

109TH CONGRESS
1ST SESSION

S. 1568

To enhance the ability of community banks to foster economic growth and serve their communities, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JULY 29, 2005

Mr. BROWNBACK (for himself, Mr. INHOFE, and Mr. ROBERTS) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To enhance the ability of community banks to foster economic growth and serve their communities, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Community Banks
5 Serving Their Communities First Act” or the “Commu-
6 nities First Act”.

1 **TITLE I—TARGETED REGU-**
 2 **LATORY RELIEF FOR COMMU-**
 3 **NITY BANKS**

4 **SEC. 101. INCREASE EXEMPTION LEVELS UNDER THE**
 5 **HOME MORTGAGE DISCLOSURE ACT OF 1975.**

6 (a) DEPOSITORY INSTITUTION AND MORTGAGE
 7 LENDER DISCLOSURE EXEMPTIONS.—Section 304(i) of
 8 the Home Mortgage Disclosure Act (12 U.S.C. 2803(i))
 9 is amended by striking “\$30,000,000” and inserting
 10 “\$250,000,000”.

11 (b) DEPOSITORY INSTITUTION EXEMPTIONS FROM
 12 ACT.—Section 309 of the Home Mortgage Disclosure Act
 13 (12 U.S.C. 2808(a)) is amended—

14 (1) in subsection (a), by striking
 15 “\$10,000,000” and inserting “\$250,000,000”; and

16 (2) in subsection (b), by adding at the end the
 17 following new paragraph:

18 “(4) INDEXING OF DEPOSITORY INSTITUTION
 19 DISCLOSURE EXEMPTION AMOUNT.—Not later than
 20 December 31 of each year beginning after the date
 21 of the enactment of the Community Banks Serving
 22 Their Communities First Act, the amount applicable
 23 under section 304(i) with respect to institutions de-
 24 scribed in section 303(2) shall be adjusted in accord-
 25 ance with the procedure described in paragraphs (1)

1 and (3) and the adjusted amount shall apply during
 2 the subsequent year.”.

3 **SEC. 102. SHORT FORM REPORTS OF CONDITION FOR CER-**
 4 **TAIN COMMUNITY BANKS.**

5 Section 7(a) of the Federal Deposit Insurance Act
 6 (12 U.S.C. 1817(a)) is amended by adding at the end the
 7 following new paragraph:

8 “(11) SHORT FORM REPORTS OF CONDITION
 9 FOR COMMUNITY BANKS.—An insured depository in-
 10 stitution described in subparagraphs (A), (B), (C),
 11 and (D) of section 10(d)(4) may submit a short
 12 form report of condition under paragraph (3) in 2
 13 nonsequential quarters of any calendar year.”.

14 **SEC. 103. COMMUNITY BANK EXEMPTION FROM ANNUAL**
 15 **MANAGEMENT ASSESSMENT OF INTERNAL**
 16 **CONTROLS REQUIREMENT OF THE SAR-**
 17 **BANES-OXLEY ACT OF 2002.**

18 Section 404 of the Sarbanes-Oxley Act of 2002 (15
 19 U.S.C. 7262) is amended by adding at the end the fol-
 20 lowing new subsection:

21 “(c) COMMUNITY BANK EXEMPTION.—

22 “(1) IN GENERAL.—This section shall not apply
 23 in any year to any insured depository institution
 24 which, as of the close of the preceding year, had

1 total assets, as determined on a consolidated basis,
 2 of \$1,000,000,000 or less.

3 “(2) ADJUSTMENT OF AMOUNT.—The Commis-
 4 sion shall annually adjust the dollar amount in para-
 5 graph (1) by an amount equal to the percentage in-
 6 crease, for the most recent year, in total assets held
 7 by all depository institutions, as reported by the
 8 Federal Deposit Insurance Corporation.”.

