



Are Community Banks Really Choking Because of Dodd-Frank?

RYAN RAINEY | AUGUST 2, 2016

House Financial Services Committee Chairman Jeb Hensarling has made one populist argument for his bill to roll back the 2010 Dodd-Frank Act's regulations and replace them with a new regime. The big banks love the Dodd-Frank, he says, and community banks hate it.

Hensarling brought the president of the Texas Bankers Association before his committee to make that case at a July hearing. A representative from The Clearing House, an industry group that represents large banks, barely got a word in as Republicans focused on how Dodd-Frank's high compliance costs and excessive regulation have taken capital away from small banks and placed it in the hands of Wall Street.

Jim Purcell, the chairman of the State National Bank of Big Spring, Texas and this year's chairman of the Texas Bankers Association, lambasted Dodd-Frank at the hearing and said Hensarling's plan "outlines meaningful direction for reform."

Hensarling has pitched his bill, the Financial CHOICE Act, as a solution to this problem. Banking experts interviewed by Morning Consult — some of whom regularly disagree with Republican politics — doubt the CHOICE Act will radically improve the landscape for community banks.

All of the experts agree, however, that community banks are consolidating at a steady rate because of economic conditions that have pushed banks to be larger for decades.

"The minimum size of an institution has gone up, just to have the scale to deal with things," said Don Childears, the president of the Colorado Bankers Association. He said regulation "contributes to the fatigue that I sense among bankers, [including from] from smaller institutions, and we think it's a reason we see consolidation" in the sector.

Childears supports H.R. 2896, [which](#) is also known as the TAILOR Act. Rep. Scott Tipton, a Republican from Childears' home state who sits on the House Financial Services Committee, introduced it. The Financial Services Committee approved it by a vote of 34-22 in March.

The bill would require federal financial regulators to determine the effects of regulations and "tailor" rules based on a bank's risk profile or size to prevent too many adverse effects on more vulnerable banks. Purcell, of Texas, also praised the measure.

The language made its way into Hensarling's broader bill, which Childears said is a step in the right direction, despite some concerns about how the proposal's other mechanisms would work.

The situation for community banks also is more complicated than just regulatory woes. Compliance costs are not the only reason they are consolidating, Childears said. They also increasingly need to pool information technology resources as consumers demand more technologically advanced banking services.

Experts like Simon Johnson and Adam Levitin — two left-leaning banking experts who have testified before House panels on banking regulations — argue that consolidation in the community banking sector is a normal evolution. It has occurred on a relatively steady rate since the mid-1990s, when larger banks expanded their market share as a result of relaxed restrictions on interstate banking.

Both Levitin and Johnson doubt Dodd-Frank has negatively affected banks in reference to consolidation. "Dodd-Frank has moved the needle a little bit for them," said Levitin, a professor at the Georgetown University School of Law. "But Dodd-Frank is not the make-or-break for community banks."

Levitin attributed the decline in community banks to other factors. First, he said, banks don't have the economies of scale to compete with larger institutions on major services such as mortgages and credit cards. Simply dealing with small business loans and commercial banking, he said, isn't enough to keep many small banks afloat without consolidation.

Second, he noted that small banks — especially those that have stayed in local families for generations — have succession problems. “Imagine a bank out in rural Iowa that Grandpa started. Dad is running it, and Junior moved out to Chicago and has no interest in moving back,” he said. “The choice is to close the bank or sell it to somebody.”

Levitin said these kinds of circumstances, not the burdens of Dodd-Frank regulations, are making the landscape more bleak for community banks and more promising for regional banks and even larger, systemically important institutions.

“The community bankers don’t really like to talk about the economies of scale or succession problem. Instead, it’s a lot easier to rail about regulation,” Levitin said. “But if Dodd-Frank had never been passed, it’s just as likely we would have the same number of community banks. It’s really hard to say that Dodd-Frank is responsible for any material change.”

A spokeswoman for the Independent Community Bankers of America declined to offer the group’s chief executive, Camden Fine, for comment. But ICBA has praised aspects of Hensarling’s bill. In a June 7 [statement](#), Fine said that ICBA “strongly supports much-needed regulatory relief for the nation’s community banks and the customers and communities they serve.”

“Chairman Hensarling’s comprehensive blueprint for reform is a bold and welcome opportunity for advancing common-sense regulatory relief that will help promote economic growth on Main Street and throughout the American economy,” Fine said. “Chairman Hensarling’s common-sense reforms will free up resources that can be used to make loans, promote economic growth and create jobs in local communities nationwide.”

Johnson, a professor at the Massachusetts Institute of Technology and former chief economist at the International Monetary Fund, said he wouldn’t oppose granting smaller banks regulatory relief similar in some of the ways Hensarling’s proposal envisions. But he added that coupling that relief with other proposals, such as a change to the Consumer Financial Protection Bureau’s governance structure, could prove disastrous.

Community banks, he said, are being used as a rhetorical crutch to achieve that goal. “I’m very opposed to anyone who claims that they’re helping community banks when they’re really helping the large banks,” he said. “It’s a smokescreen.”



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