AFR Americans for Financial Reform

The Impact of Dodd Frank on Community Banks

***CLAIM*:** Dodd Frank took a "one size fits all" approach, making small banks and credit unions pay for the sins of big banks.

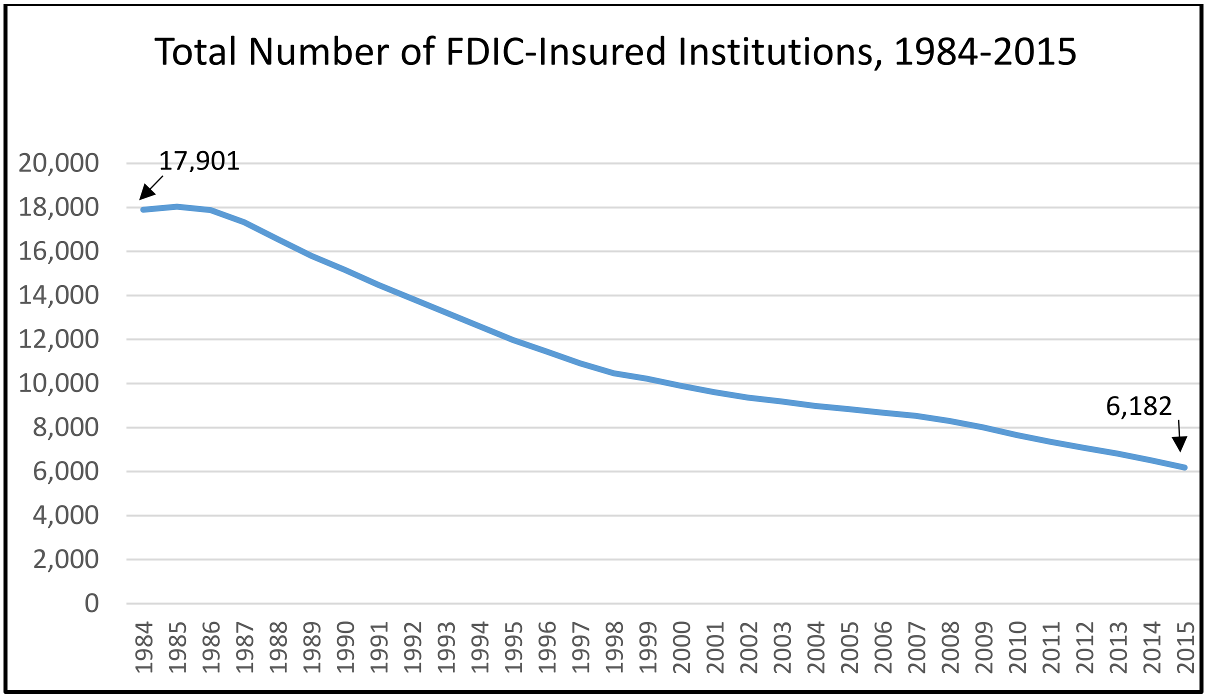
FACT: The law treats small banks very differently. Many key provisions apply exclusively or mainly to big banks. Smaller banks and credit unions are excluded from stress tests, "living wills," heightened liquidity standards, debit-card fee limits, and the supervision and enforcement authority of the Consumer Financial Protection Bureau. In its mortgage and consumer banking rules, the CFPB itself has carved out significant exemptions for small and rural lenders.[1]

Other parts of Dodd Frank help *shield* community banks and credit unions against unfair competition. The statute requires big banks to be held to higher overall capital and prudential standards than small banks, and it brings nonbank lenders under serious federal oversight for the first time. As of mid-2015, roughly three-quarters of the CFPB's enforcement actions had been against nonbanks, while almost all its bank enforcement actions had been against the very biggest institutions – those with more than $50 billion in assets.[2] Dodd-Frank also mandates significant reductions in deposit insurance fees for small banks relative to larger ones, a change which has resulted in billions of dollars in savings for small banks.[3]