9 **SEC. 104. CHANGES REQUIRED TO SMALL BANK HOLDING**
 10 **COMPANY POLICY STATEMENT ON ASSESS-**
 11 **MENT OF FINANCIAL AND MANAGERIAL FAC-**
 12 **TORS.**

13 (a) SMALL BANK HOLDING COMPANY POLICY
 14 STATEMENT ON ASSESSMENT OF FINANCIAL AND MANA-
 15 GERAL FACTORS.—

16 (1) IN GENERAL.—Not later than 6 months
 17 after the date of enactment of this Act, the Board
 18 of Governors of the Federal Reserve System shall
 19 publish in the Federal Register proposed revisions to
 20 appendix C of section 225 of title 12, Code of Fed-
 21 eral Regulations, commonly known as the Small
 22 Bank Holding Company Policy Statement on Assess-
 23 ment of Financial and Managerial Factors that pro-
 24 vide that the policy shall apply to a bank holding

1 company which has pro forma consolidated assets of
2 less than \$1,000,000,000 and that—

3 (A) is not engaged in any nonbanking ac-
4 tivities involving significant leverage; and

5 (B) does not have a significant amount of
6 outstanding debt that is held by the general
7 public.

8 (2) ADJUSTMENT OF AMOUNT.—The Board of
9 Governors of the Federal Reserve System shall an-
10 nually adjust the dollar amount referred to in para-
11 graph (1) by an amount equal to the percentage in-
12 crease, for the most recent year, in total assets held
13 by all bank holding companies, on a consolidated
14 basis, as determined by the Board.

15 (b) INCREASE IN DEBT-TO-EQUITY RATIO OF SMALL
16 BANK HOLDING COMPANY.—Not later than 6 months
17 after the date of enactment of this Act, the Board of Gov-
18 ernors of the Federal Reserve System shall publish in the
19 Federal Register proposed revisions to appendix C of sec-
20 tion 225 of title 12, Code of Federal Regulations, com-
21 monly known as the Small Bank Holding Company Policy
22 Statement on Assessment of Financial and Managerial
23 Factors such that the debt-to-equity ratio allowable for a
24 small bank holding company in order to remain eligible
25 to pay a corporate dividend and to remain eligible for ex-

1 pedited processing procedures under Regulation Y of the
 2 Board of Governors of the Federal Reserve System would
 3 increase from 1:1 to 3:1.

4 **SEC. 105. INCREASE IN SIZE OF A SMALL DEPOSITORY IN-**
 5 **STITUTION EXCEPTION UNDER THE DEPOSI-**
 6 **TORY INSTITUTION MANAGEMENT INTER-**
 7 **LOCKS ACT.**

8 Section 203(1) of the Depository Institution Manage-
 9 ment Interlocks Act (12 U.S.C. 3202(1)) is amended by
 10 striking “\$20,000,000” and inserting “\$500,000,000”.

11 **SEC. 106. COMMUNITY BANK PROTECTION UNDER THE SE-**
 12 **CURITIES INVESTOR PROTECTION ACT OF**
 13 **1970.**

14 Section 9 of the Securities Investor Protection Act
 15 of 1970 (15 U.S.C. 78fff–3) is amended by adding at the
 16 end the following new subsection:

17 “(d) COMMUNITY BANK PROTECTION.—

18 “(1) IN GENERAL.—The prohibition on ad-
 19 vances in subsection (a)(5) shall not apply to a bank
 20 with total assets, on a consolidated basis, of less
 21 than \$1,000,000,000.

22 “(2) ADJUSTMENT OF AMOUNT.—The Commis-
 23 sion shall annually adjust the dollar amount in para-
 24 graph (1) by an amount equal to the percentage in-
 25 crease, for the most recent year, in total assets held

1 by all depository institutions, as reported by the
 2 Federal Deposit Insurance Corporation.”.

3 **SEC. 107. FLEXIBLE EXAMINATION SCHEDULE FOR COMMU-**
 4 **NITY BANKS.**

5 (a) IN GENERAL.—Paragraph (4) of section 10(d) of
 6 the Federal Deposit Insurance Act (12 U.S.C. 1820(d))
 7 is amended—

8 (1) by striking the matter preceding subpara-
 9 graph (A) and inserting “In lieu of the 12-month pe-
 10 riod referred to in paragraphs (1), (2), and (3), the
 11 examination required under paragraph (1) of an in-
 12 sured depository institution may be conducted at
 13 such intervals as the appropriate Federal banking
 14 agency may determine to be appropriate, on the
 15 basis of factors the Financial Institutions Examina-
 16 tion Council shall establish, if—”; and

17 (2) in subparagraph (A), by striking
 18 “\$250,000,000” and inserting “\$1,000,000,000”.

