IJR

December 15, 2016

Even Barney Frank Wants To Reform Dodd-Frank. The Trump Administration Should Make It Happen

By: Alfredo Ortiz

When even a law's namesake is speaking out against it, you know it is in trouble.

Last month, former Massachusetts Representative Barney Frank criticized the Dodd-Frank financial legislation he crafted for disproportionately hurting community banks by setting too low of a compliance threshold. "Banks got the extra supervision if they had $50 billion in assets. That was a mistake," said Frank. "We should have made it much higher, $125 billion or more..."

Frank's revelation is cold comfort to the tens of thousands of small businesses who have not been able to get access to credit because of Dodd-Frank's onerous regulation of community banks. But better late than never. The new administration should run with the mandate they have from the law's signer and significantly raise the compliance threshold so that small banks are exempt.

Since Dodd-Frank passed in 2010, only three new banks have been created. That's down from an average of 100 each year before the financial crisis. And the total number of community banks is down 20 percent since then.

That's not a surprise. More staff is needed at banks just to sort through the mountains of complex rules. Large banks with trillions of dollars of assets are able to hire specially trained compliance officers in order to ensure the regulations are followed. But small banks don't have that luxury.

The Minneapolis Federal Reserve finds that adding just two members to the compliance department, often too few to process Dodd-Frank regulations, makes a third of small banks unprofitable. According to recent studies by the Government Accountability Office and the Mercatus Center, Dodd-Frank has caused community banks to increase compliance staff, training and time-allocation, as well as reconsider what loans to offer.

Dodd-Frank wasn't meant to hamper community banks that hold safe assets. It was supposed to rein in the large Wall Street banks that contributed to the 2008 collapse by overindulging in subprime mortgages. But the $50 billion compliance threshold that Barney Frank now bemoans means that small local banks that deal with straightforward savings and loans are obligated to follow the same regulations as the big banks on Wall Street which peddle in exotic financial instruments.

Largely as a result of Dodd-Frank, big banks have gotten bigger and small banks have gotten fewer. Big banks are now 80 percent bigger than before the financial crisis. What ever happened to reining in "too big to fail"?

The reduction in community banks is felt by millions, but the burden falls especially on small businesses which depend on relationships with local banks to get the credit they need to open, expand, and thrive. Given that 85 million Americans' livelihoods depend on the state of small businesses, this is not just an academic concern.

Community banks punch above their weight. They 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.

A bipartisan consensus has emerged that Dodd-Frank went too far in subjecting small banks to burdensome over-regulation. This consensuses has only been strengthened by the law's namesake, Barney Frank. Now it's time for the new administration to act and dramatically raise the exemption threshold like Frank advises. This would not only bring community banks back but small businesses as well.

Alfredo Ortiz is President and CEO of the Job Creators Network.