By Camden R. Fine
Published January 30 2017, 12:00pm EST

More in **Policymaking, Community banking, Regulatory relief**

After years of stubbornly tepid economic expansion, policymakers have made stronger economic growth and investment a top priority in 2017. While many policy areas targeted for reform will be subject to bitter debate on Capitol Hill, there is broad bipartisan support for one important catalyst for development: regulatory relief for the nation's nearly 6,000 community banks.

Recognizing the economic benefits of local banking, Republicans and Democrats are working to advance policies designed to free Main Street community banks from excessive government regulations designed for much larger and riskier Wall Street financial firms. Likewise, community banks have identified a list of rules ripe for reform through the Independent Community Bankers of America's new Plan for Prosperity. By cutting back paperwork requirements and regulatory red tape on these highly capitalized institutions, policymakers can unleash the power of community banks to spur lending and economic growth at the local level.

Despite the low risk and high reward of community banking, local institutions suffer from a ceaseless barrage of new regulations dating back well before the 2008-09 financial crisis — a calamity community banks did not cause. Since 2005, the number of discrete regulatory requirements has increased by nearly 40%. Meanwhile, regulations help fuel consolidation in the banking industry that has caused the number of U.S. banks to shrink from more than 18,000 30 years ago to less than 6,000 today.

Washington's response to the crisis, while intended for the Wall Street behemoths that caused it, has only exacerbated community bank overregulation and restricted consumer access to credit. According to a 2015 SNL survey of community banks, 35% of respondents said compliance costs increased by at least 30% over the previous five years.

communities that depend on community banks. In 2015, the ICBA released a lending survey in which three-quarters of community bank respondents said new mortgage regulations were keeping them from making more residential mortgage loans.

We need policies to combat runaway regulation and allow continued access to local banking to help get the economic recovery back on track. There are plenty of areas in need of reasonable relief, such as burdensome mortgage-lending restrictions and overly complex capital rules. Fortunately, the ICBA plan details which regulations should be reformed to spur lending and investment in Main Street communities.

For instance, the plan would focus the Basel III capital rules on the largest and riskiest banks — as originally intended — to mitigate the negative effect on community bank lending. It also would expand exemptions from Consumer Financial Protection Bureau mortgage restrictions to improve credit availability to lower-income borrowers. Among its many other provisions, the plan also proposes cutting the red tape in small-business lending by eliminating unnecessary data collection, strengthening accountability in bank exams and supporting cost-benefit analyses of new rules to ensure they are justified. Together, these policies would achieve what policymakers from both sides of the aisle say they want: community banks focused on improving local economies rather than juggling regulatory mandates.

As the only physical banking presence in nearly one in five U.S. counties, community banks are a financial lifeline to many American families. According to the Federal Deposit Insurance Corp., 16.3 million people would have limited or no physical access to mainstream banking services without the presence of community banks. Meanwhile, community banks are outsized sources of financing and job growth, providing more than half of the nation's small-business loans under $1 million. A study released last year by seven Federal Reserve banks found that small businesses that apply for loans with community banks are the most successful and the most satisfied with their borrowing experience, ahead of credit unions, large banks and online lenders.

These local institutions have been instrumental in helping the nation recover from the financial crisis and economic downturn that continues to hamper the U.S. economy. But the recovery that began in 2009 has averaged a sluggish growth rate of just over 2% — the weakest rebound in the post–World War II era — while community banks are burdened by the weight

The new Congress and Trump administration are taking on a variety of complex policy areas to speed up growth, from reforming the tax code to revitalizing the manufacturing sector. Releasing the economic power of community banks would produce an immediate and practical benefit for our economy and help include more Americans left behind by our nation's spotty recovery. By acting quickly on the community bank Plan for Prosperity, Washington can support a targeted regulatory system that will help local institutions dedicate more of their resources to helping local economies grow.

Camden R. Fine

Camden R. Fine is the president and CEO of the Independent Community Bankers of America.

More from this Author

The Case Against the Credit Union Rubber Stamp

The Wells Fargo Scam Is a Gift to No One

There Is No Such Thing as 'Overbanked'

BankThink submission guidelines

Want to contribute to BankThink, American Banker's platform for informed opinion about the ideas, trends and events reshaping financial services? View our **detailed submission criteria and instructions**.

Comments