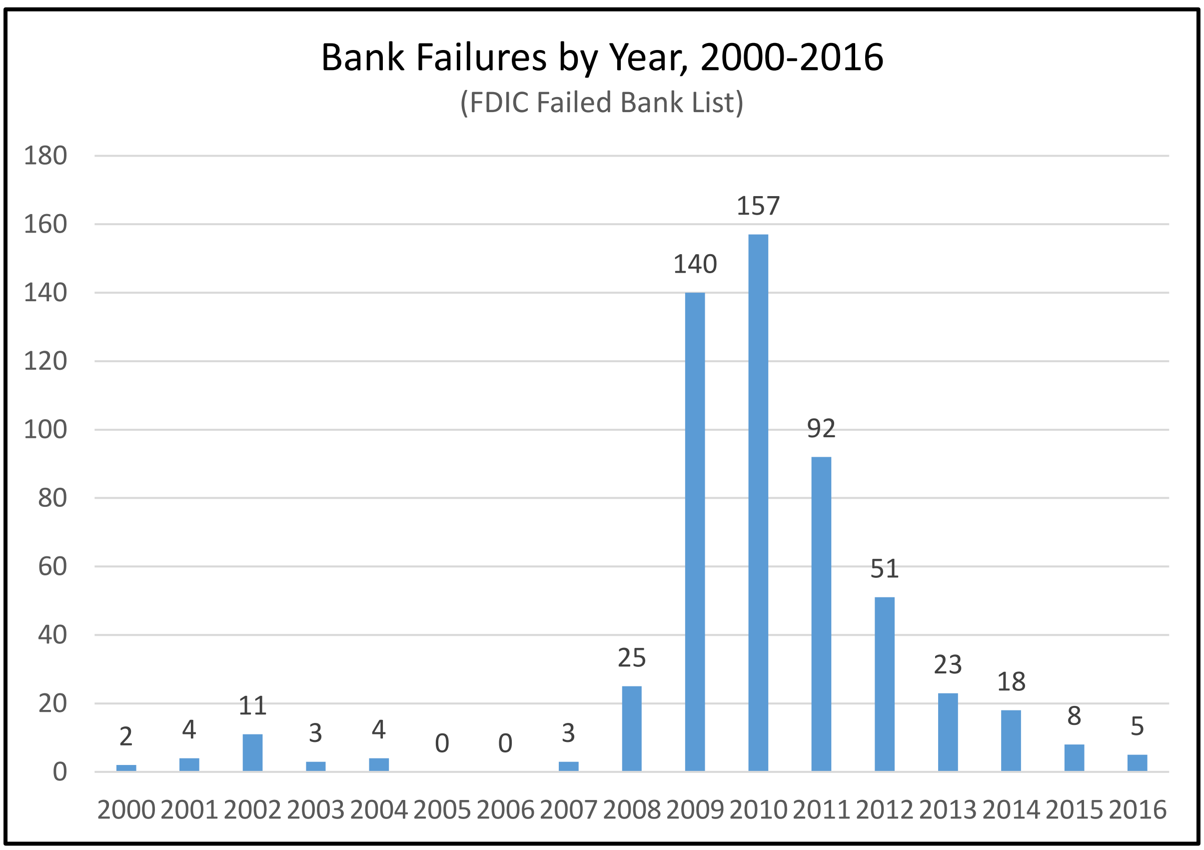
CLAIM: Dodd Frank has put community banks out of business.

FACT: Banks have been consolidating, and small banks closing and merging, for decades in response to an increasingly mobile society, technology-driven economies of scale, and deregulatory measures (such as the Riegle-Neal Act of 1994) that invited consolidation.[4] As the pair of charts on page 2 show, the number of FDIC-insured banks has declined every single year since 1984, with bank closures reaching their peak during the financial crisis – *before* Dodd Frank, not after. Since Dodd-Frank passed in mid-2010, community banks have recovered well. In 2016, only five banks failed, down from 140 in 2009 and 157 in 2010.[5]

