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H.R. 3336
SMALL BUSINESS CREDIT AVAILABILITY ACT

Sponsored by Rep. Vicky Hartzler

Summary:
Promotes the availability of credit for small and mid-size businesses by protecting the ability of community banks to responsibly manage their risks.

Why:
Small banks use derivatives to manage the risks inherent to the business of banking. Interest rate swaps, for example, are commonly used to hedge the risk associated with paying a rate of interest on deposits and receiving a rate of interest on loans.

The use of these risk management tools is critical to and supports small banks' ability to provide credit to businesses in their communities.

How Small Banks Use Derivatives

Smaller banks may provide swaps to businesses in connection with a loan they receive from the bank.

For example, a smaller bank may provide an interest rate swap in connection with a floating rate loan so that the borrower can achieve a fixed rate on the loan. This reduces the amount a business may pay in interest over the life of the loan, and protects them from fluctuating interest rates.

At the same time, the bank has reduced the risk that the borrower will default because of spiking interest rates. This enables banks to continue providing loans to businesses.

Giving Banks Flexibility to Serve Customers

Small banks use derivatives to hedge against risk and not to speculate. They don't cause systemic risk. Because of that, Congress authorized small banks to be exempted from clearing requirements. However, in its proposed rule, the CFTC did not propose an exemption from these costly clearing requirements.

H.R. 3336 requires the CFTC to exempt small banks, credit unions, and farm credit institutions from clearing requirements if they do not pose systemic risk and they are not using derivatives to speculate.

H.R. 3336 also ensures that community banks and farm credit institutions can continue to provide swaps without being regulated like large Wall Street dealers.