

Oral Statement  
Lloyd DeVaux  
On behalf of the  
Florida Bankers Association  
before the  
House Financial Services Committee  
Subcommittee on Financial Institutions and Consumer Credit  
United States House of Representatives

Chairman Luetkemeyer, Ranking Member Clay and members of the subcommittee, my name is Lloyd DeVaux. I am President & CEO of Sunstate Bank, a community bank founded in 1999, with \$200 million in assets and three locations in Miami-Dade County in South Florida. Sunstate Bank has 45 employees and focuses on the needs of small businesses, consumers and real estate investors, including non-resident aliens.

I appreciate the opportunity to be here today to discuss the challenges in complying with the Bank Secrecy Act. Clearly, BSA compliance is an important building block for our national security; but the world has drastically changed since it was adopted in 1970. As the United States takes steps to combat terrorism and financial crime, now is the time to update BSA compliance requirements in order to develop a system suited to the twenty-first century.

The resources devoted to compliance, especially BSA compliance, are significant for a bank of our size. Sunstate Bank has seven people in compliance, six of which are just in BSA. ***BSA is the largest department in the bank.*** We only have ***four*** full-time lenders. That means that we have fewer staff devoted to making loans that benefit the community than we have devoted to compliance.

Our experience is not unique. In 2007, 14% of Florida banks had five or more BSA employees. Now, 38% have five or more. While some of this increase is due to acquisitions, much has been driven by regulatory pressure and the heightened regulatory risk of enforcement actions.

This is not a recipe for success. BSA expenses were more than 10% of total expenses for our bank in 2016. The more we spend on compliance, the less we have to spend on services for our communities. Every \$100,000 spent on compliance translates to \$1,000,000 less we can lend.

The added costs of BSA compliance—on top of the significant costs from Dodd Frank—have led to the disappearance of many smaller banks in Florida. For example, 111 banks merged or sold after Dodd Frank was enacted—a consolidation of more than 50% of all Florida banks in just seven years.

Even more important than the direct costs of BSA compliance is the impact on our customers. For example, many legal businesses are labeled “high risk” by regulators. This means banks must collect more data, do more analysis, provide more oversight, and engage in more site visits—all of which translates into higher costs for us and our customers. The best option, in many cases, is to not bank certain industries and certain customers, and to even ask existing customers to close their accounts. From the bank’s perspective, the economics of compliance make it unprofitable to maintain certain accounts.

This has serious drawbacks: First, it makes no sense to create a system that drives legitimate customers outside the formal banking system to less regulated or even unregulated providers. Second, it creates a series of financial transactions that may not be reported or available to law enforcement. And third, it can create a shadow financial system that is readily available for criminals and terrorists.

We need to modernize our approach. Bankers should not be serving as un-deputized law enforcement agents. For example, rather than banks doing a full-blown investigation on a suspicious transaction, banks should file a short Suspicious Activity Report and let law enforcement agents do what they are trained and qualified to do.

Moreover, the partnership between law enforcement and the private sector needs to be a two-way street to succeed. Banks produce a huge amount of information, but seldom get any feedback on its use or effectiveness. More communications from law enforcement is needed to help banks focus resources in more useful ways. We also need to eliminate red tape that restricts banks from sharing information with each other.

Finally, we need to focus on real risks appropriate to the institution. For example, many of the 5% to 10% of our customers that are considered ‘high risk’ by the regulators would probably not even be on the radar of very large banks. Our customers complain all the time that small banks are asking questions that larger banks never ask.

We all want to fight money laundering and terrorist financing. We are only asking that regulation be sensible so that resources are used wisely and efficiently to combat the crime.

Thank you for holding this hearing today. I look forward to answering your questions.