The Daily Dish

Regulatory Relief for Small Banks is on the Way

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Eakinomics: Regulatory Relief for Small Banks is on the Way

Earlier this week officials from the Department of Treasury, the Federal Reserve, and the Federal Deposit Insurance Corporation (FDIC) ("the agencies") took a first step toward significant regulatory capital relief for smaller banks. Specifically, for banks with assets less than $250 billion, the agencies announced an indefinite delay of a series of new capital requirements (previously set to go into effect on January 1, 2018) until the agencies decide on how best to simplify the requirements. The move goes hand in hand with small- and community-bank relief legislation that has been introduced in the Senate and appears to enjoy overwhelmingly bipartisan support.

Although the Trump administration has put an emphasis on rolling back regulations, little has been done on the banking front. American Action Forum research shows that since Dodd-Frank was passed, the agencies alone finalized 129 regulations with a total cost of $23.5 billion and 100,938,074 annual paperwork hours. There should be no doubt that these cost burdens, especially for the smallest and most rural banks, have contributed to the number of bank closures and mergers over the past several years. According to the FDIC, in the first half of 2017, 98 banks have already been forced to close or merge. And in 2016, not a single new bank was opened. Compare that to pre-Dodd-Frank days when 25 new banks applied for a charter in 2009, and 164 applied in 2007.

Coincidentally, this regulatory action comes on the heels of FDIC Chairman Gruenberg reporting that banks posted record earnings in the second quarter of 2017 – numbers the chairman claims refute the need for regulatory relief for banks. What these numbers don't show, however, is that lending, especially small business lending, has yet to return to pre-crisis levels. In fact, since 2008, small business lending has decreased by 15 percent and is the only major lending sector to not yet have made a full recovery. Couple that with the fact that 76 percent of small business loan applicants are successful at small banks compared to only 58 percent at large banks, and the regulatory costs forcing small banks to close or tighten up their lending business really becomes a big problem.

So, what's next? The agencies are accepting comments from the public and interested parties for the next 30 days. Once the comment period closes they will move to officially delay the implementation of the new capital rules, and presumably will begin to write their new capital requirements for the affected banks. Hopefully during the same time Congress will be able to move legislation to further roll back some of the most burdensome laws affecting the engines of small business and economic growth in America. After more than 7 years of Dodd-Frank, its negative impact is now being fully realized, and it is time to move on.