19 (b) CLERICAL AMENDMENT.—The heading for para-
 20 graph (4) of section 10(d) of the Federal Deposit Insur-
 21 ance Act (12 U.S.C. 1820(d)) is amended by striking “18-
 22 MONTH RULE” and inserting “FLEXIBLE ON-SITE EXAM-
 23 INATION SCHEDULE”.

1 **SEC. 108. INCREASE IN AMOUNT OF SMALL BANK EXCEP-**
 2 **TION FOR CAP ON AGGREGATE LOANS TO EX-**
 3 **ECUTIVE OFFICERS.**

4 Subparagraph (C) of section 22(h)(5) of the Federal
 5 Reserve Act (12 U.S.C. 375b(5)(C)) is amended—

6 (1) in the first sentence—

7 (A) by striking “The Board” and inserting
 8 the following:

9 “(i) SMALL INSITUTION EXCEP-
 10 TION.—The Board”; and

11 (B) by striking “\$100,000,000 of depos-
 12 its” and inserting “\$1,000,000,000 of total as-
 13 sets (on a consolidated basis)”; and

14 (2) in the second sentence, by striking “In no
 15 case” and inserting the following:

16 “(ii) CAP ON CREDIT EXTENSION TO
 17 EXECUTIVE OFFICERS.—In no case”; and

18 (3) by adding at the end the following:

19 “(iii) ANNUAL ADJUSTMENT.—The
 20 Board shall annually adjust the dollar
 21 amount in clause (i) of this subparagraph
 22 by an amount equal to the percentage in-
 23 crease, for the most recent year, in total
 24 assets held by all depository institutions,
 25 as reported by the Federal Deposit Insur-
 26 ance Corporation.”.

1 **SEC. 109. CONSIDERATION OF COMMUNITY BANK IMPACT.**

2 Before establishing or making any revision in any
 3 regulation, requirement, or guideline applicable to insured
 4 depository institutions (as defined in section 3 of the Fed-
 5 eral Deposit Insurance Act), the appropriate Federal
 6 banking agency (as defined in such section) shall take into
 7 account the effect of the establishment of the regulation,
 8 requirement, or guideline on community banks and sav-
 9 ings associations.

10 **SEC. 110. INCREASE IN CRA EXAM INTERVALS FOR COMMU-**
 11 **NITY BANKS.**

12 Section 809(a) of the Community Reinvestment Act
 13 of 1977 (12 U.S.C. 2908(a)) is amended by striking
 14 “\$250,000,000” and inserting “\$1,000,000,000”.

15 **TITLE II—ADDITIONAL REGU-**
 16 **LATORY RELIEF FOR COMMU-**
 17 **NITY BANKS AND THEIR CUS-**
 18 **TOMERS**

19 **SEC. 201. PROVISIONS RELATING TO 3-DAY RIGHT OF RE-**
 20 **SCISSION UNDER THE TRUTH IN LENDING**
 21 **ACT.**

22 (a) **OPTIONAL CONSUMER WAIVERS OF RIGHT OF**
 23 **RESCISSION.**—Section 125(d) of the Truth in Lending Act
 24 (15 U.S.C. 1635(d)) is amended—

25 (1) by striking “The Board may” and inserting
 26 the following:

1 “(1) PERSONAL FINANCIAL EMERGENCIES.—
2 The Board may”; and

3 (2) by adding at the end the following new
4 paragraph:

5 “(2) WAIVERS WHEN CREDITOR IS INSURED
6 DEPOSITORY INSTITUTION.—The Board shall pre-
7 scribe regulations authorizing a consumer to waive
8 the rights provided under this section when the cred-
9 itor is an insured depository institution (as that
10 term is defined in section 3(c)(2) of the Federal De-
11 posit Insurance Act) in such manner and after such
12 notice as the Board may prescribe.”.

13 (b) CLERICAL AMENDMENT.—The heading for sub-
14 section (d) of section 125 of the Truth in Lending Act
15 (15 U.S.C. 1635) is amended by striking “WAIVER OF
16 RIGHTS.—” and inserting “WAIVERS OF RESCISSION
17 RIGHTS.—”.

18 (c) EXEMPTION IN CASE OF REFINANCING WITH NO
19 NEW MONEY REGARDLESS OF CREDITOR.—Section
20 125(e)(2) of the Truth in Lending Act (15 U.S.C.
21 1635(e)(2)) is amended by striking “by the same cred-
22 itor”.