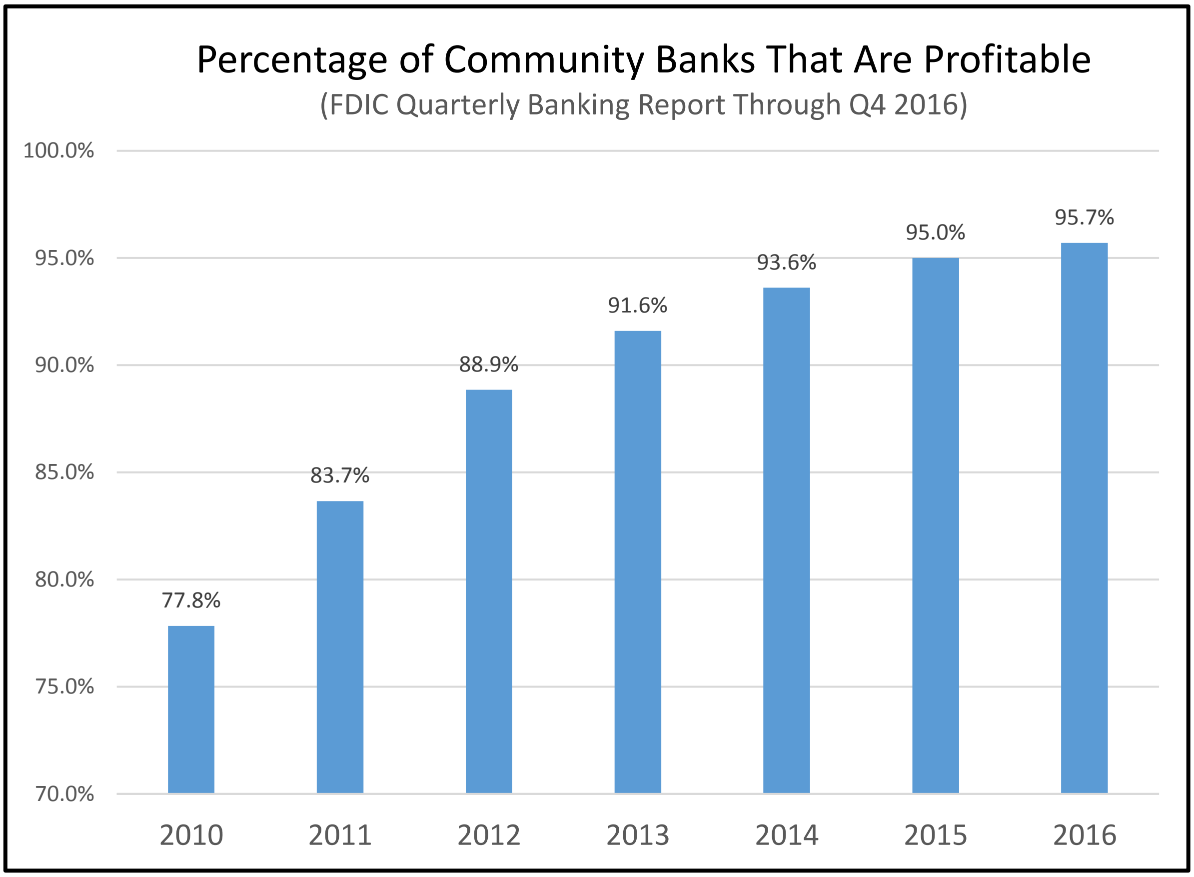
Meanwhile, the percentage of community banks turning a profit has increased year after year, from 78 percent in 2010 to 95.7 percent in 2016.[6] One big factor working in their favor: small banks have saved an estimated *$3.7 billion* in deposit insurance fees – as a direct result of discounts mandated by Dodd Frank.[7]



Total Number of FDIC-Insured Institutions, 1984-2015
20,000
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
17,901
6,182
1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015



Bank Failures by Year, 2000-2016
(FDIC Failed Bank List)
180
160
140
120
100
80
60
40
20
0
2
4
11
3
4
0
0
3
25
140
157
92
51
23
18
8
5
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016



CLAIM: Regulations that pose little difficulty for large banks can be a heavy burden on smaller banks that don't have teams of lawyers handling compliance issues.

FACT: Like operating expenses in general, regulatory compliance costs tend to be higher, relative to assets, for smaller institutions. Overall, however, community banks gain far more than they lose from regulation. It is because of regulation that the U.S. still has many more banks per capita, and more small banks, than other countries do. The industry's consolidation in recent decades is partly the result of *deregulation* – the gradual abandonment of rules like Glass Steagall and the historic ban on interstate banking. The Dodd Frank Act gave small banks preferential treatment in a number of important areas: the Volcker Rule, for example, was a step back toward the Glass-Steagall principle of keeping traditional banks separate from investment banks and hedge funds.[8]

In a 2016 study, the Philadelphia Federal Reserve Bank pointed out that "while it is plausible that the fixed costs of hiring another employee impose a larger burden on small banks," small banks, as a practical matter, often use outside contractors "who spread their own fixed employment costs across their many small bank clients."[9]

***CLAIM*:** Small businesses can't get loans because Dodd Frank has hurt community banks.

***FACT*:** Lending by community banks declined sharply as a result of the financial crisis – a catastrophe that could have been avoided or greatly mitigated if the protections of Dodd-Frank had already been in place. Since that law began to take effect, community bank lending has rebounded, rising by nearly 17 percent over the calendar years 2015-16 – well over the growth rate for lending by U.S. banks as a whole.[10]

Bank lending to small businesses, like overall business lending, has been on an upswing – growing at a "slow but steady" pace since 2013, according to the U.S. Small Business Administration.[11] While such lending is still far short of pre-crisis levels, even the chief economist for the National Federation of Independent Businesses explains it as a product of "historically weak" credit demand rather than any reluctance to loan on the part of banks, and that is consistent with the view of most small business owners themselves. In a recent NFIB survey, access to credit ranked Number 65 among their top 75 concerns, with only 4 percent of responding companies reporting an inability to meet their borrowing needs.[12]

Lack of evidence may not prevent a host of political figures, including Donald Trump, from continuing to paint a picture of small businesses being strangled by lack of credit due to overregulation. But the numerous experts and business reporters who have taken the time to examine this claim have almost universally judged it to be a myth – perpetrated, in the words of the Dow Jones economic columnist Rex Nutting, by those who "want to gut or repeal Dodd-Frank, but don't want to tell us what their real reasons are, so they make up a sob story about how Mom & Pop entrepreneurs can't get a loan."[13]

