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Dodd-Frank's Still Hurting America's Small Businesses

By John Sims

This summer, the Dodd-Frank financial legislation, the longest and most complicated bill in American history at over 22,000 pages and 27,000 regulations, marks its sixth anniversary. I've seen first hand its negative impacts in preventing small businesses from accessing the capital they need to form and expand.

I own a Rainbow Station daycare facility in Richmond. When I purchased it several years ago, I was able to get access to credit relatively easily. But even with current low interest rates, it would be much more difficult for me to do so today. Even financing for a second location just like this one would be much more difficult. My friends and acquaintances are often unable to get the small business loan they need to pursue their American Dream.

This lack of access to credit is a direct result of the unintended consequences of Dodd-Frank regulations, which have contributed to the decrease of the country's community banks — the main credit providers to small businesses like mine.

Dodd-Frank was supposed to rein in Wall Street but instead has hit Main Street. Its onerous and expensive compliance regulations put big banks, which can afford expensive compliance teams, at an advantage.

Research out of the Minneapolis Federal Reserve suggests that adding just two members to the compliance department to process these regulations makes a third of small banks unprofitable.

Unprofitable indeed. There are 20 percent fewer community banks today than there were before this legislation took effect, and they are disappearing at a rate of one per day.

In a typical year in recent American history, 100 new banks are created, but since Dodd-Frank passed, only three have been created in total. Meanwhile, the big banks are now 80 percent larger than before the financial crisis.

Dodd-Frank's regulations are aimed at high-flying brokerage houses using exotic financial instruments, but they ensnare community banks as well. For example, capitalization requirements meant to protect banks against risky bets that go bad add an immense compliance burden to community banks despite the fact that they generally hold safe and simple assets.

Small banks play a big role in the local economy, providing the credit that is its lifeblood. Small banks have only 10 percent of the banking industry's assets, but make one-quarter of the country's commercial loans, two-thirds of its small business loans, and three-quarters of its agricultural loans. As go community banks, then, so go the communities and towns that make this country great.

But aren't the big banks coming in with new branches to pick up the slack? Yes and no.

While they have absorbed many community banks as branches, they bypass the communities that don't inflate their stock price or match the vision of managers in New York.

Even when they are present, they usually don't have the same tacit knowledge as community bankers, who have their ear to the ground and understand the unique aspects of a community. Their fancy loan algorithms don't take into account personal relationships and the community's well-being.

A national poll of small business owners commissioned earlier this year by the Job Creators Network shows that experiences like mine are widespread. Along with traditional concerns about overregulation and overtaxation, lack of access to credit was listed as one of small-business owners' main worries.

"There's no question we haven't fully recovered in terms of access to capital," says Karen Mills, former head of the Small Business Administration and a Harvard Business School professor. This is largely thanks to the unintended consequences of Dodd-Frank.

So what is to be done? Policymakers must admit the harm that Dodd-Frank has done to community banks and reform it to reduce its impact.

Community banks had nothing to do with the financial crisis, but have everything to do with the country's recovery and Main Street's resurgence.

Let's hope this anniversary of Dodd-Frank is the last in its current form. The future of the small business community may depend o

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