23 (d) EXEMPT HOME EQUITY LINES OF CREDIT.—
24 Section 125(e)(4) of the Truth in Lending Act (15 U.S.C.
25 1635(e)(4)) is amended to read as follows:

1 “(4) advances under an open end consumer
 2 credit plan which provides for any extension of cred-
 3 it which is secured by the principal dwelling of a
 4 consumer.”.

5 **SEC. 202. ADDITIONAL EXEMPTIONS UNDER HOME MORT-**
 6 **GAGE DISCLOSURE ACT OF 1975; STREAM-**
 7 **LINING REPORTING.**

8 (a) SMALL REPORTER EXEMPTION.—Section 304 of
 9 the Home Mortgage Disclosure Act (12 U.S.C. 2803) is
 10 amended by adding at the end the following new sub-
 11 section:

12 “(n) SMALL REPORTER EXEMPTION.—If, in any
 13 year, a depository institution makes fewer than 100 re-
 14 portable loans described in any paragraph of subsection
 15 (b), the depository institution shall be exempt from the
 16 disclosure requirements of this section with respect to the
 17 loans described in that paragraph for such year.”.

18 (b) MSA MODIFICATIONS.—Section 304(a) of the
 19 Home Mortgage Disclosure Act (12 U.S.C. 2803(a)) is
 20 amended——

21 (1) in paragraph (1), by inserting “or as modi-
 22 fied by the Board under paragraph (3),” after “as
 23 defined by the Department of Commerce”; and

24 (2) by adding at the end the following new
 25 paragraph:

1 “(3) MODIFICATION OF MSAS.—The Board may
 2 modify the description of any primary metropolitan
 3 statistical area, metropolitan statistical area, and
 4 consolidated metropolitan statistical area, as defined
 5 by the Secretary of Commerce, for purposes of this
 6 subsection.”.

7 (c) REGULAR STREAMLINING.—The Home Mortgage
 8 Disclosure Act (12 U.S.C. 2801 et seq.) is amended by
 9 adding at the end the following new section:

10 **“SEC. 312. REGULAR STREAMLINING.**

11 “Not later than 1 year after the date of enactment
 12 of the Community Banks Serving Their Communities
 13 First Act and once during each 5-year period thereafter,
 14 the Board shall—

15 “(1) review the data collection and reporting re-
 16 quirements of this title;

17 “(2) streamline, reduce, or eliminate such re-
 18 quirements by regulation to the extent consistent
 19 with the purposes of this title;

20 “(3) revise the data collection and reporting re-
 21 quirements under this title to ensure that they are
 22 consistent with those imposed under the Equal Cred-
 23 it Opportunity Act; and

24 “(4) report to the Committee on Banking,
 25 Housing, and Urban Affairs of the Senate and the

1 Committee on Financial Services of the House of
 2 Representatives such legislative recommendations as
 3 the Board determines to be necessary—

4 “(A) to streamline, reduce, or eliminate
 5 such requirements to the extent consistent with
 6 the purposes of this title; and

7 “(B) to ensure that such requirements are
 8 consistent with those imposed under the Equal
 9 Credit Opportunity Act.”.

10 **SEC. 203. EXCEPTION TO ANNUAL PRIVACY NOTICE RE-**
 11 **QUIREMENT UNDER THE GRAMM-LEACH-BLI-**
 12 **LEY ACT.**

13 Section 503 of the Gramm-Leach-Bliley Act (15
 14 U.S.C. 6803) is amended by adding at the end the fol-
 15 lowing new subsection:

16 “(c) EXCEPTION TO ANNUAL NOTICE REQUIRE-
 17 MENT.—A financial institution shall be exempt from the
 18 annual disclosure requirement under subsection (a), if
 19 such financial institution—

20 “(1) provides nonpublic personal information
 21 only in accordance with the provisions of section
 22 502(b)(2) (relating to the consumer ‘opt out’ excep-
 23 tion) and subsection 502(e) (relating to general ex-
 24 ceptions); and

1 “(2) has not changed its policies and practices
2 with regard to disclosing nonpublic personal infor-
3 mation.”.

