Insight

Bipartisan Regulatory Relief for Regional and Mid-Size Banks is on the Way

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Last week, a group of Senate Banking Committee Members announced that they had reached an agreement on yet-to-be-introduced legislation that would ease some of the regulations placed on banks by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank). The group, led by Committee Chairman Mike Crapo, includes eight Democrats and one Independent, which suggests the legislation could face few obstacles to becoming law. In the announcement, Crapo said, "The bipartisan proposals on which we have agreed will significantly improve our financial regulatory framework and foster economic growth by right-sizing regulation, particularly for smaller financial institutions and community banks."

Based on the proposed section-by-section description of the forthcoming legislation, the bill would be divided into five titles: I. Improving Consumer Access to Mortgage Credit; II. Regulatory Relief and Protecting Consumer Access to Credit; III. Protections for Veterans, Consumers, and Homeowners; IV. Tailoring Regulations for Certain Bank Holding Companies; and V. Studies.

In Title I, the legislation focuses on residential mortgage loans and access to affordable housing. It eases restrictions for appraisal services, allows more mortgages to be deemed "qualified mortgages" under the Truth in Lending Act (TILA), and requests that the Consumer Financial Protection Bureau (CFPB) provide "clearer, authoritative guidance with respect to certain issues," among other things.

Title II rolls back some of the burdensome regulations that have hurt small community banks the most. Specifically, the bill would exempt banking entities that have less than $10 billion in assets and 5 percent or less of those assets in trading assets and liability assets from Section 13 of the Bank Holding Company Act, also known as the Volcker Rule. This Title also establishes a community-bank-specific leverage ratio for banks with less than $10 billion in assets so they are not held to the higher standards aimed at bigger banks.

Title III targets consumer credit reports by requiring the credit bureaus to provide consumers one free freeze alert and one free unfreeze alert each year, as well as provide fraud alerts for at least a year under certain circumstances. It also requires that veterans' credit reports not include their medical debt. The bill also includes measures to protect senior citizens from exploitation and restores the Protecting Tenants at Foreclosure Act of 2009, which was designed to give tenants facing eviction because of foreclosure adequate time to find alternative housing arrangements.

Title IV is the heart of this bill and the section that likely will draw the most debate. It raises the threshold at which bank holding companies fall under the enhanced prudential standards from $50 billion in assets to $250 billion in assets. For those bank holding companies with assets between $50 billion and $100 billion, the bill exempts them from the enhanced prudential standards immediately, whereas those with between $100 and $250 billion become exempt 18 months after the date of enactment. The bill has further implications for those holding companies with between $100 and $250 billion: It gives the Federal Reserve the authority to apply enhanced prudential standards after the date of enactment, to conduct periodic stress tests, and to exempt firms from the enhanced prudential standards before the 18-month threshold.

Lastly, Title V requires two specific studies: the first, from Treasury, on the risks of cyber threats to financial institutions and the U.S. capital markets; the second, from the SEC, on the risks and benefits of algorithmic trading in the U.S. capital markets.

This bill would have a significant impact for regional and mid-size banks that are currently subject to enhanced prudential standards. According to Federal Reserve data, there are 26 banks between the $50 and $250 billion threshold with assets totaling almost $4 trillion. Freeing these banks from some regulatory burden would allow them to better provide capital to the economy, driving job creation and economic growth.