAN AND C.E.O. OF
THE STATE NATIONAL BANK OF BIG SPRING**

**Before the U.S. House of Representatives,
Committee on Financial Services,
Subcommittee on Oversight and Investigations**

**"THE ADVERSE CONSEQUENCES OF THE DODD-FRANK ACT ON
COMMUNITY BANK CUSTOMERS AND BORROWERS"**

July 19, 2012

Chairman Neugebauer, Ranking Member Capuano, and members of the Subcommittee: My name is Jim Purcell, and I am Chairman and C.E.O. of the State National Bank of Big Spring. We operate in rural West Texas—our headquarters is in Big Spring, a town of fewer than 30,000 people, and we have offices in O'Donnell and Lamesa. And we are separated from Wall Street by more than just distance: we are a community bank, with less than $275 million in deposits.

For over a century, we have served our local communities. In fact, it's written into our charter. We exist to serve the community, and we strive to offer the full spectrum of financial services that our local community needs: savings accounts, checking accounts, loans and mortgages, wire transfers, and other services.

In terms of mortgages, we traditionally loaned money to customers to purchase rural properties. We would offer mortgages even for properties that lacked a ready resale market in the event of the borrower's default. And we would structure those loans to meet the needs of the borrowers, often by setting the monthly payment amounts to match what the borrowers would have otherwise paid in rent. Unfortunately, Dodd-Frank's regulatory uncertainty and compliance burdens forced us to stop making those loans.

Our bank—like hundreds of other federal- and state-chartered banks in Texas—did not originate toxic mortgages, we did not securitize those mortgages, and we did not engage in the sale of derivatives like credit default swaps. Nevertheless, Dodd-Frank imposes heavy burdens on our bank and on the communities that it serves.

Much of this is discussed in the complaint that the bank filed last month in federal district court in Washington, D.C.[1] In that case, we challenge the constitutionality of Dodd-Frank's Titles I and X—which created the Financial Stability Oversight Council and the Consumer Financial Protection Bureau ("CFPB"). As the complaint explains, those sections of Dodd-Frank violate the Constitution's separation of powers by creating independent agencies that are unaccountable because they are not susceptible to constitutional checks and balances.

But my purpose in testifying today is not to focus on those issues, which are already described in our complaint and will be fully examined by the Court in the upcoming litigation. I'll leave all that to the lawyers. Instead, I would like to use my limited time before this subcommittee to discuss the costs that Dodd-Frank provisions not at issue in the litigation, such as Dodd-Frank's Title XIV, impose on small, rural banks like ours, and the communities that depend on them. I appreciate the opportunity you have offered me to share our perspective on this problem.

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1 *State Nat'l Bank of Big Spring v. Geithner*, No. 1:12-cv-01032-ESH (D.D.C. filed June 21, 2012). The complaint is available online, at http://cei.org/sites/default/files/SNB%20v%20Geithner%20-%20Complaint.PDF.

Take, for example, Title XIV's treatment of "high-cost" mortgages, the subject of the CFPB's latest proposed regulations. Title XIV and the CFPB's rules impose many restrictions on the sorts of arrangements that a bank and borrower can agree upon in such a mortgage: there are limits on "balloon payments" and late fees, and requirements for mandatory loan counseling. Simply put, Dodd-Frank seeks to severely limit the availability of high-cost loans, even though high-cost loans are an appropriate and critically important service for many borrowers. Our bank's customers are the perfect example: because our borrowers often seek relatively small mortgages (that is, relative to the bank's assets) for their properties, the loan's costs and fees are spread across a smaller principal balance, and those mortgages are therefore more likely to qualify as "high-cost." By making these types of loans prohibitively difficult for banks to offer Dodd-Frank ensures that many rural borrowers are unable to get the loans that they need, loans that banks such as State National Bank of Big Spring long have offered for the good of the community.

Also, Title XIV encourages regulators to define and promote "Qualified Mortgages." Under Dodd-Frank, banks offering "Qualified Mortgages" might be saved from the prospect of certain legal liabilities, while those offering other mortgages are exposed to the full risk of subsequent legal liability throughout the life of the loan. The full definition of "Qualified Mortgage" remains to be seen; Dodd-Frank defines it in part by reference to eventual Federal Reserve regulations defining maximum debt-to-income ratios for borrowers. In any event, if the Federal Reserve defines it too narrowly, then community banks may be unable to satisfy those requirements, and instead rural borrowers will have to turn exclusively to big banks not rooted in local communities.

In fact, big banks—the very banks at the center of the problems that spurred the enactment of Dodd-Frank—are among the new law's great *beneficiaries*, precisely because they can much more easily shoulder Dodd-Frank's compliance burdens. Big banks have armies of lobbyists, lawyers, consultants, and compliance staffers, without denting the banks' profitability. Community banks, by contrast, lack those resources, and every extra dollar of compliance costs is one less dollar to spend on customer service, one more dollar of cost that ultimately must be passed through to customers.

Look no further than the rules that the CFPB proposed last week, to implement Title XIV. The proposed rules are intended to "simplify" mortgages—yet the rules are *one thousand ninety-eight pages long*.[2] Maybe a thousand pages qualify as "simplification" in Washington, or on Wall Street. But not in Big Spring or other small communities. And last week's rulemaking is just one example; the CFPB, Federal Reserve, and other agencies have promulgated many other Dodd-Frank rules, and even more rules will follow.

Finally, each time the CFPB prohibits or burdens a given financial service, its actual effect on community banks will reach far beyond that single service. Our customers want a bank that can offer them the full range of financial services that they need now or may need in the future—savings and checking accounts, of course, but also loans and other services. When the law forces community banks to reduce or eliminate any single service, customers will be all the more likely to take *all* of their business to full-service banks—that is, to big banks that can shoulder the new compliance costs.

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[2] The proposal is available on CFPB's web site, at http://files.consumerfinance.gov/f/201207_cfpb_proposed-rule_integrated-mortgage-disclosures.pdf.

Take, for example, international "remittance transfers"—that is, wire transfers—which were the subject of a recent CFPB rulemaking. It is a service we've offered in the past. For example, we wired money to Europe to a stranded foreign exchange student, or a retiree whose purse was stolen. We didn't know the exchange rate in Spain or France; we didn't know the fees being charged upon receipt. What we *did* know was that our customers needed help and we provided help.

Unfortunately, the CFPB's rules make it effectively impossible for a small, local bank to offer this service, because they require the bank to disclose information that the bank simply cannot know, such as the fees and exchange rate that international banks will charge for their participation in the transfer. Our bank decided shortly after the CFPB's final rule was published that it had to completely get out of the business of doing international remittance transfers, a service we had previously been able to provide our customers, particularly when they found themselves in some tough scrapes. Now, if someone in West Texas needs to send money to friends or family abroad, he may well take all of his banking business to Wells Fargo or Citibank—which will continue to offer international remittance transfers because their integrated international operations make it much easier comply with the new rules—instead of State National Bank of Big Spring. Even if remittances make up a relatively small part of our business, our inability to offer remittance services costs us a lot more of the customers' business.

In the end, the best way to protect consumers is not to create new federal bureaucracies that impose huge regulatory burdens on banks. The best protection for consumers is to promote a banking system rooted in the relationship between a community and the community's banks—where the bank knows its customers, and the customers know their bank. Dodd-Frank's supporters may well have believed that the new law would protect consumers, but in fact it accomplishes the opposite: by punishing community banks and promoting big banks, Dodd-Frank hurts the people that it is supposed to protect.

Mr. Chairman, thank you for the opportunity to testify before the Subcommittee.