4 **SEC. 204. STREAMLINING REPORTS OF CONDITION.**

5 Section 7(a) of the Federal Deposit Insurance Act
6 (12 U.S.C. 1817(a)), as amended by section 102 of this
7 Act, is amended by adding at the end the following new
8 paragraph:

9 “(12) STREAMLINING REPORTS OF CONDI-
10 TION.—

11 “(A) REVIEW OF INFORMATION AND
12 SCHEDULES.—Not later than 1 year after the
13 date of enactment of the Community Banks
14 Serving Their Communities First Act and once
15 during each 5-year period thereafter, the Cor-
16 poration shall, in conjunction with the Board of
17 Governors of the Federal Reserve System, the
18 Comptroller of the Currency, and the Director
19 of the Office of Thrift Supervision, review the
20 information and schedules that are required to
21 be filed by any insured depository institution
22 with a report of condition under paragraph (3).

23 “(B) REDUCTION OR ELIMINATION OF FIL-
24 INGS WHICH ARE MORE BURDENSOME THAN
25 BENEFICIAL.—Not later than 9 months after

1 completing any review under subparagraph (A),
2 the Corporation, the Board of Governors of the
3 Federal Reserve System, the Comptroller of the
4 Currency, and the Director of the Office of
5 Thrift Supervision shall reduce or eliminate any
6 requirement to file information or schedules
7 under paragraph (3) if such agencies find that
8 the burdens of such filings are not outweighed
9 by—

10 “(i) the benefits to safety and sound-
11 ness of the financial system; or

12 “(ii) the ability of the Corporation to
13 accurately determine the financial condi-
14 tion and the results of operations of each
15 insured depository institution.

16 “(C) REPORT TO THE CONGRESS.—Not
17 later than 6 months after the date of comple-
18 tion of any review under subparagraph (A), the
19 Corporation, the Board of Governors of the
20 Federal Reserve System, the Comptroller of the
21 Currency, and the Director of the Office of
22 Thrift Supervision shall submit a report to the
23 Committee on Financial Services of the House
24 of Representatives and the Committee on Bank-

1 ing, Housing, and Urban Affairs of the Senate
2 containing—

3 “(i) the findings of the agencies with
4 respect to such review; and

5 “(ii) any recommendations of such
6 agencies for legislative action to implement
7 any such findings.”.

8 **SEC. 205. INCREASE IN THE SPECIAL REGULATORY LEND-**
9 **ING LIMIT ON LOANS TO EXECUTIVE OFFI-**
10 **CERS.**

11 Section 22(g) of the Federal Reserve Act (12 U.S.C.
12 375a(g)) is amended by adding at the end the following
13 new paragraph:

14 “(11) LIMIT APPLICABLE ON AGGREGATE
15 AMOUNT OF CERTAIN LOANS TO EXECUTIVE OFFI-
16 CERS OF COMMUNITY BANKS.—Notwithstanding any
17 regulation prescribed by the Board under paragraph
18 (4) and subject to other conditions imposed under
19 this subsection and section 22(h), the aggregate
20 amount of extensions of credit that a member bank
21 may make to an executive officer of the bank under
22 paragraph (4) shall not exceed \$250,000.”.

1 **TITLE III—TAX RELIEF FOR**
 2 **BANK DEPOSITORS, RURAL**
 3 **BANKS, MUNICIPALITIES, AND**
 4 **BANKS ORGANIZED AS LIM-**
 5 **ITED LIABILITY COMPANIES**

6 **SEC. 301. REDUCED RATE AND DEFERRAL OF INCOME REC-**
 7 **OGNITION ON LONG-TERM CERTIFICATES OF**
 8 **DEPOSIT.**

9 (a) DEFERRAL OF INCOME RECOGNITION.—Section
 10 451 of the Internal Revenue Code of 1986 (relating to
 11 general rule for taxable year of inclusion) is amended by
 12 adding at the end the following new subsection:

13 “(j) CERTIFICATES OF DEPOSITS HELD BY CASH
 14 BASIS INDIVIDUALS.—In the case of an individual on the
 15 cash receipts and disbursements method of accounting
 16 who holds a nonnegotiable certificate of deposit, interest
 17 income which is not made available for withdrawal before
 18 maturity of the certificate without penalty shall not be in-
 19 cludible in gross income before the certificate is redeemed
 20 or matures.”.

