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Dodd-Frank rollback will reinvigorate Main Street

By: Alfredo Ortiz

Who says Congress can't get anything accomplished in an election year?

Last week, Congress passed long-overdue legislation to free community banks from the vice grip of the Dodd-Frank financial regulations that passed in 2010. This will increase access to credit for small businesses across the country, reinvigorating Main Streets and communities that — even in today's strong economy — are still recovering from the Great Recession.

The legislation, which passed with bipartisan support, includes a number of provisions to address the most damaging aspects of Dodd-Frank. Most notably, it raises the asset threshold above which banks are subject to onerous Dodd-Frank regulations to $250 billion from $50 billion. Only the 12 biggest banks in the nation meet this higher asset threshold, less than one-third of the current number.

The bill also exempts the smallest banks — those with less than $10 billion in assets — from the Volcker rule, which restricts banks from speculative trading. These banks also will be free from burdensome reporting requirements on their borrowers.

These reforms will free up community banks to make the loans that are the lifeblood of small business creation and expansion. According to a 2016 nationwide survey of small business owners conducted by the Job Creators Network, lack of access to credit is one of the biggest hurdles facing small businesses today. (The other big hurdles identified by small businesses — over-taxation and over-regulation — have been partially addressed by recent congressional and executive action.)

Small banks punch above their weight. They only have about 10 percent of the banking industry's assets, but make roughly one-quarter of the country's commercial loans, two-thirds of its small business loans, and three-quarters of its agricultural loans. A 2014 MIT study found that when banking branches close, small business lending falls by nearly 40 percent.

While big banks engage in exotic financial instruments, which may exacerbate or even contribute to financial crises, small banks make the vanilla loans that are responsible for, say, the new downtown arenas, restaurants and sporting good stores across rural America. Big banks use algorithms to make their lending decisions; small banks depend on personal relationships and a strong handshake to make theirs.

Yet the compliance costs associated with Dodd-Frank disrupted small banks. Research out of the Minneapolis Federal Reserve found that hiring just two compliance employees to adhere to its regulations makes one-third of small banks unprofitable. For other banks, loan compliance software can cost more than the profit from the loan.

This impact is demonstrated by the dearth of community banks in recent years. Over the past 10 years, their numbers have fallen by one-third — an average of four per week. Before the financial crisis, about 200 new banks were created each month; since Dodd-Frank there have been only four.

In a textbook case of unintended consequences, Dodd-Frank has only helped the big banks grow bigger because they have faced less competition as a result. The three biggest hold about one-third of nationwide deposits, up from one-fifth before the crisis. They are now well over double their pre-financial crisis size. And these three account for nearly half of new checking accounts.

The Wall Street Journal recently dubbed rural America "the new inner city." And it's true that for many small towns across the country, the Great Recession never ended. Reinvigorated Main Streets can help fix this. Yet strong local banks are prerequisites for a flourishing small businesses. The reforms in this legislation will help small banks regain their presence as pillars of their communities.

Congress should build on this legislative momentum to help small businesses even more.

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