***CLAIM*:** The CFPB's qualified mortgage (QM) rule has limited small banks' ability to issue loans.

FACT: Mortgage lending plunged between 2007 and 2010, as banks woke up to a legacy of toxic loans and tightened their underwriting criteria. This was well before the Consumer Financial Protection Bureau's new mortgage rules began to take effect in 2014. There is no evidence that the QM rules have limited mortgage lending by smaller lenders, particularly since the CFPB has granted significant QM exemptions to small banks. In fact, between 2012 and 2015, the market share of the smallest mortgage lenders (institutions with assets under $1 billion) increased from 54 percent to 58 percent.[14] The QM rules, by barring or discouraging many of the tricky loans and bad practices that became common in the years before the financial crisis, may help explain those increases: a safer mortgage market is one that creates more favorable ground for community banks, credit unions, and other responsible lenders.

CLAIM: The Durbin Amendment has hurt small banks by pressuring them to reduce debit-card interchange fees – a vital source of income.

FACT: Community banks were exempted from the fee reductions of the Durbin Amendment. While their lobbyists argued that competition with large banks would force small banks to accept the same fee limits, this prediction has clearly failed to come true: interchange fees for banks with more than $10 billion in assets have fallen sharply, from around 44 cents to about 22 cents per transaction, while small banks have not seen any such decline. On the contrary, they have continued to experience a rise in both transaction volume and revenues. "In sum, the evidence does not support the claim that competitive forces have effectively imposed the interchange fee ceiling on small banks," the Philadelphia Federal Reserve study concluded.[15]

***CLAIM*:** Credit unions have been damaged by Dodd Frank

FACT: While the number of credit unions has fallen, this is a trend that long predates Dodd Frank. It is also a misleading trend: even as their numbers have shrunk, credit unions have been growing in size and market share. Credit union membership was up 3.8 percent in 2015 - the fastest growth in 20 years.[16] It rose even faster in 2016, when federally insured credit unions gained 4.2 million members, bringing total membership to nearly 107 million.[17] Meanwhile, credit union operating costs, as a percentage of assets, have declined – from 3.59 percent in 2008 to 3.1 percent in 2016.[18]

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[1] Marcus Stanley, Testimony before House Small Business Subcommittee, June 9, 2016.
[2] Deloitte Center for Financial Services, Enforcement Actions in the Banking Industry, October 2015, drawing on SNL analysis of CFPB enforcement actions.
[3] Kyle D. Allen, Travis R. Davidson, Scott E. Hein, Matthew D. Whitledge, *Dodd-Frank's Federal Deposit Insurance Reform*, Sept. 2016.
[4] Jones, Kenneth D. and Tim Critchfeld, "Consolidation in the U.S. Banking Industry: Is the Long Strange Trip About to End?", FDIC Banking Review, Volume 17, No. 4, December, 2005. Available at https://www.fdic.gov/bank/analytical/banking/2006jan/article2/article2.pdf
[5] FDIC, Failed Bank List.
[6] Federal Deposit Insurance Corporation, Quarterly Banking Profile, Community Bank Performance Section, Table 1-B (2015, 2016).
[7] Kyle D. Allen, Travis R. Davidson, Scott E. Hein, Matthew D. Whitledge, *Dodd-Frank's Federal Deposit Insurance Reform*, Sept. 2016.
[8] Adam Levitin, Size Matters: Community Banks' Real Problem, Credit Slips blog, Feb. 10, 2015.
[9] James DiSalvo and Ryan Johnston, How Dodd–Frank Affects Small Bank Costs, Federal Reserve Bank of Philadelphia, 2016.
[10] Marcy Gordon, US Banks in Strong Shape as 4th quarter profit jumps. FDIC, Quarterly Banking Profile, Fourth Quarter 2016.
[11] U.S. Small Business Administration Office of Advocacy, Small Business Lending, Second Quarter 2015.
[12] National Federation of Independent Businesses, Small Business Economic Trends, Jan. 2017.
[13] Rex Nutting, Trump and Cohn are wrong: Dodd-Frank isn't killing the economy, Feb. 15, 2017.
[14] Michael Calhoun, Testimony before House Financial Service Committee, Mar. 28, 2017,
[15] James DiSalvo and Ryan Johnston, How Dodd–Frank Affects Small Bank Costs, Federal Reserve Bank of Philadelphia, 2016.
[16] Credit Union National Association, Credit Unions Post an Impressive 3.8% Membership Growth
[17] National Credit Union Administration, NCUA Chart Pack (2016).
[18] National Credit Union Administration, NCUA Chart Pack (2016).