21 (b) INTEREST INCOME ON LONG-TERM CERTIFI-
 22 CATES OF DEPOSIT.—Section 1(h)(11)(A) of the Internal
 23 Revenue Code of 1986 is amended by striking “increased
 24 by” and all that follows through the end and inserting:
 25 “increased by—

1 “(i) qualified dividend income; and
 2 “(ii) interest income on any nonnego-
 3 tiable certificate of deposit—
 4 “(I) with a fixed maturity date
 5 which is 1 year or more from the date
 6 of issue, and
 7 “(II) the interest on which is not
 8 made available for withdrawal before
 9 maturity without penalty.”.

10 (c) EFFECTIVE DATE.—The amendments made by
 11 this section shall apply to taxable years beginning after
 12 the date of the enactment of this Act.

13 **SEC. 302. EXCLUSION FOR INTEREST ON LOANS SECURED**
 14 **BY AGRICULTURAL REAL PROPERTY.**

15 (a) IN GENERAL.—Part III of subchapter B of chap-
 16 ter 1 of the Internal Revenue Code of 1986 (relating to
 17 items specifically excluded from gross income) is amended
 18 by inserting after section 139A the following new section:

19 **“SEC. 139B. INTEREST ON LOANS SECURED BY AGRICUL-**
 20 **TURAL REAL PROPERTY.**

21 “(a) EXCLUSION.—Gross income shall not include in-
 22 terest received by a qualified lender on any qualified real
 23 estate loan.

24 “(b) COORDINATION WITH SECTION 265.—Qualified
 25 real estate loans shall be treated as obligations described

1 in section 265(a)(2), the interest on which is wholly ex-
 2 empt from the taxes imposed by this subtitle.

3 “(c) DEFINITIONS.—For purposes of this section:

4 “(1) QUALIFIED LENDER.—The term ‘qualified
 5 lender’ means any bank or savings association the
 6 deposits of which are insured under the Federal De-
 7 posit Insurance Act (12 U.S.C. 1811 et seq.).

8 “(2) QUALIFIED REAL ESTATE LOAN.—

9 “(A) IN GENERAL.—The term ‘qualified
 10 real estate loan’ means any loan secured by ag-
 11 ricultural real estate or by a leasehold mortgage
 12 (with a status as a lien) on agricultural real es-
 13 tate.

14 “(B) DETERMINATION OF AGRICULTURAL
 15 REAL ESTATE.—For purposes of subparagraph
 16 (A), the determination of whether property se-
 17 curing such loan is agricultural real estate shall
 18 be made as of the time the interest income on
 19 such loan is accrued.

20 “(3) AGRICULTURAL REAL ESTATE.—The term
 21 ‘agricultural real estate’ means—

22 “(A) real property used for the production
 23 of 1 or more agricultural products, and

24 “(B) any single family residence which
 25 is—

1 “(i) the principal residence (within the
2 meaning of section 121) of its occupant;

3 “(ii) located in a rural area (as deter-
4 mined by the Secretary of Agriculture)—

5 “(I) which is not within a Metro-
6 politan Statistical Area (as defined by
7 the Office of Management and Budg-
8 et), and

9 “(II) which has a population (de-
10 termined on the basis of the most re-
11 cent decennial census for which data
12 are available) of 2,500 or less, and

13 “(iii) purchased or improved with the
14 proceeds of the qualified real estate loan.”.

15 (b) CLERICAL AMENDMENT.—The table of sections
16 for part III of subchapter B of chapter 1 of the Internal
17 Revenue Code of 1986 is amended by inserting after the
18 item relating to section 139A the following new item:

“Sec. 139B. Interest on loans secured by agricultural real property.”

19 (c) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to taxable years beginning after
21 the date of the enactment of this Act.

22 **SEC. 303. INCREASE IN CAP ON QUALIFIED SMALL ISSUE**
23 **BONDS.**

24 (a) IN GENERAL.—Section 144(a)(4)(A)(i) of the In-
25 ternal Revenue Code of 1986 (relating to general rule for

1 \$10,000,000 limit in certain cases) is amended by striking
 2 “\$10,000,000” and inserting “\$30,000,000”.

