Cumulative Weight of New Regulations Rests Heavily On Community Banks and their Communities

The Dodd-Frank Act and heightened regulatory pressures are impairing community banks' ability to serve customers and local communities.

The Dodd-Frank Act has resulted in over 7,224 pages of proposed and final rules, which laid end-to-end, would be nearly ***five times the height of the Empire State Building***.

Managing this tsunami of regulation is a significant challenge for a bank of any size, but for the median-sized bank, with only 37 employees, it is overwhelming.

The weight of these new rules creates pressure to hire additional compliance staff instead of customer-facing staff. It means more money spent on outside lawyers, reducing resources that could be directly applied to serving a bank's customers and community.

In the end, it means fewer loans are made, slower job growth, and a weaker economy.

Some provisions in the Dodd-Frank Act are particularly troubling for community banks:

1. **Risk Retention.** The Dodd-Frank Act requires banks to retain a portion of the risk of loans that they originate and later sell to other parties. Banks then must hold capital against that retention, at a time when additional capital is particularly hard to come by. Banks will be forced to originate less mortgage loans, as their capacity to make and retain loans will steadily get used up.

2. **Higher Capital Requirements and Narrower Qualifications for Capital.** The capital regime supported by the Dodd-Frank Act will require banks to hold more capital, while it will restrict what qualifies as capital to little other than shareholder interest and retained earnings. New shareholder investors are hard to find especially for community banks. Regulatory pressure on bank earnings (through the Federal Reserve's policy holding down interest rates, controls on interchange, restrictions on overdraft programs, and higher compliance costs) leaves little revenue to pay investors or to retain to boost capital.

3. **SEC's Municipal Advisors Rule.** Banks that provide municipalities with traditional banking services, which are already subject to oversight by primary regulators, will be subject to additional registration and oversight burden by the SEC. The compliance costs of duplicative regulation make serving local municipalities unattractive for community banks.

4. **Derivatives Rules.** New derivatives rules will make it much more expensive for banks to offset their loan exposures to customers, industries, lines of business, interest rates, credit default, and other risks through the use of derivatives.

5. **Doubling Size of the Deposit Insurance Fund (DIF).** Under Dodd-Frank Act authorities, the FDIC has announced plans to double the size of the DIF, taking as much as $50 billion out of the earnings and capital of the industry.