3 (b) ADJUSTMENT OF CAP FOR INFLATION.—Section
 4 144(a) of the Internal Revenue Code of 1986 (relating to
 5 qualified small issue bond) is amended—

6 (1) by redesignating paragraph (12) as para-
 7 graph (13); and

8 (2) by inserting after paragraph (11) the fol-
 9 lowing new paragraph:

10 “(12) INFLATION ADJUSTMENT.—

11 “(A) IN GENERAL.—In the case of any cal-
 12 endar year after 2006, the \$30,000,000 amount
 13 contained in paragraph (4)(A)(i) shall be in-
 14 creased by an amount equal to—

15 “(i) such dollar amount, multiplied by

16 “(ii) the cost-of-living adjustment de-
 17 termined under section 1(f)(3) for such
 18 calendar year by substituting ‘calendar
 19 year 2005’ for ‘calendar year 1992’ in sub-
 20 paragraph (B) thereof.

21 “(B) ROUNDING.—Any increase under
 22 subparagraph (A) which is not a multiple of
 23 \$100,000 shall be rounded to the next lowest
 24 multiple of \$100,000.”.

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to—

3 (1) obligations issued after the date of the en-
4 actment of this Act; and

5 (2) capital expenditures made after such date
6 with respect to obligations issued on or before such
7 date.

8 **SEC. 304. LIMITED LIABILITY COMPANY TAX TREATMENT**
9 **FOR FDIC-INSURED LIMITED LIABILITY COM-**
10 **PANIES.**

11 (a) IN GENERAL.—Section 7701(a)(2) of the Internal
12 Revenue Code of 1986 (defining partnership and partner)
13 is amended to read as follows:

14 “(2) PARTNER AND PARTNERSHIP.—

15 “(A) PARTNERSHIP.—The term ‘partner-
16 ship’ includes a syndicate, group, pool, joint
17 venture, or other unincorporated organization,
18 through or by means of which any business, fi-
19 nancial operation, or venture is carried on, and
20 which is not, within the meaning of this title,
21 a trust or estate or a corporation.

22 “(B) PARTNER.—The term ‘partner’ in-
23 cludes a member in any syndicate, group, pool,
24 joint venture, or organization described in sub-
25 paragraph (A).

1 “(C) ELECTION BY CERTAIN BANKS TO BE
2 TAXED AS PARTNERSHIPS.—

3 “(i) IN GENERAL.—An eligible cor-
4 poration may elect to be treated as a part-
5 nership for purposes of this title.

6 “(ii) TAX TREATMENT.—In the case
7 of an eligible corporation making an elec-
8 tion under clause (i)—

9 “(I) no gain or loss shall be rec-
10 ognized to the corporation or the
11 shareholders by reason of an election
12 under clause (i), and

13 “(II) section 1374 shall apply to
14 the entity after such election.

15 “(iii) ELIGIBLE CORPORATION.—The
16 term ‘eligible corporation’ means any of
17 the following entities which would (but for
18 this subparagraph) be treated as a C cor-
19 poration for purposes of this title:

20 “(I) Any bank (as defined in sec-
21 tion 581).

22 “(II) Any bank holding company
23 (as defined in section 2(a) of the
24 Bank Holding Company Act of 1956
25 (12 U.S.C. 1841(a))).

1 “(III) Any savings association
 2 (as defined in section 3(b) of the Fed-
 3 eral Deposit Insurance Act (12 U.S.C.
 4 1813)).

5 “(IV) Any savings and loan hold-
 6 ing company (as defined in section
 7 10(a)(1)(D) of the Home Owners
 8 Loan Act).”.

9 (b) EFFECTIVE DATE.—The amendment made by
 10 this section shall apply to taxable years beginning after
 11 the date of the enactment of this Act.

12 **TITLE IV—TAX RELIEF FOR COM-**
 13 **MUNITY BANKS AND HOLD-**
 14 **ING COMPANIES**

15 **SEC. 401. REDUCTION IN TAX.**

16 (a) C CORPORATIONS.—Section 11 of the Internal
 17 Revenue Code of 1986 (relating to tax imposed) is amend-
 18 ed by adding at the end the following new subsection:

19 “(e) REDUCTION OF TAX ON COMMUNITY BANKS.—

20 “(1) IN GENERAL.—In the case of a C corpora-
 21 tion which is a community bank, the aggregate tax
 22 imposed by this section, section 55, and section
 23 1201 shall be 80 percent of the aggregate tax which
 24 would (but for this subsection) be imposed by such
 25 sections.

1 “(2) MAXIMUM REDUCTION.—

2 “(A) IN GENERAL.—The reduction in tax
3 by reason of this subsection shall not exceed
4 \$250,000.

5 “(B) CORPORATIONS TREATED AS 1 COR-
6 PORATION.—Corporations treated as 1 corpora-
7 tion under section 1202(d)(3) shall be so treat-
8 ed under this subsection, and the limitation
9 under subparagraph (A) shall be allocated
10 among such corporations in such manner as the
11 Secretary shall prescribe.

12 “(3) INCREASED BENEFIT FOR BANKS OPER-
13 ATING IN DISTRESSED AREAS, ETC.—

14 “(A) IN GENERAL.—In the case of a bank
15 operating in an area referred to in subpara-
16 graph (B)—

17 “(i) paragraph (1) shall be applied by
18 substituting ‘50 percent’ for ‘80 percent’,
19 and

20 “(ii) paragraph (2)(A) shall be applied
21 by substituting ‘\$500,000’ for ‘\$250,000’.

22 “(B) AREAS DESCRIBED.—The areas re-
23 ferred to in this subparagraph are—

1 “(i) empowerment zones and enter-
 2 prise communities designated under section
 3 1391,

4 “(ii) renewal communities designated
 5 under section 1400E,

6 “(iii) low-income communities (as de-
 7 fined in section 45D(e)), and

8 “(iv) distressed communities (within
 9 the meaning of section 233 of the Bank
 10 Enterprise Act of 1991 (12 U.S.C.
 11 1834a(b)).

12 “(4) COMMUNITY BANK.—For purposes of this
 13 section, the term ‘community bank’ means any of
 14 the following entities the gross assets of which (de-
 15 termined under the rules of section 1202(d)) are
 16 \$5,000,000,000 or less:

17 “(A) Any bank (as defined in section 581).

18 “(B) Any bank holding company (as de-
 19 fined in section 2(a) of the Bank Holding Com-
 20 pany Act of 1956 (12 U.S.C. 1841(a))).

21 “(C) Any savings association (as defined in
 22 section 3(b) of the Federal Deposit Insurance
 23 Act (12 U.S.C. 1813)).

1 “(D) Any savings and loan holding com-
 2 pany (as defined in section 10(a)(1)(D) of the
 3 Home Owners Loan Act).”.

4 (b) S CORPORATIONS.—Section 1366(a) of the Inter-
 5 nal Revenue Code of 1986 is amended by adding at the
 6 end the following new paragraph:

7 “(3) REDUCTION OF TAX ON COMMUNITY
 8 BANKS.—

9 “(A) IN GENERAL.—In the case of an S
 10 corporation which is a community bank (as de-
 11 fined in section 11(e)(4)), the net amount re-
 12 quired to be taken into account by shareholders
 13 (without regard to this paragraph) shall be re-
 14 duced by the lesser of—

15 “(i) 20 percent of such net amount, or

16 “(ii) \$1,250,000.

17 “(B) INCREASED BENEFIT FOR BANKS OP-
 18 ERATING IN DISTRESSED AREAS, ETC.—In the
 19 case of a bank operating in an area referred to
 20 in section 11(e)(3)(B)—

21 “(i) subparagraph (A)(i) shall be ap-
 22 plied by substituting ‘50 percent’ for ‘20
 23 percent’, and

1 “(ii) subparagraph (A)(ii) shall be ap-
 2 plied by substituting ‘\$2,500,000’ for
 3 ‘\$1,250,000’.”.

4 (c) EFFECTIVE DATE.—The amendments made by
 5 this section shall apply to taxable years beginning after
 6 the date of the enactment of this Act.

7 **SEC. 402. COMMUNITY BANKS EXEMPT FROM MINIMUM**
 8 **TAX.**

9 (a) IN GENERAL.—Section 55 of the Internal Rev-
 10 enue Code of 1986 (relating to alternative minimum tax
 11 imposed) is amended by adding at the end the following
 12 new subsection:

13 “(f) EXEMPTION FOR COMMUNITY BANKS.—

14 “(1) IN GENERAL.—The tentative minimum tax
 15 of a community bank (as defined in section 11(e)(4))
 16 shall be zero.

17 “(2) CERTAIN RULES TO APPLY.—Rules similar
 18 to the rules of paragraphs (2) through (5) of sub-
 19 section (e) shall apply for purposes of this sub-
 20 section.”.

21 (b) EFFECTIVE DATE.—The amendments made by
 22 this section shall apply to taxable years beginning after
 23 the date of the enactment of this Act.

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